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## Brazil

### Grain and Feed

### Grain Update - July 2008

2008

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**Report Highlights:**

Post has lowered its corn export forecast to 9 million mt due to strong domestic demand. Wheat planting is almost completed in the south of Brazil, and milled rice exports have soared.

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

## Corn

Brazil							
Corn							
	2006	Revised	2007	Estimate	2008	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		03/2007		03/2008		03/2009	MM/YYYY
Area Harvested	14000	14055	14700	14750	15000	15000	(1000 HA)
Beginning Stocks	3015	3015	3579	3771	8329	10521	(1000 MT)
Production	51000	51370	57500	57500	57000	57250	(1000 MT)
TOTAL Mkt. Yr. Imports	1400	1221	750	750	500	600	(1000 MT)
Oct-Sep Imports	1204	1087	950	1000	500	700	(1000 MT)
Oct-Sep Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	55415	55606	61829	62021	65829	68371	(1000 MT)
TOTAL Mkt. Yr. Exports	10836	10835	11000	9000	11000	9000	(1000 MT)
Oct-Sep Exports	8071	8070	10500	10500	12000	9000	(1000 MT)
Feed Dom. Consumption	34500	34500	36000	36000	38000	38000	(1000 MT)
TOTAL Dom. Consumption	41000	41000	42500	42500	45000	45000	(1000 MT)
Ending Stocks	3579	3771	8329	10521	9829	14371	(1000 MT)
TOTAL DISTRIBUTION	55415	55606	61829	62021	65829	68371	(1000 MT)

Despite June's hard frosts in the southern state of Parana, Brazil is expected to have a record corn crop of 57.5 million metric tons (mt) this year (2007/08). Despite high international corn prices, area is expected to increase minimally in the coming year, with any expansion occurring in the "safrinha" (second) crop. In the last year, Brazil appears to have found its current equilibrium for area planted to particular crops, and no strong shifts between crops are expected. Even though international prices have increased significantly, so has the cost of production. The average cost of transportation has increased 50 percent in the last year, and according to some accounts, the cost of production has doubled, with the majority of this increase due to the rising price of fertilizers. In addition, strong environmental restrictions and the need for consistent environmental regulations and strong property rights further restrict such expansion.

Post has lowered its 2007/08 marketing year (March 2008/February 2009) export forecast to 9 million mt, primarily due to the current strong domestic demand which is diverting corn from export channels and resulting in some contracts being cancelled. Last year, the domestic poultry and pork producers were caught by surprise by the strong surge in corn exports, and now they are willing to pay the price to ensure they have the inputs they need. However, Brazil could export more if the international demand were to increase substantially.

## Wheat

Brazil							
Wheat							
	2006	Revised	2007	Estimate	2008	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2006		10/2007		10/2008	MM/YYYY
Area Harvested	1758	1758	1819	1819	2200	2200	(1000 HA)
Beginning Stocks	1333	1333	777	1160	352	660	(1000 MT)
Production	2234	2234	3825	3825	4500	4600	(1000 MT)
TOTAL Mkt. Yr. Imports	7750	7997	7000	6750	7300	7000	(1000 MT)
Jul-Jun Imports	7750	7741	7000	7077	7300	7000	(1000 MT)
Jul-Jun Import U.S.	10	10	0	515	0	0	(1000 MT)
TOTAL SUPPLY	11317	11564	11602	11735	12152	12260	(1000 MT)
TOTAL Mkt. Yr. Exports	40	4	750	775	800	600	(1000 MT)
Jul-Jun Exports	40	40	750	766	800	600	(1000 MT)
Feed Dom. Consumption	200	300	200	100	200	100	(1000 MT)
TOTAL Dom. Consumption	10500	10400	10500	10300	10550	10400	(1000 MT)
Ending Stocks	777	1160	352	660	802	1260	(1000 MT)
TOTAL DISTRIBUTION	11317	11564	11602	11735	12152	12260	(1000 MT)

Wheat planting is almost complete in the south of Brazil, and 2008/09 production is currently estimated at 4.6 million mt. The Brazilian government has declared that it wants wheat production to double by 2012. It has sought to do this by increasing the minimum price and increasing the individual credit limit from R\$300,000 to R\$400,000. Many are skeptical that this goal can be met. Liquidity (the speed with which one can turn the commodity into cash) is lower for wheat than it is for soy and corn. Land use in the south of Brazil is largely fixed. Although the Brazilian research organization EMBRAPA is making great strides in creating a wheat variety that can grow well in the Cerrado region, it is expected that farmers will prefer to plant commodities that are more of a sure thing, such as corn, soy or sugar.

In January 2008, in an attempt to lower inflation in the price of bread, the Brazilian government created a 1 million mt tariff-free quota for wheat (primarily from the United States and Canada), valid until June 30, 2008. Since the North American wheat is not largely available until June, this quota was not widely used in the first months of the year. In May, the government increased the quota to 2 million mt and extended the deadline for entry to July 31. The deadline was later extended again to August 31, just before the domestic harvest begins. Wheat imported under this tariff exemption must be all the way through Customs by August 31, which makes it risky to have a ship arrive later than early August. In the first six months of 2008, Brazil imported 169,000 mt of U.S. wheat and 150,000 mt of Canadian wheat.

At the end of May 2008, Brazil also eliminated the internal PIS/COFINS tax of 9.25 percent for wheat, wheat flour and bread (pão francês) and the Merchant Marine Tax (AFRMM) of 25 percent of the cost of shipping for wheat and wheat flour. This action is valid until December 31, 2008. In response, the major wheat millers lowered their prices approximately 8 percent.

## Rice

Brazil							
Rice, Milled							
	2006	Revised	2007	Estimate	2008	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		04/2007		04/2008		04/2009	MM/YYYY
Area Harvested	2975	2967	2928	2892	3100	3100	(1000 HA)
Beginning Stocks	896	896	1156	1159	1306	1055	(1000 MT)
Milled Production	7700	7695	8129	8350	8500	8500	(1000 MT)
Rough Production	11324	11316	11954	12279	12500	12500	(1000 MT)
MILLING RATE (.9999)	6800	6800	6800	6800	6800	6800	(1000 MT)
TOTAL Imports	750	732	700	400	600	500	(1000 MT)
Jan-Dec Imports	684	684	700	500	600	500	(1000 MT)
Jan-Dec Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	9346	9323	9985	9909	10406	10055	(1000 MT)
TOTAL Exports	225	236	250	425	300	300	(1000 MT)
Jan-Dec Exports	201	201	275	450	300	300	(1000 MT)
TOTAL Dom. Consumption	7965	7928	8429	8429	8710	8710	(1000 MT)
Ending Stocks	1156	1159	1306	1055	1396	1045	(1000 MT)
TOTAL DISTRIBUTION	9346	9323	9985	9909	10406	10055	(1000 MT)

The internal price of rice rose 58 percent between mid-March and mid-May, from approximately \$280/mt to \$444/mt. A year ago, the Brazilian government discovered that it had missed some silos when counting government stocks of rice. As a result, stocks were significantly higher than previously thought. In the first half of 2008, the government sold nearly 400,000 mt (paddy equivalent) of government rice stocks, reducing stocks to 1.14 million mt (paddy equivalent). Most of these sales occurred in the second quarter with the intent to control the price of rice, but at the same time attempting to not flood the market, thereby causing problems for domestic producers. The domestic price has been relatively stable since mid-May.

Exports in the first half of 2008 were back to the strong levels of 2 years ago, double what was exported in the same period in 2007, as traders took advantage of the high international prices and the export restrictions of major suppliers. However, there was a significant shift in the composition of these exports. Milled rice exports, which accounted for only about 20 percent of total exports in 2006 and 2007, accounted for 60 percent of total exports in the first half of 2008. Meanwhile, broken rice, which has traditionally been nearly 90 percent of total exports, dropped to 37 percent.

