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Report Name: Grain and Feed Update

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Report Highlights:

MY 2018/19 corn production is estimated at a record 101 MMT, 23 percent higher than the previous harvest, based on record area and yields. MY 2019/20 corn production is also forecast at 101 MMT on expectations of expanded area paired with a return to normal trend yields. MY 2018/19 corn exports are forecast at a record 37 MMT, almost 50 percent higher than the previous season as a result of the much larger harvest. MY 2018/19 milled rice production is estimated at 7.1 MMT, a decrease of 13 percent from the previous year due to decreased area and lower yields. MY 2019/20 milled rice production is forecast at 7 MMT, based on an expectation of further reduced area. MY 2019/20 wheat production is forecast at 5.4 MMT, down slightly from MY 2018/19. MY 2019/20 wheat imports are forecast as 7.5 MMT, in response to lower anticipated domestic production and already low levels of stocks.

Corn

Corn	2017/2018		2018/2019		2019/2020	
Market Begin Year	Mar 2018		Mar 2019		Mar 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	16600	16600	17500	17500	18100	18000
Beginning Stocks	14019	14019	7488	7491	5488	5991
Production	82000	82000	101000	101000	101000	101000
MY Imports	915	915	1000	1000	1000	1000
TY Imports	943	943	1100	1000	1000	1000
TY Imp. from U.S.	1	1	0	0	0	0
Total Supply	96934	96934	109488	109491	107488	107991
MY Exports	24946	24943	38000	37000	34000	34000
TY Exports	25142	25142	39500	39700	34000	34000
Feed and Residual	55000	55000	56000	56000	57000	57000
FSI Consumption	9500	9500	10000	10500	11000	11500
Total Consumption	64500	64500	66000	66500	68000	68500
Ending Stocks	7488	7491	5488	5991	5488	5491
Total Distribution	96934	96934	109488	109491	107488	107991
Yield	4.9398	4.9398	5.7714	5.7714	5.5801	5.6111
(1000 HA) ,(1000 MT) ,(MT/HA)						

Corn Production

Market year (MY) 2018/19 (March 2019 – February 2020) corn production is estimated at a record 101 million metric tons (MMT), 23 percent higher than MY 2017/18 production, which was hindered by severe dryness during the second-crop "safrinha" growing season. The MY 2018/19 safrinha corn harvest benefitted from early and rapid sowing, as well as excellent growing weather that led to record yields in some places. Yields for Brazil's MY 2018/19 corn crop are estimated at an average of 5.77 metric tons (MT) per hectare, which is also a record high for Brazil.

Post also forecasts MY 2019/20 (March 2020 – February 2021) production at 101 MMT on expectations of expanded area paired with a return to normal trend yields. While first-crop corn area is expected to decline yet again in MY 2019/20, safrinha area is expected to grow, offsetting losses of full season corn area.

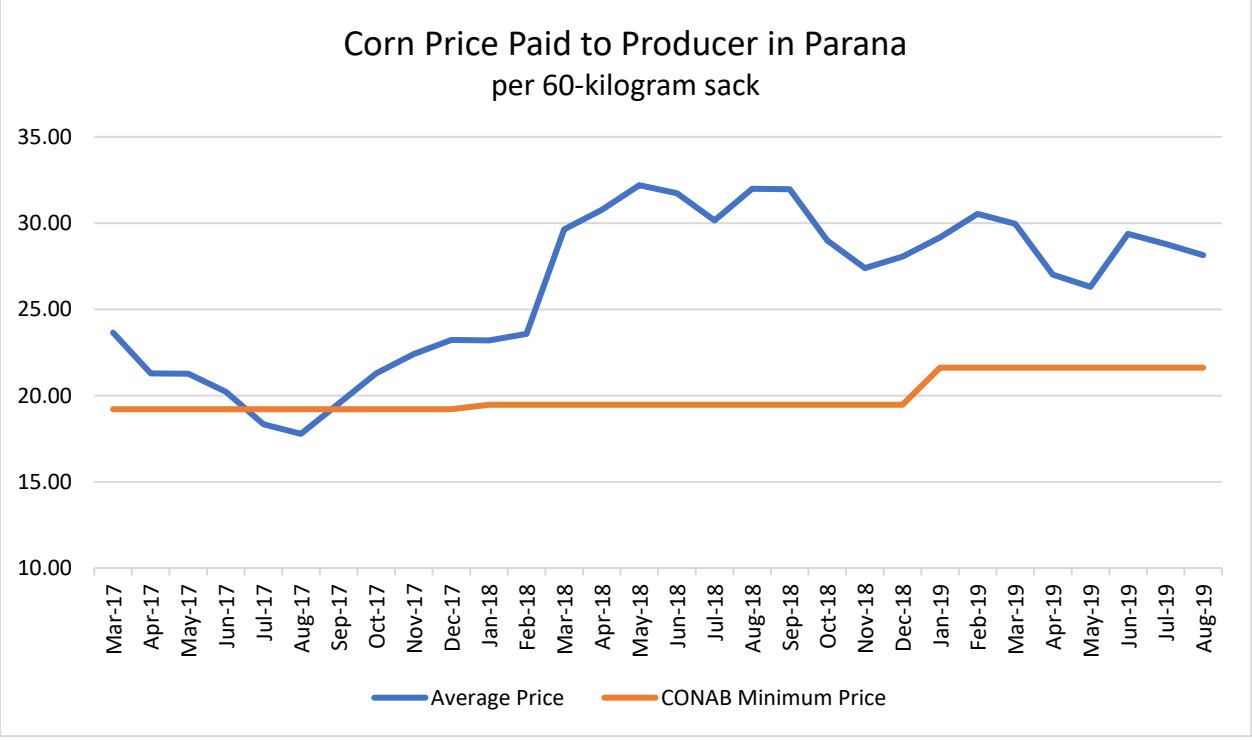
Total MY 2018/19 corn area is estimated at 17.5 million hectares, 5 percent greater than MY 2017/18. According to data from Brazil's agricultural statistics agency, CONAB, almost every Brazilian state that grows second-crop corn saw expanded area, improved yields, and double-digit percent growth of production volumes in MY 2018/19. High corn prices and an early soybean harvest motivated farmers to plant safrinha corn at a record pace, several weeks earlier than normal and well within the ideal planting window (before approximately February 20 in Mato Grosso and March 10 in Parana). This

helped optimize crop development before the dry season set in, which itself came later than normal.

The MY 2018/19 safrinha harvest (so-called because in the past it was the smaller of Brazil's two annual corn harvests) wrapped up in mid-August in the largest producing state of Mato Grosso, and in early September in the second-largest producer state of Parana. Both states saw expanded second-crop corn area in MY 2018/19 (8.9-percent growth in Mato Grosso and 7-percent growth in Parana, compared to the previous season), as well as improved yields (8.8 percent higher in Mato Grosso and a whopping 40.6 percent higher in Parana). As a result, both states saw production gains, by 18.5 percent (to 31 MMT) in Mato Grosso and 50.5 percent (to 13.5 MMT) in Parana. Mato Grosso alone accounts for about 30 percent of all Brazilian corn production.

First-crop/full-season corn area is forecast by CONAB to grow to 5.059 MMT in MY 2019/20, representing a 3.15-percent (154,000 hectares) gain over last season, while production is forecast to grow to 26.957 MMT, 2.74-percent larger year-over-year. According to CONAB, the largest producers of full-season corn in MY 2018/19 were the states of Rio Grande do Sul (5.77 MMT), Minas Gerais (4.6 MMT), and Parana (3.17 MMT).

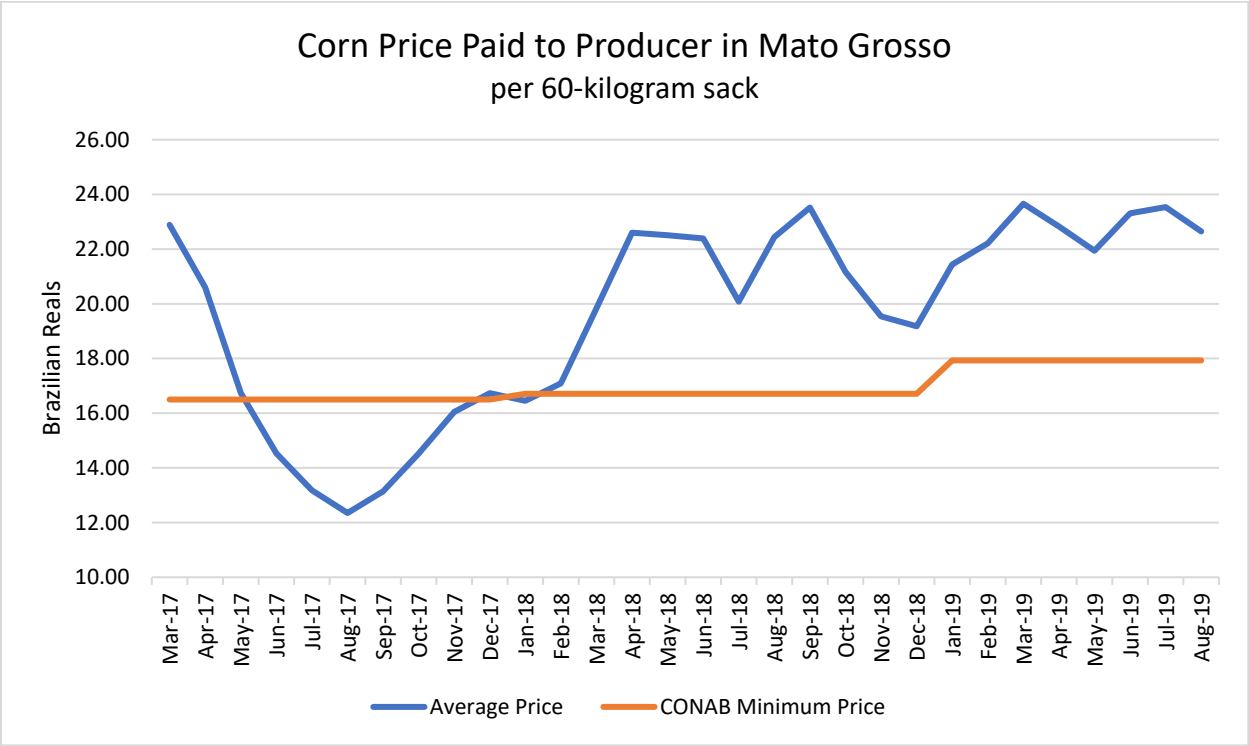
Producers are currently beginning to plant MY 2019/20 full-season corn area in southern Brazil. In the state of Rio Grande do Sul all corn production is full-season, as the state's growing climate does not support production of two crops in one year. The Rio Grande do Sul Rural Extension Service (EMATER/RS) reported that 43 percent of total expected full-season corn area (771,578 hectares, 1 percent more than last season) was sown by September 26. The forecast from EMATER/RS is that full-season corn production in the state will reach 5.95 MMT, about 3.6 percent more than last season.



Data Source: CONAB

Meanwhile, the Parana Department of Rural Economy (DERAL) reported that 57 percent of expected full-season corn area (336,875 hectares, 6.4 percent less than last season) had been sown as of late September. The forecast from DERAL is that Parana will produce 3.12 MMT of full-season corn in MY 2019/20, which would be about 1 percent less than last season.

As soybean area in Brazil has climbed, first-crop corn plantings, concentrated mainly in southern Brazil, have been sacrificed to area for high-priced soybeans. At the same time, expanded soy area in the states of Mato Grosso and Parana, with climatic conditions to support production of two crops in the same year, has led to the rapid expansion of safrinha/second-crop corn. Today, safrinha corn has grown to account for the great majority of Brazilian corn production, responsible for roughly three-fourths of the MY 2018/19 crop, according to CONAB data. The statistics agency forecasts MY 2019/20 safrinha area to grow by 868,000 hectares, to 13.296 total hectares, a year-over-year increase of almost 7 percent. However, CONAB predicts that a return to normal trend yields (7.5 percent lower than last season) will result in a small 1-percent decrease in safrinha production, to 72.317 MMT.



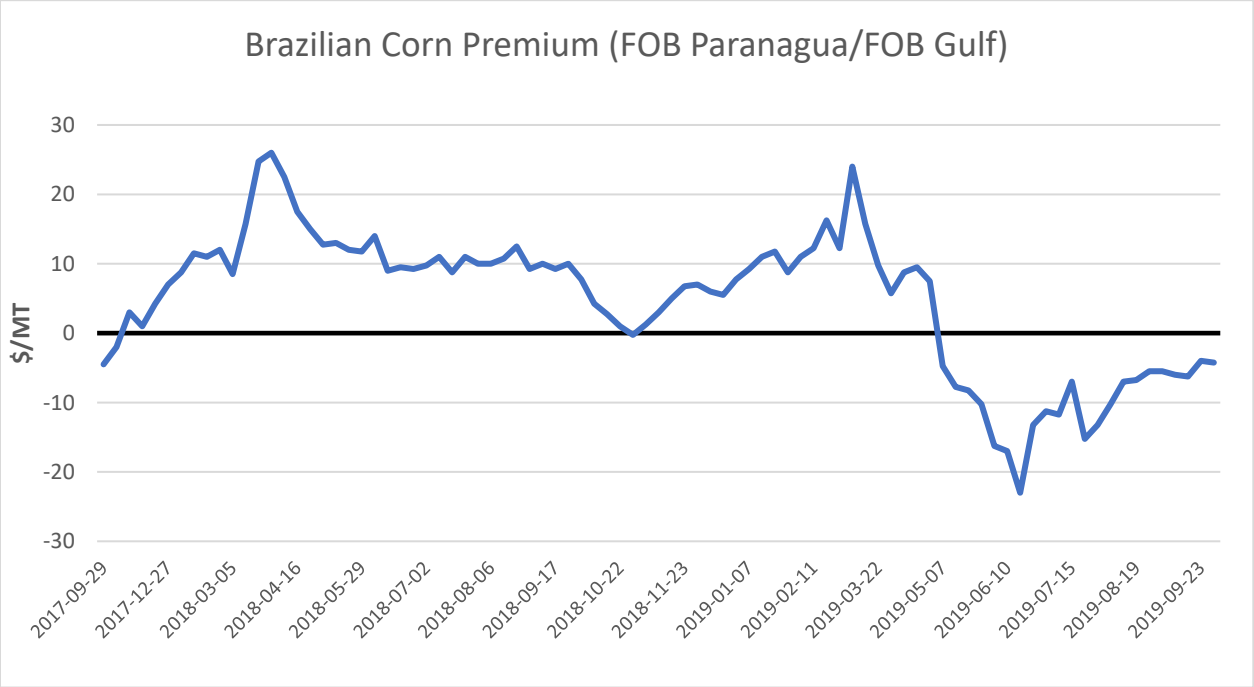
Data Source: CONAB

Post forecasts MY 2019/20 corn area and production will grow more than CONAB is predicting. A number of factors support larger expansion of the crop, including growing domestic and global demand for corn as a feed ingredient for expanding pork and poultry production, which in turn is being driven by import demand in China as that country faces widespread livestock losses from African Swine Fever. Moreover, the difficulties faced by U.S. farmers this year, coupled with U.S.-China trade disputes could drive corn prices higher by the time Brazilian farmers begin planting their MY 2019/20 safrinha crop in January 2020.

MY 2019/20 safrinha corn yields will be largely be driven by the timing of the planting, which itself is determined by the date of the soy harvest. Farmers in Mato Grosso and Parana are currently planting their soy crop. In Parana, sowing is progressing more or less on time, according to DERAL. However, the Mato Grosso Institute of Agricultural Economics (IMEA) reports that speed of soy planting in that state is currently lagging behind the 5-year average, due to a lack of sufficient rain in many areas. Still, it is very early in the season (IMEA reported less than 2 percent of Mato Grosso soy was sown as of September 27), so there remains plenty of time for the soy crop to be planted and harvested on time, allowing safrinha corn to go in the ground during the ideal planting window.

Corn Trade

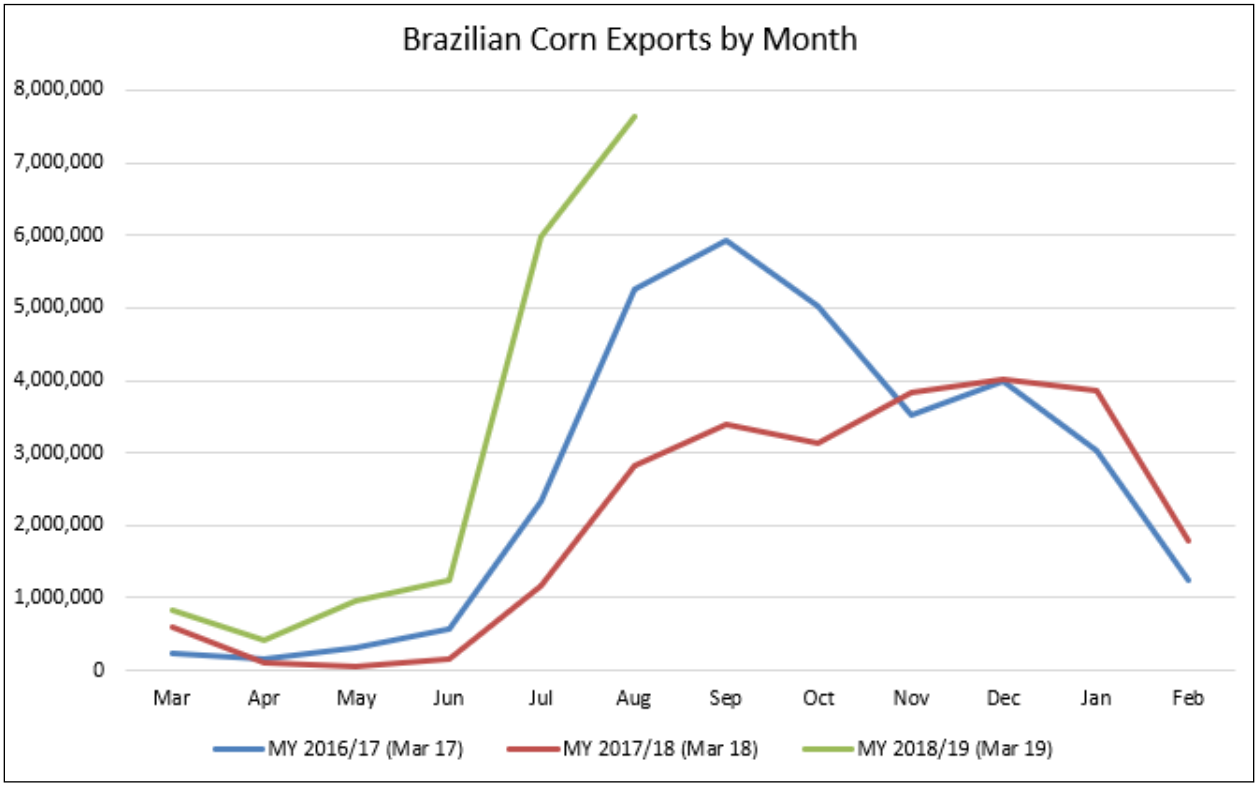
Post raises the MY 2018/19 export forecast to 37 MMT, which is 9 percent higher than the previous forecast and almost 50 percent higher than the previous season as a result of the much larger harvest. The MY 2019/20 export forecast is also increased from the previous post forecast, to 34 million MMT. While that would represent an 8-percent decline from the current season, Brazil is expected to increase domestic consumption in the upcoming MY, as the livestock industry expands to meet Chinese demand and the burgeoning corn ethanol industry continues to grow.



Data Source: Agricensus

Abundant supplies of safrinha corn, coupled with the weakened Brazilian real have kept Brazilian corn very competitive on the international market throughout MY 2018/19. Currently, U.S. corn exports (FOB Gulf) are enjoying a premium over Brazilian exports through the southern Port of Paranagua. Because the real has lost value against the dollar, Brazilian producers are willing to sell corn supplies more cheaply on the international market, while still retaining a decent profit. This has kept exports strong for much longer in the calendar year. In August, Brazil set a monthly corn export record by shipping 7.6 MMT, surpassing the previous single month record (set in August 2017) by more than 45 percent.

Market prices for corn have remained relatively strong throughout Brazil during MY 2018/19, unlike the collapse seen after the last record crop, in MY 2016/17. Corn prices are currently well above the government-established minimums, making it unlikely that the Brazilian government will invoke the Premium for Product Outflow (PEP) or Equalization Premium Paid to the Producer (PEPRO) programs to subsidize returns to producers and buyers. The government last used the programs for corn in 2017 to prop up prices after huge supplies forced market prices down steeply. At that time, the Brazilian government subsidized 1.931 MMT of corn under PEP and 7.297 MMT under PEPRO.



Date Source: Brazilian Foreign Trade Secretariat (SECEX)

Safrinha corn, largely produced in Brazil's center-west region, makes up the bulk of Brazil's corn exports. However, these corn supplies face steep logistical challenges and freight costs significantly higher than corn produced in states like Parana, which is home to one of the country's largest grain export hubs, the Port of Paranagua. The huge volume of exports from the Center-West during MY 2018/19 has fueled the expansion of export options through Brazil's "northern arc" of river ports located along the Amazon and its tributaries. While, the Port of Santos in Sao Paulo state remains the single largest point of export for Mato Grosso corn, the northern arc has taken a larger share of the volume this year. As of August, 5.94 MMT of Mato Grosso exports left Brazil via Santos and other southern ports. However, nearly as much (5.89 MMT) was exported through the northern arc, according the data compiled by IMEA.

Post forecasts MY 2018/19 imports at 1 MMT, roughly equal to the volume imported in MY 2017/18. Most Brazilian corn imports come duty-free from neighboring countries in the Mercosul trade bloc. While Brazil, overall, produces much more corn than the country consumes domestically, the main producing areas have shifted in recent decades, with more corn grown in central Brazil and less in the

south. The shrinking of Brazil's first-crop corn production has resulted in unmet domestic demand by the livestock and poultry sector in southern Brazil. As such, Paraguay is particularly well positioned geographically to supply the needs of that industry.

Corn Consumption

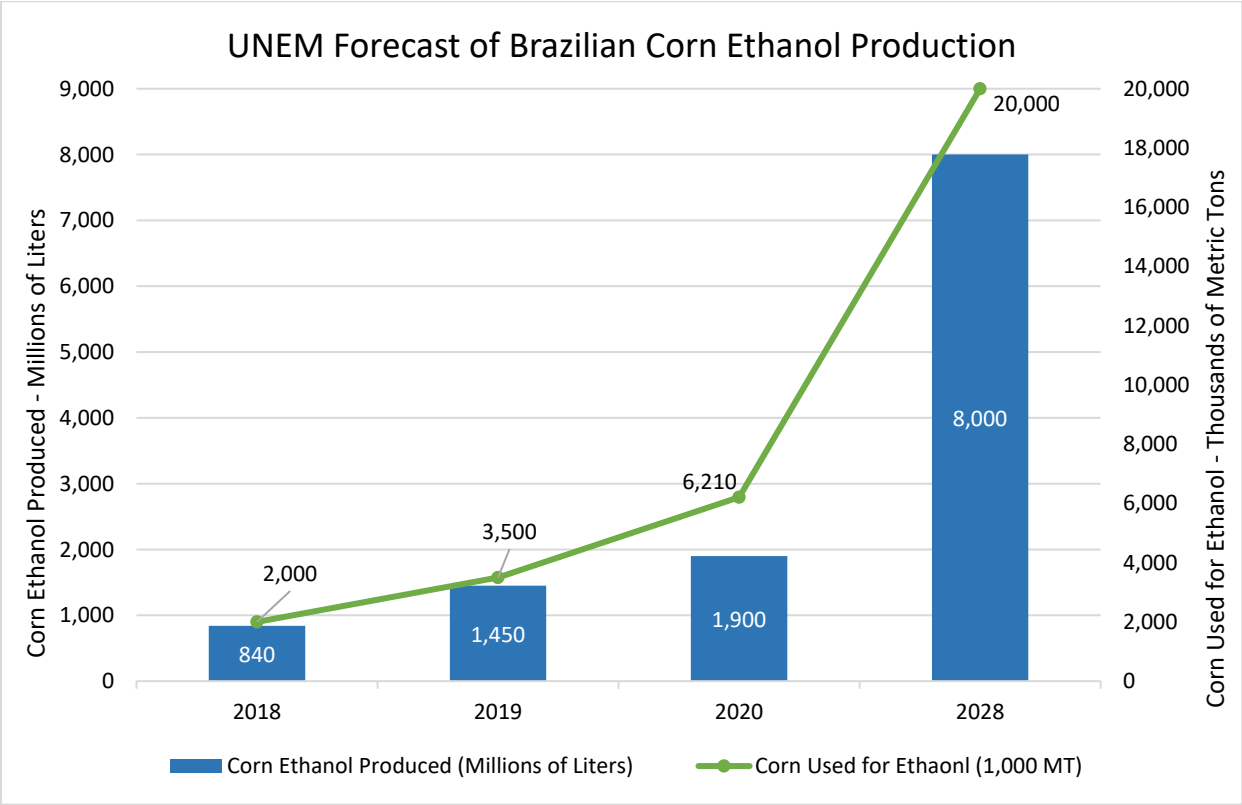
Total domestic consumption for MY 2018/19 is forecast at 66.5 MMT, up 3 percent from MY 2017/18 but down slightly from Post's last forecast. Consumption for MY 2019/20 is forecast to grow by another 3 percent, to 68.5 MMT, based on continued strong demand for the production of animal feed rations and corn ethanol.

Brazil's large poultry and pork sectors generally consume a great portion of the corn crop each year. However, MY 2018/19 exports have been larger than expected due to the market forces described above, tempering Post's expectations for growth in domestic consumption. Nevertheless, Brazil's poultry and swine production are both expected to expand this year, and corn consumption for animal rations will grow in tandem. The poultry sector was badly affected last year by the truck driver strike, which also affected the volume of corn consumed domestically in MY 2017/18, but the sector has been steadily recovering and exports have grown in response to global demand. FAS/Brasilia forecasts chicken meat production will grow by 2 percent in 2019, and another 2.5 percent in 2020. The Brazilian Feed Rations Association (Sindiracoes) also estimates the production of feed rations for poultry (the largest segment of the feed rations industry in Brazil) expanded in the first half of 2019 by 2 percent year-over-year. Egg production in Brazil is also forecast to grow in 2019, with the Brazilian Institute of Geography and Statistics (IBGE) data showing 4-percent growth in the first half of this year. The number of laying hens also expanded by 7.3 percent year-over-year, according to IBGE. These factors have contributed to increased corn-based feed rations by Brazil's poultry meat and egg-laying sectors.

The pork sector in Brazil has also grown quickly this year, largely in response to demand from China, which is suffering from a massive outbreak of African Swine Fever that has devastated the Chinese swine herd. FAS/Brasilia forecasts 2019 pork production to grow by 5.6 percent, and in 2020 to expand further still by 4.6 percent. The Brazilian swine industry consumes about half as much feed rations as the poultry sector, but the rapid growth is still significant. Sindiracoes estimates that production of swine feed rations grew by 4.1 percent year-over-year in the first half of 2019.

Another significant (and growing) consumer of Brazilian corn is the burgeoning corn ethanol industry in central Brazil. Corn supplies in the Center-West remain plentiful and relatively inexpensive, fueling rapid investment in corn-only and flex (sugarcane/corn) ethanol plants. Post forecasts MY 2018/19 food, seed, and industrial (FSI) consumption at 10.5 MMT, and will grow to 11.5 MMT in MY 2019/20. According to Brazil's Corn Ethanol Union (UNEM), each ton of corn can produce 420 liters of ethanol, 300 kilograms of dried distillers grains, and 18 liters of corn oil, as well as the co-generation of electric power. Industry sources estimate that the sector consumed 2 MMT of corn in 2018, but that figure could grow to 6.2 MMT in 2020. Brazilian corn ethanol plants are powered by burning eucalyptus, which is also grown in the center-west region. However, this could prove to be one of the limiting factors in how fast the industry can expand. Industry analysts estimate that that the sector needs to plant at least 100,000 additional hectares of eucalyptus. However, eucalyptus must grow for five or six years before its ready for harvest, meaning that supplies are unlikely to keep up the rapid expansion of demand by corn ethanol plants. Corn ethanol plants are reportedly starting to source eucalyptus from greater

distances (eating into profit margins), as well as experiment with other faster-growing types of biomass, such as bamboo.



Data Source: UNEM

Rice

Rice, Milled	2017/2018		2018/2019		2019/2020	
Market Begin Year	Apr 2018		Apr 2019		Apr 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1973	1973	1700	1697	1680	1670
Beginning Stocks	525	525	389	558	279	214
Milled Production	8204	8204	7140	7106	7140	7004
Rough Production	12065	12065	10500	10450	10500	10300
Milling Rate (.9999)	6800	6800	6800	6800	6800	6800
MY Imports	562	581	850	900	950	1100
TY Imports	537	575	700	700	850	850
TY Imp. from U.S.	0	2	0	0	0	0
Total Supply	9291	9310	8379	8564	8369	8318
MY Exports	1152	1152	600	750	550	500
TY Exports	1245	1245	800	750	650	500
Consumption and Residual	7750	7600	7500	7600	7530	7600
Ending Stocks	389	558	279	214	289	218
Total Distribution	9291	9310	8379	8564	8369	8318
Yield (Rough)	6.1151	6.1151	6.1765	6.1579	6.25	6.1677
(1000 HA) ,(1000 MT) ,(MT/HA)						

Rice Production

Market year 2018/19 (April 2019 – March 2020) milled rice production is estimated at 7.1 MMT, a decrease of 13 percent from MY 2017/18 due to decreased area and lower yields in some regions after unfavorable weather. Milled rice production for MY 2019/20 (April 2020 – March 2021) is forecast at 7 MMT, based on a forecast for a further reduction in area.

Market year 2018/19 rice area is estimated just shy of 1.7 million hectares, 14 percent lower than MY 2017/18. This represents a record low for Brazilian rice area since CONAB began keeping data in MY 1976/77. The MY 2018/19 area for rice is forecast to reduce further still to 1.67 million hectares.

The long, steady shrinking of Brazil's rice area is largely due to decreased rainfed rice area throughout the country. Once widely spread through Brazil, rice production has become increasingly concentrated in the south of the country, largely in irrigated fields (about 80 percent). Rice area in Brazil's southernmost state, Rio Grande do Sul, has remained more or less steady over the last 25 years, according to industry data. However, during that same period, Brazil total rice area decreased by more than half.

The state of Rio Grande do Sul alone is responsible for 70 percent of total production for MY 2018/19, all of which was irrigated. The state of Santa Catarina, just north of Rio Grande do Sul, accounted for another 10 percent of MY 2018/19 Brazilian rice production, also entirely irrigated.

This year, Rio Grande do Sul had 7 percent less area year-over-year, while Santa Catarina's area was relatively static. Both Rio Grande do Sul and Santa Catarina have experienced incremental growth in soy area in recent years, which farmers in certain regions rotate with rice every other year to maintain soil quality and control pests, weeds, and volunteer rice. According to the Federation of Rice Producers of Rio Grande do Sul (Fedearroz), rotating rice production with soybeans 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.

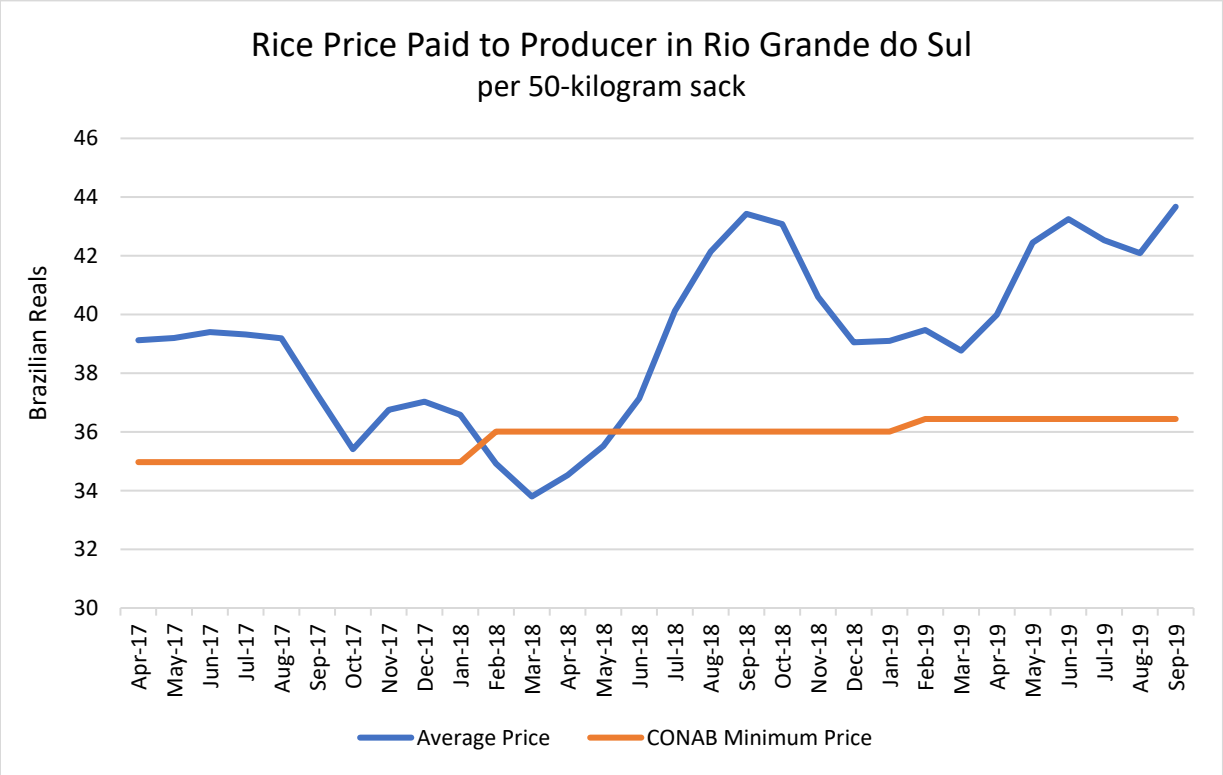
Unlike the Center-West region, most farmers in southern Brazil only plant one crop per year, so the expansion of soy has diminished rice area. And yet, trade sources do not believe that the area will decrease substantially going forward in these states. Some farmers' land is best suited for rice and will not adequately support other crops due to poor soil drainage. Additionally, because rice is an integral staple food for the Brazilian diet, the country is likely to continue producing a significant crop to supply domestic consumption.

In addition to the continued decline in planted rice area, another factor affecting the MY 2018/2019 rice crop was intermittement periods of inclement weather. Some parts of Santa Catarina experienced periods of excessive heat during the flowering stage of crop development, as well as excessive rains later on that created problems with pests in some regions. For Rio Grande do Sul, a period of excessive rain in December 2018 and January 2019 caused flooding in some fields and ultimately resulted in the loss of 35,000 hectares, according to CONAB.

Farmers are currently readying their fields in southern Brazil for sowing of the MY 2019/20 crops, and according to the Rio Grande do Sul Rice Institute (IRGA) about 10 percent of intended rice area was planted in the state as of late Septmeber, with the most advanced planting in the western region (about 27 percent complete). Sowing should pick up the pace during October, depending on weather conditions. The Rio Grande do Sul Rural Extension Service (EMATER/RS) forecasts a decrease of 2 percent in the state's rice area for the upcoming season, down to 961,377 hectares. However, EMATER/RS anticipates production in Rio Grande do Sul will rise by almost 5 percent, to 7.5 MMT, based on higher yields. Improved prices, especially for exports may further incentivize planting. Producer contacts report that prices for export are currently higher than domestic prices by about R$5 per 50-kilogram sack.

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 high debt levels of producers, high taxation rates, Mercosul competition, and cabotage regulations. As a result of these factors, many Brazilian rice producers have started investing in production in neighboring Paraguay, which like Brazil is a member of the Mercosul trade bloc. As such, 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. This has caused Brazilian producers to export a greater share of their crop to external markets (especially when prices are higher), while a small-but-growing share of Brazilian consumption comes from imported Paraguayan rice.

Rice industry analysts caution that not all Brazilian rice producers are the same. 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.



Date Source: CONAB

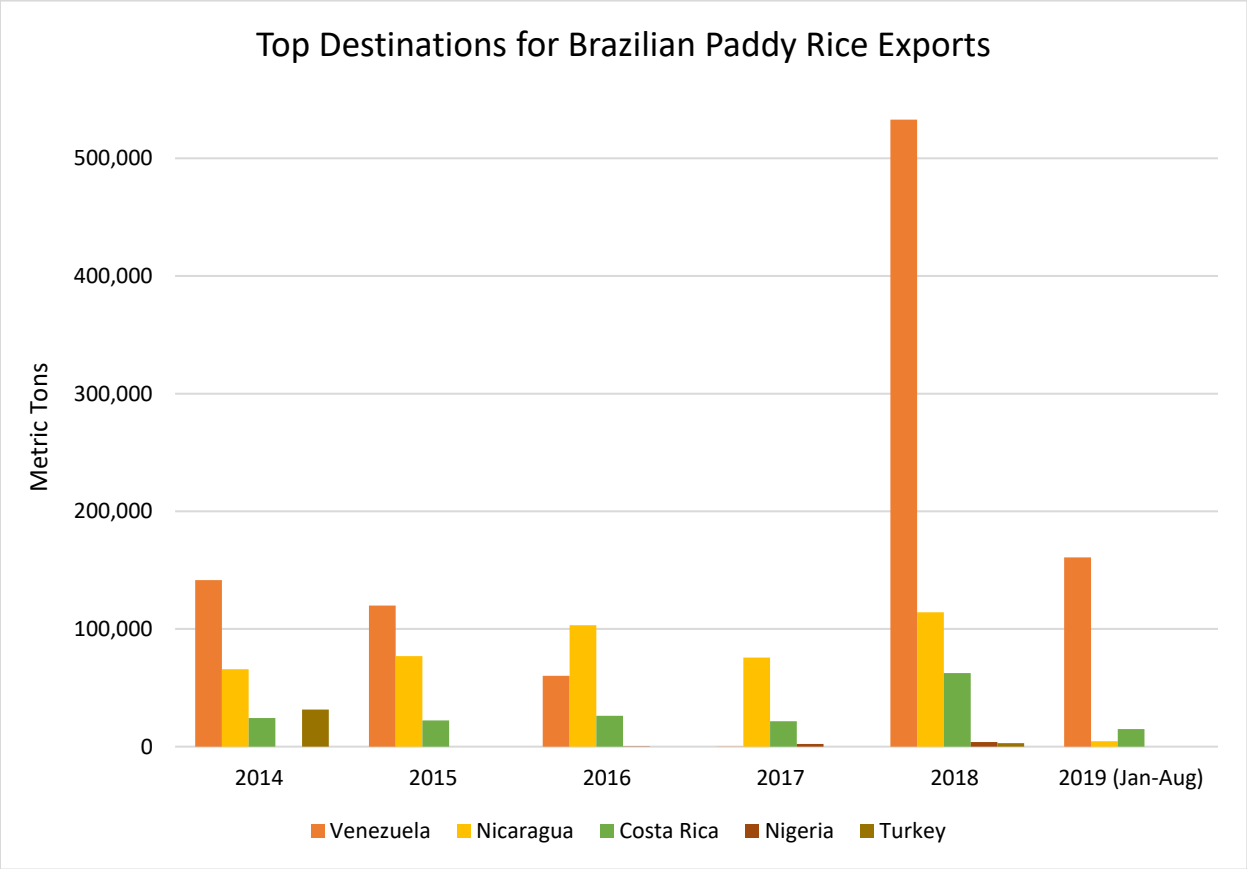
Rice Trade

Post raises the market year 2018/19 milled rice export forecast to 750,000 MT, based on the accelerated pace of trade. However, this is still only about 65 percent of the MY 2017/18 export volume. Market year 2019/20 exports are forecast at 500,000 MT, as production is expected to fall and Brazilian rice millers are likely to buy up cheaper supplies after the next harvest to rebuild diminished stocks.

Brazil announced in May that it had concluded a sanitary agreement with Mexico to open rice exports to that country, in exchange for allowing Mexico to export edible beans to Brazil. In mid-September, the Brazilian Rice Millers Association (Abiarroz) urged the Brazilian government to negotiate for elimination of Mexico's rice tariff or at least secure a permanent duty-free tariff-rate quota (TRQ). The

industry argues that under the May agreement, Mexico now has duty-free access to the Brazilian market for edible beans, but there is only a temporary 150,000-ton duty-free TRQ for Brazilian milled rice exports through December 2019. Rice exports to Mexico outside of this TRQ are subject to a 20-percent duty. Abiarroz argues that duty-free access is needed, since rice from Brazil's major competitors in the market (Uruguay and the United States) already enters Mexico without a tariff. According to Brazilian government trade date, there were no recorded rice exports to Mexico through August 2019.

Venezuela has been the largest of market for Brazil's paddy rice exports, with 160,811 MT exported from January to August this year. Starting in January 2018, Brazil began sending significant quantities of paddy rice to Venezuela as that country fell deeper into political and economic turmoil, including food shortages. Brazil's abundant supplies and relative geographic proximity made it a convenient rice supplier for Venezuela. However, this trade flow has slowed drastically since June 2019, with just 7,903 MT exported to Venezuela between June and August 2019, according to Brazilian government trade data. Most industry contacts do not believe paddy rice exports to Venezuela will continue in any significant volume going forward.



Date Source: Brazilian Foreign Trade Secretariat (SECEX)

Post raises the MY 2018/19 import forecast to 900,000 MT, up 6 percent from the previous forecast and 55 percent higher than MY 2017/18. This comes in response to the smaller domestic crop and is further based on the pace of trade through August. Post also raises the MY 2019/20 import forecast to 1.1 MMT, about 20 percent higher than the previous forecast based on lowered production expectations and dwindling domestic stocks.

The vast majority of Brazil's rice imports come in duty-free from its Mercosul trade bloc neighbors: Paraguay, Uruguay, and Argentina. Paraguay alone accounted for nearly 70 percent of MY 2017/18 imports and has supplied 82 percent of Brazil's imports through August of the current MY. This has spurred complaints by Brazilian rice producers, who argue that they cannot compete with duty-free imports from the region. As mentioned above, a number of Brazilian rice producers have decided to set up growing operations in Paraguay, where the overall cost of production is lower, due to cheaper land and lower taxes on inputs and equipment. Furthermore, these growers can sell their harvest to Brazilian buyers duty-free under Mercosul rules, and they may face fewer logistics challenges by being closer to major population centers like Sao Paulo state, where roughly 20 percent of Brazilians reside. It can be costly to transport Brazilian production from the south of the country where it is concentrated to population centers in other regions. Brazil has a shortage of railways and depends heavily on road transport. Truck freight costs can be prohibitively expensive, depending on the distance.

Moreover, Brazil's cabotage law restricts transportation between Brazilian ports to Brazilian-flagged and -crewed ships. As a result, the industry is dominated by a handful of large shipping companies, driving up prices. At present, only about 5 percent of Brazilian cargo is moved by ship between Brazilian ports, according to the Brazilian Association of Cabotage Shipowners (ABAC). Thus, Brazilian rice producers and millers are more likely to export their supplies, especially for lower-quality rice categories like broken rice sold to non-Mercosul countries.

However, recently the federal government has been exploring ways to open up the shipping industry and attract new investment. The Ministry of Infrastructure is reportedly preparing a provisional measure that would ease the requirement to use only Brazilian-flagged and -crewed ships between ports within the country. The goal is to attract new companies to the sector and reduce shipping freight rates. These changes could alter market dynamics and incentivize domestic sales and consumption over the current import-export structure.

Rice Consumption

Rice is a staple food in Brazil, with most of the population consuming it with edible beans one or two times every day. However, industry analysts have observed lower per-capita consumption rates in recent years, offset by modest population growth, leaving the overall rice consumption level static. Rice also competes with many other starchy staples in Brazilian cuisine, including manioc, potatoes, and wheat. Based on CONAB reports of changes in private and public stock volumes, as well trade data, post forecasts MY 2018/19 milled rice consumption at 7.6 MMT. Consumption for MY 2019/20 is forecast to remain stagnant at 7.6 MMT, contingent on the pace of economic recovery in Brazil.

Brazil has struggled in recent years to emerge from a deep recession. Brazilian officials are hopeful that economic reforms will speed recovery and grow incomes. In the meantime, Brazilian 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 in the next meal, thus reducing the total volume purchased. In response, industry groups like IRGA have launched consumer-oriented campaigns to encourage rice consumption and educate Brazilians about the health benefits of the staple food. IRGA, along with the Rio Grande do Sul Secretary of Agriculture, also launched a rice "appreciation" program, complete with a variety of recipes to inspire consumers to incorporate rice and rice flour into every part of the Brazilian diet.

Wheat

Wheat	2017/2018		2018/2019		2019/2020	
Market Begin Year	Oct 2017		Oct 2018		Oct 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1916	1916	2042	2042	2050	1980
Beginning Stocks	2256	2256	1311	1311	1339	1039
Production	4264	4264	5428	5428	5300	5400
MY Imports	7021	7021	7300	7000	7500	7500
TY Imports	6702	6702	7442	7442	7500	7500
TY Imp. from U.S.	186	162	245	314	0	400
Total Supply	13541	13541	14039	13739	14139	13939
MY Exports	230	230	600	600	600	600
TY Exports	245	245	594	594	600	600
Feed and Residual	500	500	500	500	500	500
FSI Consumption	11500	11500	11600	11600	11700	11600
Total Consumption	12000	12000	12100	12100	12200	12100
Ending Stocks	1311	1311	1339	1039	1339	1239
Total Distribution	13541	13541	14039	13739	14139	13939
Yield	2.2255	2.2255	2.6582	2.6582	2.5854	2.7273
(1000 HA) ,(1000 MT) ,(MT/HA)						

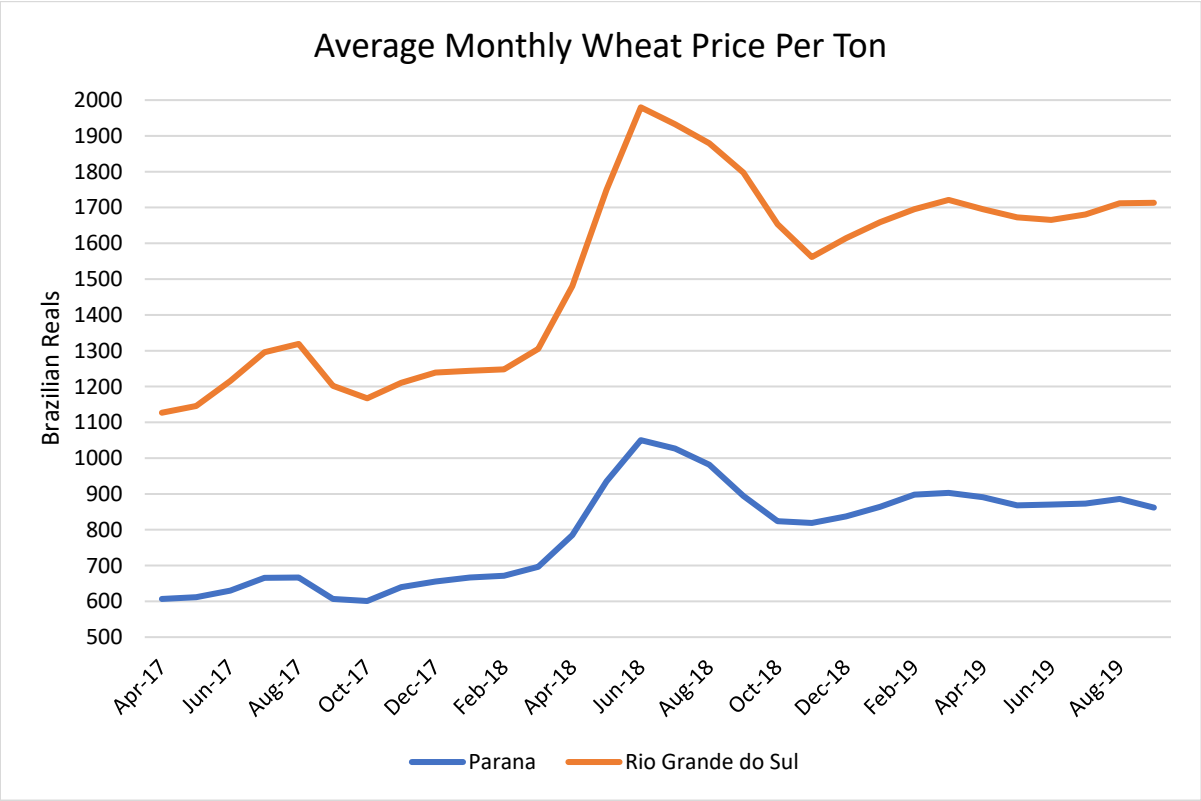
Wheat Production

Market year 2019/20 (October 2019 – September 2020) wheat production is forecast at 5.4 MMT, down slightly from MY 2018/19. Post also lowers its estimate of harvested area to 1.98 million hectares due to reports from CONAB that approximately 73,000 hectares of planted area in Parana were lost due to frosts in early July, followed by dry conditions through August.

Wheat production in Brazil is concentrated in the south of the country, where it usually competes for area with higher-profit soybeans. The states of Parana and Rio Grande do Sul together account for roughly 85 percent of total Brazilian production.

The harvest in Parana is about 70 percent complete as of September 30, according to the Parana Department of Rural Economy (DERAL), which also estimates that the state will produce 2.36 MMT of wheat this season, down 16 percent from the previous harvest. Industry sources report that aside from the abandoned area, the Parana crop is in good condition, with normal yields and decent quality. Analysts expect about 10 percent of the crop to be used for animal feed, which is an typical volume to be diverted for this purpose. Parana is expected to account for about half of Brazil's wheat crop this year, with Brazil's southernmost state of Rio Grande do Sul contributing another third of total production.

Rio Grande do Sul also experienced unfavorable weather during the growing season, including regionalized frosts, as well as below-average rainfall in August. Analysts expect the Rio Grande do Sul harvest to get underway in mid-October, and CONAB forecasts production in the state will reach 1.97 MMT, a 5-percent increase over last year. This is due mainly to expanded planted area in the state. The Rio Grande do Sul Rural Extension Service (EMATER/RS) estimates wheat area at 739,400 hectares, about 8 percent higher than the previous season. The expanded plantings are largely due to high wheat prices at the time of sowing, boosted further by the weak Brazilian real.



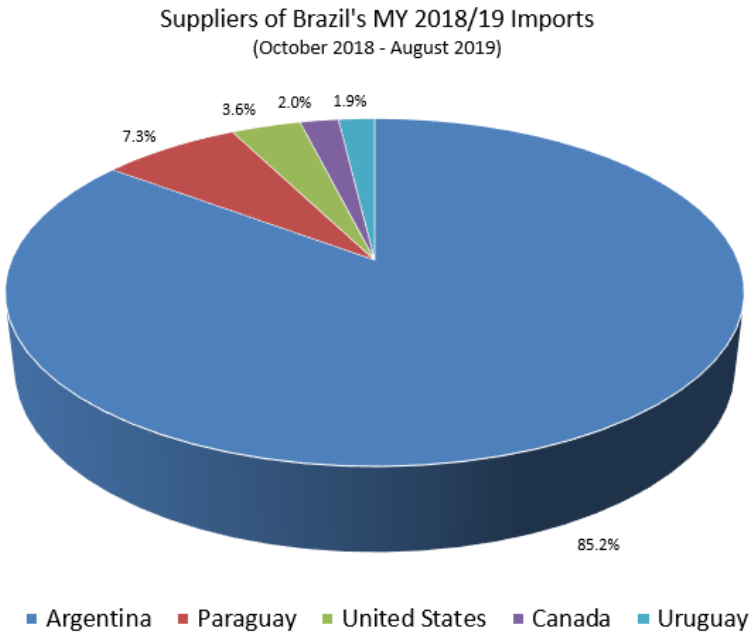
Date Source: University of Sao Paulo Center for Advanced Studies in Applied Economics (CEPEA)

Wheat Trade

Market year 2018/19 imports are estimated at 7 MMT, on near-final trade data. Post raises the MY 2019/20 import forecast to 7.5 MMT, in response to lower anticipated domestic production and already low levels of stocks. Market year 2018/19 exports are estimated at 600,000 MT on near-final trade data, while MY 2019/20 exports are forecast to remain stagnant at 600,000 MT.

Imported wheat makes up more than half of Brazil's domestic consumption. Typically, most imports are duty-free purchases from Mercosul-neighbor Argentina, which has supplied about 85 percent of Brazil's imports for MY 2018/19 (through August). Paraguay has been responsible for about 7 percent, while the United States accounts for about 3.6 percent of Brazilian imports through August in MY 2018/19. As a result of high prices, Brazilian mills slowed their imports in May and June, opting instead to use up existing stocks and purchase imports only when absolutely necessary. The rate of imports picked up slightly in July and August but were still substantially lower than the same period last year, when millers were importing lower-priced wheat to build up their stocks.

Moreover, the 750,000 MT duty-free tariff-rate quota (TRQ) announced by Brazil's president in March during a visit to Washington has still not been implemented. Some industry contacts have indicated that they are waiting for the availability of duty-free wheat before picking up the pace of non-Mercosul purchases. During a recent speech to the Brazilian Wheat Millers Association (Abitrigo) Congress, a MAPA official announced that the country would implement the TRQ by the end of the year. In remains unclear what legal mechanism the government will use to implement the TRQ, as well as how the TRQ will be administered. However, Brazilian government officials have confirmed that the TRQ will be open to all non-Mercosul exporters. Many analysts expect Argentina will harvest a very large crop this year, and they will likely continue to be Brazil's largest wheat supplier by far in MY 2019/20.



Date Source: Brazilian Foreign Trade Secretariat (SECEX)

Additionally, industry sources report that Brazilian millers have purchased one or two shipments of Russian wheat in the last few months. However, as of August 2019, trade statistics do not show any imports from Russia. In August 2018, Brazil imported 26,230 MT of wheat from Russia in what many trade sources reported was a test shipment to assess the quality and characteristics of Russian wheat. Additionally, the wheat was reportedly shipped to Brazil as return cargo on a ship that had transported soybeans to the Baltic region and would have otherwise returned to Brazil empty. Such a backfill situation reduced the cost to transport Russian wheat to Brazil.

According to industry sources, a group of Brazilian millers recently traveled to Russia to survey the available wheat supplies. Due to phytosanitary restrictions, Russian wheat must be processed at mills within a small radius of ports of entry in Brazil. Brazilian millers are reportedly working with the government to eliminate these restrictions.

Infrastructure and freight rates remain among the greatest challenges for Brazil's wheat milling sector. It is expensive and logistically difficult to move Brazilian wheat from the main 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 and -crewed ships to move commodities between ports within the country. Argentine wheat, on the other hand, may be transported on ships flagged from any country. Meanwhile, Brazil's shipping industry is dominated by a handful of large companies, driving up prices. At present, only about 5 percent of Brazilian cargo is moved by ship between Brazilian ports, according to the Brazilian Association of Cabotage Shipowners (ABAC).

However, as mentioned in the rice section above, the federal government has recently been exploring ways to open up the shipping industry. The Ministry of Infrastructure is reportedly preparing a provisional measure that would ease the requirement to use only Brazilian-flagged and -crewed ships between ports within the country. The goal is to attract new companies to the sector and reduce shipping freight rates. These changes could alter market dynamics and incentivize additional domestic production for sale to buyers in Brazil's low-production regions.

Wheat Consumption

Consumption for MY 2019/2020 is forecast at a stagnant 12.1 MMT. Brazil has struggled in recent years to emerge from a deep recession. Brazilian officials are hopeful that economic reforms will speed recovery and grow incomes. However, in recent months, the Brazilian real has continued to lose value against the dollar and government reforms have advanced more slowly than expected. In the meantime, Brazilian consumers have cut back on a variety of expenses. Even with staples like bread and rice, consumers have cut back on food waste and reduced the overall volume of purchases. Per capita consumption of wheat has declined slightly but has been offset by modest population growth, leaving the overall wheat consumption level static.

The Brazilian baking sector reported that consumption of industrially produced bread in Brazil grew by double-digits in the years prior to the recession but has since stagnated. Since 2015, sales of industrially produced bread have slumped, according to the Brazilian Association of Cookie, Pasta, Bread, and Cake Producers (ABIMAPI). Furthermore, data from Brazil's Institute of Geography and Statistics (IBGE) indicate that the pace of wheat milling slowed in the first half of 2019, falling to its lowest levels since 2002 when IBGE began gathering such data. At the same time, industry analysts estimate that Brazil has roughly 6 MMT of idle milling capacity, a fact that can fuel price wars between millers and drive up costs.

In response to the stagnation, Brazil's bakery industry is trying to spur consumption growth. There are more than 70,000 bakeries in Brazil, 93 percent of which are small or medium-size operations. The most popular wheat product in Brazil is "pao frances," a minimally dense, crusty French-style roll. According to the Brazilian Association of Bakeries and Confectioners (ABIP), pao frances accounts for roughly 48 percent of total bread products produced in bakeries. While pao frances is a popular breakfast staple in Brazil, baking industry analysts see room for growth and are designing baker- and consumer-oriented campaigns to do just that. On October 16, ABIP plans to launch one such campaign, complete with videos and online guides to help bakeries improve the quality of their pao frances in terms of color, texture, and taste. On the consumer side, ABIP will provide bakeries with promotional materials aimed to inspire consumers to build brand preference and define their personal favorite way to eat pao frances.

Brazilian consumers have also shown growing interest in the 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 more rustic breads with the inclusion of seeds, nuts, and dried fruit, as well as gluten-free and vegan options.

Related Report References:
Brazil Grain and Feed Annual – April 2019 – BR 1907
Brazil Grain and Feed Update – June 2019 – BR 1920
Brazil Poultry and Products Annual Report – August 2019 – BR 1922
Brazil Livestock and Products Annual Report – September 2019 – BR 1924

Attachments: No Attachments