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Brazil

Oilseeds and Products

Mid-Harvest Soybean Update

April 2006

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Report Highlights:

Please note that the February update was released two months late due to a technical error. This report (BR6008), and not the previously released report, represents the April update.

The soybean harvest is halfway finished, with flowering and pod-fill achieved in all areas. The crop looks healthy overall with the some damage from the January drought in addition to isolated areas of rust losses. Post lowered production to 56.9 MMT based on an area of 21.9 million hectares. The unfavorable exchange rate and higher costs of production continue to be a problem for farmers who have been credit-challenged this year.

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

PS&D

Brazil						
Oilseed, Soybean (Local)						
1000 HA and 1000 Tons						
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		04/2004		04/2005		04/2006
Area Planted	21475	21436	22800	22800	21500	21900
Area Harvested	21475	21400	22800	22800	21500	21900
Beginning Stocks	3129	3090	2086	2219	1434	1099
Production	50500	50500	51000	51000	58500	56900
MY Imports	350	350	470	400	425	200
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	53979	53940	53556	53619	60359	58199
MY Exports	19571	19571	19542	19500	26076	21000
MY Exp. to the EC	10200	10720	10700	11000	0	12000
Crush Dom. Consumption	29172	29000	29634	29500	29329	32500
Food Use Dom. Consump.	0	0	0	700	0	750
Feed,Seed,Waste Dm.Cn.	3150	3150	3322	2820	3000	3000
TOTAL Dom. Consumption	32322	32150	32956	33020	32329	36250
Ending Stocks	2086	2219	1058	1099	1954	949
TOTAL DISTRIBUTION	53979	53940	53556	53619	60359	58199

Production

Post is forecasting a reduction of planted area by 4 percent in 2005/06 to 21.9 million hectares, with an overall yield of 2.6 tons per hectare. Post lowered production for 2005/06 to 56.9 million tons, still 6 million tons greater than the 2004/05 crop.

Production for 2005/06, albeit on less area, will be much improved over last year due largely to better growing conditions. Most states are expected to achieve average yields, with the exception of Mato Grosso and Bahia, whose yields are estimated down slightly as a result of rain deficiencies in January and February. In the case of the North and Northeast regions, yields are expected to break records. The northeast state of Maranhão, which will produce a million tons of soybeans for the first time this season, along with other new frontier states in the North, are expected to be the highest-yielding area in Brazil.

Although Rust is impacting yields less and less in Brazil due to improved management, it has continued to impact operating costs in a big way. Some farmers needed to spray five times this season, which cut directly into profits. Each additional application for Asian rust is costing approximately \$11.50 per acre, or \$30 dollars per hectare.

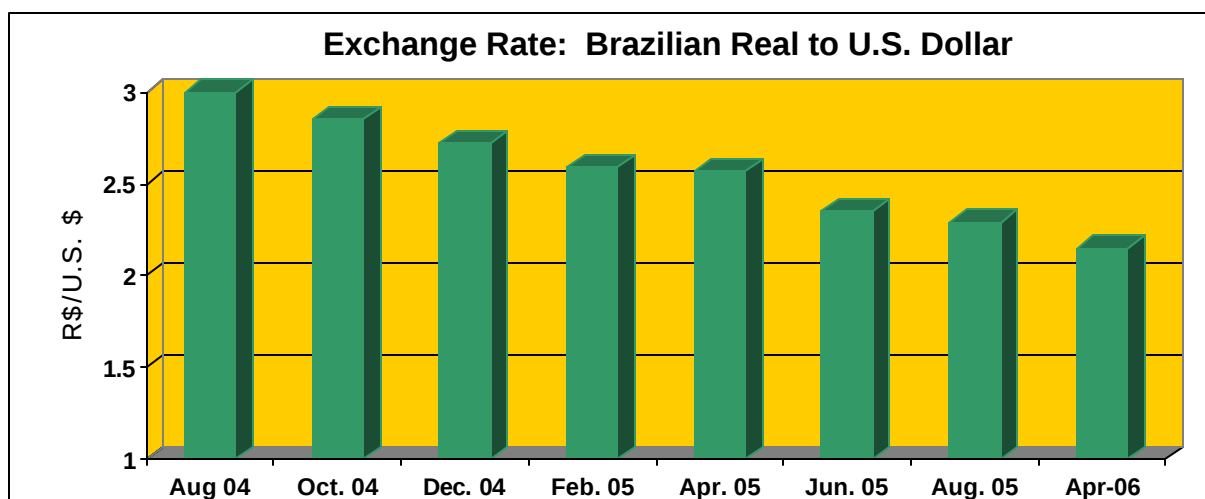
It should be taken into account that rain has fallen in the past week in nearly all production areas. This factor has affected the harvest, and consequently yields and the quality of the beans could be impacted. In addition, with this year's compounding financial difficulties, the possibility exists that insolvent farmers will neglect their crops until the end of the cycle.

Post Forecast Soybean Area, Yield, and Production (1000 ha; Tons/ha, Thousand tons)			
Region	Area	Yield	Production
Center West	10560	2.7	28475
MS	2000	2.5	4900
MT	5800	2.8	16500
GO	2700	2.6	6900
DF	60	2.9	175
South	7580	2.5	18875
PR	3800	2.7	10300
SC	330	2.3	775
RS	3450	2.3	7800
Southeast	1750	2.5	4440
MG	1100	2.5	2700
SP	650	2.7	1740
Northeast	1490	2.5	3705
MA	385	2.8	1075
PI	230	2.7	630
BA	875	2.3	2000
North	512	2.7	1365
RO	82	2.9	240
AM	15	2.7	40
RR	20	2.8	55
PA	90	2.8	250
TO	305	2.6	780
Totals	21892	2.6	56860

Credit Scarcity

The extremely tight credit situation is the underlying cause for the decrease in area this year. Tight credit is also expected to affect area for the 2006/07 crop. Although an 18 percent increase in credit availability was programmed by the government, with much of this being offered at an 8.75% subsidized rate, some of these funds were not made available due to non-payment or delayed payment on loans from the previous two harvests. Agricultural companies were much more cautious this year with their lending, meaning growers that did not pay their debts last crop year did not receive funding from multinationals to operate this year. Although growers with credit difficulties often rent their area to a more successful grower to farm, others rolled over their bank debts and are now facing bankruptcy. In the state of Mato Grosso, a reported 2,000 producers are now in default with the Bank of Brazil. A state of emergency is being discussed by the state government due to the large number of farmers who are in dire financial straits. This decree would allow all public debt in the state, now running about \$900 million, to be renegotiated.

Another issue compounding the bleak financial situation is the fact that the Real did not weaken vis-à-vis the dollar as expected. At the current rate, dollar returns on soybeans are said to be very discouraging to producers. As the Real actually weakened during the season, producers bought inputs and planted at about 2.3 Reals to the Dollar, are now facing selling at a 2.1 rate. In many cases, the fact that costs of production will exceed profit can be looked at as a direct result of the exchange rate. Farmers are therefore not happy with the government's monetary and fiscal policy. In production areas, bumper stickers designating Brazil's President as "the worst agricultural plague" demonstrate farmers' frustration. Although crop yields are not bad, the strengthening Real has chipped away at the price they will receive for soybeans. The outlook for a better exchange rate does not look promising, and the overall expectation is that the current financial climate will continue to support a strong Real. Those producers with the belief that the dollar will strengthen in the coming months may hold on to their beans as long as possible for better prices.



The strong Real can be attributed in part to a large trade surplus, which included a record agricultural surplus of U.S. \$38 billion last year despite the unfavorable exchange rate for exports. These strong exports continue to inject cash into the economy thereby supporting the currency. The Central Bank's policy of maintaining a high interest rate, which currently is 18.5 percent, is propping up the Real.

Biotech Issues

The amount of GMO seed planted this season has doubled, thanks to Brazil's new biosafety law. By now most farmers have had a chance to test the reliability of a roundup-ready variety adapted to their climatic region, and the response has been enthusiastic. All available biotech seed was planted this year, and seed companies, government research facilities, and even producers are over-stretched in meeting farmer demand for roundup-ready seed. According to the Brazilian Seed Association, 9 million hectares, or 40% of the crop, were planted with biotech seed, although about 30% of that was done with illegal seed. Certified seed producers plan to increase production all they can in the off-season in order to prepare for the increasing demand in 2006/07.

With biotech bean production expanding at a rapid pace, the port of Paranaguá, located in the state of Paraná, has been under pressure to allow loading of GMO beans. In late March, a federal judge ruled the port couldn't ban the shipment of the beans, thus overturning a state law backed by Governor Roberto Requião that had been in affect to prohibit such movement. This ban had caused a disturbance and even a shift in the transportation corridors being used to move soybeans out of the country. If Paraná (and Paranaguá) is opened up once again to biotech traffic, it will be interesting to see if the port is able to win back its previous port business.

In Spite of Wet Weather, Harvest Advances

Despite the rain that has interfered with harvesting in several states, the harvest has actually surpassed the average pace by a few points. March and April are the main months for the harvest of soybeans, and the harvest in Sao Paulo, Mato Grosso, and Mato Grosso do Sul is nearly finished. Only extreme southern states and those to the north of the Center-West have yet to make significant progress.