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## **Report Name:** Oilseeds and Products Update

**Country:** Brazil

**Post:** Brasilia

**Report Category:** Oilseeds and Products

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### **Report Highlights:**

Post forecasts soybean planted area at 36.5 million hectares in 2019/20, up negligibly on the 36.2 million hectares sown for the past crop. Producers are hesitant to invest in expansion as demand from China is expected to remain subdued. Meanwhile, production costs are expected to rise yet again next season, cutting into margins. Production is forecast at 123.5 million metric tons (mmt) based on trend yields. Soybean exports are forecast at 75 mmt for 2019/20. Post revised 2018/19 export estimate down by one mmt, to 68 mmt.

## SOYBEAN PRODUCTION

### 2019/2020 Planting Area Revised Down on External Demand Volatility and Pressure on Producers' Margins

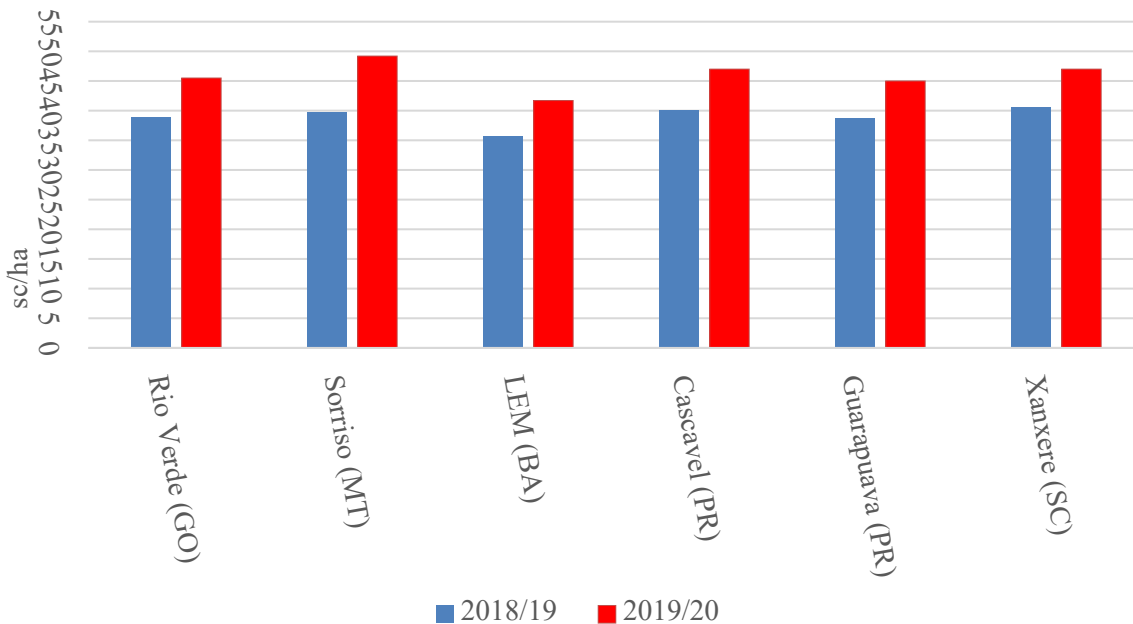
Post revised downward forecast for the 2019/20 marketing year planted area to 36.5 million hectares (ha), which represents less than one percent increase on the previous season. Although soybeans remain the most reliably liquid agricultural commodity in Brazil, there are several reasons for Post to expect that producers will remain fairly conservative in how much they invest in area expansion this coming season.

First, Brazilian market analysts expect that overall demand in China for soybeans will remain subdued due to the widespread incidence of African Swine Fever (ASF) - which has decimated swine herds and curbed feed needs. Second, there is still a great deal of uncertainty over whether the United States and China will manage to come to a trade agreement. Producers are cognizant that a trade accord between Washington and Beijing would almost certainly dampen exports and exert downward pressure on Brazil's soybean prices.

In addition to uncertainty over external demand, producers are also expecting tighter margins. According to a study by Sao Paulo's University Agricultural Research Center (CEPEA), all of the main soybean producing states are projected to see rising input costs, especially due to the rising cost of fertilizers. The Center West *cerrado* area of the country is expected to see the largest impact from input price inflation, with costs rising by an average of nine percent on the previous season. The production cost comparison is based on acquisition of inputs between March and May 2018 (2018/2019 crop) and the same period for 2019 (2019/2020 season), as well as the farm gate price for a sack of soybeans.

For example, in the Mato Grosso municipality of Sorriso, the cost of production is projected to increase, on average, by 12 percent. As a result, a farmer would need to produce at least 49.2 bags per hectare to break even on his investment. This prospect is troubling for farmers, since, in regions such as Sorriso, Mato Grosso the cost of production was already very close to expected revenue. In the case of a poor harvest, the producers' gross margins may turn negative. However, producers in the southern state of Parana have informed Post that due to the increasingly attractive exchange rate – farmers had penciled in 3.8 Real to the U.S. Dollar, versus the current R\$ 4.15 / USD – their margins are expected to be favorable this year, assuming normal yields and stable prices.

## Break Even Cost of Production



Source: CEPEA and CNA

According to CEPEA, nominal fertilizer prices in March-May 2019 reached their highest levels in nearly a decade. The price spike is due to the negative exchange rate fluctuation as the domestic currency, the Real, dropped to R\$3.82 per USD, from R\$ 3.42 to the USD, during the survey period. Importantly, production costs have been rising year-to-year. Last year producers saw their costs rise due to rising global prices for raw materials, as well as new, higher commercial transportation rates mandated by the government.

### 2019/20 Production Set to Recover on Better Yields

For the 2019/20 season, Post forecasts yields to return to the trend average seen in the last several harvest seasons of about 3.4 kilograms per hectare, and production is expected to top 123.5 million metric tons (mmt). For the current 2018/19 season, the production estimate remains at 116 mmt, based on lower-than-trend yield. Adverse weather affected yields across most of soybean producing states. (See GAIN BR 1909 for expanded coverage).

In Brazil, first-season soybean planting begins in September after the so-called *vazio sanitário*, or sanitary period. This regulation prohibits crop planting for several months in between harvests in order to mitigate incidence of fungal diseases in the absence of cold weather. Producers in the southern state of Parana are generally the first to begin sowing, right after *vazio sanitário* ends on September 11. Farmers in the largest producing state of Mato Grosso may begin planting on September 16.

However, as of the third week of September, farmers had barely begun sowing the 2019/20 crop due to lack of rain and inadequate soil moisture. Except in rare cases, producers in Brazil do not use irrigation, relying instead solely on the rainy season weather. In Parana, producers indicated to Post in late September that they planted about two percent of their planned crop, as compared to 10 percent at this time last year. Meanwhile, at the end of August, soil moisture was at its lowest level in two decades in northern part of Mato Grosso state, with no considerable rain in the forecast through the end of September.

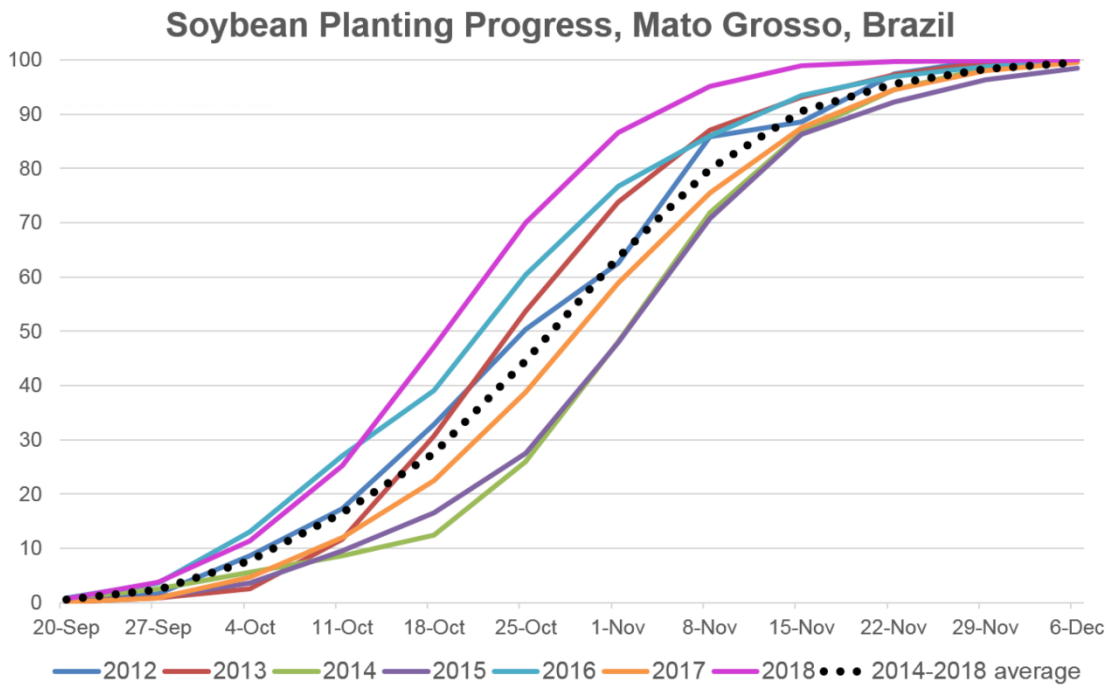


Chart Source: Karen Braun for Reuters based on IMEA data

At this point it is still too early to forecast weather impact on soybean yields. As long as the weather normalizes within the next few weeks, the delayed sowing should not impact the quantity and quality of the first season harvest. In fact, in some years, extremely dry conditions at the start of the planting season still produced ample crops. For instance, rainfall in October through December 2014 was second lowest on record, but yields for the 2014/15 harvest were actually higher season-on-season. However, planting of the second season crops - namely corn and cotton - will likely be pushed back, potentially adversely impacting those harvests.

**CONSUMPTION / PROCESSING**

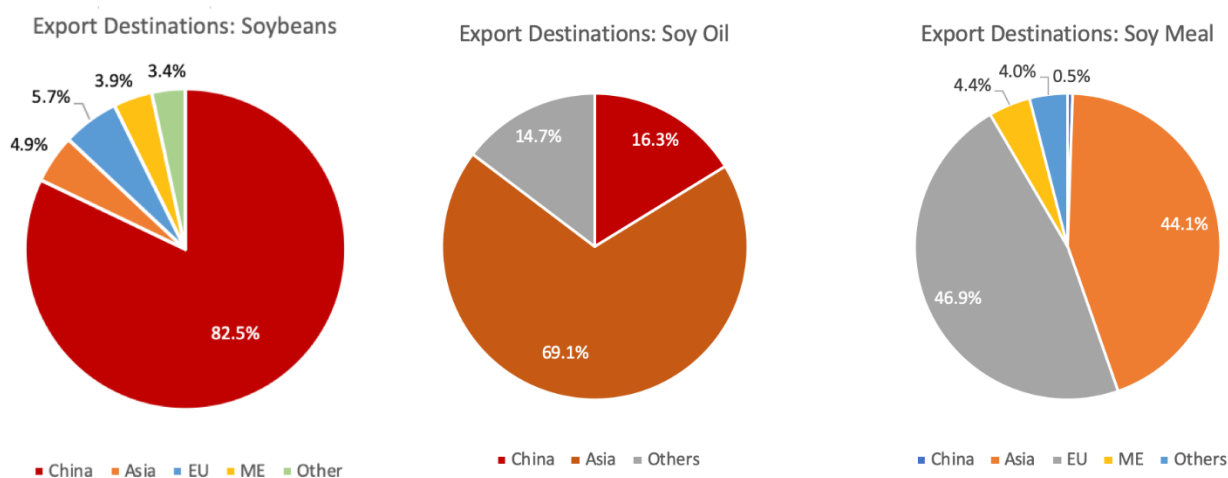
**2019/20 Forecast**

Post maintains the 2019/20 forecast of 44 mmt of soybeans destined for processing next season. The forecast is based on trend expansion of about two percent per year. Post forecasts 2019/20 production to reach 34.1 mmt of meal and 8.6 mmt of oil.

Crush has expanded gradually in Brazil in comparison with the raw soybean complex. Exports are stymied by external factors on both the supply and the demand side. The government incentivizes soybean exports via the so-called Kandir Law, which waves the export duty for raw commodities, but not processed products. As such, the processing industry faces much tighter margins than producers.

In addition, there is no single large market driving export demand for soybean products, as is the case with raw soybeans. Over the recent years, surging demand from China has fueled rapid expansion in soybean exports, with Chinese purchases accounting for more than half of all the soybeans sold by Brazil in the last five years, and as much as over 80 percent in the last marketing year. In contrast, the export market for soybean meal and oil is much more diversified, with no single destination responsible for more than 16 percent of meal sales and 50 percent of oil export sales.

### 2017/18 Soybean and Product Exports by Destination



Source: Post Brasilia, Secretariat of Foreign Trade of Brazil (Secex)

For the 2019/20 season, Post forecasts zero growth in soy meal exports at 16.2 mmt, and soy oil exports at one mmt.

Domestic demand is key to expansion of soybean processing in Brazil. Post forecasts that domestic soybean meal consumption will increase next season to 19 mmt, a four-and-half percent increase from the current season. The expansion is above the average three percent seen in the last several years, driven by the rising demand from the domestic meat and poultry industry. For the 2019/20 season, Post forecasts accelerated expansion in meat and chicken production due to spike in demand in Asia, and in particular in China, where the market is projected to absorb additional imports due to a fall in domestic production pork. In addition, Brazil’s domestic meat consumption is also expected to rise, linked to projected domestic economic growth of two to three percent.

Post also maintains the soy oil production forecast of 8.6 mmt, with close to 90 percent of the product consumed domestically. Domestic consumption of soy oil is forecast to continue to increase thanks in large part to government's regulations requiring a gradual increase in biodiesel blending rates. Soy oil is the primary raw material used by the Brazilian biodiesel industry. The implementation of the newest blending mandate – from B10 to B11 – went into effect in September 2019. The next step increase to B12 is scheduled for March 2020, though Post contacts indicate that it may be delayed until sometime in June-July 2020.

### **2018/19 Outlook: Domestic Crush Estimate Unchanged**

Post maintains the 2018/19 soybean processing estimate at 43 mmt, contracting on last season's crush of 43.4 mmt. The estimated season-on-season decline is based on lower soybean production and higher than initially expected exports of raw soybeans. Post estimates that Brazil's soybean meal production will hit 33.3 mmt for the 2018/19 marketing year (MY).

The domestic soybean meal consumption estimate has increased to 18.25 mmt from last season's feed consumption of 17.8 mmt. As discussed in the section above, the increase in the domestic meal consumption estimate is based on higher projected demand from the domestic livestock and poultry industries, which benefited from increased export demand out of China. Meal exports are projected to decrease to 15.5 mmt, from almost 17 mmt last season, in connection with tighter supplies.

Post estimates Brazil's soybean oil production at 8.4 mmt, with the majority of the product consumed domestically. Food use for soy oil is estimated to remain stagnant due to the very sluggish domestic economy. However, industrial oil use is projected to increase to accommodate the higher biodiesel mandate.

## **TRADE**

### **2019/2020 Exports Forecast Below Recent Record**

Soybean exports for MY 2019/20 (February 2020 to January 2021) are forecast to reach 75 mmt, up more than ten percent on the current season. Nevertheless, the forecast does not come close to the blockbuster export figure of 84.1 mmt in exports that Brazil posted for the 2017/18 season. Post's export forecast for 2019/20 is based on recovery in available supplies. Post anticipates that China will continue to be the main buyer of Brazilian soybeans. However, sales to China will remain subdued due to the effects of African Swine Fever (ASF).

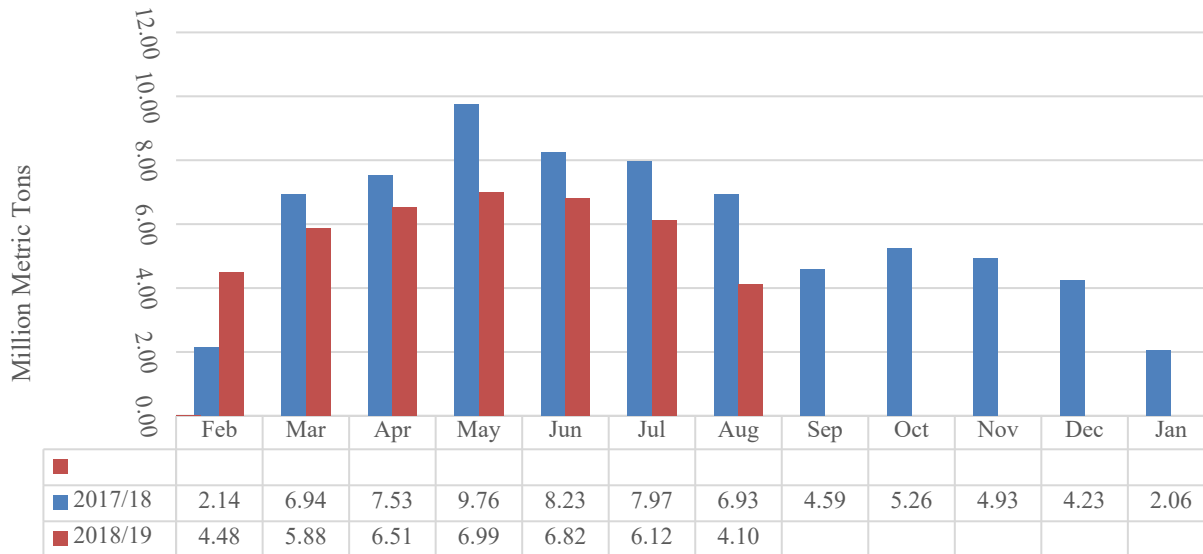
There is room for revision in the forecast pending the outcome of U.S.-China trade talks. In addition, Post is following the government's tax reform push, which is slated to kick into high gear once the so-called *previdencia* (social security and pension) overhaul is complete. Local contacts indicated to Post that producers are increasingly worried that the government may scrap the so-called Kandir Law provision, which exempts commodities destined for export from the state level Tax on the Circulation of Goods and Services (ICMS). In recent years, state governments have increasingly challenged this provision on the grounds that missing tax revenue is putting too much strain on state budgets. (See GAIN BR 1906 for expanded coverage). Post contacts feel that, with tax reform, the ICMS charged on soybean exports could be set at 4 or 5 percent but then increase over time.

## 2018/2019 Export Estimate Slightly Lower

Post revised down total soybean exports for 2018/19 MY (February 2019 to January 2020) by one mmt to 68 mmt. The export projection is based on smaller total supply for the season, due to lower than average harvest yields, as well as almost non-existent carryover stocks from the previous season. In addition, Post revision accounts for lower than initially anticipated demand out of China.

In the first seven months of this season, Brazil exported almost 55 mmt, which is 13 percent less than at this point last season. So far this season, sales to China made up 75 percent of total volume shipped. In this same timeframe, exports to China are down by 17 percent year-on-year, with volumes declining more rapidly – in percentage terms – in the last several months. In August 2019, Brazil shipped 4.1 mmt of soybeans to China, which represents a 40 percent decline from same month last year.

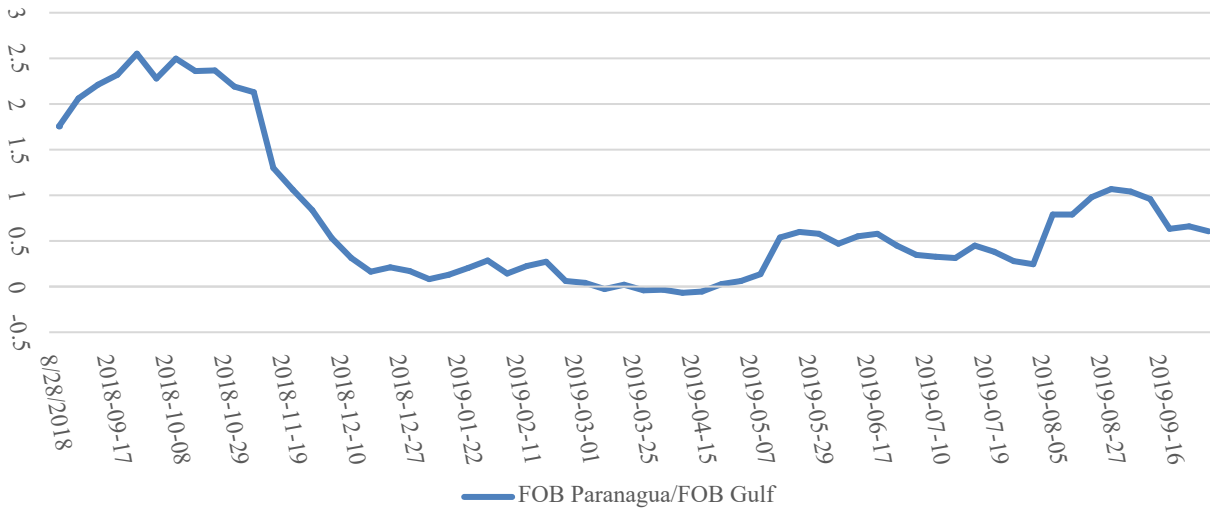
Soybean Exports to China  
2017/18 vs 2018/19



Source: Secretariat of Foreign Trade of Brazil (Secex)

Several factors account for falling exports to China, most notably lower demand due to the outbreak of African Swine Fever (ASF), which curtailed feed demand. In the remaining five months of the season, Post anticipates further downward pressure on sales to China. Aside from lower overall demand due to ASF, competition from U.S. soybeans is likely to pick up. In mid-September, Beijing announced that it would waive import duties on certain U.S. agricultural products, including soybeans. At this point, there is no clear market take on whether the current détente between the United States and China will be long lasting. However, given that China typically sources U.S. soybeans in September-December timeframe, the news had dampened Brazilian premiums, and exerted downward pressure on sales at least in the short term. The latest spot prices show the spread narrowing from \$2.5 per bushel in September/October 2019, to just \$0.61 by September 26.

### Brazilian Soybean premium (\$/Bu)



Data Source: Agricensus



Oilseed, Soybean (Local)	2017/2018		2018/2019		2019/2020	
Market Begin Year	Feb 2018		Feb 2019		Feb 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	35150	35150	36200	36200	37000	36500
Area Harvested	35150	35150	35900	36100	36900	36500
Beginning Stocks	9761	9761	2352	2407	4600	4855
Production	122000	122000	117000	116000	123000	123500
MY Imports	185	185	150	200	200	200
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	131946	131946	119502	118607	127800	128555
MY Exports	84155	84100	69000	68000	77800	75000
MY Exp. to EU	5100	5100	3400	3400	3500	3500
Crush	43425	43425	43250	43100	43850	44000
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	2014	2014	2652	2652	2750	2750
Total Dom. Cons.	45439	45439	45902	45752	46600	46750
Ending Stocks	2352	2407	4600	4855	3400	6805
Total Distribution	131946	131946	119502	118607	127800	128555
CY Imports	187	187	150	150	200	200
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	83609	83609	69350	69350	77600	77600
CY Exp. to U.S.	0	0	0	0	0	0
Yield	3.4708	3.4708	3.2591	3.2133	3.3333	3.3836
1000 HA, 1000 MT, MT/HA						

Meal, Soybean (Local)	2017/2018		2018/2019		2019/2020	
Market Begin Year	Feb 2017		Feb 2018		Feb 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	43425	43425	42850	43100	43850	44000
Extr. Rate, 999.9999	0.7749	0.7749	0.7746	0.7732	0.7754	0.775
Beginning Stocks	4430	4430	3324	3321	3149	2921
Production	33650	33650	33190	33325	34000	34100
MY Imports	20	13	25	25	26	25
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	38100	38093	36539	36671	37175	37046
MY Exports	16976	16972	15200	15500	15200	16200
MY Exp. to EU	8000	8000	7500	7500	7500	0
Industrial Dom. Cons.	0	0	0	0	0	0
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	17800	17800	18190	18250	18975	19000
Total Dom. Cons.	17800	17800	18190	18250	18975	19000
Ending Stocks	3324	3321	3149	2921	3000	1846
Total Distribution	38100	38093	36539	36671	37175	37046
CY Imports	20	20	25	0	25	0
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	16863	16863	15275	0	15200	16000
CY Exp. to U.S.	0	0	0	0	0	0
SME	17800	17800	18190	18250	18975	19000
1000 MT						

Oil, Soybean (Local)	2017/2018		2018/2019		2019/2020	
Market Begin Year	Feb 2017		Feb 2018		Feb 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	43425	43425	42850	43100	43850	44000
Extr. Rate, 999.9999	0.1917	0.1917	0.1918	0.1949	0.1919	0.1955
Beginning Stocks	442	442	408	409	302	349
Production	8325	8325	8220	8400	8415	8600
MY Imports	41	41	50	50	50	70
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	8808	8808	8678	8859	8767	9019
MY Exports	1410	1409	1250	910	1250	1000
MY Exp. to EU	0	0	0	0	0	0
Industrial Dom. Cons.	3290	3290	3400	3900	3425	4200
Food Use Dom. Cons.	3700	3700	3726	3700	3775	3725
Feed Waste Dom. Cons.	0	0	0	0	0	0
Total Dom. Cons.	6990	6990	7126	7600	7200	7925
Ending Stocks	408	409	302	349	317	94
Total Distribution	8808	8808	8678	8859	8767	9019
CY Imports	35	35	50	50	50	0
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	1415	1415	1250	1250	1250	1275
CY Exp. to U.S.	0	0	0	0	0	0
1000 MT						

UNCLASSIFIED

**Attachments:**

No Attachments