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Report Highlights:

Post lowers its MY 19/20 corn production forecast to 100 MMT due to poor yields in the Rio Grande do Sul crop; post also lowers its forecast for 19/20 consumption by 1 MMT, to 67 MMT, as the coronavirus pandemic is curtailing demand for corn ethanol in Brazil. Post sets its initial production MY 20/21 corn production forecast at 103 MMT, with consumption also poised to grow to 69 MMT. Milled rice production for MY 19/20 is estimated at 7.17 million, while MY 20/21 is forecast slightly lower, at 7.07 MMT. Rice consumption is also forecast to decrease from 7.45 MMT in MY 19/20 to 7.4 MMT in MY 20/21. Planting for MY 20/21 wheat will begin in April, and Post forecasts production to grow 8.7 percent, to 5.6 MMT, due to expanded planting. In response, wheat imports for MY 20/21 are also lowered, to 7 MMT, on the expectation of increased domestic production.

Corn

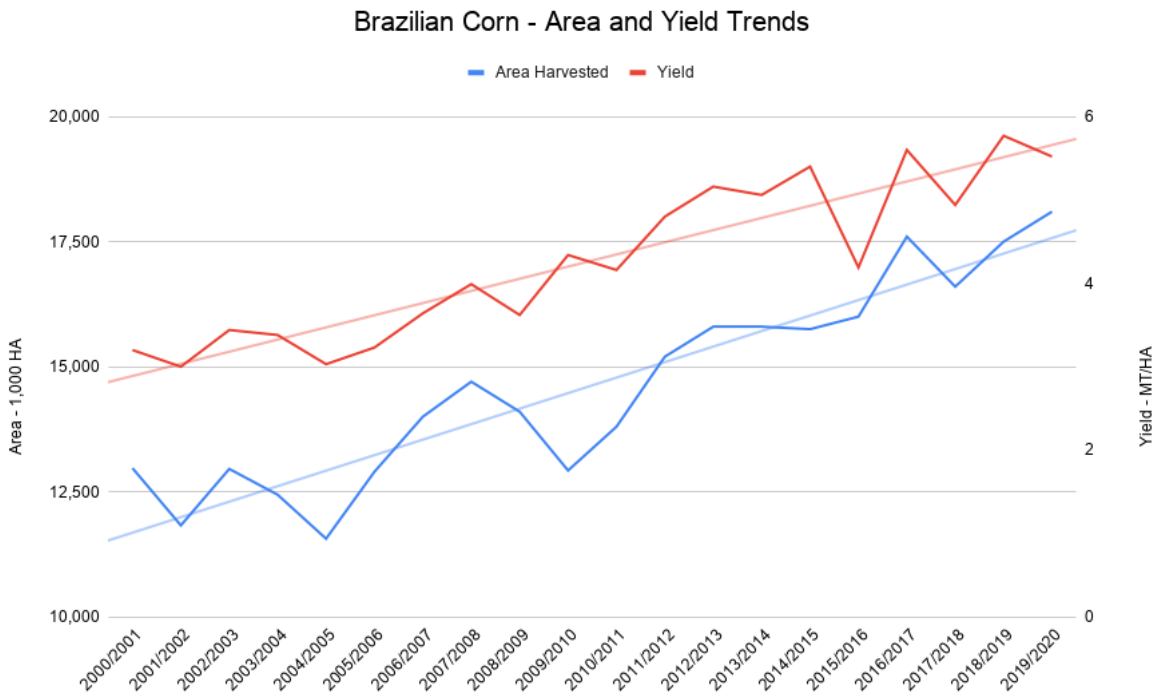
Corn	2018/2019		2019/2020		2020/2021	
Market Begin Year	Mar 2019		Mar 2020		Mar 2021	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	17500	17500	18100	18100	0	18500
Beginning Stocks	9280	9280	5198	5088	0	5588
Production	101000	101000	101000	100000	0	103000
MY Imports	1659	1659	1200	1500	0	1500
TY Imports	1189	1189	1500	1400	0	1500
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	111939	111939	107390	106588	0	110088
MY Exports	39749	39851	36000	34000	0	36000
TY Exports	38807	39078	39000	36000	0	36000
Feed and Residual	57000	57000	57000	57000	0	58000
FSI Consumption	10000	10000	10000	10000	0	11000
Total Consumption	67000	67000	67000	67000	0	69000
Ending Stocks	5190	5088	4390	5588	0	5088
Total Distribution	111939	111939	107390	106588	0	110088
Yield	5.7714	5.7714	5.5801	5.5249	0	5.5676
(1000 HA) ,(1000 MT) ,(MT/HA)						

Corn Production

Post lowers its corn production forecast for market year (MY) 2019/20 (March 2020 – February 2021) to 100 MMT, which is 1 MMT lower than the previous forecast. This change comes on the back of poor yields in Rio Grande do Sul's crop after a prolonged dry spell, which has in turn lowered Post's forecast for the average crop yield. With the vast majority of second-crop "safrinha" corn already planted, Post maintains its estimate of MY 2019/20 area, at 18.1 million hectares (MHa). This reflects an expansion of 600,000 hectares, or 3.4 percent, over the previous year, and comes in response to firm prices due strong domestic demand from the poultry and livestock sectors, as well as the growing corn ethanol business. Brazil's domestic corn prices have continued to rise after record high exports in 2019, reaching record levels in

recent weeks.

Post sets its initial production forecast for MY 2020/21 (March 2021 – February 2022) at 103 MMT, representing a 3-percent increase over the current season. Area is also forecast to expand to 1.85 MHa, 2.2 percent larger than MY 2019/20 area. Post forecasts the average yield to grow to 5.57 MT/HA, in line with the productivity trend.

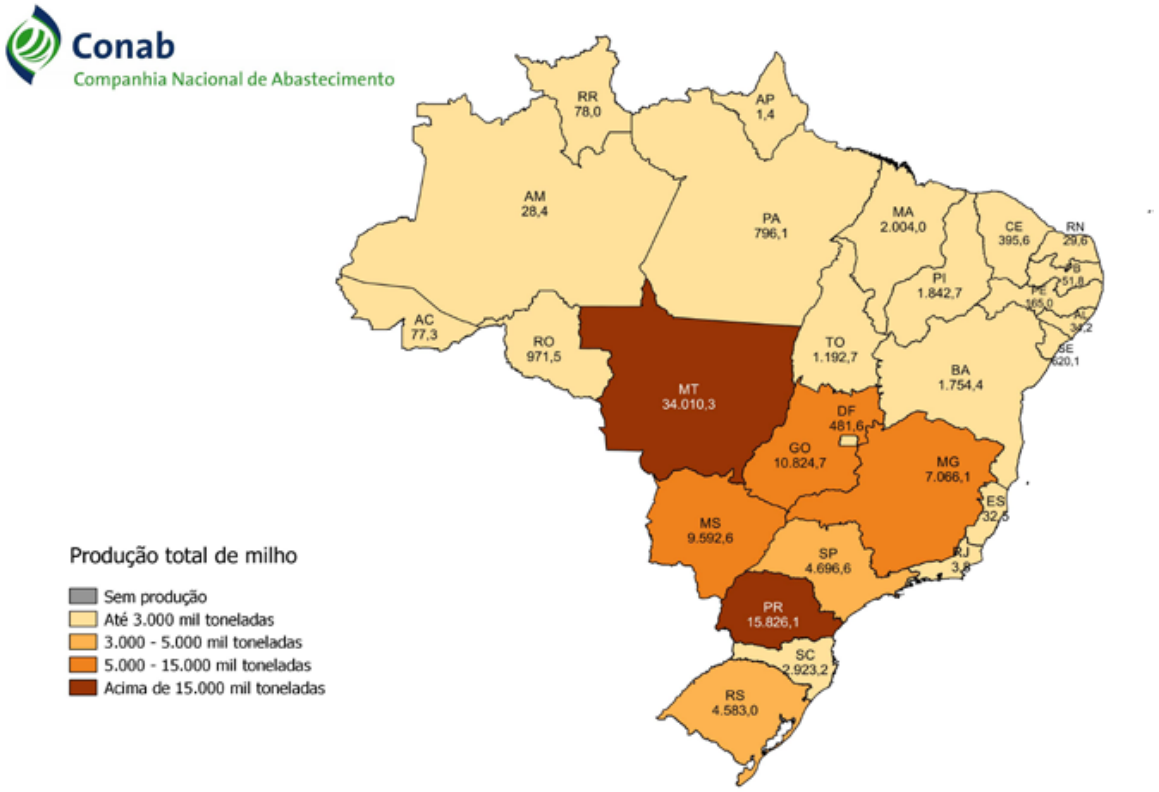


Data Source: USDA/FAS PSD Online

Corn is grown in every state of Brazil, and given the large size of the country and its geographic diversity, corn is also planted and harvested during several different periods. Traditionally, corn was a staple crop in southern Brazil, cultivated to support the livestock and poultry sector concentrated in that region. The corn crop in southern Brazil was typically planted between September and December and then harvested between January and May. This crop is referred to as first-crop corn, as it is the first to be harvested during the market year. It is also known as summer corn, given that it is largely cultivated during that season in the Southern Hemisphere. Today, first-crop corn accounts for only a quarter of Brazil's total production.

As agricultural production expanded into the Center-West region starting in the 1970s and 1980s, farmers began planting two crops per year on the same land, as the warm growing climate and length of the rainy season would usually support cultivation of soybeans during the summer, followed by corn on the same area in the Southern Hemisphere autumn and winter. This corn crop is known as second-crop or winter corn, but is also referred to as the "safrinha" because it was originally the "little harvest" of corn and summer corn still accounted for most national production. However, as soy cultivation has expanded in response to strong demand from China and the crop's high profitability, safrinha corn cultivation has also grown. Today, safrinha corn makes up almost three-fourths of total corn production in Brazil. This share

has continued to grow as producers in southern Brazil, many of whom can only plant one crop per year, have opted to sow soybeans in place of summer corn.



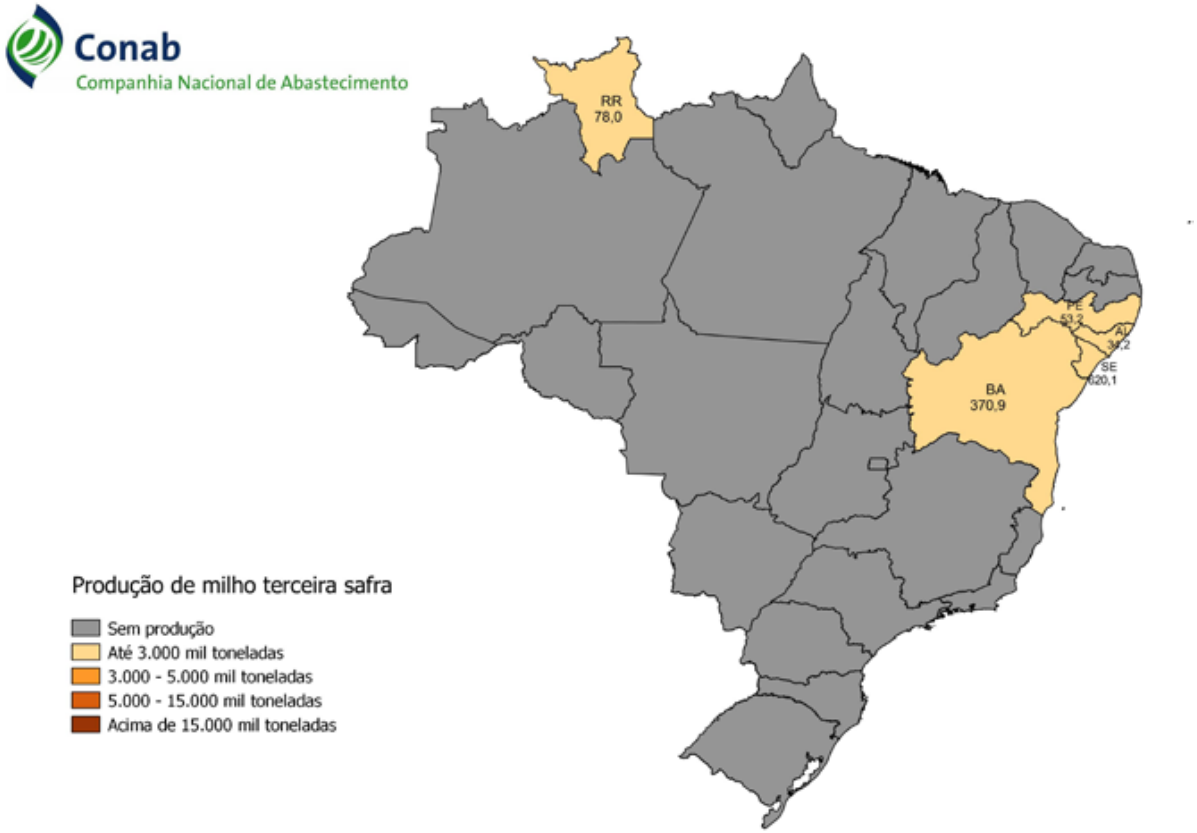
Source: CONAB Boletim de Grãos - 6º Levantamento - Safra 2019/20 – March 2020

Much of the safrinha corn crop has traditionally been destined for export, while summer corn has been used domestically as livestock and poultry feed. Poor infrastructure connections and the high price of transporting safrinha corn from the Center-West have meant that livestock and poultry operators in southern Brazil are increasingly turning to corn imports for feed rations, which is ironic in a country that produces such great volumes of the grain. However, given the strong and growing demand from these sectors, as well as expansion of operations in the Center-West, more safrinha corn is being consumed internally. This may be the case especially in MY 2019/20, with strong consumption demand from animal production in the region, as well as an expanding corn ethanol industry.

The success of Brazil's safrinha corn crop is vulnerable to the pace of the soy harvest each year. Farmers rush to get the safrinha crop in the ground within the ideal planting windows for their region. The earliest window closes around the third week of February in southern Mato Grosso do Sul and southern Parana, due to the potential for freezing temperatures in June and July. For Mato Grosso and Goias, the ideal window closes in late February, so the crop has sufficient moisture to develop before rains trail off in the dry season. Corn planted after these dates faces considerably higher risks and may not be eligible for crop loss payments under government programs.

In late 2019, Brazil's agricultural statistics agency, the National Food Supply Company (CONAB), also defined a third corn crop in the country. This corn is primarily planted in the northeastern states of

Sergipe, Alagoas, and the northern part of Bahia, an area collectively known by the acronym Sealba, as well as small amounts of production in the northern Brazilian states of Roraima and Amapa. This crop is planted the latest of the three, following a season that more closely resembles that of the United States, with sowing in May – June and a harvest that takes place around October - November. This production was previously folded in with the second-crop safrinha corn, but due to the difference in planting and harvesting periods, CONAB decided to separate it out. Third-crop corn only accounts for about 1 percent of Brazil's total production, and around 2 percent of area. Moreover, yields and production in Northeastern Brazil can vary widely, as they are dependent on unpredictable precipitation.

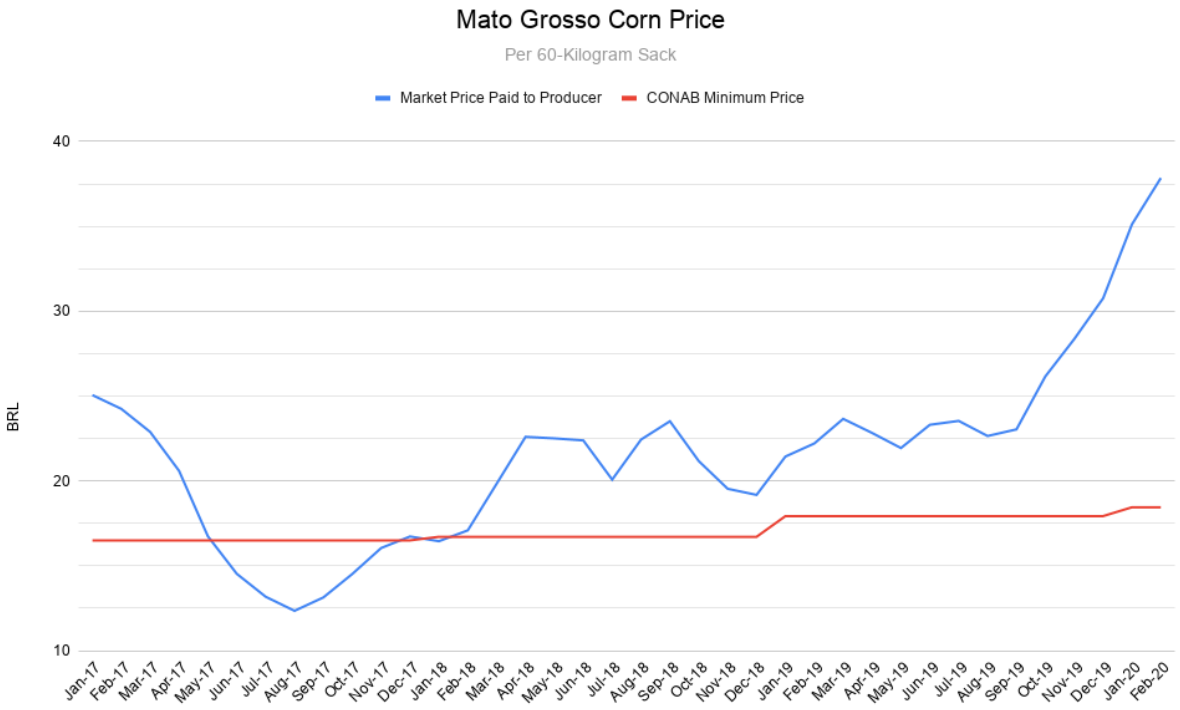


Production Map for Third Corn Crop
Source: CONAB Boletim de Grãos - 6º Levantamento - Safra 2019/20 – March 2020

The state of Mato Grosso is Brazil's largest corn producer overall, responsible for roughly one-third of total production, virtually all of which is second-crop corn planted after the soybean harvest. While some farmers have opted in recent years to switch to higher-priced cotton as a second crop, many do not have the specialized equipment or capital for pricy inputs needed to produce it. Industry sources report that many of the less-capitalized farmers who grew cotton in the last few years switched back to safrinha corn this season. The high profitability of corn, relative ease of commercialization, lower input investment compared to cotton, and the fact that farmers can largely use the same equipment as soy for corn planting and harvesting, mean that corn will remain the dominant second crop in Mato Grosso for the foreseeable future.

Mato Grosso saw large expansion in safrinha corn area this season, with CONAB reporting that area grew

by 9 percent year-over-year, while the Mato Grosso Institute of Agricultural Economics (IMEA) reports expansion in area of around 5 percent. Both agencies, as well as Post, agree that planted corn area in Mato Grosso topped 5 MHa for the first time this year. The expanded planting was motivated by exceptionally high domestic prices, coupled with strong internal demand after record exports in 2019 depleted corn stocks. Around 95 percent of Mato Grosso's safrinha corn crop was planted by the end of February, and industry sources report that producers invested more in inputs and technology for this year's crop. Post forecasts Mato Grosso will have record production of around 33 MMT in MY 2019/20, assuming the fields receive sufficient rain through April.



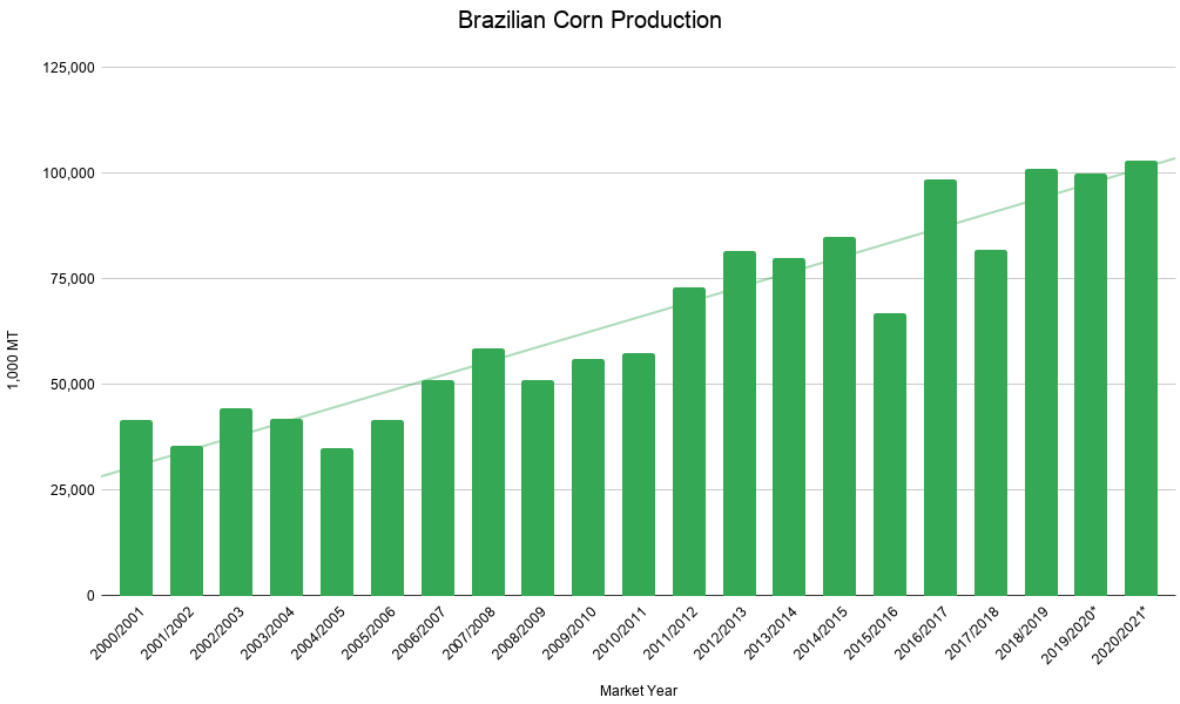
Data Source: CONAB

Brazil's second-largest corn producing state is Parana, which accounted for about 16 percent of the MY 2018/19 national harvest. Roughly 80 percent of the southern state's corn comes from the safrinha crop, since a majority of producers prefer to plant soybeans first. The profitability of corn is more pronounced in southern Brazil, since producers in that region are significantly closer to large swaths of the poultry and livestock sectors, as well as port facilities. They pay far less for the transport of imported inputs and can get a higher price for outbound commodities. For this reason, corn in Parana generally has a higher profitability ratio than in Mato Grosso, where it must be significantly discounted due to the high cost of transportation from the Center-West region.

For Parana's MY 2019/20 crop, delays in soybean planting due to dry conditions subsequently delayed the soy harvest, which in turn delayed safrinha corn planting in the state. Motivated by high domestic prices, many farmers still planted corn outside of the ideal window, which closed as early as mid-February in some parts of the state. Others decided to plant wheat as a second crop instead, as that grain is also trading at near-record prices in Parana. According to the Parana Department of Rural Economy (DERAL), about 60

percent of the state's projected safrinha corn area was planted as of late February. That figure rose to 90 percent as of mid-March, but safrinha corn was still planted more than 10 days late in a several parts of the state.
Overall, sowing of the safrinha corn crop is virtually complete as of late March, but the lingering question is how yields will be affected if soil moisture levels do not improve soon. Soil moisture levels in Parana were below ideal in about half the state, as of the last week of March. Sporadic, light rains have thus far not alleviated the problem. This led DERAL to downgrade its forecast for the state's safrinha corn crop by 400,000 MT, to a total of 12 MMT, with which Post concurs. That projection could be further decreased if Parana fields do not receive significant precipitation in the next week or two.

There is also some concern with the corn crop in the neighboring states of Sao Paulo and Mato Grosso do Sul, which are also experiencing dry conditions. Mato Grosso do Sul is Brazil's fourth-largest corn producer. Due to a delayed soy harvest, safrinha corn was planted extremely late in the state, wrapping up three weeks after the ideal period ended, leaving the crop susceptible to dry conditions as the rainy season ends, as well as potential frosts in June and July as the crop matures.



Data Source: USDA/FAS PSD Online
Note: MY 2019/20 and 2020/21 reflects Post's forecasts.

Brazil's first crop corn also faced issues with persistent dryness, especially in the southernmost state of Rio Grande do Sul, where the harvest was approximately 65 percent complete as of the last week of March. The state has typically been the largest producer of first-crop corn, but drought conditions hit the state between December and February, which slashed yields by almost 25 percent. Despite a 5-percent expansion in corn area, Rio Grande do Sul's total production is likely to fall by 20 percent compared to the previous year. The hardest hit were the farmers who planted corn in September, as their fields experienced severe dryness

and high temperatures in December, which affected the crop during the flowering and grain-fill stages, severely diminishing yields.

Parana's first-crop corn fared better, but producers in that state reduced area by 6 percent, in favor of planting more soy. The state's first-crop corn was about 85-percent harvested by late March, with yields of over 10 MT/HA, though that average is likely to fall as the harvest wraps up with the latest-planted fields.

Data Source: CONAB

While the coronavirus pandemic continues to spread throughout Brazil and around the globe, so far its impact on Brazil's corn production seems to be minimal. While there were some initial concerns about disruptions to supply chains for agricultural inputs such as fertilizers, seeds, and pesticides, the Brazilian federal government has since declared the manufacture, import, and transportation of such products to be essential services that should continue operating throughout the pandemic. Additionally, the manufacture and distribution of farm equipment and parts was also deemed essential, even as demand for those services has slumped because farmers, like other consumers, are putting off major investments for the foreseeable future.

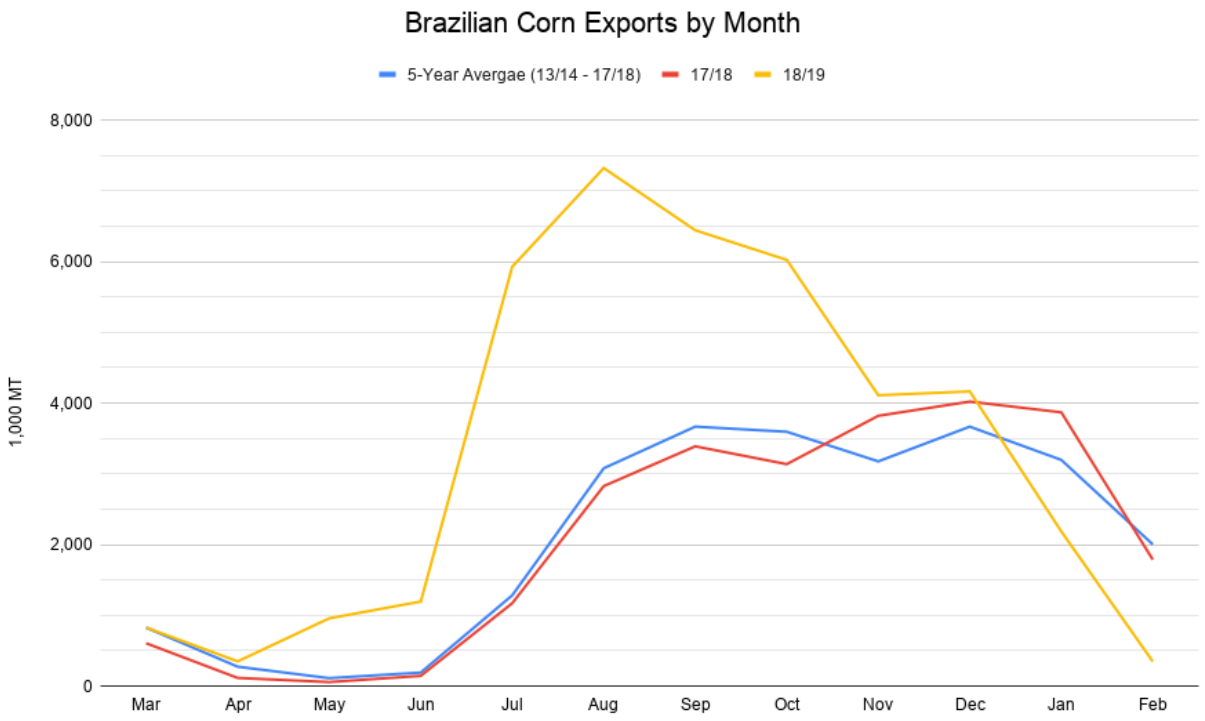
Corn Trade

Exports

Post maintains its forecast for MY 2019/20 corn exports at 34 MMT, which is a year-over-year decrease of approximately 15 percent. Record exports of nearly 40 MMT in 2018/19 severely depleted stocks, while strong internal demand by the poultry and livestock sectors suggests that Brazil will consume a greater

portion of the current crop. For MY 2020/21, Post sets its initial forecast at 36 MMT, on the back of expectations for expanded production, as well as the likelihood that the Brazilian real (BRL) will remain weak as Brazil's GDP growth sputters in the wake of the coronavirus pandemic.

Abundant supplies of safrinha corn, coupled with the weakened BRL and weather problems for the U.S. crop, kept Brazilian corn very competitive on the international market throughout MY 2018/19. The BRL has continued to fall against the dollar, plunging to a record low in March. As of March 27, the BRL was 5.1 to the U.S. dollar (USD), 31 percent weaker than a year prior. The foreign exchange rate allowed Brazilian producers to sell corn supplies for less on the international market, while still retaining a decent profit. Although, the same rate has made the importation of crop inputs significantly more expensive. Surprisingly, market prices for corn remained strong throughout MY 2018/19, unlike the collapse seen after the last record crop, in MY 2016/17. In fact, due to diminished carryover stocks and expectations of strong internal demand, corn prices on the BM&F Exchange hit their highest ever nominal value in BRL terms on March 31, 2020, at R$60.14 per 60-kilogram sack (US$4.91 per bushel).

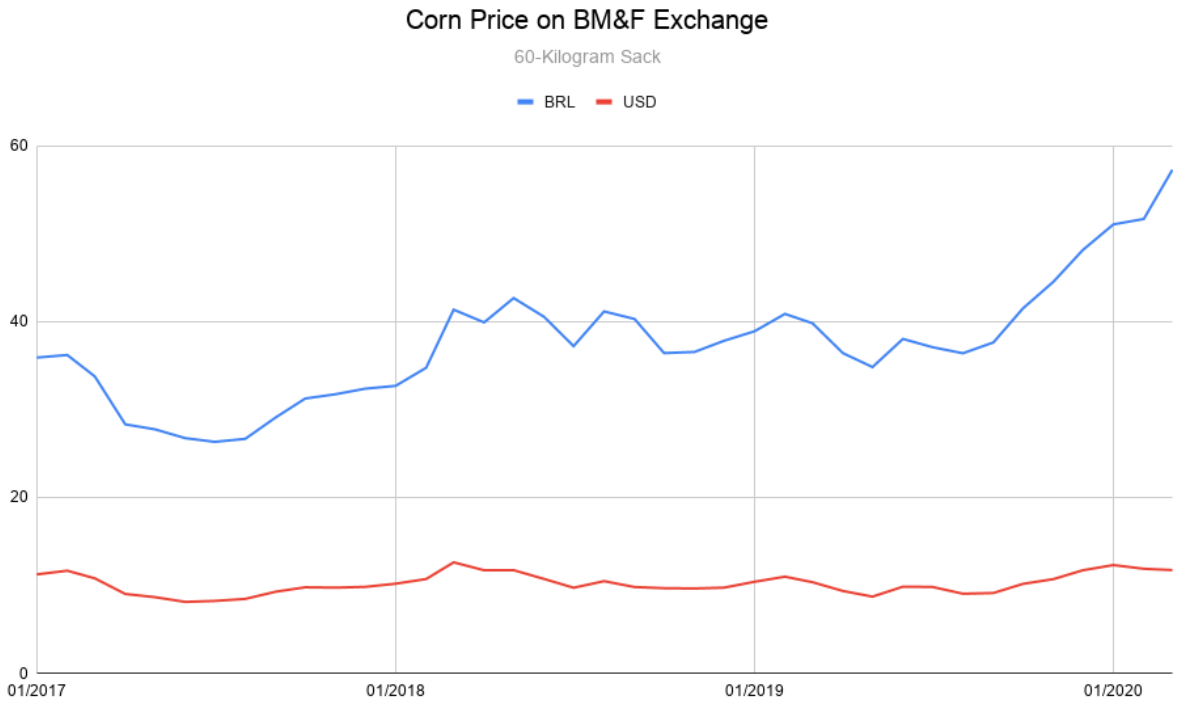


Data Source: Brazilian Foreign Trade Secretariat (SECEX)
Note: The 2018/19 market year ended February 2020

This scenario has motivated MY 2019/20 forward sales, which IMEA reported had reached 73.4 percent as of mid-March. That pace far exceeds the 5-year average of 50.47 percent at the same point in the season. CONAB-reported corn prices in both Mato Grosso and Parana were at or near record levels in February, the most recent month for which data is available. In Parana, the price of a 60-kilgram sack of corn averaged R$39.87, which is 23.4 percent higher year-over-year. In Mato Grosso, the price was R$37.85/sack, 41.32 percent higher than February 2019. The higher price on the BM&F Exchange represents trading of futures contracts throughout Brazil. During the month of March, the value of a 60-kilogram sack rose by 12

percent, ending at R$60.14 as of March 31.

Nevertheless, market dynamics have the potential to shift as some producers and trading companies have become increasingly concerned with how the coronavirus pandemic might affect transportation and trade. While safrinha corn is still a few months from being harvested, there is some uncertainty regarding logistics as local governments restricted movement in some areas. A government decree also temporarily closed truck stops, including the tire shops and restaurants that truck drivers rely on while they are hauling grains and oilseeds. To address these issues, the Brazilian federal government has openly committed to keeping food and agricultural products flowing, with the Minister of Agriculture personally intervening with local authorities in some cases. The government also declared truck stops to be essential services for the movement of food and agricultural products throughout the country. For now, it does not seem that the coronavirus pandemic will disrupt Brazilian trade, although the situation is still evolving. Ultimately, the impact will depend on how widespread the pandemic becomes in Brazil, as well as how it affects demand in foreign markets.



Date Source: University of Sao Paulo Center for Advanced Studies in Applied Economics (CEPEA)

Another factor affecting trade prospects in Mato Grosso has been the completion of the paving of BR-163, the so-called "soybean highway." The road runs north through Mato Grosso for more than 1,000 kilometers, into the state of Para, ending at the river terminals of Miritituba, where most major grain trading companies have barging facilities set on the banks of the Tapajos River. In late November 2019, the Brazilian government announced that a military engineering and construction battalion had asphalted the last few unpaved kilometers of the road, a feat that took more than 40 years from the time the road was first created.

Prior to being fully paved, truck drivers faced the peril of becoming stuck in a muddy mess throughout the rainy season. At times, the Brazilian military would have to air drop supplies to hundreds of stranded truckers who would have no choice but to wait days for the unpaved portion of the road to dry.

Since the completion of the paving, freight prices have reportedly dropped 25-35 percent, as truck drivers can now make more trips every month and use significantly less diesel each time. A journey that used to take up to 10 days now takes only four, effectively doubling the volume of soy or corn that a driver can transport north to the river terminals, according to the Ministry of Infrastructure. As a result, Brazil's National Department of Transportation Infrastructure (DNIT) estimates that truck volumes will grow by 30 percent in 2020.

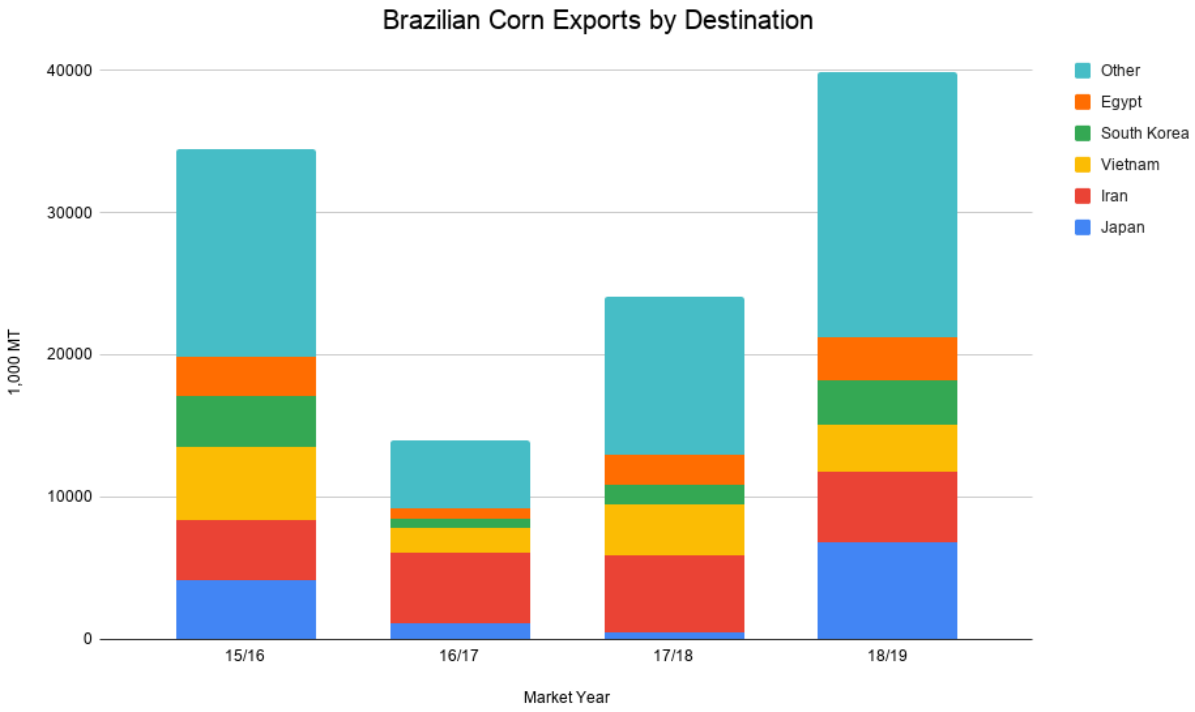
The paving of BR-163 means that corn produced in Mato Grosso will be more competitive and will likely also increase profits for producers in the region. It also supports the trend of exporting an increasing share of production via Brazil's Northern Arc ports. An estimated 35 MMT of oilseeds and grains were exported via the region in 2019, according to the Pro-Logistics Movement industry group. That amounts to a five-fold increase over the last decade, as only 7.2 MMT traveled through the Northern Arc in 2009.

Image Source: Valor Economico

For producers in central and northern Mato Grosso, it is increasingly more affordable to send their crop about 1,000 kilometers north than to have it trucked double that distance to the Port of Santos or other

export terminals on the coast in Center-South Brazil. In 2019, 46 percent of Mato Grosso's production flowed through the north, an increase of 10 percent over the previous year, according to analysis by Rota do Oeste. That proportion is expected to grow in the future, especially with if the Ferrograo (grain railroad) is finally constructed adjacent to BR-163. The Brazilian government is slated to auction off the US$3-billion project in October 2020, but it will likely take the concessioner at least five years to bring the railroad into operation. Once functional, the Ferrograo has the potential to transport 35 MMT of grain and oilseeds each year, further reducing transportation costs and increasing the competitiveness of agriculture in Mato Grosso.

Of the 39.85 MMT of corn that Brazil exported to 85 different foreign markets in MY 2018/19, more than half (21.26 MMT) went to just five countries. The top importers of Brazilian corn included Japan (6.8 MMT), Iran (4.9 MMT), Vietnam (3.3 MMT), South Korea (3.1 MMT), and Egypt (3.1 MMT).



Data Source: Brazilian Foreign Trade Secretariat (SECEX)

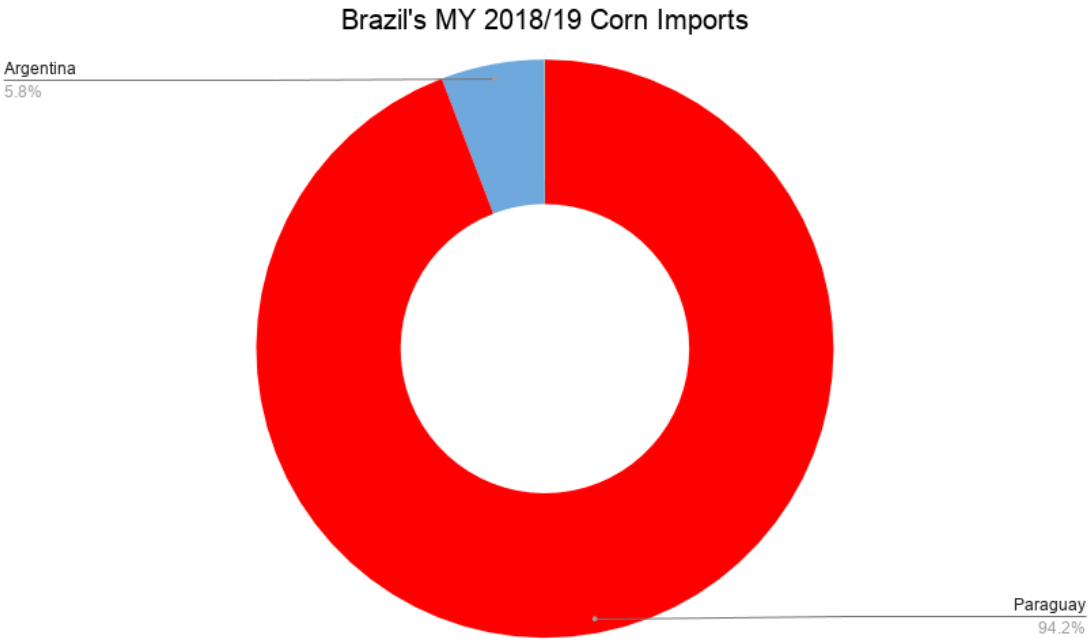
Imports

Post maintains its MY 2019/20 import forecast at 1.5 MMT, which would be a 9.5 percent decrease year-over-year. Post is projecting a smaller import volume since Brazil is expected to domestically consume a greater portion of its crop, lowering exports as well as the need to import supplies in certain regions. The initial forecast for MY 2020/21 is also set at 1.5 MMT.

The shrinking of Brazil's first-crop corn area over the years has resulted in unmet domestic demand by the livestock and poultry sector in southern Brazil. While Brazil on the whole grows much more corn than the

country consumes domestically, the main production areas have shifted in recent decades, with more corn grown in central Brazil and less in the south where the poultry and pork industries have traditionally been concentrated. The southern state of Santa Catarina, for example, is home to some of Brazil's largest chicken and swine operations, located in the western part of the state. However, Santa Catarina only produces about half as much corn as the industry requires for feed. Thus, the poultry and livestock sector frequently imports corn from nearby Paraguay, as it is much less expensive to move corn overland from Paraguay than it is to transport corn domestically from high-production areas in central Brazil, like Mato Grosso.

The vast majority of Brazilian corn imports come duty-free from nearby MERCOSUL members, Paraguay and Argentina. Paraguay alone was responsible for supplying 94 percent of Brazil's MY 2018/19 corn imports of 1.66 MMT. Meanwhile, the United States and other non-Mercosul suppliers accounted for just 0.03 percent of imports.

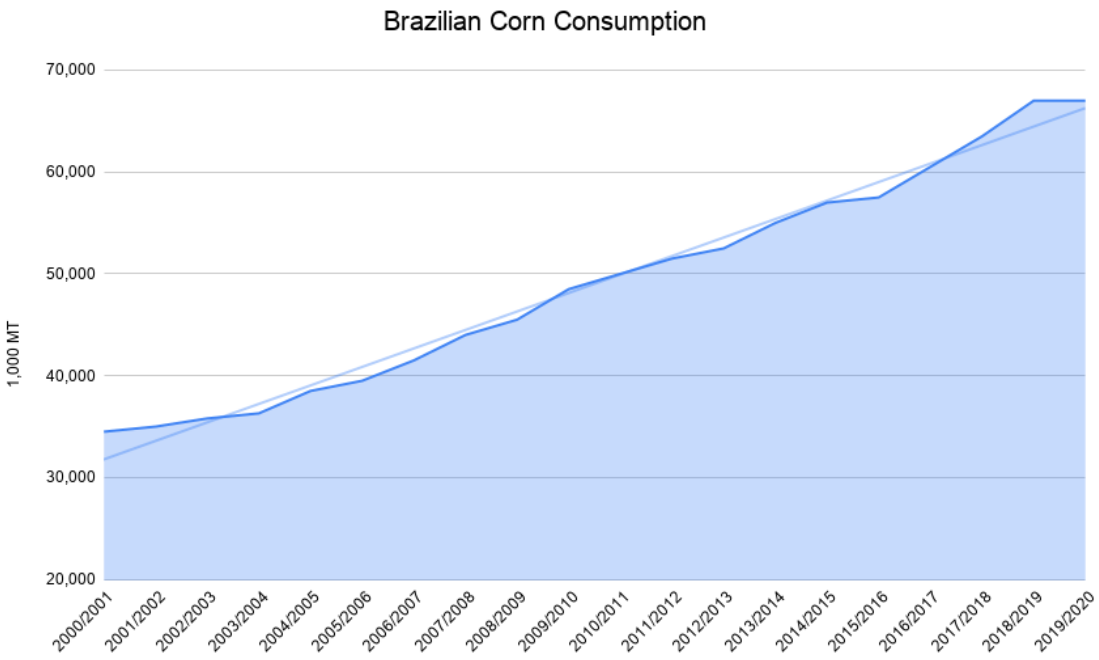


Data Source: Brazilian Foreign Trade Secretariat (SECEX)

Corn Consumption

Post lowers its forecast for Brazil's MY 2019/20 domestic consumption by 1 MMT, to 67 MMT. This is based on a combination of factors, including market concerns regarding the spread of the coronavirus pandemic, as well as expectations of reduced corn ethanol demand. For MY 2020/21, Post sets its initial forecast at 69 MMT, on the expectation of market recovery and retuned demand for corn ethanol, among other fuels. Additionally, Brazil's poultry and pork sectors are still on track to expand this year in reaction to strong demand from China and other exports markets.

Corn consumption in Brazil has nearly doubled over the last two decades, as the country became the world's largest chicken meat exporter and fourth-largest pork exporter. Brazil's large poultry and pork sectors generally consume the vast majority of the corn crop each year, as the grain makes up about 60 percent of feed rations. Calendar year 2019 showed a large increase in poultry and pork exports from Brazil, mainly to China, where the hog herd suffered severely from an outbreak of African Swine Fever. This sent Chinese importers in search of animal protein imports, and Brazil's large industry was able to expand to meet that demand last year. Brazil's pork industry grew by 3 percent in 2019 and Post projects additional expansion of 4 percent in 2020. The Brazilian pork industry consumes about half as much feed rations as the poultry sector, but the rapid growth is still significant. At the same time, Brazil's chicken meat production grew by 2.5 percent in 2019 and is expected to expand by an additional 3 percent in 2020.



Data Source: Brazilian Foreign Trade Secretariat (SECEX)

Post forecasts Brazil's MY 2019/20 food, seed, and industrial (FSI) consumption at 10 MMT, a slight decrease from the previous forecast. The country's small-but-expanding corn ethanol industry has grown rapidly in recent years, however the spread of the coronavirus pandemic throughout the world, including Brazil, has dampened the outlook for fuel consumption this year.

The corn ethanol industry had been expected to consume roughly 7 MMT of corn in 2020, but that volume may slump as fuel demand plummets and ethanol becomes less competitive due to a collapse in global oil prices. Several ethanol distributors in Brazil have already declared *force majeure* on ethanol purchase contracts. Additionally, the corn ethanol sector reportedly began selling off corn stocks in late March, aiming to take advantage of currently high domestic corn prices and betting on the ability to replenish warehouses after the safrinha corn harvest, assuming fuel demand is on the upswing by then.

Rice

Rice, Milled	2018/2019		2019/2020		2020/2021	
Market Begin Year	Apr 2019		Apr 2020		Apr 2021	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1700	1700	1680	1650	0	1630
Beginning Stocks	489	489	229	129	0	203
Milled Production	7140	7140	7140	7174	0	7072
Rough Production	10500	10500	10500	10550	0	10400
Milling Rate (.9999)	6800	6800	6800	6800	0	6800
MY Imports	900	750	1100	850	0	850
TY Imports	770	691	900	850	0	850
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	8529	8379	8469	8153	0	8125
MY Exports	830	800	600	500	0	500
TY Exports	953	982	500	500	0	500
Consumption and Residual	7470	7450	7500	7450	0	7400
Ending Stocks	229	129	369	203	0	225
Total Distribution	8529	8379	8469	8153	0	8125
Yield (Rough)	6.1765	6.1765	6.25	6.3939	0	6.3804
(1000 HA), (1000 MT), (MT/HA)						

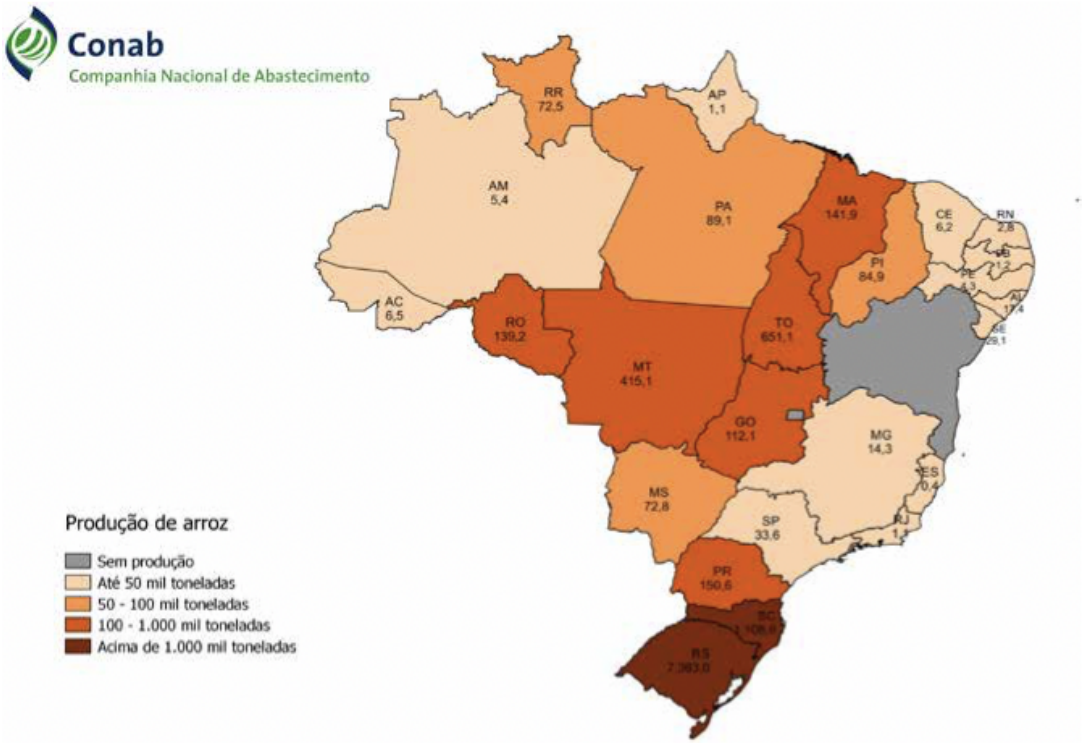
Rice Production

Milled rice production for market year (MY) 2019/20 (April 2020 – March 2021) is estimated at 7.174 million metric tons (MMT), based on year-over-year reduced area but a return to better yields. This is up half a percentage point from Post's last forecast, due to the expectation of better yields based on favorable weather in the major growing regions of Rio Grande do Sul. At the same time, post estimates MY 2019/20 area at 1.65 million hectares (MHa), which is 3 percent smaller than MY 2018/19.

Post forecasts MY 2020/21 (April 2021 – March 2022) area to decrease by 1 percent to 1.63 MHa, following the long-term trend of shrinking area. As such, post also forecasts a small decrease in production for MY 2020/21, to 7.072 MMT, consistent with the smaller area.

Once widely spread throughout Brazil, rice production has become increasingly concentrated in the south

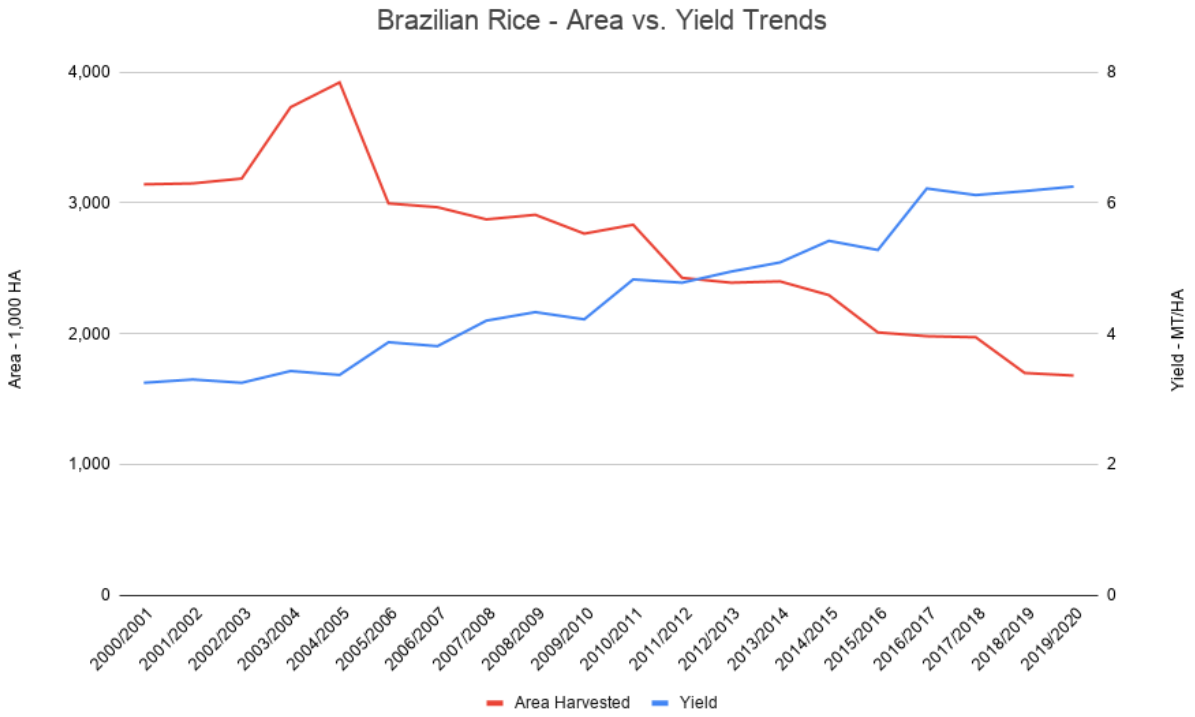
of the country. Today, the vast majority of Brazil's rice area is concentrated in two southern states, and close to 80 percent of rice fields are irrigated. According to the National Food Supply Company (CONAB), Brazil's agricultural statistics agency, the country's southernmost state, Rio Grande do Sul, is responsible for almost 60 percent of Brazil's total rice area and 70 percent of total production, all of which is irrigated. The state of Santa Catarina, just north of Rio Grande do Sul, accounts for another 10 percent of Brazilian rice production.



Source: CONAB Boletim de Grãos - 6º Levantamento - Safra 2019/20 – March 2020

The long, steady shrinking of Brazil's rice area is largely due to decreased rainfed rice area throughout the country. Irrigated rice area in Rio Grande do Sul has remained more or less steady over the last 25 years, according to industry data. However, in response to the high profitability of soy, both Rio Grande do Sul and Santa Catarina have experienced incremental growth in soy area in recent years, which some farmers rotate with rice every two years to maintain soil quality and control pests, weeds, and volunteer rice. Unlike the Center-West region, most farmers in southern Brazil only plant one crop per year.

Although Brazilian rice area has been cut in half over the last two decades, many analysts believe that it is unlikely to shrink much more without interfering with the crop rotation pattern most beneficial to the soil in southern Brazil. Moreover, industry sources indicate that some rice areas are simply unfit for other crops due to poor drainage, so rice is likely to remain the dominant cultivar for some terrain. Rice farming has also been a multi-generational practice for some families in southern Brazil. Due to this longstanding tradition, contacts indicate that certain farmers are unlikely to switch over completely to other crops, even despite the challenges faced by some rice producers. Others will continue to rotate cultivation of rice with soy every couple of years. According to the Federation of Rice Producers of Rio Grande do Sul (Fedearroz), such a cycle of rotation can reduce production costs by as much as 15 percent and increase rice yields by 10-20 percent, depending on the condition of the land.



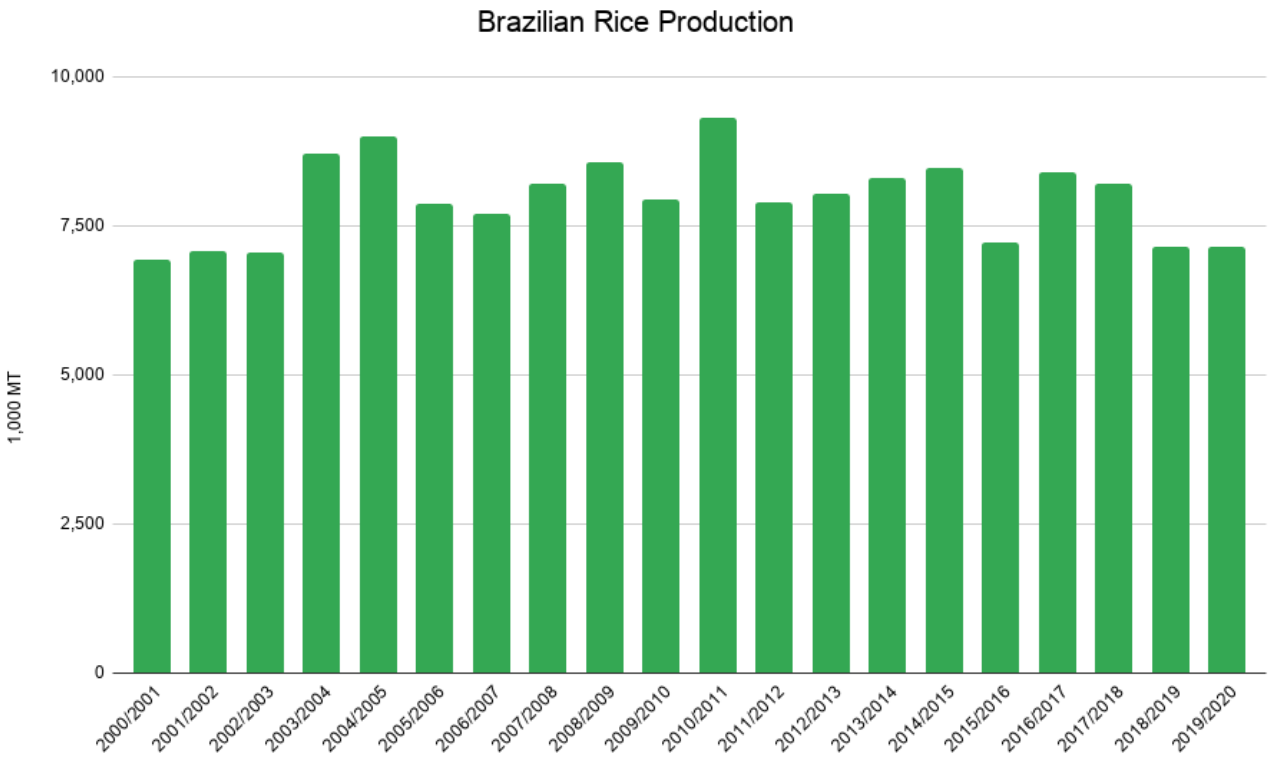
Data Source: USDA/FAS PSD Online

While Brazil's rice area has seen a long trend of contraction, production totals have not shrunk quite as much due to improved yields. The overall trend for Brazilian rice production over the last 20 years has been smaller area offset by increasing yields, a tendency that has led to little-changed production volumes over the last two decades. This has allowed Brazil to remain the world's largest rice producer outside of Asia.

At the same time, Brazilian rice producers complain that they face steep hurdles in cultivating the crop. Fedearroz continues to lobby the state and federal governments for assistance with what it sees as the main challenges of the industry, including rising electricity costs to run irrigation systems, high debt levels of producers, high taxation rates, Mercosul competition, and cabotage regulations.

While government officials have made advances to lower some of these hurdles, such as loosening regulation on cabotage vessels, rice industry analysts caution that the greater problem is that not all Brazilian rice producers have access to the same advantages in the market. Those with greater capital flows can make huge profits, even better than planting soybeans in years when rice yields are high. Generally, these producers have invested in drying and storage facilities that allow them to keep their harvested crop until rice prices rise later in the year (usually around August or September, when rice stocks are dwindling). They also have the capital to purchase inputs when the prices are lower and foreign exchange rates are more favorable. Rice producers with less capital are more likely to be renting the land on which they produce, a factor that drives up the cost of production. To pay the bills, they are often forced to sell their crop right after harvest, when prices are depressed due to the flood of supply on the market. Rice millers, however, take advantage of this situation, building up stocks when prices are lower. Many producers also make financing agreements directly with mills, which provide the capital needed to pay for

inputs and production costs.



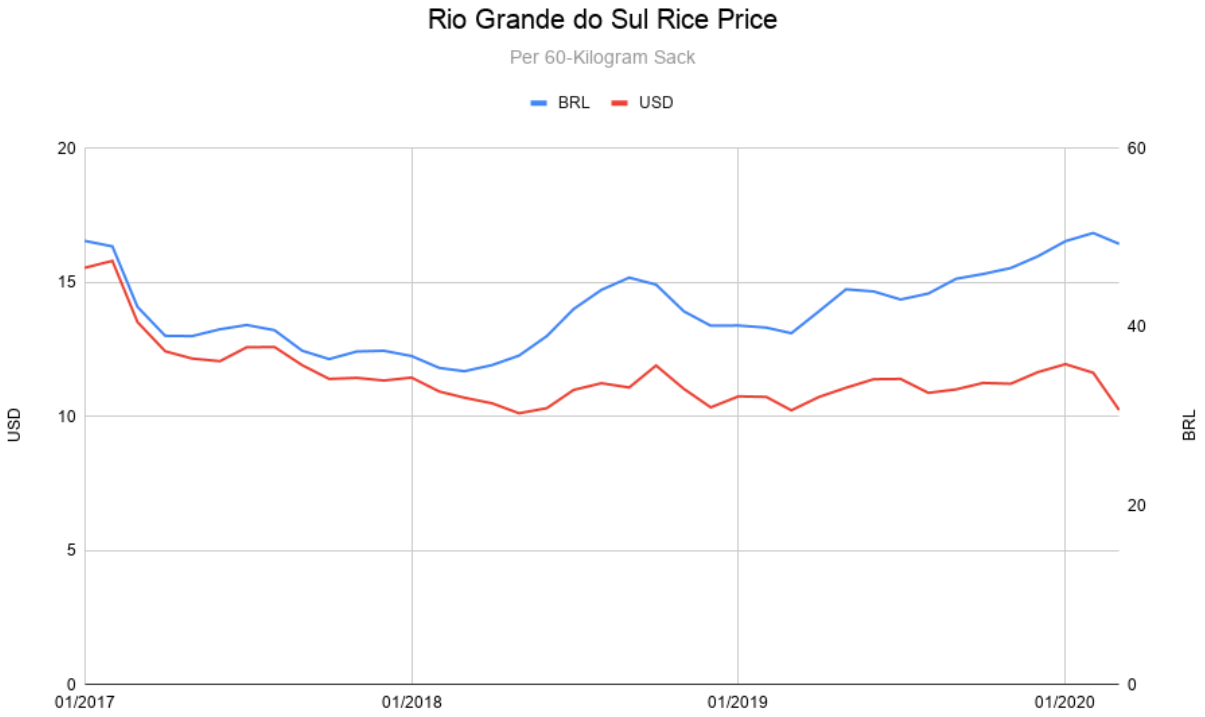
Data Source: USDA/FAS PSD Online

The harvest for the MY 2019/20 crop kicked off in February. Yields are expected to be improved over last year's crop, as the major production regions generally experienced favorable weather during the growing season. Even though some producers in southern Brazil faced challenges with excessive rains that delayed their ability to apply fertilizer and herbicide to the crop early in the growing cycle, it does not seem that quality or yields suffered much.

Localized areas in Santa Catarina experienced minor losses from hail storms, while excessive rain in some regions during February slowed the pace of the harvest and led to increased prevalence of pests on some farms. Nevertheless, the state had generally good growing conditions for the season, and with high domestic prices, many famers were incentivized to invest in fertilizer and pesticide applications. As of mid-March, the harvest was approximately 30 percent complete in Santa Catarina, and CONAB expected that total to reach 45 percent by the end of the month.

In Rio Grande do Sul, some growers had issues with cold fronts that dropped temperatures below ideal levels, but sunny days in February and March provided ample solar radiation to boost productivity and speed along the harvest. Although the state of Rio Grande do Sul also faced a prolonged dry period in some regions, the major rice production areas in the south in the state were not affected as much as soy and corn fields in the north.

As of March 26, the Rio Grande do Sul Rice Institute (IRGA) reported that the harvest in that state was 47.7 percent complete, with some areas as much as 70 percent harvested. Among the first areas harvested, average yields have hovered around 8.7 MMT per hectare, but industry sources caution that these were also the areas planted earliest (before the ideal planting window closed on November 15). Later-planted fields are expected to bring down the average yield for the state, but favorable weather conditions during the growing season will mitigate potential losses from late planting that happened in December for some areas. Both CONAB and IRGA are projecting a statewide average yield of 7.8 MMT per hectare, with which Post concurs. Considering yields for rainfed fields in other parts of Brazil are usually only a third of that for irrigated rice, Post's estimate for Brazil's average MY 2019/20 rice yield is 6.39 MMT per hectare, which is 3.5 percent higher than the previous season.



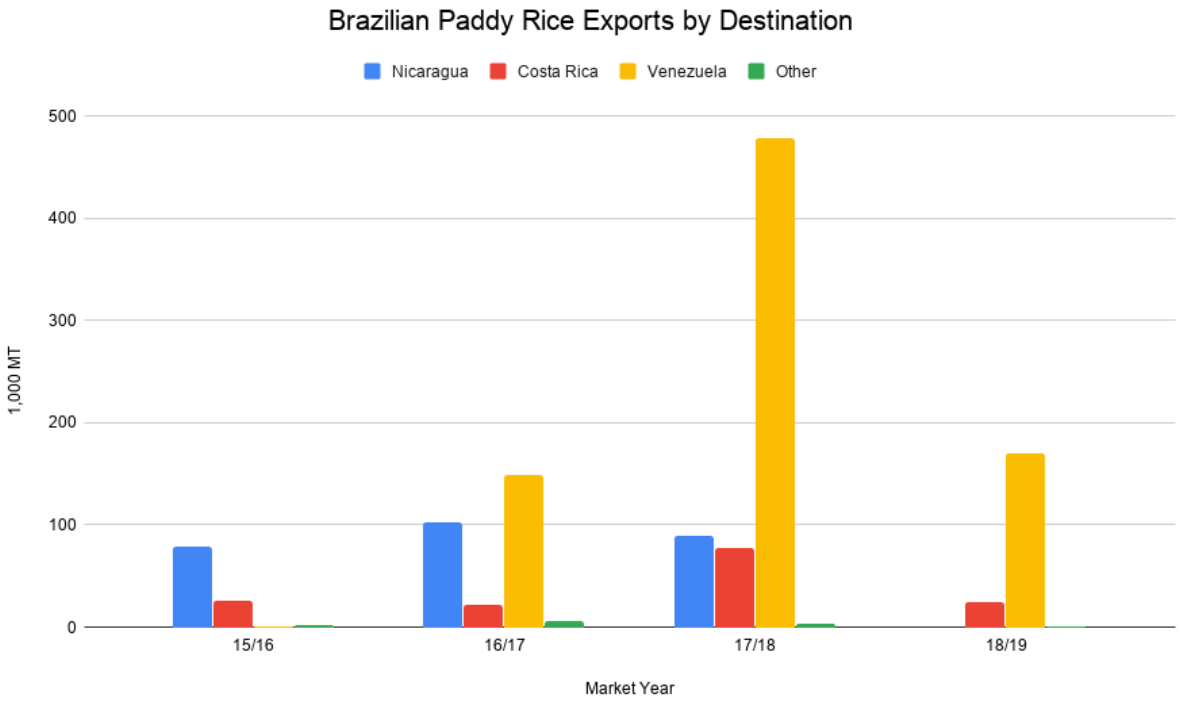
Data Source: University of Sao Paulo Center for Advanced Studies in Applied Economics (CEPEA)

Rice prices in Rio Grande do Sul have remained firm over the last few months and are currently about 25 percent higher than this time last year. This is a result of the limited supplies due to the weakened Brazilian real (BRL) making exports more attractive, as well as the resulting depletion of domestic stock levels. As of March 27, the BRL was 5.1 to the U.S. dollar (USD), 31 percent weaker than a year ago. Starting in early 2018, the rice price in BRL and USD terms started to diverge, representing the weakening of the BRL. This has made Brazilian rice exports increasingly enticing for foreign markets, but at the same time making imports of fertilizers and agricultural chemicals more expensive for Brazilian farmers needing those inputs.

Rice Trade

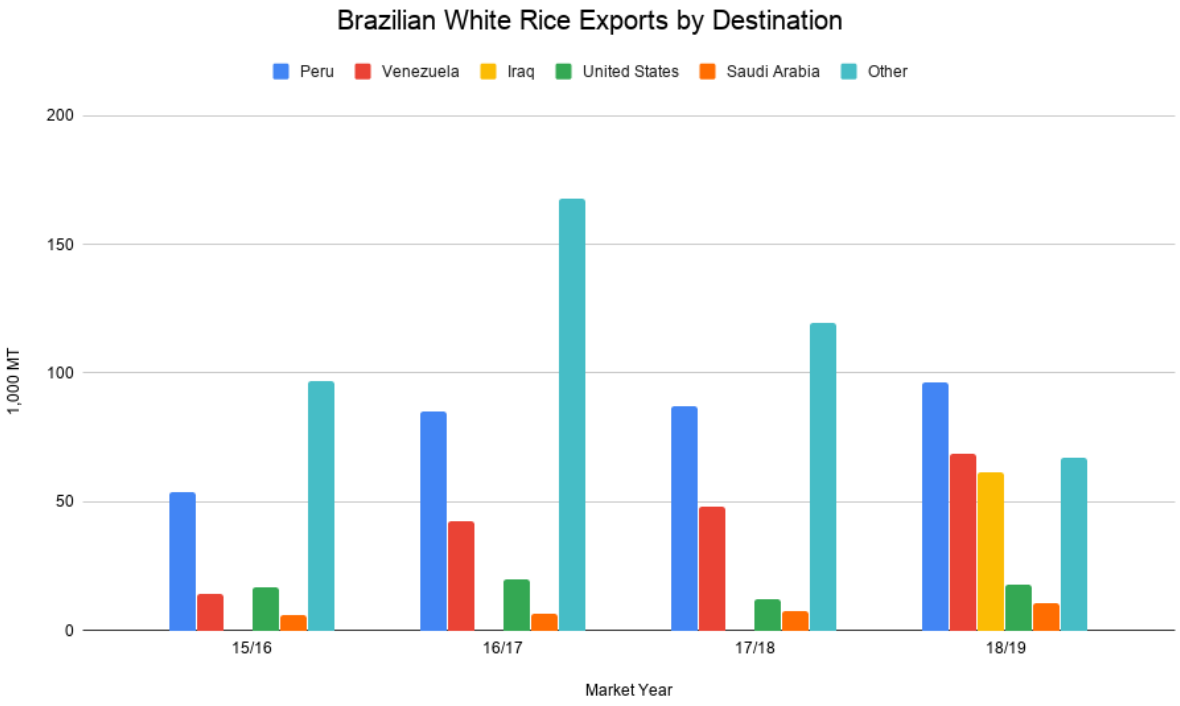
Exports

Post lowers the MY 2018/19 milled rice export estimate to 800,000 MT, based on near-final trade data and the pace of trade. Post raises its forecast, over the previous Post forecast, for MY 2019/20 exports, to 500,000 MT, based on higher expected production from the current harvest. Nevertheless, the weak Brazilian real and depleted domestic stocks mean that Brazilian rice millers are likely to buy up cheaper domestic supplies over the next few months as the price is expected to drop after the completion of the harvest. Post sets its initial MY 2020/21 export forecast at 500,000 MT, assuming decreased production next year due to shrinking area and a return to trend yields.



Data Source: Brazilian Foreign Trade Secretariat (SECEX)
Note: MY 18/19 includes trade data from April 2019 – February 2020

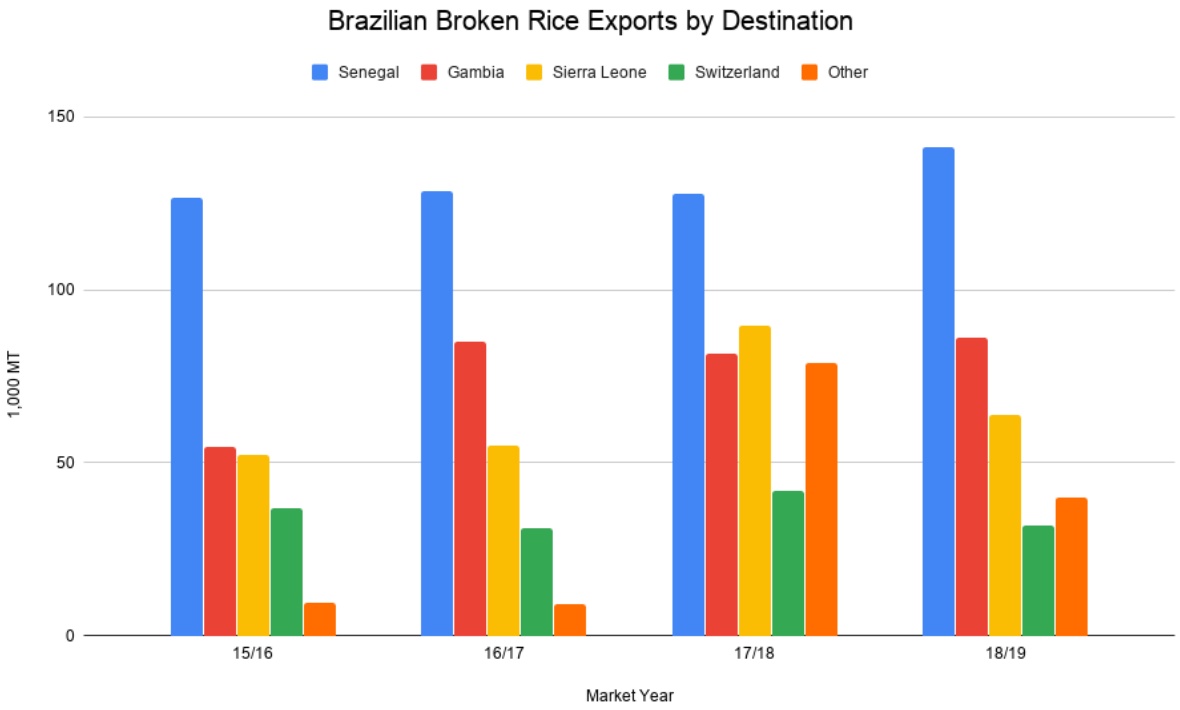
Venezuela was the largest market for Brazil's paddy rice exports again in MY 18/19 (according to trade data from April 2019 to February 2020). This was the third market year in a row that Venezuela has been the top destination for rough rice from Brazil. As Venezuela fell deep into political and economic turmoil over the last few years, Brazil's abundant production and relative geographic proximity made it a convenient rice supplier. Trade flows from Brazil to Venezuela ramped up in late 2018 but slowed to a trickle between June and October 2019. However, trade picked back up in November 2019, with consistently large volumes exported every month through at least February 2020, the most recent month for which trade data are available. Because the Brazilian real remains weak against the dollar, Brazilian rice continues to be relatively cheap, and Venezuela may continue turning to its South American neighbor to buy paddy rice.



Data Source: Brazilian Foreign Trade Secretariat (SECEX)
Note: MY 18/19 includes trade data from April 2019 – February 2020

White (or milled) rice is Brazil's second-largest export variety (after broken rice). In MY 18/19, Brazil exported white rice to 75 foreign markets, with a total of 322,343 MT exported as of February 2020. Peru was the top destination, accounting for nearly a third of total purchases (96,409 MT). Other top markets included Venezuela with nearly 70,000 MT in purchases, and Iraq with just over 60,000 MT in purchases (divided between one shipment in August 2020 and one in December).

Brazil exported 363,272 MT of broken rice in MY 18/19, as of February 2020. The top markets in this category remained Senegal, Gambia, Sierra Leone, and Switzerland. Sierra Leone has recently announced its intention to become self-sufficient in rice production, a scenario that could lead to the loss of a major export market for Brazilian rice. Rice is an important staple crop for Sierra Leone, grown by 85 percent of the country's farmers during the rainy season, according to *Planeta Arroz*, a rice industry publication in Brazil. Sierra Leone annually consumes 78 kilograms of rice per capita. Last year, in partnership with the African Development bank, the government of Sierra Leone launched the Agribusiness and Rice Value Chain Support Project, aiming to mechanize the agricultural sector and work toward self-sufficiency in rice production. This worries some rice exporters in Brazil, since Sierra Leone has generally been among the top five export markets for broken rice over the last decade.



Data Source: Brazilian Foreign Trade Secretariat (SECEX)
Note: MY 18/19 includes trade data from April 2019 – February 2020

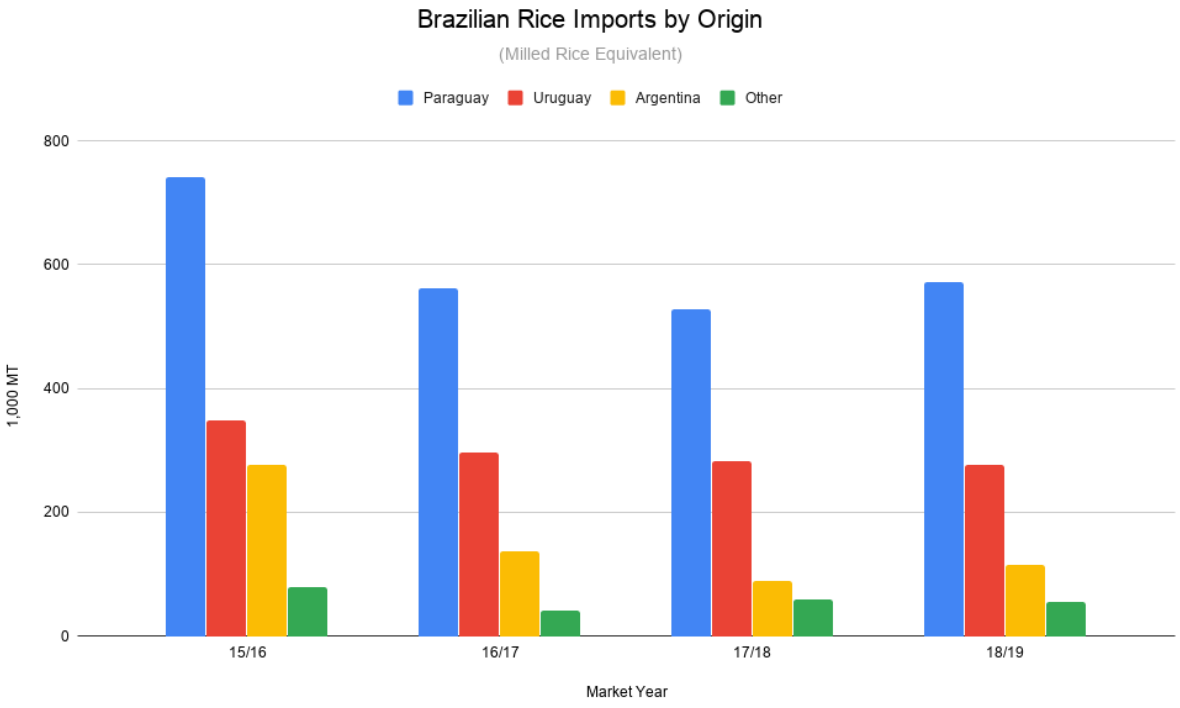
Imports

Post lowers the MY 2018/19 milled rice import estimate to 750,000 MT, based on near-final trade data and the pace of trade. Post also lowers the MY 2019/20 import forecast to 850,000 MT, based on higher expected production from the current harvest. Post makes this change despite Brazil's diminished domestic stocks and high internal prices because the severely weakened Brazilian real will mean that Brazilian rice millers are likely to look to cheaper domestic supplies after the current harvest, rather than look externally. Post sets its initial MY 2020/21 import forecast at 850,000 MT, assuming decreased production next year due to shrinking area and a return to trend yields. Brazil has never imported more than 900,000 MT, and the recent market conditions have shown that millers are willing

to let stocks dip extremely low, only purchasing supplies from abroad when absolutely necessary.

The vast majority of Brazil's rice imports (nearly 95 percent) come duty-free from its Mercosul trade bloc neighbors: Paraguay, Uruguay, and Argentina. Paraguay alone has accounted for more than half of imports in MY 2019/20, as of February 2020, with Uruguay supplying another quarter of imports, and Argentina responsible for approximately 10 percent.

Brazilian rice producers complain that they cannot compete with duty-free imports from the region while facing steep hurdles to cultivate the crop in Brazil (limited agricultural credit, high debt levels of producers, high taxation rates, and cabotage regulations). As a result of these factors, some Brazilian rice farmers have started investing in production in neighboring Paraguay, which like Brazil is a member of the Mercosul trade bloc. As such, the rice produced in Paraguay can enter Brazil duty-free, and due to geographic advantages can more easily supply certain large population centers, such as the state of Sao Paulo, which is home to about one-fifth of Brazilian consumers. This has caused Brazilian producers in recent years to export a greater share of their crop to external markets (especially when prices received for exports are higher).

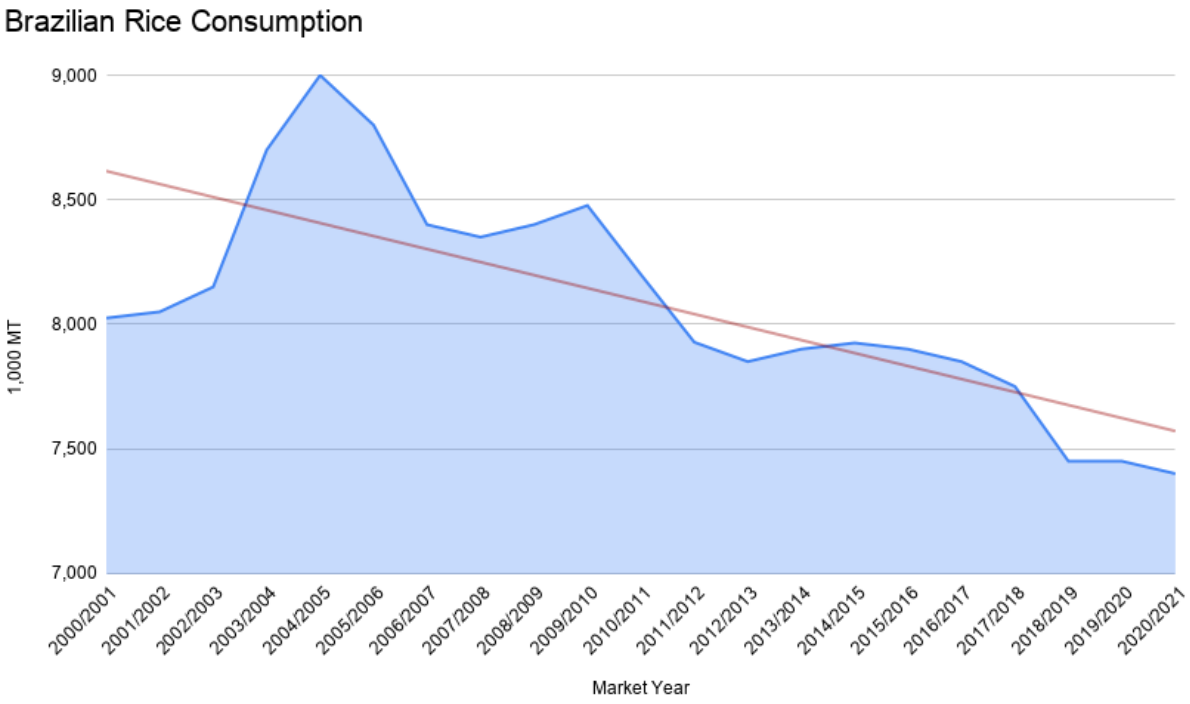


Data Source: Brazilian Foreign Trade Secretariat (SECEX)
Note: MY 18/19 includes trade data from April 2019 – February 2020

Rice Consumption

Post lowers its estimate for MY 2018/19 milled rice consumption to 7.45 MMT, based on the lower-than-expected import volume and limited domestic stocks. Consumption for MY 2019/20 is forecast to remain

static at 7.45 MMT, and MY 2020/21 consumption is forecast at 7.4 MMT, continuing the decades-long downward consumption trend. Based on CONAB reports of changes in private and public stock volumes, as well trade data and industry insights, post forecasts per-capita rice consumption in Brazil will decrease in MY 2020/21, but population growth will hold the overall volume steady.



Data Source: USDA/FAS PSD Online
Note: MY 18/19, 19/20, and 20/21 reflect Post estimates/forecasts

Rice is a staple food in Brazil, with many Brazilians consuming it with black beans one or two times every day. However, the annual consumption volume (gross and per capita) has trended downward over the last two decades, as Brazilians have been replacing some of their rice consumption with other starchy staples, such as bread, potatoes, and manioc.

Brazil has also struggled in recent years to emerge from a deep recession, and consumers have tightened the grip on their wallets, cutting back on a variety of expenses. Even with staples foods like rice, consumers have cut back on food waste by saving leftover cooked rice to be consumed at the next meal rather than throwing it out and cooking a fresh batch of rice. Thus, the total volume purchased and consumed is reduced.

However, as the coronavirus pandemic has spread to Brazil, consumers have been stocking up on large volumes of rice, and market analysts expect rice consumption may increase for a few months. Social-distancing measures (either mandated or voluntary) are keeping more consumers at home and have greatly diminished the number of meals eaten in restaurants, which typically include less rice. One company producing rice and dry beans reported that the demand for both products had increased by 50

percent during the month of March, and the company has received increased orders from grocery stores throughout the country.

Nevertheless, most analysts expect rice demand will fall quickly once social-distancing measures are loosened. The unknown variable is when that will occur. Many consumers have also stocked up on enough rice to last them for weeks or even months. Given the long shelf-life of rice, those consumers are unlikely to need to purchase additional rice in the near-term. These factors have made it difficult for rice millers to plan for the year, as they are unsure of what volumes will be demanded for the remainder of the year. Thus, for now, Post is maintaining its forecast for stagnant consumption levels in MY 2019/20. It remains to be seen whether per-capita consumption will significantly increase for a long enough period to grow overall consumption during the market year.

Wheat

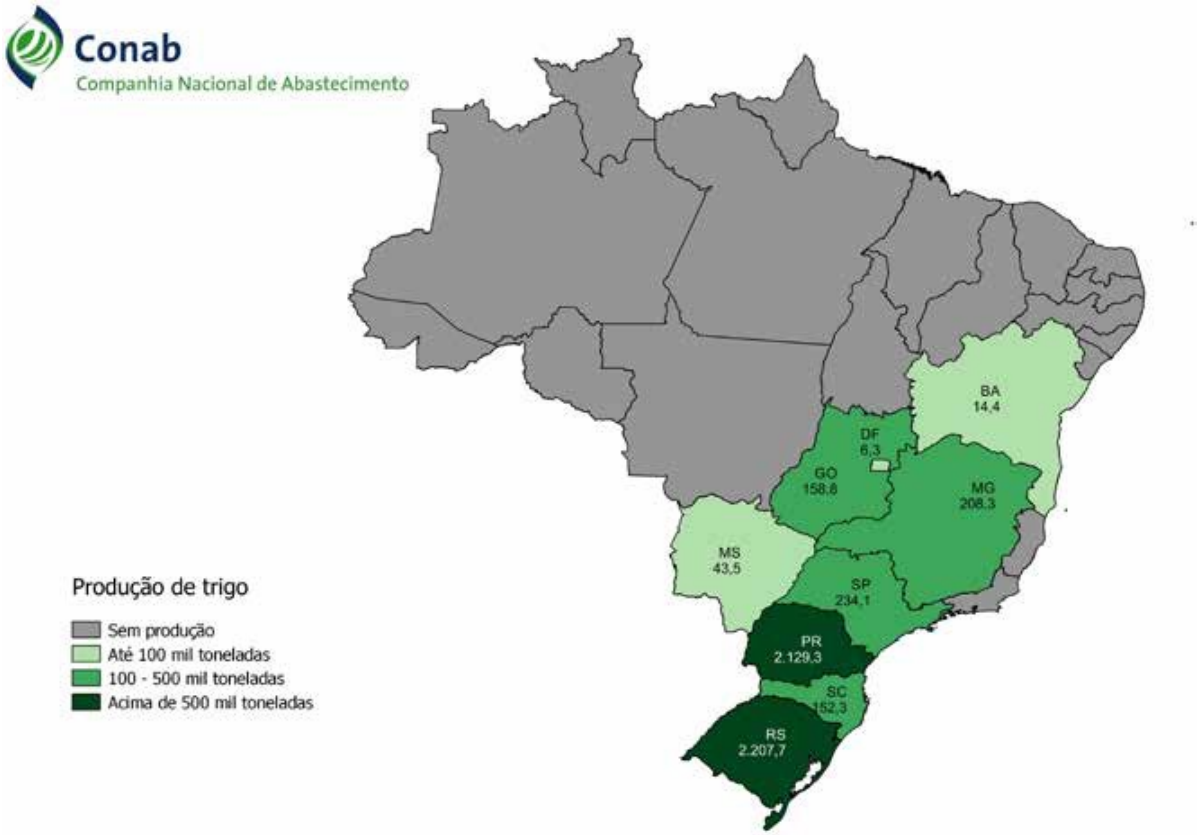
Wheat	2018/2019		2019/2020		2020/2021	
Market Begin Year	Oct 2018		Oct 2019		Oct 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2042	2042	2040	2040	0	2150
Beginning Stocks	1311	1311	1057	1057	0	807
Production	5428	5428	5200	5150	0	5600
MY Imports	7020	7020	7500	7200	0	7000
TY Imports	7442	7442	7300	7100	0	7000
TY Imp. from U.S.	245	314	0	400	0	500
Total Supply	13759	13759	13757	13407	0	13407
MY Exports	602	602	600	500	0	600
TY Exports	594	594	600	500	0	600
Feed and Residual	500	500	500	500	0	500
FSI Consumption	11600	11600	11600	11600	0	11600
Total Consumption	12100	12100	12100	12100	0	12100
Ending Stocks	1057	1057	1057	807	0	707
Total Distribution	13759	13759	13757	13407	0	13407
Yield	2.6582	2.6582	2.5490	2.5245	0	2.6047
(1000 HA), (1000 MT), (MT/HA)						

Wheat Production

Post maintains its estimate of market year (MY) 2019/20 (October 2019 – September 2020) wheat production at 5.15 million metric tons (MMT), as well as Post's estimate of harvested area at 2.41 million hectares (MHa). Both of Brazil's major wheat-producing states – Parana and Rio Grande do Sul – experienced adverse weather in MY 2019/20.

The initial forecast for the MY 2020/21 (October 2020 – September 2021) crop is for production to grow to 5.6 MMT, 8.7 percent larger than the current season. Post also forecasts wheat area to expand to 2.15 MHa, some 26,000 hectares more than the last harvest. These forecasts are based on an assumption of normal

weather and a return to trend yields during the next growing season, as well as firm domestic prices motivating expanded planting by wheat producers.



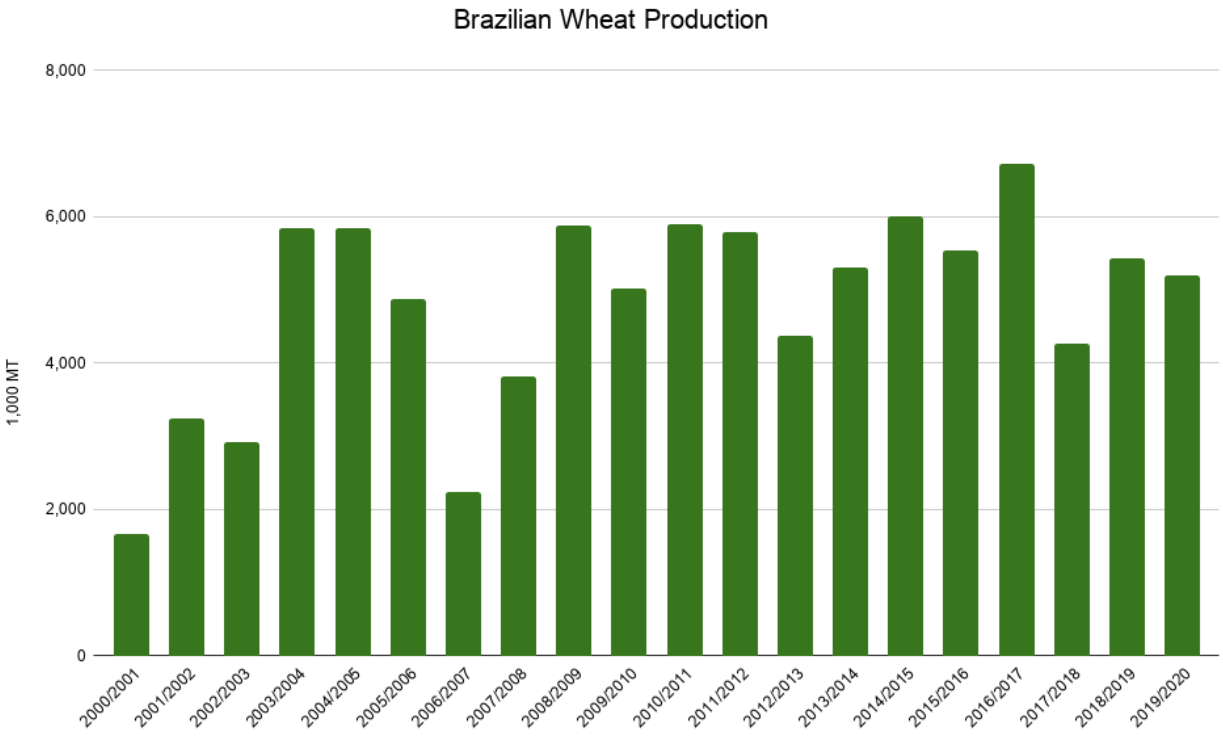
Source: CONAB Boletim de Grãos - 4º Levantamento - Safra 2019/20 – January 2020

Brazil is a net importer of wheat, producing around 5 MMT annually, compared to consumption of roughly 12 MMT in the country each year. That means imported wheat usually accounts for more than half of Brazil's domestic consumption, placing Brazil among the world's top five largest wheat importers.

The country's wheat production is concentrated in the south of the country, especially in the states of Parana and Rio Grande do Sul. Together, those two states account for roughly 85 percent of total Brazilian production. However, wheat area in this region competes with other crops, mainly safrinha corn in Parana and soy in Rio Grande do Sul.

In the long term, Brazil is working to expand wheat area and decrease the country's heavy dependence on imports to meet domestic demand. To that end, Brazil has recently seen expanded wheat area in non-traditional regions, including the central Brazil savannah biome, known as the Cerrado. Wheat production in that area was virtually unthinkable a decade ago, as the region is much warmer than traditional growing areas, and alternately experiences long periods of dryness in the winter and extreme humidity in the rainy summer months. Nevertheless, Brazil's agricultural research agency, Embrapa, worked to develop new irrigated wheat varieties to tolerate the hotter climate, as well as resist fungal diseases during periods of high-humidity.

Some Cerrado farmers see the benefits of choosing to plant wheat (instead of corn) as a "safrinha" crop after the soybean harvest. Wheat can be better for the soil and increase soybean yields in the next harvest, because wheat can help control nematodes and weeds. The window for planting wheat is also longer than that for safrinha corn, meaning that farmers may be able to mitigate risk in years when the soybean harvest is delayed. Other farmers would like to grow wheat as a third annual crop, after both soy and corn are successively planted and harvested. The major limitation is that the wheat in the Cerrado must be irrigated, and while some farmers have invested in pivot irrigation systems, the technology is still relatively small in the Center-West.

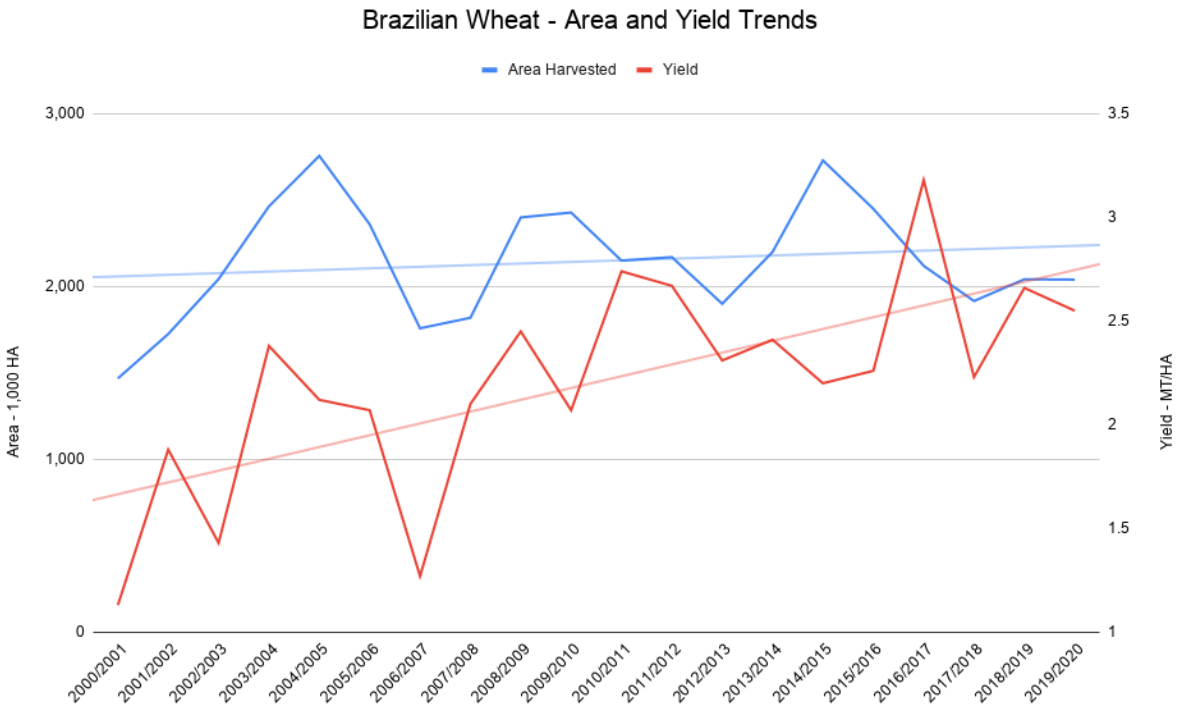


Data Source: USDA/FAS PSD Online

Cerrado wheat is typically the first to be harvested in Brazil, starting as early as July. This practically guarantees a domestic market with higher prices and less competition than later in the year when the bulk of the Brazilian harvest is commercialized. One large milling company from southern Brazil even announced plans in December to invest R$118 million to build a wheat mill in Cuiaba, the capital city of Center-West state Mato Grosso. The project will be located adjacent to the facility of a large industrial bakery, and the mill is aiming to meet the entire region's flour demand by 2022. The new mill will have an initial monthly capacity to mill 5,000 MT, with plans to ramp up to 10,000 MT per month within five years.

While Cerrado wheat production is still very small compared to southern Brazil, it is likely to continuing expanding due to domestic demand and constraints to area in the traditional wheat-producing region in the south. Data from CONAB show that in MY 2018/19, the Center-West state of Goias planted 32,400 hectares, a 149 percent expansion of area year-over-year. The neighboring state of Mato Grosso do Sul and the Federal District (which includes the national capital of Brasilia) planted 27,200 and 2,400 hectares,

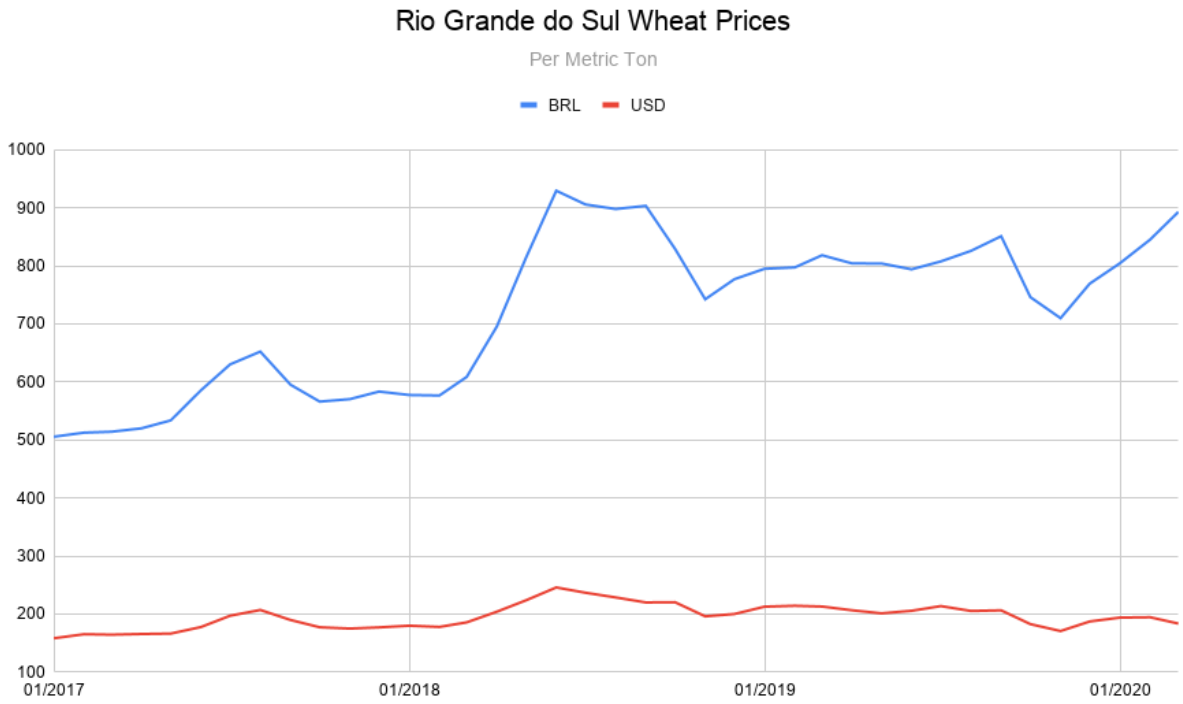
respectively. In total, the region accounted for just 2 percent of total wheat area and 4 percent of total production.



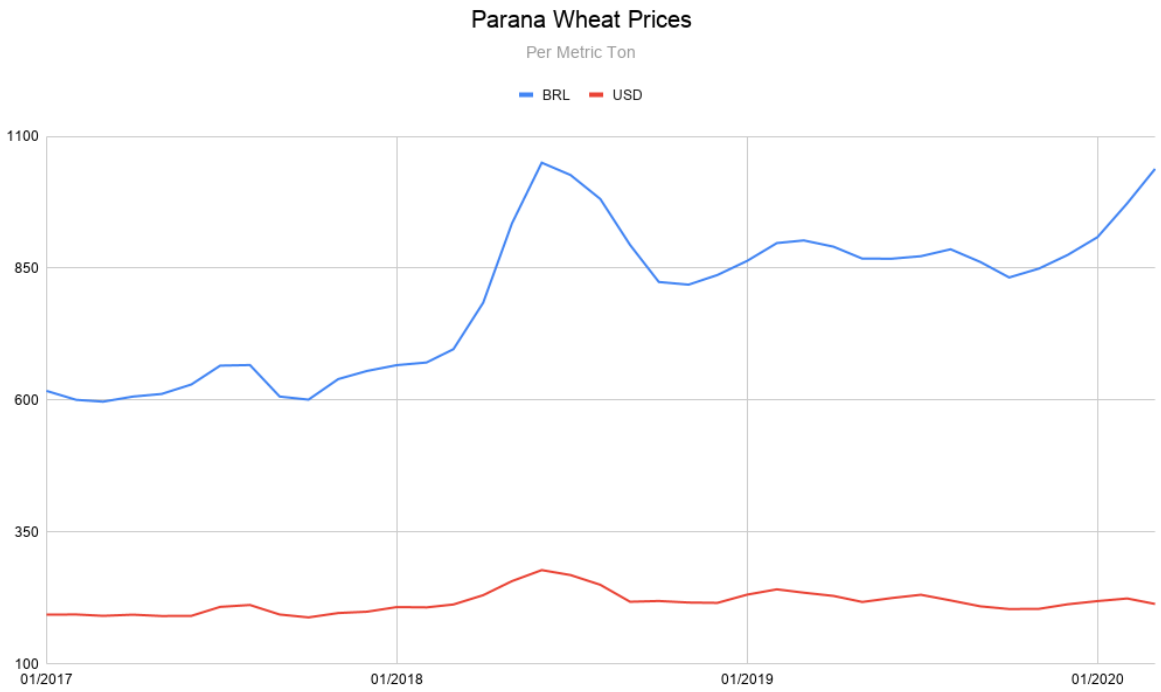
Data Source: USDA/FAS PSD Online

During the MY 2019/20 crop's growing season, Parana saw frosts in early July, followed by dry conditions through August. This combination caused yields in Parana to drop by 15-20 percent year-over-year, according to data from the National Supply Company (CONAB) and the Parana Department of Rural Economy (DERAL). Combined with a 7-percent decrease in wheat area in the state, Parana's production fell to 2.1 MMT, 25 percent less than the previous season, making the state of Rio Grande do Sul the top wheat producer in Brazil.

However, Rio Grande do Sul also experienced unfavorable weather during the growing season, including regionalized frosts, as well as below-average rainfall in August when most of the state's crop was entering the flowering stage of development. The crop was then hit by excessively rainy conditions in October and part of November, which slowed the progress of the wheat harvest in the northwestern portion of the state. Some producers reported harm to the wheat crop's quality by way of lowered protein levels. As a result, wheat prices in the state fell by 17 percent from September to November. Despite the weather issues and resulting quality problems, Rio Grande do Sul overtook Parana to become Brazil's largest wheat producer in MY 2018/19, accounting for 43 percent of the country's crop (compared to 34 percent last season). This shift can be attributed to an 8-percent expansion in the state's wheat area, according to the Rio Grande do Sul Extension Service (EMATER/RS). The increased area was largely due to high wheat prices at the time of sowing, boosted further by the weak Brazilian real (BRL).



Data Source: University of Sao Paulo Center for Advanced Studies in Applied Economics (CEPEA)



Data Source: University of Sao Paulo Center for Advanced Studies in Applied Economics (CEPEA)

For MY 2019/20, Post expects area in both states to expand, given firm internal demand due to depleted stocks and the high domestic prices in both Rio Grande do Sul and Parana. In BRL terms, the prices in both states are higher than they were a year ago, as the BRL has continued to weaken against the dollar. With the coronavirus pandemic hitting the Brazilian and global economies, that situation is unlikely to change anytime soon. As of March 27, the BRL was 5.1 to the U.S. dollar (USD), 31 percent weaker than a year ago.

Wheat planting is slated to kick off in southern Brazil in April and May, and firm prices, coupled with depleted domestic stocks, could motivate farmers to plant more wheat. The situation is further complicated by the trade uncertainty surrounding the coronavirus pandemic. Neighboring Argentina, where Brazil sources the vast majority of its imported wheat, has seen several trade disruptions due to the virus, on top of increased export taxes implemented by the new political administration.

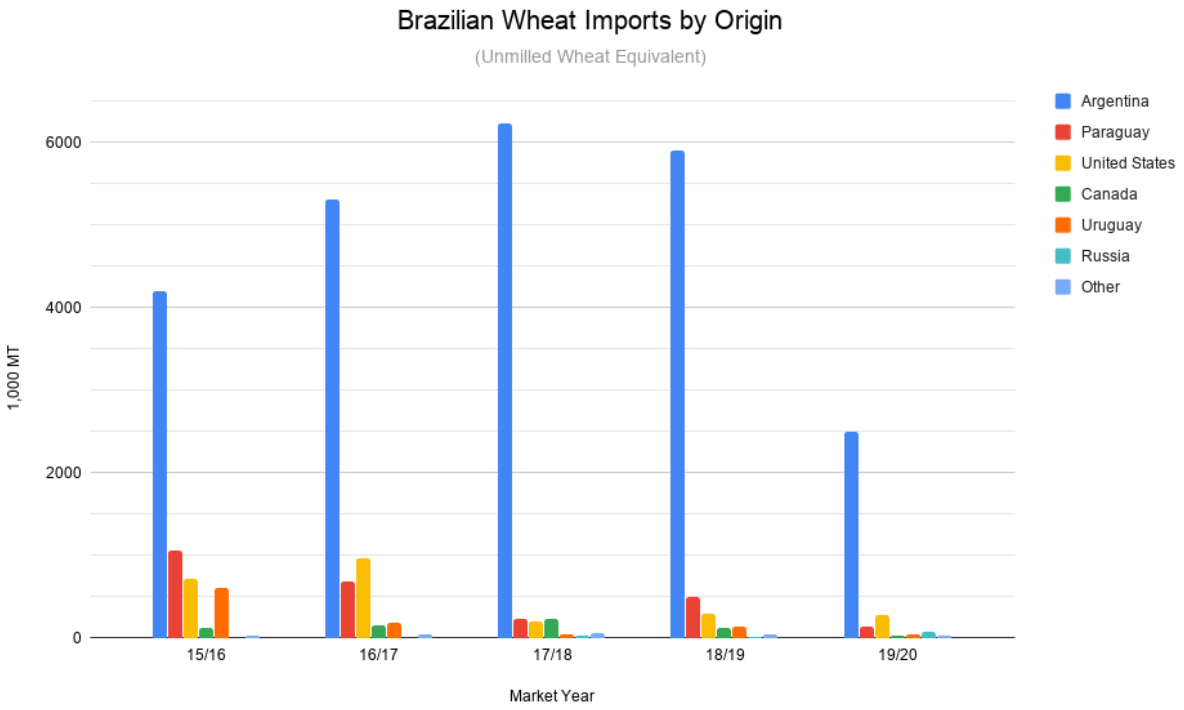
Since wheat-based products are important staples in the Brazilian diet, Post believes producers will take the opportunity to expand area. However, such expansion is constrained by the purchase of inputs, which are typically contracted about six months in advance. Unlike much of Brazil's cotton and soybean production, little wheat is forward contracted, leaving farmers to hope prices will remain firm come harvest time.

Wheat Trade

Imports

Post's forecast for MY 2019/20 imports is lowered to 7.1 MMT, based on the pace of trade and the preference for mills to only purchase imports when absolutely necessary due to the weak Brazilian real. The initial import forecast for MY 2020/21 is set slightly lower, at 7 MMT, based on the expectation of expanded production and less demand for imported supplies.

Imported wheat typically makes up more than half of Brazil's domestic consumption, making Brazil the third-largest global wheat importer. Most of Brazil's imports are duty-free purchases from Mercosul-neighbor Argentina, which supplied 84 percent of Brazil's wheat imports for MY 2018/19. In the same period, Paraguay was responsible for 7 percent of Brazil's imports, while the United States and Canada accounted for 4.5 percent and 1.9 percent, respectively. So far in MY 2019/20, considering available trade data (October 2019 – February 2020), Argentina has accounted for 81 percent of imports, while Paraguay has slid into third place with 5-percent market share, and the United States has become the second-largest overall supplier, accounting for 9 percent of imports.



Data Source: Brazilian Foreign Trade Secretariat (SECEX)
Note: MY 19/20 includes trade data from October 2019 – February 2020

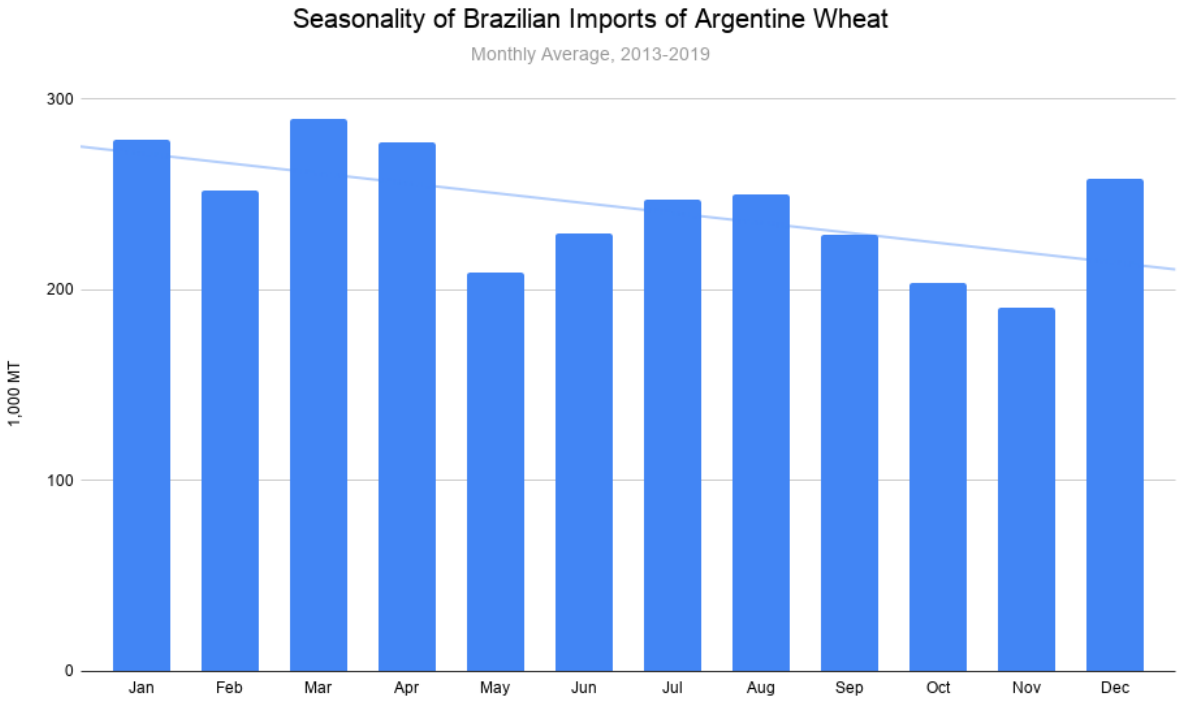
This change in market dynamics is due at least in part to Brazil's implementation of a duty-free annual tariff-rate quota (TRQ) for 750,000 MT of non-Mercosul wheat imports. The TRQ came into effect in November 2019 after it was approved by Brazil's inter-ministerial Foreign Trade Chamber (CAMEX), based on a proposal by the Ministry of Agriculture, Livestock, and Food Supply (MAPA). The quota volume represents 10 percent of Brazil's wheat imports in MY 2018/2019 (October 2018 – September 2019) and just 6.2 percent of Brazilian wheat consumption in the same period. Outside of the TRQ, Brazil applies the 10-percent Mercosul common external tariff (TEC, in Portuguese) for all wheat imports coming from outside of the trade bloc. Mercosul countries (Argentina, Paraguay, and Uruguay) continue to enjoy unlimited duty-free access for wheat exports to Brazil.

Market analysts expect the TRQ will boost imports from Canada, the United States, and Russia, and that has already proven true for the latter two countries. Russia increased its market share from 0.27 percent in MY 2018/19 to 2.34 percent in the first half of MY 2019/20, having shipped more than 70,000 MT of wheat to Brazil as of February. However, even with the TRQ in place, Argentina will continue to supply the largest share of Brazilian wheat imports by far. Post expects the United States and other non-Mercosul countries will continue to make inroads in specific regions and segments of the Brazilian milling industry. U.S. wheat exported through the Gulf of Mexico remains particularly competitive in Brazil's northeast region.

However, administrative regulations for the TRQ are complicating the importation process for some millers. The TRQ regulations establish two tranches of the quota: 600,000 MT (80 percent) for large wheat importers, each of which was responsible for at least 2 percent of imports over the last three years, and the

remaining 150,000 MT (20 percent) for all smaller or non-traditional importers. Import licenses for the smaller importers under the 150,000 MT tranche of the quota are allocated on a first-come, first-served basis, with each company receiving a maximum of 15,000 MT initially, but they may apply for more than one license if there are still available quantities under the 150,000 MT tranche of the quota. This is an important provision, as 15,000 MT is too small of a quantity for most cargo ships. Government contacts say they designed this tranche to allow a larger number of small importers (as many as 10) to take advantage of the duty-free quantity. They also note that smaller mills could work together to each obtain a license and then share cargo space on a single ship to fill the vessel and cut down on freight costs. However, this is a seldom-used practice that poses logistical complications and may discourage full use of the TRQ.

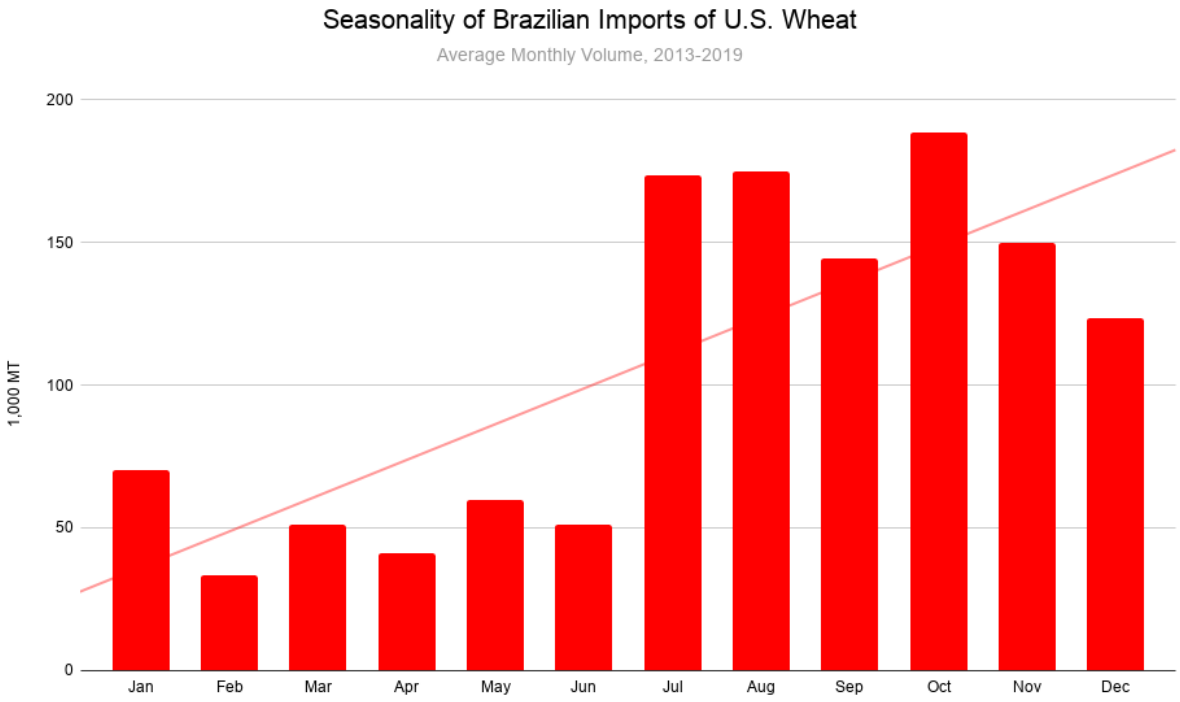
Moreover, there are also issues for large importers under the 600,000 MT tranche. The regulatory directive governing the TRQ includes a provision that requires large importers use their portion of the quota by May 31, 2020, with any unused volumes subject to reallocation starting June 1, 2020. Importers also have 90 days from the issuance of their license for the allocated wheat to enter Brazil. Any licensed volumes not imported within 90 days will be subject to reallocation.



Data Source: Brazilian Foreign Trade Secretariat (SECEX)

Government sources indicate that these deadlines were established so they can ensure full use of the quota prior to its next annual expiration on November 17, 2020. However, in practice these regulations make it difficult to importers to source non-Mercosul wheat supplies through the TRQ. Argentine wheat is the dominant import source for roughly the first half of the calendar year, given the timing of the harvest there. Meanwhile, American wheat exports to Brazil gain competitiveness later in the year, with the largest volumes arriving between July and November, according to customs data. Under the current TRQ regulations, it may be difficult for some wheat mills to take advantage of the opportunity to import duty-free from outside of the Mercosul trade bloc. Several industry sources have indicated that the wheat

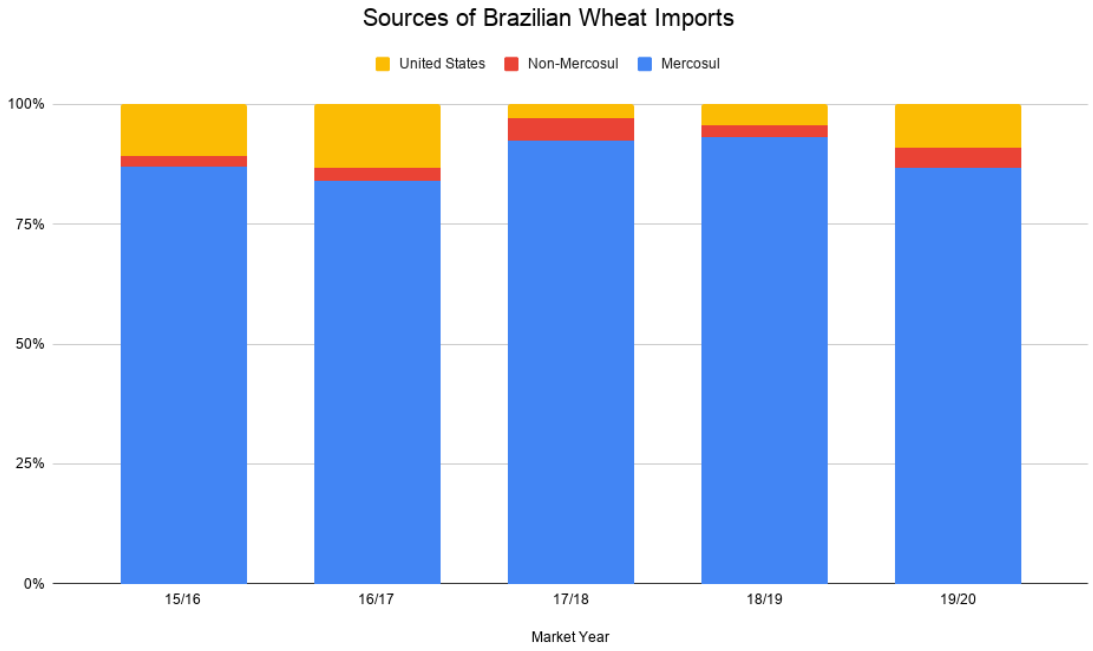
importers are urging the Brazilian government to revise the regulations to make it easier to import wheat from the Northern Hemisphere after the local harvest, when it is most competitively priced.



Data Source: Brazilian Foreign Trade Secretariat (SECEX)

Another factor affecting import dynamics has been the political developments in Argentina. On December 14, Argentina's newly elected government announced that it was changing the country's export tax regime, rolling back a grain export duty of 4 Argentine pesos per dollar (an effective 6.7-percent rate as of November 2019) and replacing it with a flat tax of 12 percent on all exports of wheat, corn, sorghum, and barley. Additionally, Argentina's congress granted the administration the authority to raise the grain export tax to 15 percent, but the government has not yet done so for wheat.

In anticipation of rising export taxes, Argentine farmers aggressively contracted future sales prior to the new government taking office. This included forward sales of wheat to Brazil, locking in prices before the hike in export duties. Brazil has imported more than 1.5 MMT of wheat from Argentina since December. Additionally, the coronavirus pandemic has thrown some uncertainty into the situation. Argentina has seen some minor disruptions to export logistics, though notably nothing has been reported that seems to have affected wheat exports to Brazil.

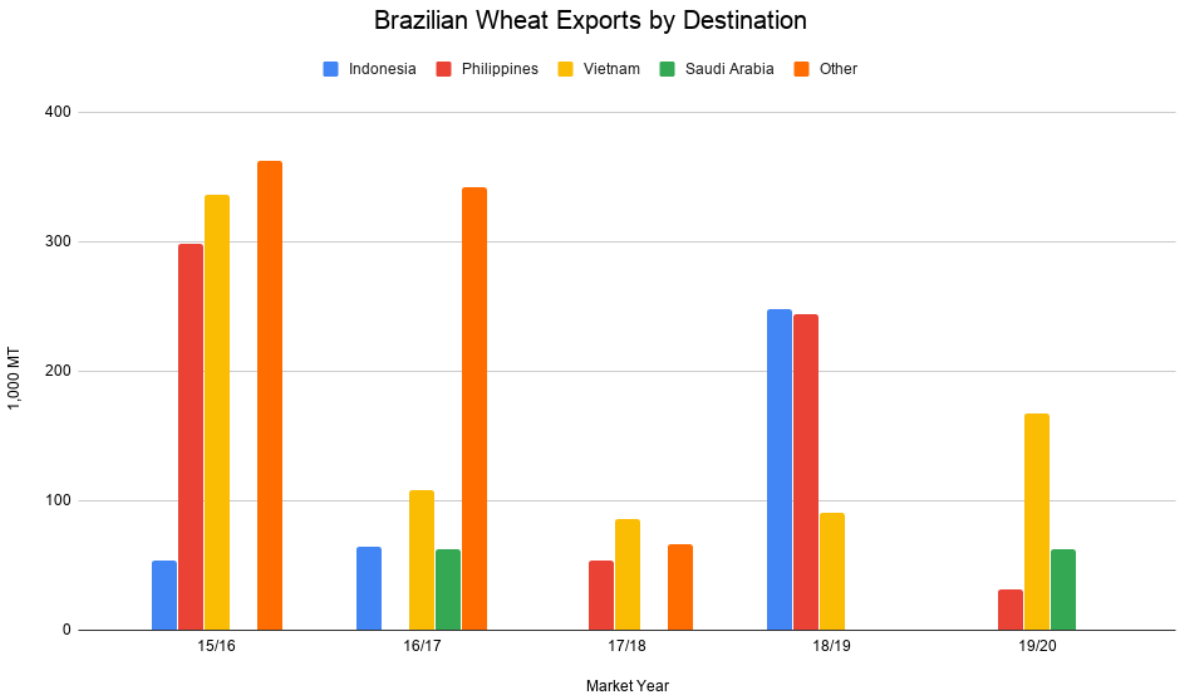


Data Source: Brazilian Foreign Trade Secretariat (SECEX)
Note: MY 19/20 based on trade data from October 2019 – February 2020

Exports

For MY 2019/20 exports, Post maintains its previous forecast of 500,000 MT, which was based on reports of lower-than-anticipated production volume and quality issues with the Rio Grande do Sul crop. Post sets the initial MY 2020/21 export forecast at 600,000 MT, 20 percent higher than the current MY, on the back of anticipated increases in production and available supplies.

Brazil exports only a small share of its wheat production, usually around 10 percent. Exports are entirely dependent on economic conditions and Brazil's typical markets looking for bargain wheat purchases. The overwhelming majority, typically 90 percent or more, of Brazil's wheat product exports (wheat and flour) come in the form of wheat. The top export markets for Brazilian wheat in MY 2018/19 were Indonesia, the Philippines, and Vietnam. In the first half of MY 2019/20, the Philippines and Vietnam have continued to be among the largest buyers of Brazilian wheat, and Saudi Arabia has also claimed a top spot on that list. Brazil has not shipped any wheat to the Philippines in MY 2019/20, as of February 2020. Wheat flour accounts for another 2 percent of Brazil's wheat exports, with the vast majority destined for Venezuela.



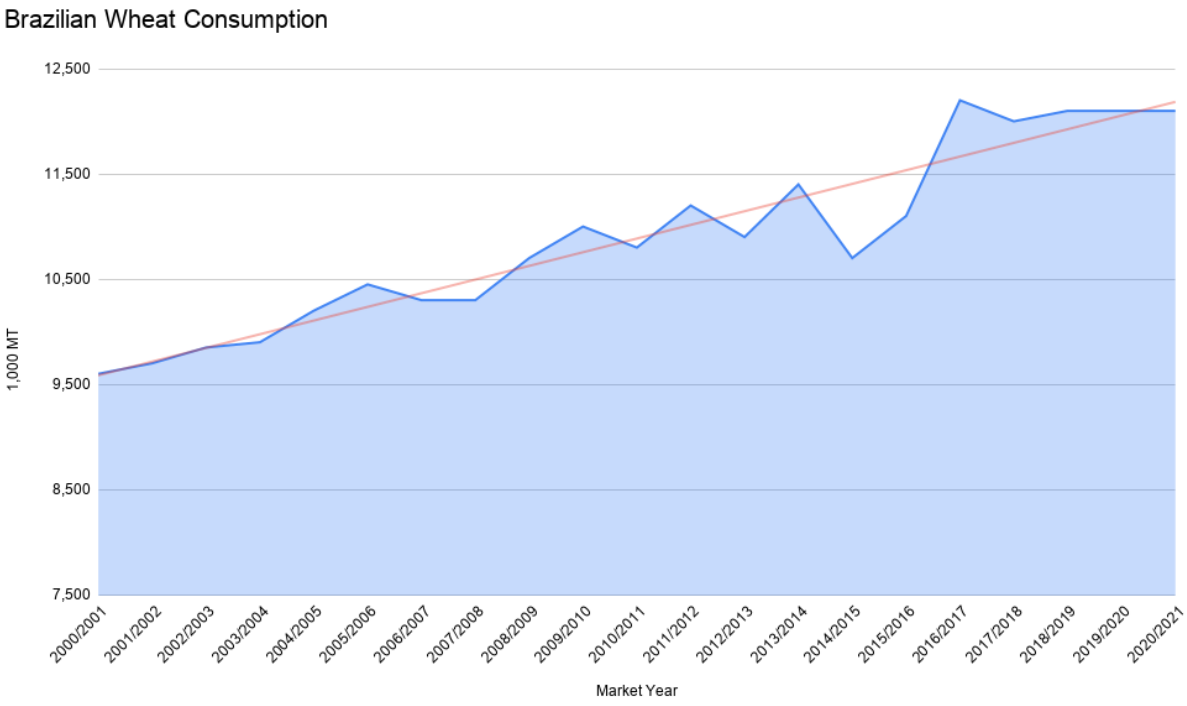
Data Source: Brazilian Foreign Trade Secretariat (SECEX)
Note: MY 19/20 includes trade data from October 2019 – February 2020

Wheat Consumption

Post maintains its forecast for Brazil's wheat consumption in MY 2019/2020, at 12.1 MMT. Wheat consumption for MY 2020/21 is forecast to remain stagnant at 12.1 MMT. Per-capita consumption of wheat in Brazil has slumped in recent years but has been offset by population growth, leaving the overall wheat consumption level static.

Brazilian wheat mills generally import higher-quality wheat to blend with domestic supplies to achieve the desired flour quality and protein levels demanded by bakeries. One of Brazil's most popular bread varieties, "pao frances," is a minimally dense, crusty French-style roll. The consistency of this type of bread requires a specific flour blend to optimize the height of the roll without compromising the crusty texture of the exterior. Brazilians eat pao frances rolls at any time of day, but they are most popular as a breakfast staple consumed with butter and coffee.

Brazil's bakery industry has launched consumer campaigns to try to spur wheat consumption, which has stagnated since Brazil fell into recession a few years ago. The sector is promoting customization of traditional staples, as Brazilian consumers have shown growing interest in improved taste, freshness, and health of wheat products. In response, the baking sector is increasing production of specialized products to meet consumer preferences, especially among younger generations. These expanded options include a larger variety of "rustic" breads with the inclusion of seeds, nuts, and dried fruit, as well as gluten-free and vegan options.



Data Source: USDA/FAS PSD Online
Note: MY 18/19 and 19/2 reflect Post estimates/forecasts

In an effort to improve the commercial climate for wheat processors, Brazil's Association of Wheat Millers (Abitrigo) last year proposed a new government policy to increase domestic production of wheat, as well as a strategy to make changes in the legal and regulatory environment, increase investment incentives, facilitate international trade and logistics, and expanded infrastructure. Abitrigo would also like to see uniform state taxes on wheat, expanded availability of credit lines for the construction of agricultural storage facilities, privatization of government warehouses, and the standardization of labels for wheat products.

Infrastructure and freight rates remain among the greatest challenges for Brazil's wheat milling sector, and most large mills are located adjacent to port terminals to minimize transportation costs. Additionally, it has typically been expensive and logistically difficult to move Brazilian wheat from the largest production region in the south to population centers in the northeast of the country. This is due to interstate taxes and a cabotage law that requires use of Brazilian-flagged ships to move commodities between ports within the country. At the same time, Argentine wheat can be transported on ships flagged from any country. In November, CAMEX reduced the import fee for vessels used for cabotage from 14 percent to 0 percent, making it less expensive from Brazilian shipping companies to add to their fleets. At the same time, the Ministry of Infrastructure is working with the Brazilian congress to make cabotage laws more flexible and increase competition in the sector. All of these measures could make it easier and less expensive to move agricultural products, including wheat, throughout Brazil.

Nevertheless, Abitrigo recently expressed its concerns about transportation logistics in Brazil since the onset of the coronavirus pandemic. The group complained that a lack of coordination between federal,

state, and municipal authorities had created bottlenecks for the transportation of goods and hampered the supply of wheat flour in some regions of Brazil. In a public statement issued on March 26, Abitrigo noted that in some states, 30-35 percent of flour was not being delivered, as local governments had restricted movement in some areas, and the closure of road services, such as tire shops and restaurants, had limited the ability of truckers to operate. To address these issues, the Brazilian federal government has openly committed to keeping food and agricultural products flowing, with the Minister of Agriculture personally intervening with local authorities in some cases.

Attachments:

No Attachments