USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Required Report - public distribution

Date: 1/28/2012

GAIN Report Number: BR0723

Brazil

Grain and Feed Update

Drought in Southern Brazil Behind Reduction in 2011/12 Grain Production Forecasts

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Report Highlights:
The drought in southern Brazil has reduced Post's forecasts for both the 2011/12 corn harvested area by 2 percent and production by 3.5 percent. The 2011/12 corn export forecast has consequently been lowered from 11 to 10 million metric tons (mmt). Post has lowered the 2010/11 corn export estimate by 4 percent. Due to the impact of the drought, Post has also reduced the 2011/12 rice production forecast from 12.5 to 11.5 mmt and the export forecast from 1.2 mmt to 700 thousand metric tons (tmt). Post has raised the 2010/11 rice export estimate from 900 tmt to 1.35 mmt, because of strong government support vita its Program for Product Flow (PEP).

CORN

Corn Brazil	2010/2011		2011/2012	
	Market Year Begin: Mar 2011		Market Year Begin: Mar 2012	
	USDA Official	New Post	USDA Official	New Post
Area Harvested	13,800	14,100	15,000	14,300
Beginning Stocks	9,989	9,989	9,489	7,853
Production	57,500	56,000	61,000	62,000
MY Imports	500	730	500	700
TY Imports	474	780	500	700
TY Imp. from U.S.	0	0	0	0
Total Supply	67,989	66,719	70,989	70,553
MY Exports	9,000	8,866	8,500	10,000
TY Exports	11,583	9,631	8,500	9,000
Feed and Residual	42,500	42,500	45,000	43,775
FSI Consumption	7,000	7,500	7,000	8,000
Total Consumption	49,500	50,000	52,000	51,775
Ending Stocks	9,489	7,853	10,489	8,778
Total Distribution	67,989	66,719	70,989	70,553
1000 HA, 1000 MT, MT/HA				

Post has lowered its 2011/12 forecasts for corn harvested area from 14.5 million to 14.3 million hectares based on the losses caused by the drought in southern Brazil (particularly Rio Grande do Sul, Santa Catarina and Paraná). Post has also lowered its 2011/12 forecast of corn production from 64 mmt to 62 mmt.

While Post still forecasts Brazil's 2011/12 corn production to reach record levels, the La Niña phenomenon has reduced the forecast significantly. Last year, the effects of La Nina actually supported corn production due to helpful rainfall distribution patterns but caused some soybean losses, which in turn resulted in a delayed planting season for the second corn crop (the winter corn crop or the *safrinha*). La Niña this year brought a severe drought to southern Brazil, impacting principally the southern states (Rio Grande do Sul, Santa Catarina and Paraná) and to a lesser degree the states of Sao Paulo and Mato Grosso do Sul. The drought has had a marked impact on Argentina (see the January 2012 WASDE Report) and also affected Paraguay to a lesser degree.

Drought is expected to cause significant corn losses: 29-54 percent in Rio Grande do Sul; 14 percent in Santa Catarina; 14-20 percent in Paraná; 7 percent in Mato Grosso do Sul; 3 percent in Sao Paulo

The drought in southern Brazil, lasting from December through mid-January, came at an inopportune time in the development of the summer corn crop (*safra de verão*) there. The timing of the drought was particularly devastating as the majority of the corn fields were entering the pollination stage and some had already entered the silking and grain filling stages of development. The states of Rio Grande do Sul and Santa Catarina were in the silking and grain filling stages and will consequently suffer the greatest corn losses due to the drought. In the south, it appears that the early summer corn crops (planted in September) will be harvested in February and will suffer only limited yield loss. While regular rains resumed in mid-January for the majority of the region, the crop loss is irreversible. December's rainfall was 50 mm below average in the state of Rio Grande do Sul and in the western part of the state of Santa Catarina; December's rainfall was 50-100 mm below average in the southern part of Mato Grosso do Sul. As a result, the state of Rio Grande do Sul has seen the most dramatic crop losses, with sources citing between a 29 and 54 percent corn crop loss. The corn crop loss estimate in the state of Santa Catarina is 14 percent. Corn production in the state of Paraná, the largest corn producing state in Brazil, is quite differentiated in relationship to the rainfall patterns in the state. The northern and western parts of Paraná have had a prolonged drought since November. The crop losses, though not as significant as Rio Grande do Sul, will be pronounced. The drought in the northern and western parts of the state is still ongoing. The central and southeastern parts of the state, however, have mostly been spared from the drought. Yields appear to be good for this part of the Paraná, and may make up for potential losses in the northern and western sections. Some analysts still envision a 14 percent corn loss in Paraná. Even with the losses, however, Paraná's 2011/12 summer corn production is expected to exceed 2010/11 output, as the area planted increased by almost 25 percent in 2011/12. The drought did impact the states of Mato Gross do Sul and Sao Paulo, but the losses are smaller and estimated at 7 percent and 3 percent, respectively. The excessive rains in the state of Minas Gerais do not appear to have caused any significant crop losses yet, as Minas Gerais and Goiás (the remaining two large summer corn producing states) are on track for a normal harvest. Analysts estimate that the summer corn (*safra*) harvest is almost 4 percent completed.

The winter corn (*safrinha*) planting has begun, albeit modestly, in the states of Mato Grosso and Paraná, but recent increased rainfall in Mato Grosso could lead to delays for large-scale *safrinha* planting. Of note, Mato Grosso is poised to surpass Paraná in winter corn production. The Brazilian market increasingly looks to the *safrinha* as a significant corn supply, opposed to the image it had acquired historically of simply being a source of surplus or extra product. The significance of the safrinha should increase as its rising production potentially compensates for the summer crop losses.

Post maintains its 2010/11 estimates for corn harvested area at 14.1 million hectares. Post also maintains its 2010/11 corn production at 56 million metric tons (mmt). There have been no significant developments in corn production for the 2010/11 market year since the last report.

Trade

Post lowered its market year 2010/11 corn export estimate by 340 thousand metric tons (tmt) and its total year 2010/11 corn export estimate by approximately 2 mmt. The drought and its impact on corn production in southern Brazil may have had a role to play in decreased 2010/11 exports, but in general the exchange rate and increased corn prices year on year have underlain decreased exports in November and December. Post lowered its 2011/12 corn export forecasts based on supply reduction by the drought.

WHEAT

Post maintains its production, supply and distribution estimates from its last quarterly report, as the wheat production season essentially finished its harvest in October. Post will provide its first 2012/2013 forecasts in its March 2012 annual report.

RICE

Rice, Milled Brazil	2010/2011	2011/2012

	Market Year Begin: Apr 2011		Market Year Begin: Apr 2012	
	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,820	2,833	2,600	2,600
Beginning Stocks	550	550	757	800
Milled Production	9,257	9,300	8,160	7,820
Rough Production	13,613	13,676	12,000	11,500
Milling Rate (.9999)	6,800	6,800	6,800	6,800
MY Imports	650	600	650	600
TY Imports	540	622	550	622
TY Imp. from U.S.	0	0	0	0
Total Supply	10,457	10,450	9,567	9,220
MY Exports	1,300	1,250	650	700
TY Exports	1,300	1,350	650	725
Consumption and Residual	8,400	8,400	8,400	8,100
Ending Stocks	757	800	517	420
Total Distribution	10,457	10,450	9,567	9,220
1000 HA, 1000 MT, MT/HA				

Due to the drought in southern Brazil, Post has lowered its 2011/12 forecast of area harvested to rice from 2.65 to 2.6 million hectares and reduced its 2011/21 forecast of rough rice production from 12.5 mmt to 11.5 mmt. The drought hit the rice producing regions of the state of Rio Grande do Sul particularly hard. Some analysts are estimating that the drought has caused a 13-17 percent loss. Area harvested to rice in the state of Santa Catarina is expected to increase by 5 percent, which will help offset losses to the south.

Given the excess of rice in the market and domestic rice producers' request for support, in September CONAB was authorized approximately $105 million to subsidize auctions of 500 tmt of rough rice from the states of Rio Grande do Sul and Santa Catarina to serve as animal feed. CONAB held an auction in mid-October for 150 tmt of rough rice, but no sales occurred. Rice auctions for feed may continue to be an intervention mechanism to support domestic prices.

Brazil continues to witness an inverse relationship between its middle class size and rice consumption. With larger disposable incomes, the growing middle class is opting less for rice and more for meats and other processed products, particularly derived from wheat (pasta, pizza, sandwiches, and pastries). The growing middle class has also contributed to an increase in fast-food consumption, which frequently substitutes the Brazilian staple diet of rice and beans.

Rough rice prices rebounded over the past week, as many producers shifted away from rice production over the past year due to low rice prices and diminished profitability. This has been an encouraging sign for rice producers. Parboiled rice prices throughout the country have remained constant. Last month, milled rice increased over 1 percent contributing to a 14 percent increase over the last twelve months. Rice prices in Parana dropped 11 percent drop over the last month due to the increased supply. The Brazilian rice sector still suffers from oversupply and requires even further price recovery.

Post maintains its 2010/11 estimates for rice area harvested at 2.83 million hectares and maintains its 2010/11 rice production at 9.3 mmt. 2010/11 conditions have not altered Post's estimates.

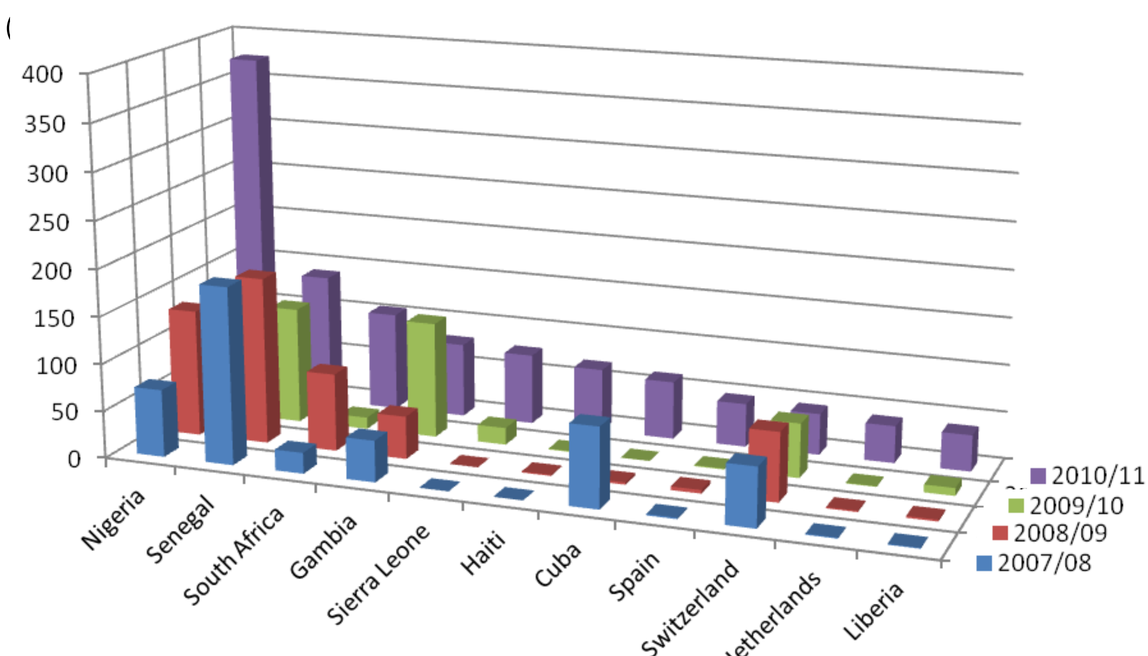
Trade

Brazilian 2010/11 rice exports continue to increase under government support. Post raised its 2010/11 rice export estimates by 350 tmt to 1.35 mmt. The increase in rice exports has helped alleviate the domestic rice surplus. Brazilian rice exports are destined for Africa (Nigeria, Senegal, South Africa, Gambia, Sierra Leone, and Liberia), the Caribbean (Haiti and Cuba), and even some European markets (Spain, the Netherlands, and Switzerland). See graph below on *Brazil's Rice Export Markets*.

2010/11 trade continues to be strongly supported by Brazil's Program for Product Flow (PEP—*Prêmio para Escoamento do Produto*). CONAB released its final 2011 PEP auction data recently, revealing that through the PEP program the Brazilian government has spent roughly $110 million to support the auction of more than 2.3 mmt of rice, and the negotiation of sales of 1.5 mmt of rice. For more background on the PEP program, please refer to Post's latest grains quarterly.

Post has lowered its 2011/12 rice export forecasts from 1.2mmt to 700 tmt because of the rice production losses from the drought in southern Brazil. Post had anticipated the strong implementation of the PEP program to support rice exports, but the harvest losses will leave significantly less rice available for export. Post foresees the continued use of the PEP program to support 2011/12 rice exports, however less so than in 2010/11.

Graph: Brazilian Rice Export Markets



Source: IRGA and FAS