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Brazil

Oilseeds and Products

Post-Planting Update

2005

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Report Highlights:

With the soybean crop essentially planted and rust seemingly under control, industry eyes are focused on the weather, the main factor with potential to block a record harvest in Brazil. Profit margins, however, are expected to be low as a result of the strong Brazilian Real, which is making inputs more costly and exports less lucrative. Post's forecast remains at 61 MMT on 21.9 million hectares, representing an area reduction of 4% over 2004/05.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1]
[BR]

PS&D

| Brazil | | | | | | |
|---------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Oilseed, Soybean (Local) | | | | | | |
| 1000 HA and 1000 Tons | | | | | | |
| | 2003 | Revised | 2004 | Estimate | 2005 | Forecast |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | | 02/2004 | | 02/2005 | | 12/2006 |
| Area Planted | 21475 | 21436 | 22800 | 22800 | 23000 | 21900 |
| Area Harvested | 21475 | 21400 | 22800 | 22800 | 23000 | 21900 |
| Beginning Stocks | 3129 | 3090 | 2086 | 2219 | 1058 | 1099 |
| Production | 50500 | 50500 | 51000 | 51000 | 62000 | 61000 |
| MY Imports | 350 | 350 | 470 | 400 | 200 | 200 |
| MY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| MY Imp. from the EC | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 53979 | 53940 | 53556 | 53619 | 63258 | 62299 |
| MY Exports | 19571 | 19571 | 19542 | 19500 | 22936 | 24000 |
| MY Exp. to the EC | 10200 | 10720 | 10700 | 11000 | 0 | 13000 |
| Crush Dom. Consumption | 29172 | 29000 | 29634 | 29500 | 32309 | 32500 |
| Food Use Dom. Consump. | 0 | 0 | 0 | 700 | 0 | 750 |
| Feed,Seed,Waste Dm.Cn. | 3150 | 3150 | 3322 | 2820 | 3575 | 3000 |
| TOTAL Dom. Consumption | 32322 | 32150 | 32956 | 33020 | 35884 | 36250 |
| Ending Stocks | 2086 | 2219 | 1058 | 1099 | 4438 | 2049 |
| TOTAL DISTRIBUTION | 53979 | 53940 | 53556 | 53619 | 63258 | 62299 |

Production

Soybean production remains forecast at 61 MMT with an expected yield of 2.8 tons per hectare. The 2005/06 Soybean crop is nearly all planted, with the exception of Santa Catarina and Rio Grande do Sul, where dry weather has been a problem. After a unfortunate overall crop year in 2004/05 caused by a drought in southern Brazil, overall yields are expected to be significantly higher due to the recuperation of yields in the South.

Items positively affecting yields are:

- Area out of production this year is marginal land
- South expected to bounce back from drought
- Inexpert farmers getting out
- Weather so far favorable in nearly all areas

Negative factors include:

- Producers frugal use of fertilizer and lime
- No cash on hand for multiple fungicide applications to combat soybean rust

If yields are in question, it is due to the fact that there is little credit available to the sector, which is evidently impacting input use. The primary sources of credit, such as fertilizer, chemical, and seed companies, as well as multinationals, were more conservative this year in extending financial support to farmers. Many producers used the simple strategy of holding

on to beans until expenses emerged at planting time in November, instead of taking advantage of higher soybean prices in May and July. They then faced a rough combination of lower soybean prices and a Real valuing a minute 2.1 to the dollar. It appears that the farmers applying insufficient fertilizers and chemicals as a result of this mismanagement are small and medium-sized producers with less access to market information and/or capital. It has also been noted that farmers are tending toward cheaper products for rust control.

There is, however, some disagreement among sources regarding fertilizer sales in 2005. Brazilian research entity CONAB reported a drop of 17.7% over last year's sales, while local ag consultant FNP Institute refuted their estimate, claiming sales would close with a 4.4% increase. An independent fertilizer company in Mato Grosso reported to Post a drop in fertilizer sales by 10 to 15 percent from last crop season.

Area

Following seven years of strong advancement in soybean area, Post is estimating a 4% drop in area dedicated to soybeans in 2005/06. Considering that soybean area grew at an average rate of 4.7 percent a year for the last 10 years, this decrease reflects the current state of affairs in Brazilian agriculture. The lack of credit availability is an issue in nearly all Brazil's growing regions, and definitely had a role to play in the decrease in area. The largest reduction should take place in the state of Mato Grosso; with significant reductions also taking place in Goiás, Paraná, and Rio Grande do Sul, the state in which drought conditions were worst last crop season. Piauí is the only soybean state with an estimated increase in area this year.

Questions remain concerning land previously planted with soybeans. Some land will be left fallow or go to pasture, since it is expected that land left unplanted this year was primarily marginal land producing unremarkable yields. Post believes that some acreage in the south will be turned over to corn, due to higher corn prices and strong demand.

Strong Real is Causing Sector Woes

To quote Ag Consultants Celeres, the continual strengthening of the Real vis-à-vis the dollar over the course of the year has done away with the "radiance" of soybean farming. Brazil's currency appreciated 20 percent against the dollar in the past twelve months, with transport and production costs rising. The super-high cost of capital has also dimmed the appeal of planting soybeans. Although farmers receive subsidized loan rates, extremely high Brazilian interest rates are greatly affecting the ag sector.

Fertilizer sales were bad enough to prompt the multinational Bunge to close seven of its thirty-five plants in Brazil this month. Bunge claimed their sales to be down 25% as a direct result of the strong Real. Last year's crop injury from drought, farmer indebtedness, and low commodity prices were other reasons cited for closing the plants.

Soybean Rust 2005/06

Eighty-one registered cases of Soybean Rust have been identified by Brazilian research entity Embrapa, broken down among the following states: Paraná, 28; São Paulo, 17; Mato Grosso do Sul, 17; Mato Grosso, 13; Minas Gerais, 4; Goiás, 2. Local sources report that small and medium-sized farmers may be out of the cash needed to spray for rust attacks. This year, cases have been detected in Mato Grosso in plants in a much earlier stage of development compared to last year. Greater amounts of rain this year have also contributed to the early appearance of rust.

Harvest Fast Approaching

The 2005/06 soybean harvest in Brazil is expected to begin in late February. Harvesting will begin in Mato Grosso and Goiás, followed by Mato Grosso do Sul, São Paulo, and Paraná. This process will go on until approximately the first week in June, where area in the North and Northeast is usually still being harvested.