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Brazil

Agricultural Situation

Mid-Harvest Update and Brazilian Soybean Outlook for 2008/09 Season

2008

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Report Highlights:

With the soybean crop 20% harvested, crop conditions in Brazil are good to excellent with minimal weather problems in Mato Grosso and Rio Grande do Sul. In spite of high international prices, bad timing of sales and the rising cost of inputs and transportation have infringed on producers' profits. The outlook for 2008/09 is a 5-10% area increase.

Includes PSD Changes: No
Includes Trade Matrix: No
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Production, Area & Yields

Crop conditions in Brazil are good to excellent with minimal weather problems in Mato Grosso and Rio Grande do Sul. Post's March forecast remains unchanged since January at **60.1 MMT** on **21.7 Million Hectares**. Modifications may occur next month to reflect lower yields in Goiás state and higher yields in Santa Catarina, but for the most part these changes are not highly significant at this point. Soybeans were planted anywhere from 8 days (Paraná) to one month (MA, PI, TO, BA, DF) late, which brought two major consequences. The positive effect was significantly less soybean rust, and the negative has been a very wet harvest, especially in the state of Mato Grosso. Although there has been concern in the press about losses in Northern Mato Grosso, so far actual losses are minimal and the result of the high humidity in the region is a compromise in bean quality (graos ardidos).

La Nina has not had the negative impact on Brazil that was initially expected. This week, in addition to raising planted area 200,000 hectares, Conab raised their production estimate by over 1 million ton. The lack of La Nina effects on the crop was cited as the principal basis of the increase. Although there was some concern about La Nina's effects on the state of Rio Grande do Sul, the state received rains this week (March 2-7) which alleviated fears of loss due to drought, which caused a huge loss in the state two years ago. Increased soil moisture will allow once again favorable conditions for flowering and podfill, diminishing the potential for losses. The only region considered in danger of losses at this point is the Northwest of the state (Missões Region), but it is considered too early to determine anything definitive.

Record Prices but Marginal Profit in the Center-West

It is difficult to understand how Brazilian soybean farmers are reportedly still struggling while CBOT prices are at historic highs. However, there are several factors that contribute to the continuing lukewarm financial state in which farmers find themselves. The first important factor is farmers' timing in selling this crop's soybeans. Up to 70% of Mato Grosso farmers sold their crop before the CBOT price rally last fall; at or below $12 per bushel in their established process of selling their future crop soybeans for inputs with multinational trading companies. Current soybean prices are $16 per bushel.

Another negative factor for farmers in Brazil and elsewhere is the rising cost of inputs. As the price of soybeans rises, input costs concurrently rise. An important caveat is that most farmers who sold at lower prices also negotiated inputs at lower prices. Fertilizers and herbicides have increased about 75% over the course of the season. So, in spite of the missed opportunity, few producers this year will actually lose money. Profits in the Rondonopolis, MT area are reported as high as $170 per hectare.

With respect to Southern Brazil and other areas closer to ports, margins will certainly be higher due to lower transportation costs. Transportation costs in Mato Grosso are estimated to total up to half of farmers' total costs in this state, especially in the central producing area of Sorriso/Lucas do Rio Verde/Nova Mutum. These are notably the largest soy-producing counties in Brazil.

mar/08	Post Forecast Soybean Area, Yield, and Production 07/08		
	(1000 ha; Tons/ha, Thousand tons)		
Region	**Area**	**Yield**	**Production**
Center West	**9710**	**2,99**	**29050**
MS	1850	2,66	4925
MT	5600	3,08	17250
GO	2200	3,04	6700
DF	60	2,91	175
South	**8400**	**2,51**	**21100**
PR	4050	2,93	11900
SC	350	2,71	950
RS	4000	2,06	8250
Southeast	**1515**	**2,73**	**4150**
MG	975	2,71	2650
SP	540	2,77	1500
Northeast	**1575**	**2,78**	**4390**
MA	420	2,85	1200
PI	255	2,70	690
BA	900	2,77	2500
North	**523**	**2,79**	**1459**
RO	100	3,05	305
AM	3	3,00	9
RR	25	3,00	75
PA	85	3,05	260
TO	310	2,61	810
Totals	**21723**	**2,77**	**60149**

Inputs

The main concern this year for farmers in Brazil is the sharp increase in input prices. In the case of fertilizer (Rondonopolis, MT), NPK increased from $200 per hectare in 2006 to $300 per hectare in 2007. In February 2008 NPK cost farmers approximately $750 per hectare and is expected to cost as high as $900 this year. Herbicides have also nearly doubled from $3.90/liter to $6.90/liter. Chemicals used for combating rust and pests (fungicides and insecticides) have also increased.

The high prices are not only due to the rising cost of petroleum, but also the increasing demand for inputs in Brazil (and globally). The last two seasons in Brazil have been good, and increasing input demands have caused shortages, inflating local prices. Machinery availability has also been affected. According to New Holland in Primavera do Leste, a tractor with 100 horsepower or less was available for immediate delivery last year. This year, the average waiting time for the company, including other major producing states, is about 40 days.

Outlook for 2008/09 is Positive

High international prices and a good 2007/08 harvest are expected to stimulate an area increase next year. Although farmers are still carrying debts, the extension and rollover of debt and a possible pardon of accumulated interest, expected to be announced by the Brazilian government by the end of March, will be a deciding factor in the increase in area. Post expects an increase in soy area of 5-10%, which depends on these factors. The North and Center-west will experience the majority of the area growth, and our estimate is that Mato Grosso, Maranhão (especially Chapadinha area), Piaui, Tocantins, and Western Bahia will experience highest growth relative to this year's area. Corn prices will also have a small impact, as summer corn planting in Brazil should continue to rise modestly. An expectation of more soy and less corn planting in the US is expected to impact what are already historically high Brazilian corn prices.

An increase in production costs is expected to coincide with area growth in 2008/09. According to CONAB, the cost of production per hectare in Brazil will increase 16.2%. Costs in Sorriso, Mato Grosso, are estimated to increase from R$ 1405 to R$1442 next season, and in Passo Fundo, Rio Grande do Sul, the estimated increase is R$1095 to R$1327 (March 7 exchange rate: 1.68 Reals = U$S1.00). These estimates are considered conservative, as the Brazilian producer association is estimating larger increases.

Harvest Progress

The soybean crop in Brazil is 20% harvested, with the majority of the crop in its final stages of maturity. Soy in Mato Grosso, behind about two weeks, is 35% harvested, most of that soy being early varieties which were followed up by corn up until March 1 (the general cutoff date for planting corn in the state). Excess rain has slowed down the harvest but not caused any major damage to the crop. In general it has created a race for harvesters on the sunny days and even increased cooperation between neighboring producers to get mature beans harvested. Yields in the state are coming in at 3.1 tons per hectare with a small degree of quality problems due to the humid conditions.

In Paraná, planting was delayed only 8 days or so, and 12% of the crop is still flowering and 38% is in the podfill stage. The state is 9% harvested with excellent results.

The crop in Rio Grande do Sul is in good condition in spite of lower-than-average rains mentioned. Importantly, the rains have been well-distributed and well-timed at the critical stages of development. So far, no soy has been harvested in the state, and 70% is in the podfill state.