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Prepared By: Evgenia Ustinova

Approved By: Oliver Flake

Report Highlights:

Post forecasts above-trend expansion for the 2020/21 season, with planted area at 38.5 million hectares (ha) and production at 130 million metric tons (MMT). The economic downturn precipitated by the coronavirus pandemic has led to a sharp depreciation of the Brazilian real, pushing domestic soybean prices to record levels. Farmers are well-capitalized from this seasons' revenues and are eager to reinvest these profits. For the 2019/20 season, post estimates exports at 78 MMT based on strong demand from China. Soybean crush is estimated at 44 MMT, driven by internal demand for soy oil. Biodiesel demand leveled off only slightly, as commercial trucks continue to ply the roads to deliver agricultural commodities to ports. Despite difficulties posed by the pandemic, Brazil's infrastructure links continue to function virtually uninterrupted.

SOYBEAN PRODUCTION

2020/21 Planted Area and Production Forecast Unchanged

Post maintains its forecast for soybean planted area expansion at 38.5 million hectares (ha) next season. Post forecasts planted area to increase by 4.05 percent, which is above the average annual 2.8 percent growth for the last five seasons. Soybeans are grown in 19 of Brazil's 26 states, as well as in the capital Federal District. Expansion above trend is likely in the majority of the states, from the frontier regions in the North and Northeast to the well-developed Center West. The southern producer states of Parana and Rio Grande do Sul are the exception, with the majority of productive area already utilized in crop production.

The massive Center West state of Mato Grosso is by far the biggest producer accounting for just under a third of the country's planted area and production volume. Based on Post conversations with interlocutors in Mato Grosso, Post believes about three million hectares are readily available to be put into crop rotation immediately. The Mato Grosso Institute of Applied Economy (IMEA) forecasts planted area at just over 10 million ha next season, up 2.26 percent on the current marketing year (MY) estimated area of 9.85 million ha. Post anticipates expansion on the order of five percent or more, around 400 to 500 thousand ha.

Aside from Mato Grosso, Post forecasts continued growth in planted area in the Northeast region of MATOPIBA – comprised of states Maranhão, Tocantins, Piauí, and Bahía. In particular, area in Bahía is forecast to expand. Unlike the Center West and southern regions of the country, producers in Bahía grow just one crop per year – typically either cotton or soybeans. Given the plummeting global demand and prices for cotton, Post forecasts as much as a 20 percent decrease in cotton planted area in favor of soybeans.

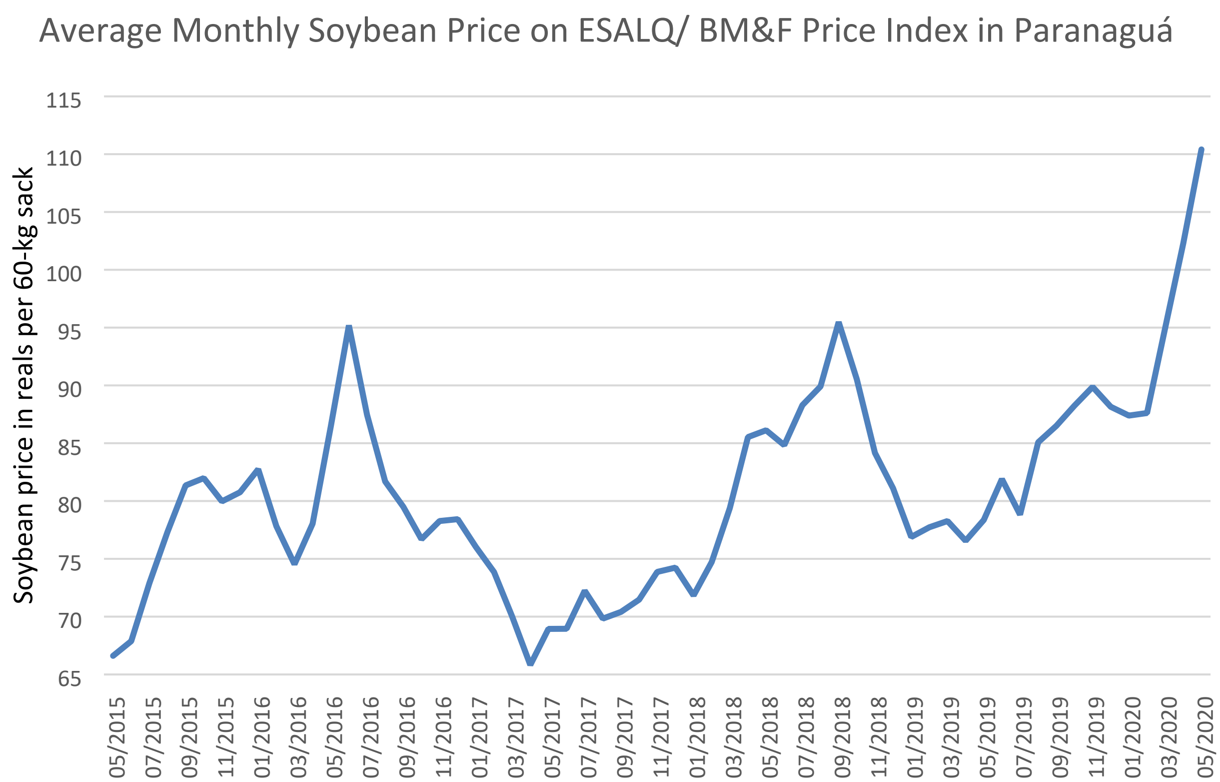
Post forecasts 2020/21 soybean production at 130 million metric tons (MMT), based on a yield of 3.38 mt per ha. The yield forecast assumes that producers will not skimp on seeds and other inputs, and therefore the yield will increase in line with a five-year average growth rate of just above two percent. Post believes that key reasons for yield gains are adoption and investment in inputs, such as Genetically Engineered (GE) seeds and the use of chemicals and fertilizers. At the same time, Post adjusts forecast for lower yields on land that may be converted into production, which typically takes several years to reach optimal productivity.

Soybean Production to Surge due to the Global Pandemic, but Downside Risks Remain

Post forecasts soybean planted area expansion in 2020/21 MY despite the dire outlook for the broader economy. Market consensus is that Brazil's gross domestic product (GDP) is set to contract by at least 7 percent this year on the account of the hard-hitting novel coronavirus pandemic. Meanwhile, agricultural GDP is estimated to grow between two and three percent in 2020, in large part driven by soybeans. Soybeans account for more than a quarter of total agricultural GDP in Brazil. (For more in-depth discussion on pandemic's impact on Brazil's agricultural sector see June 16 GAIN report: Brazilian Agricultural Sector Thrives Despite COVID-19 Pandemic).

This season, Brazil's record harvest of 123 MMT coincided with the surge in demand on the back of sharp devaluation of the Brazilian currency, the real (BRL). With economic turmoil roiling the country, the BRL shed 32 percent of its value against the USD from the start of the year through mid-May. A weak real means that Brazil's agricultural commodities are in effect on fire sale for the rest of the world. (For more in-depth discussion on the devaluation of the real and its impact on Brazil's agricultural exports see [April 15 GAIN report: Brazilian Commodity Prices Hit Record Levels]). According to the Ministry of Economy's Foreign Trade Secretariat (SECEX), agricultural exports hauled in US$36 billion between January and May 2020, with soybeans accounting for over US$16 billion of that total. For comparison, agricultural exports stood at US$34 billion, and soybeans at US$ 12 billion, in the same time period in 2019.

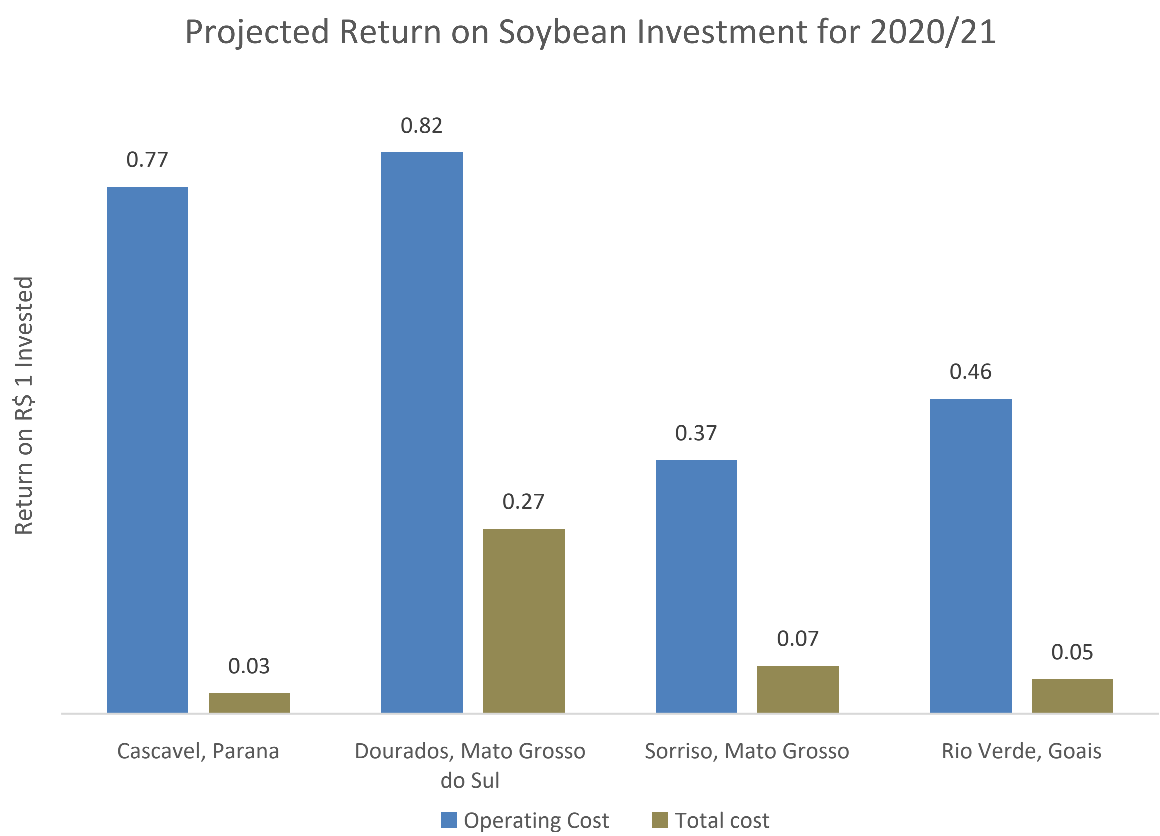
Brazilian farmers have benefitted significantly from the export boom thanks to the compound effects of depreciation. According to the Sao Paulo University Center for Advanced Studies on Applied Economics (CEPEA) at the Luiz de Queiroz College of Agriculture (ESALQ), daily domestic soybean prices on the ESALQ/ BM&F Price Index in Paranaguá hit above R$ 98 per 60-kilogram (kg) bag in late March 2020, beating the record set in June 2016, when index price touched R$ 97.61 per 60 kg bag. Since then, prices in reals have continued to climb, surpassing R$ 116 per 60-kg bag on the ESALQ/ BM&F Price Index in Paranaguá in mid-May. To put this into perspective, producers had started the season expecting prices somewhere in the R$ 80-90 per bag range, which would have still turned a profit.



Source: CEPEA

Producers are fairly confident that high prices and correspondingly robust global demand for Brazilian soybeans will continue to hold. According to the consulting firm DATAGRO, as of early June, Brazilian producers sold over 33 percent of their anticipated 2020/21 production, more than double the sales of next season's crop at this time last year, and more than three times the 9.6 percent sold for the five-year average. Meanwhile, IMEA indicates that by mid-June, producers in Mato Grosso had forward contracted 41.5 percent of their 2020/21 harvest, well-above the 19.5 percent sold at this time last year. This means that, generally, producers have sold enough of their crop to cover their costs.

According to the research by CEPEA in partnership with the Agricultural Federation (CNA), although the weak real translates into higher input cost, record soybean prices in BRL should translate into robust returns for producers in 2020/21. For example, the joint CEPEA-CNA Campo Futuro project found that in the Center West region, soybean growers who purchased inputs in March-April 2020 and sold soybeans in the first four months of this year for delivery in March-May 2021, should expect excellent returns (pending 2020/21 production at about five-year average yield). According to the Campo Futuro calculations, for every BRL spent on operating costs, producers in the Dourados municipality in the center west state of Mato Grosso do Sul, can expect R$ 0.82 in profit. Although farmers in Sorriso, Mato Grosso would see returns of less-than-half – R$ 0.37 in profit – sector analysts still point to this margin as being above average. The total cost takes into account operating costs, plus depreciation and remuneration of invested capital.



Data Source: CEPEA. The returns on operating cost and total cost are calculated based on average FOB Paranaguá price recorded in the first four months of the 2020 for deliveries contracted for March-May 2021.

The broader market indicates that financing for the 2020/21 season should not present a problem. Across the country, producers generally have plenty of capital from this year's record profits. Based on conversations with interlocutors in Bahia and Mato Grosso, Post believes that if traders were to reign in seed and chemical swaps for future production volumes, private bankers would not hesitate to step into the agriculture space. Post contacts in Sao Paulo have confirmed this sentiment, particularly because agriculture is the lone bright spot in the broader economy. In addition, banks are reassured by data from the beginning months of the pandemic, which indicates that field, road, and port infrastructure have continued to function with only minor disruptions pointing to a way forward for the next season should the pandemic persist. The government's Plano Safra, a package of measures and policies designed to support agriculture will be available to smaller producers with loans subsidized and backed by the government.

All that said, given the scale of the pandemic and economic upheaval, some producers may be squeezed out of operations leading to a reduction in planting on the margins. The risk is elevated in the state of Rio Grande do Sul, where farmers lost about half of their expected harvest in the 2019/20 season and therefore may have less resources for expansion. Campo Futuro research highlights that the weak real to date has worked in Brazilian farmers' favor. However, in a volatile exchange rate market, some producers may end up not able to lock in favorable prices for the necessary inputs, resulting in either smaller area planted, or less use of inputs with subsequent poorer yields.

Finally, there is some risk of a potential La Niña season. In late June, the National Oceanic and Atmospheric Administration (NOAA) estimated the likelihood of a La Nina season at 40-50 percent and this may push some producers to be more conservative in planting area than they otherwise would be.

Production Estimate Bumped Down for 2019/20

Nationwide, the 2019/20 harvest completed in mid-June, with the last beans picked in the Northeast and the South of the country. Post maintains 2019/20 planted area at 37 million ha, with a 500 thousand MT downward revision to the production estimate for the 2019/20 season to 123 MMT. Despite the smaller than initially anticipate crop, this is still a record harvest for Brazil.

Estimates at the start of the season pointed to a harvest of as much as 126 MMT, but poor weather in Brazil's third-largest producing state of Rio Grande do Sul has cut yields and production estimates for the state nearly in half. Producers in the northeast region also saw adverse weather early on in the season, and some had to replant their crop. However, after January, the weather normalized, and yields came in about average for the season. Some states in the Northeast, including Tocantins and Maranhão, posted record productivity. Brazil's headline volume was boosted by record yields and output in top producing state of Mato Grosso and the second-largest producing state of Parana, as well as more broadly in the center west and south east regions of the country.

Region/ State	2019/20 Soybean Harvest		
	Area (mn ha)	Yield (kg/ha)	Production (mn t)
Center West	16,625	3.59	59,691
MT	9,900	3.55	35,100
MS	3,000	3.67	11,000
GO	3,650	3.64	13,300
Other (DF)	75	3.88	291
South	12,060	2.91	35,100
PR	5,490	3.79	20,800
RS	5,900	2.03	12,000
Other (SC)	670	3.43	2,300
North East	3,432	3.32	11,404
BA	1,620	3.64	5,900
MA	1,000	3.10	3,100
PI	810	2.96	2,400
Other (AL)	2	1.75	3.5
South East	2,700	3.78	10,200
MG	1,600	3.94	6,300
SP	1,100	3.55	3,900
North	2,150	3.07	6,600
TO	1,100	3.09	3,400
Other (RR, RO, AC, AM, AP, PA)	1,050	3.05	3,200
BRAZIL	**36,967**	**3.327**	**122,995**

Source: Post Brasilia estimates

SOYBEAN TRADE

Record Soybean Exports Forecast in 2020/21

Soybean exports in the 2020/21 (February 2021 to January 2022) marketing year (MY) are forecast at 84 MMT, topping the previous record set in the 2017/18 MY when Brazil exported 83.7 MMT. The forecast is based on available supplies and an extremely favorable exchange rate. Post anticipates continued weakness of the domestic currency, amid the expected sluggish economy grappling with aftereffects of the global coronavirus pandemic. As of mid-June, the Brazilian government forecasts GDP to shrink 7 percent in 2020. Meanwhile, the market expectation is that the Brazilian real will continue to trade at above R$ 5 to the USD in 2020 and in 2021.

The Post export forecast assumes that global demand for soybeans will not see a severe downturn connected with the coronavirus pandemic. Unlike a multitude of other sectors, soybean consumption has limited elasticity. In China and Europe – key soybean importers – despite the economic slowdown, meat consumption is not likely to suffer a dramatic downturn. China is expected to remain the top importer of Brazilian soybeans, notwithstanding the Phase One trade deal between Washington and Beijing that was announced in mid-December 2019.

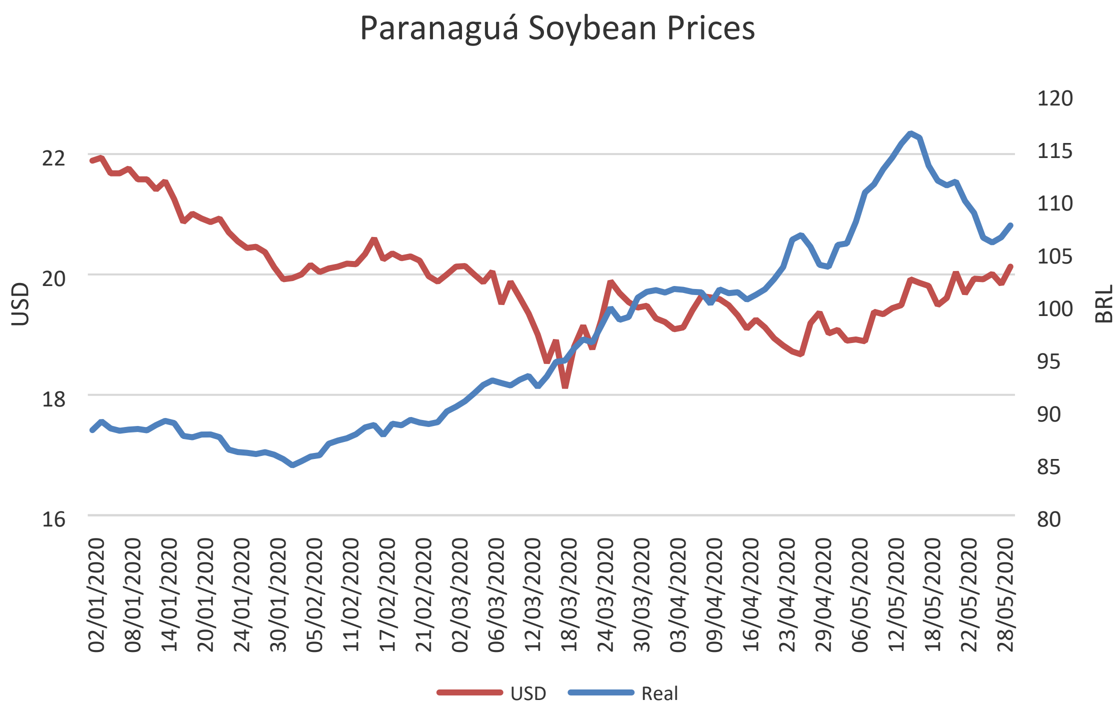
Several factors will impact Brazil's export performance in 2020/21 including exchange rate variability, global supplies and carryover stocks, and U.S.-China trade.

2019/20 Soybean Exports Boom Facilitated by Infrastructure

For the current 2019/20 (February 2020 to January 2021) season, Post revised up the soybean export estimate by one MMT to 78 MMT. At the start of the MY, market expectations were for exports to stand somewhere around 73 MMT. Since then, Brazil topped all predictions in the first half of the season on the back of exceptional demand from China.

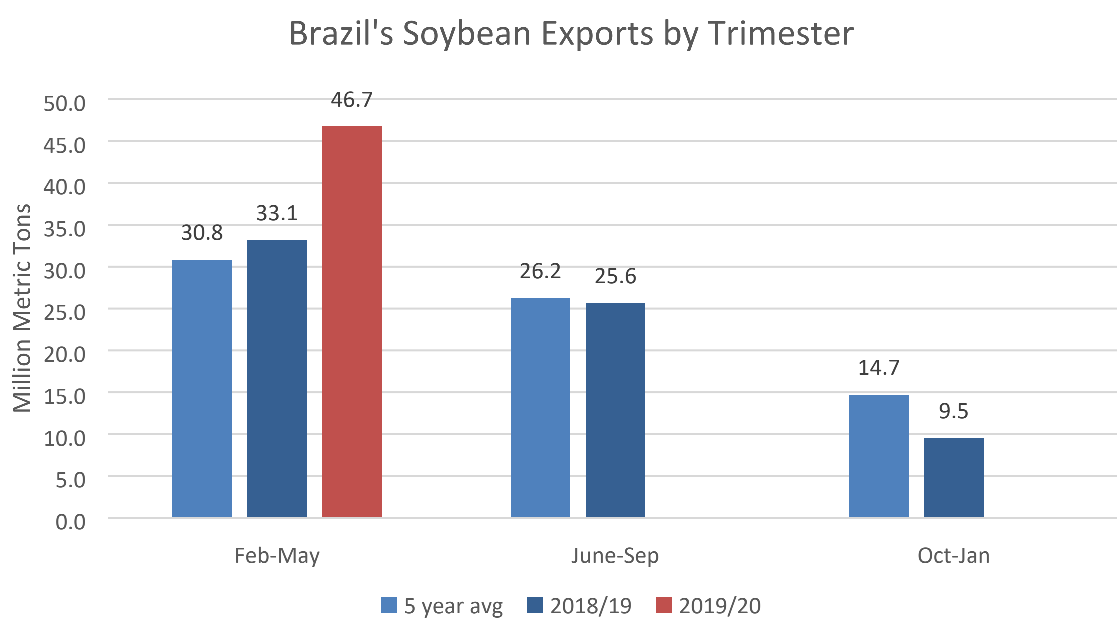
China has long been the main buyer of Brazilian soybeans, with that trend strengthening in the wake of U.S.-China trade tensions that broke out in 2018. In 2019, 79 percent of Brazilian soybeans were shipped to China. Over the last two years, Chinese crushers often sourced from Brazil because its massive supplies of soybeans were the only viable alternative to the U.S. supply. On the surface, 2020 has not looked that much different from the previous two years. In May, Brazil's soybean exports hit a monthly record high of 15.5 MMT, with over 70 percent of that volume heading to China. Yet, market sources indicate that in 2020 China's purchases of Brazilian soybeans were likely driven less by its trade tensions with the United States, and more by the impact of the Covid-19 pandemic.

First, the uncertainty generated by the pandemic likely enticed buyers and traders to move the beans as fast as possible to avoid potential future disruptions on shipping routes. There was a particular worry for Brazil, where infrastructure-related disruptions are viewed as the Achilles heel of agricultural exports. Second, as mentioned in the opening section of this report, the real has lost a third its value through mid-May, which in turn boosted the price competitiveness of Brazilian soybeans. The chart below shows that the FOB Paranagua soybean price in USD only decreased by about nine percent from USD$ 22 per 60-kg sack of soybeans at the start of the year, to around USD$ 20 /sack at the end of May. For comparison, the prices in BRL rose by almost 30 percent from R$ 85 to R$ 110 in the same timeframe.



Data Source: CEPEA

China's seemingly insatiate demand for Brazilian soybeans has been the main headline, but perhaps, the real surprise of this MY has been the remarkable performance of Brazilian transportation networks, which enabled this boom. From February through May 2020, Brazil shipped almost 47 MMT of soybeans, or over 40 percent more, than in the same timeframe last year, as well as, in the five-year average for this time period.



Data Source: SECEX

This breakneck export pace is reflected in port shipping statistics. Brazil's largest port located outside of Sao Paulo is Santos, which loaded a record 4.6 MMT of soybeans in April, up 68 percent year-over-year. Similarly, at the port of Paranaguá, located in Brazil's southern state of Parana, traders shipped 2.4 MMT of soy and soybean products in May 2020, twice the 1.2 MMT loaded in the same month of 2019. In the first five months of the year, 9.6 MMT of soybeans and soybean products were exported from Paranaguá, 33 percent more than shipped in the same period last year. In May 2020, the number of ships docked at the Paranagua port almost doubled from the same month last year to 39 from 22, because the waiting time of the vessels decreased while and the productivity of the berths increased. According to Port's statistics, the time it took a ship to load dropped from an average of 2.9 days to 2.2 days. The volume handled jumped from 801 tons/hour to 1,138 tons/hour.

Containment of coronavirus has been key to the Brazilian ports' performance. Early on in the pandemic, rumors of a strike at Santos forced the government and private industry to come up with an enhanced protection and mitigation protocol to ward off coronavirus outbreaks (for more discussion on this see April 2020 Oilseeds and Product Annual GAIN Report). At the port of Santos managers also developed contingency plans to hire contracted workers if absenteeism puts operations at risk. Across Brazil, ships are quarantined if any crew member tests positive for COVID-19. Although there have been sporadic reports of workers testing positive for coronavirus at various export terminals of Brazilian ports, as of late June there were no reports of contagion. Post contacts confirm that so far port operations have not been disrupted by the pandemic.

Just as important, Brazil's truckers have continued to deliver soybeans to ports despite various states of shutdown on roads and supporting infrastructure implemented by state governments across Brazil. Early in the pandemic, numerous truck stops, gas stations, and roadside restaurants were shuttered by regional and local government decrees, leading to reports of somewhat lighter truck traffic as some drivers chose to stay off the road. To coax truckers to continue transporting agricultural commodities to export facilities, the Brazilian Soybean Crushers Association, (Abiove), announced in April that it would distribute snack kits to truckers along the country's major highways for the duration of the COVID-19 quarantine period. The kits are being handed out at the association members' 158 yards and 70 other facilities.

DOMESTIC CONSUMPTION & PROCESSED PRODUCTS

Soybean Crush Forecast for 2020/21

Post forecasts 44.5 mmt of soybeans will be destined for processing in the 2020/21 MY, an increase of just over one percent on the 2019/20 estimate. The forecast expansion is below the five-year average growth rate of 1.8 percent annually. The slower expansion is forecast based on slow economic recovery leading to similarly anemic domestic demand for soy meal, and only a tepid increase in demand for soy oil. Weak domestic demand will be cushioned to a degree by strong exports, due to the continuing weakness of the real.

Post forecasts 2020/21 soybean meal production at 34.5 MMT. Domestic soymeal consumption is forecast to increase just over one percent next season to 18.1 MMT. Post anticipates domestic meat consumption to remain subdued in 2021 due to the aftermath of the coronavirus and the economic morass. Soybean meal exports are forecast to decrease to 16.5 MMT, down from 16.7 MM in the current season. The impact of the weak real will be counterbalanced by the likely return of Argentina to the world soybean product market.

For next MY, Post forecasts soy oil production at 8.7 MMT. Domestic oil consumption is expected to increase to 8 MMT, up from 7.7 MMT in the current season. The forecast increase in consumption is almost based entirely on the expectation of rising demand for biodiesel driven by higher blending mandates. According to the regulator National Oil, Gas and Biofuels Agency (ANP), each percentage increase in the blend rate represents about 600 million liters of additional biodiesel production annually. ANP estimates that Brazil produced 5.9 billion liters of biodiesel in 2019, an increase of more than 10 percent on 5.35 billion liters produced in 2018. Abiove indicates that this year, output may reach seven billion liters.

2019/20 Crush Estimate Driven by Soy Oil Demand

Post maintains the 2019/20 crush estimate at 44 MMT of soybeans. Post estimates oil output at 8.6 MMT, and meal production at 34.1 MMT. The crush estimate is driven mostly by domestic industrial demand for soy oil. In Brazil, soy oil is the main ingredient used in the production of biodiesel. In recent years, biodiesel output surged to meet government-mandated annual biodiesel blend rate hikes.

Despite the sharp contraction in economic activity, domestic demand for biodiesel has dipped only slightly. In fact, on June 16, the ANP imposed a temporary, one-week reduction in Brazil's blending rate to 10 percent, down from 12 percent. The stopgap measure was necessary to prevent a shortage of biodiesel in Brazil. ANP noted that the consumption of diesel fuel remained robust despite the social distancing measures and economic slump on account of the coronavirus pandemic. This is in large part because the country's commercial trucks run on biodiesel. As discussed in the previous section, Brazil's trucks have continued to deliver soybeans to ports amid the pandemic.

Post estimates domestic meal consumption for 2019/20 at 17.9 MMT a slight decrease as compared to 18 MMT consumed in 2018/19. The contraction is estimated based on changing dynamics in Brazil's livestock sector. Due to the economic downturn, domestic meat consumption is expected to fall, with beef seeing the most severe impact, but pork and poultry also leveling off as some consumers switch to cheaper protein alternatives, such as eggs and beans. A decrease in domestic meat consumption will be mostly counterbalanced with an increase in meat exports. Overall, Post estimates that beef production this year will be below 2019, while pork production will remain relatively flat, and chicken output will rise moderately.

On the export side, both soy oil and soybean meal shipment are, so far, exceeding expectations from the start of the season. This correlates with extremely strong soybean sales and is not surprising given the weak real. In addition, demand for Brazil's soybean products has also been stoked by export disruptions from Argentina, the global leader in soybean product exports.

Brazil's Soybean and Soy Product Exports in the First Trimester of MY (Feb-May) (in million metric tons)			
	soybean	**soybean meal**	**soy oil**
5-year average	30.82	5.32	0.464
2018/19	33.14	5.37	0.402
2019/20	46.7	5.88	0.445

Data Source: SECEX

The high domestic demand for soy oil will likely have a knock-on effect on the export market. Post estimates soy oil exports at 800 thousand MT for 2019/20, as compared to one MMT recorded in the previous season. In contrast to oil, Post estimates that soybean meal exports will rise in 2019/20 to 16.7 MMT, from 16.5 MMT in the previous season. The estimate is based on available supply.

Oilseed, Soybean (Local)	2018/2019		2019/2020		2020/2021	
Market Begin Year	Feb 2019		Feb 2019		Feb 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	36200	36200	37000	36900	38300	38500
Area Harvested	35900	35900	36900	36900	38300	38500
Beginning Stocks	2652	2652	2752	2752	3100	2500
Production	119000	119000	124000	123000	131000	130000
MY Imports	145	145	245	245	150	150
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	121797	121797	126997	125997	134250	132650
MY Exports	73445	73445	77000	78000	83000	84000
MY Exp. to EU	3400	3400	3500	3500	3500	3500
Crush	43400	43500	44250	44000	45000	44500
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	2200	2100	2647	1497	2650	1500
Total Dom. Cons.	45600	45600	46897	45497	47650	46000
Ending Stocks	2752	2752	3100	2500	3600	2650
Total Distribution	121797	121797	126997	125997	134250	132650
CY Imports	144	136	245	150	150	0
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	74073	74595	77000	74600	83000	83000
CY Exp. to U.S.	0	0	0	0	0	0
Yield	3.3148	3.3148	3.3604	3.3333	3.4204	3.3766
1000 HA, 1000 MT, MT/HA						

Meal, Soybean (Local)	2018/2019		2019/2020		2020/2021	
Market Begin Year	Feb 2018		Feb 2019		Feb 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	43400	43500	44250	44000	45000	44500
Extr. Rate, 999.9999	0.7751	0.7747	0.7763	0.775	0.7756	0.7753
Beginning Stocks	4146	4146	3482	3406	2961	2931
Production	33640	33700	34350	34100	34900	34500
MY Imports	22	22	26	25	25	25
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	37808	37868	37858	37531	37886	37456
MY Exports	16461	16462	16800	16700	16300	16500
MY Exp. to EU	8780	0	8900	0	9000	0
Industrial Dom. Cons.	0	0	0	0	0	0
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	17865	18000	18097	17900	18650	18100
Total Dom. Cons.	17865	18000	18097	17900	18650	18100
Ending Stocks	3482	3406	2961	2931	2936	2856
Total Distribution	37808	37868	37858	37531	37886	37456
CY Imports	23	25	25	25	25	25
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	16682	16625	16800	15200	16300	16300
CY Exp. to U.S.	0	0	0	0	0	0
SME	17865	18000	18097	17900	18650	18100
1000 MT, PERCENT						

Oil, Soybean (Local)	2018/2019		2019/2020		2020/2021	
Market Begin Year	Feb 2018		Feb 2019		Feb 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	43400	43500	44250	44000	45000	44500
Extr. Rate, 999.9999	0.1919	0.1931	0.1921	0.1955	0.192	0.1955
Beginning Stocks	369	369	400	365	420	490
Production	8330	8400	8500	8600	8640	8700
MY Imports	35	35	50	50	30	0
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	8734	8804	8950	9015	9090	9190
MY Exports	1014	1014	1070	800	1050	800
MY Exp. to EU	0	0	0	0	0	0
Industrial Dom. Cons.	3594	3700	3685	3950	3850	4200
Food Use Dom. Cons.	3726	3725	3775	3775	3800	3800
Feed Waste Dom. Cons.	0	0	0	0	0	0
Total Dom. Cons.	7320	7425	7460	7725	7650	8000
Ending Stocks	400	365	420	490	390	390
Total Distribution	8734	8804	8950	9015	9090	9190
CY Imports	48	50	50	0	30	0
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	1041	1040	1050	950	1050	0
CY Exp. to U.S.	0	0	0	0	0	0
1000 MT, PERCENT						

Attachments:

No Attachments