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Brazil

Grain and Feed Annual

Corn Production Forecast Grows on Expanded Safrinha Area and Good Weather Conditions

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Report Highlights:

MY 18/19 corn production is forecast at 95 MMT, 18 percent higher than MY 17/18, on expanded area and excellent conditions for the safrinha crop. MY 19/20 production is forecast to grow to 97.5 MMT. MY 19/20 rice production is forecast to increase to 7.82 MMT on a return to trend yields, despite a static forecast for area. MY 19/20 wheat production is expected to grow to 6 MMT, on expanded crop area, incentivized by strong domestic wheat prices. At the same time, the eventual implementation of a duty-free wheat TRQ should help boost U.S. wheat exports to Brazil.

Corn

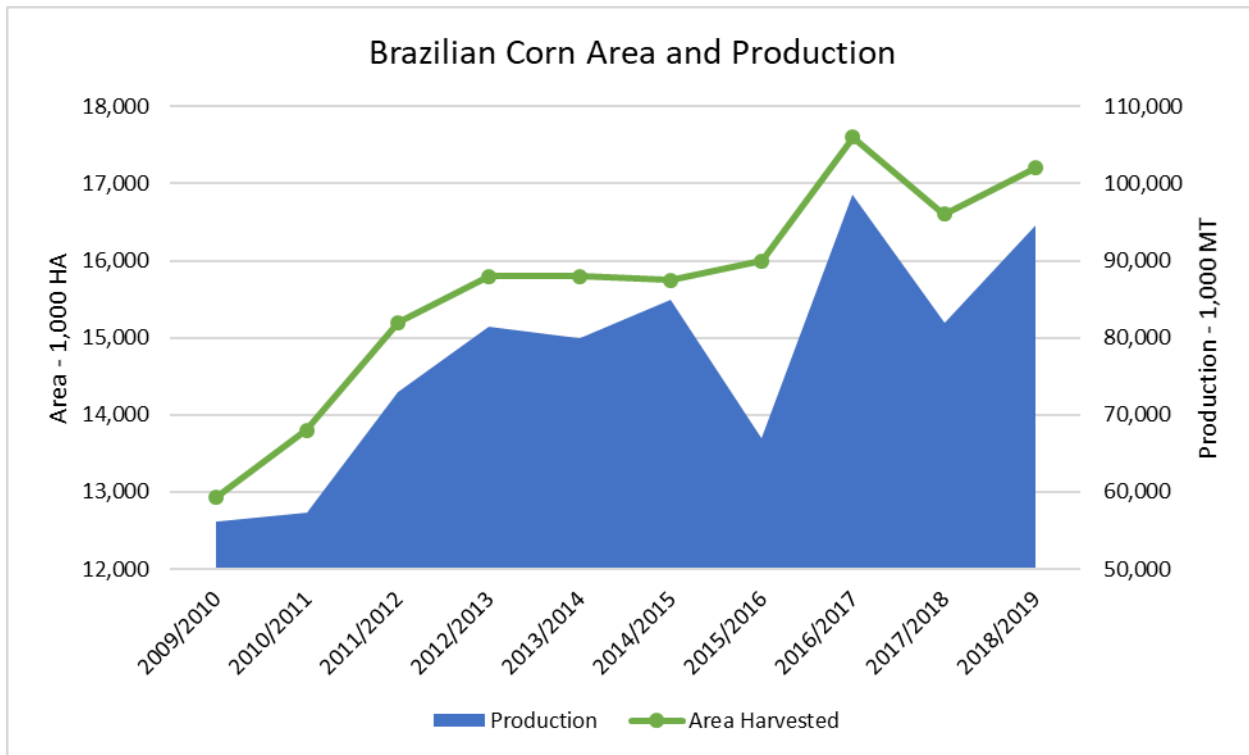
Corn Market Begin Year	2017/2018		2018/2019		2019/2020	
	Mar 2018		Mar 2019		Mar 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Brazil						
Area Harvested	16600	16616	17200	17500	0	18000
Beginning Stocks	14019	14019	7119	6064	0	4564
Production	82000	80710	94500	95000	0	97500
MY Imports	1000	915	1000	1000	0	1000
TY Imports	943	900	1000	1000	0	1000
TY Imp. from U.S.	1	0	0	0	0	0
Total Supply	97019	95644	102619	102064	0	103064
MY Exports	25400	25080	29000	30000	0	32000
TY Exports	25142	25000	29500	27000	0	30000
Feed and Residual	55000	55000	56000	56000	0	57000
FSI Consumption	9500	9500	10500	11500	0	12500
Total Consumption	64500	64500	66500	67500	0	69500
Ending Stocks	7119	6064	7119	4564	0	1564
Total Distribution	97019	95644	102619	102064	0	103064
Yield	4.9398	4.8574	5.4942	5.4286	0	5.4167

(1000 HA) ,(1000 MT) ,(MT/HA)

Corn Supplies

Market year (MY) 2018/2019 (March 2019 – February 2020) corn production is forecast at 95 million metric tons (MMT), 18 percent higher than MY 2017/2018 production, which was hindered by severe dryness during the second-crop “safrinha” growing season. The increase is also due to expanded area for safrinha corn, with total MY 2018/2019 corn area forecast at 17.5 million hectares, 5 percent greater than MY 2017/18. 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 (by about February 20 in Mato Grosso and March 10 in Parana). This will help optimize crop development before the dry season begins. The early planting is in contrast to the MY 2017/2018 safrinha crop, which was planted later and as a result experienced the brunt of the center-west region’s prolonged dry season, as well as suffering from reduced investments in crop inputs as farmers were did not want to devote more resources on a crop they already feared would fail. For the MY 2018/2019 season, farmers are expected to invest more to try to maximize yields, take advantage of the currently high domestic corn prices, and claw back some losses from a disappointing soy season.

Market year 2019/2020 production is forecast to expand further still, with 18 million hectares of corn harvested and production forecast at 97.5 MMT. While first-crop corn area is expected to decline yet again in MY 2019/2020, safrinha area is expected to grow, offsetting any first-crop area losses. 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 Brazil’s center-west region, with climate conditions to support production of two crops in the same year, has lead to the rapid growth in safrinha corn area.

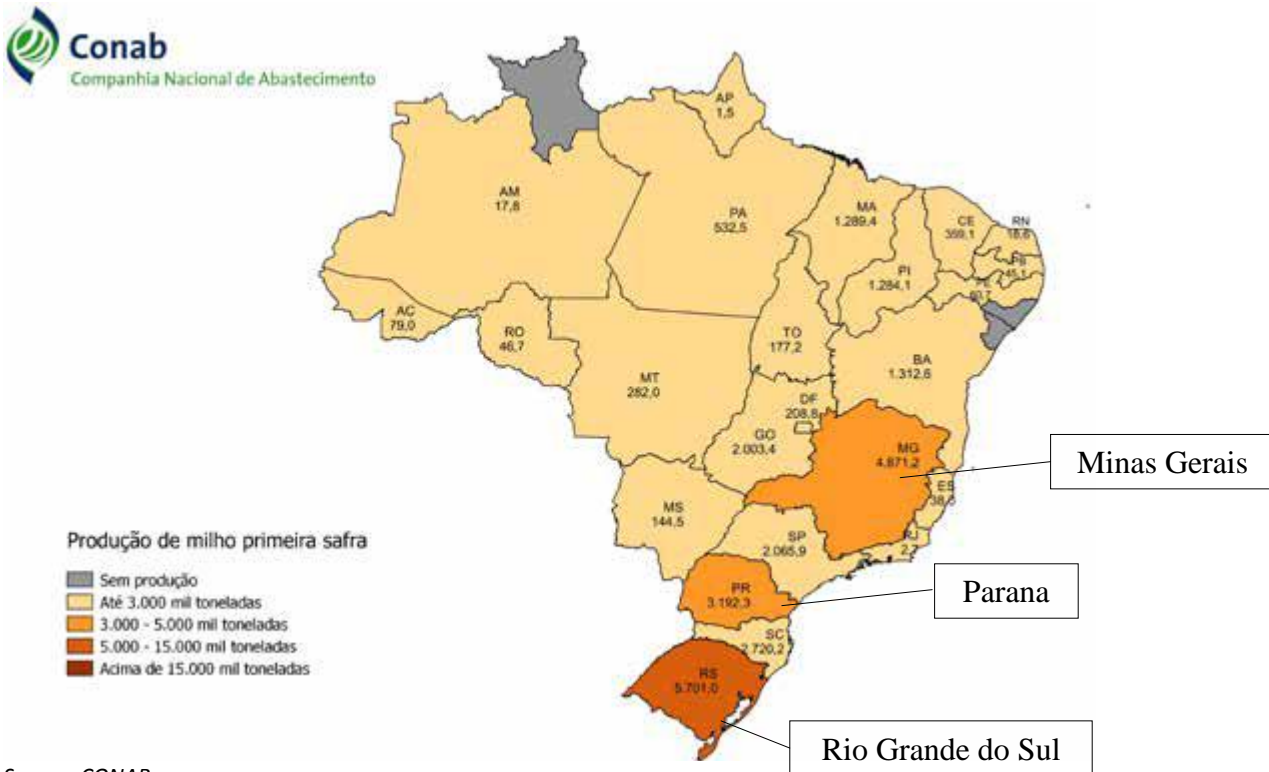


Date Source: USDA/FAS PSD Online

The state of Mato Grosso is Brazil’s largest corn producer, responsible for roughly one-third of total Brazilian production in MY 2017/2018, almost entirely from second-crop corn planted after the soybean harvest. Soybeans account for the overwhelming majority of first-crop production in Mato Grosso, while second-crop production includes corn, cotton, edible beans, and pasture grass for cattle grazing. While some farmers are opting to switch to higher-priced cotton as a second crop in the center-west, most do not have the specialized equipment or capital for pricy inputs needed to produce cotton. The high profitability of corn, relative ease of commercialization, lower input investment compared to cotton, and the fact that farmers can largely use the same equipment as soy for corn planting and harvesting, mean that corn will remain the dominant second crop by far for years to come.

Mato Grosso is followed by the southern state of Parana, which produced 14.6 percent of the MY 2017/2018 national harvest, 80 percent of which came from planting safrinha corn. The state of Parana has more diverse climatic conditions than the center-west, enabling some farmers to begin planting five crops on the same land in a two-year period, including soy, safrinha corn, beans, first-crop corn, and wheat. In MY 2017/2018, the third and fourth largest corn producers were the states of Goias and Mato Grosso do Sul, accounting for 10 percent and 8 percent of the national harvest, respectively.

First-Crop Corn Production

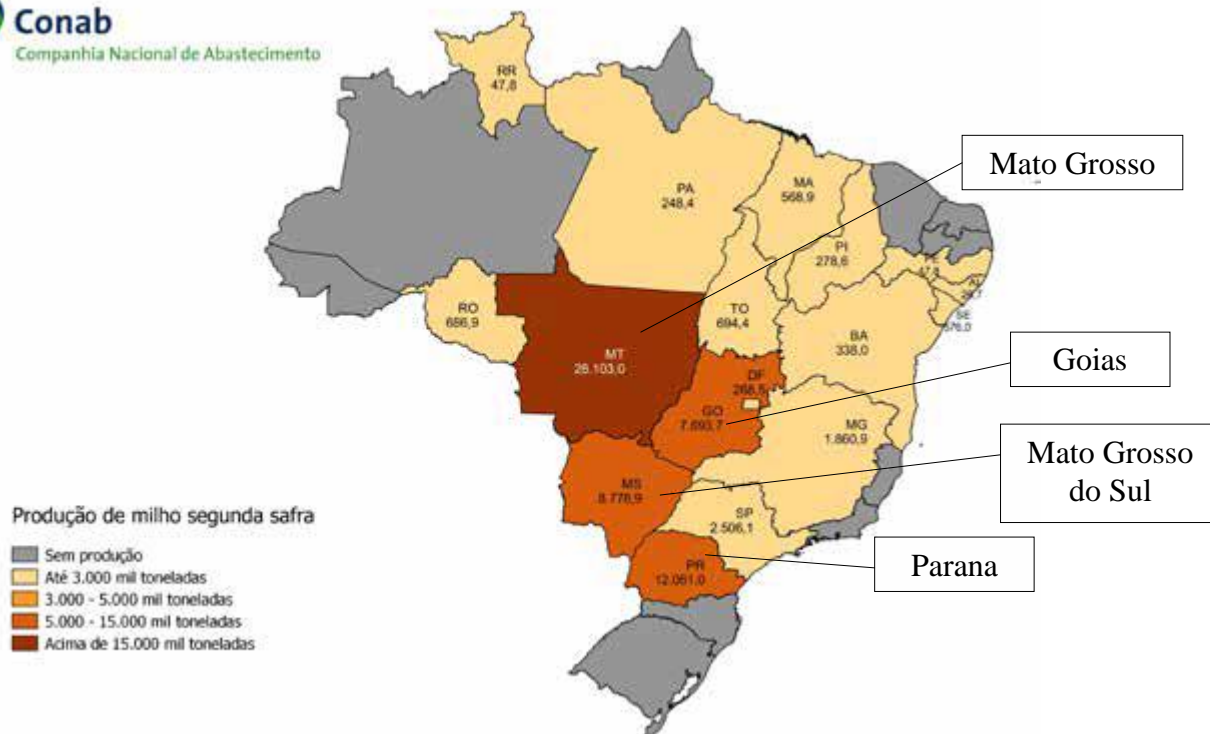


Source: CONAB

Safinha corn, so-called in the past because it was the “little harvest” has grown to account for the majority of Brazilian corn production. According to CONAB, 66 percent of total production came from safrinha corn in MY 2017/2018, even considering the decreased yields caused by dry weather in some parts of the country. For MY 2019/2020, CONAB forecasts that safrinha corn will account for 72 percent of total corn production. This has become a problem for poultry and swine producers, who traditionally have relied on first-crop corn grown in southern Brazil as a large part of feed rations. Meanwhile, safrinha corn, grown far from most poultry and swine operations, makes up a bulk of Brazil’s exports each year. Poor infrastructure connections and the high price of transporting safrinha corn from the center-west have meant that livestock and poultry operators in southern Brazil are increasingly turning to corn imports for feed rations, which is ironic in a country that produces such great volumes of the grain.

The profitability of corn is more pronounced in southern Brazil, since producers in that region are significantly closer to the large swaths of the poultry and livestock sectors, as well as port facilities for exports. They pay far less for the transport of imported inputs to the farm and can get a higher price for outbound commodities. For this reason, corn in Parana has a higher profitability ratio than in Mato Grosso, where it must be significantly discounted due to the high cost of transportation in that region.

Second-Crop “Safrinha” Corn Production



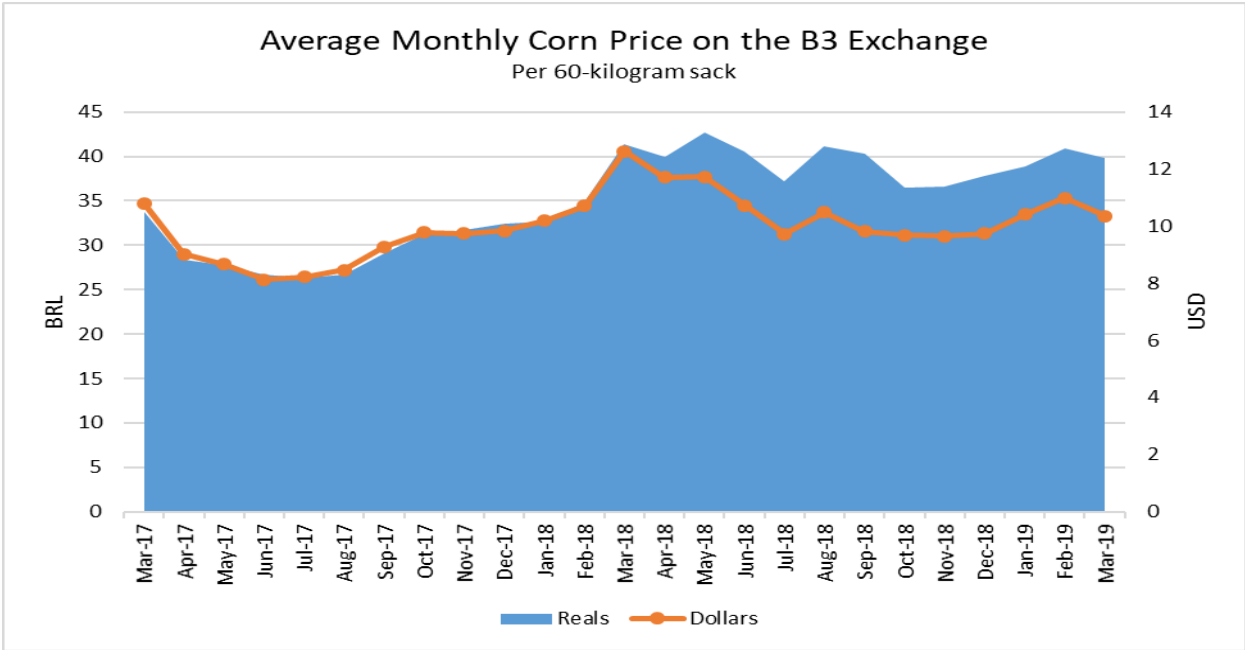
Source: CONAB

Corn Trade

Market year 2018/2019 exports are forecast at 30 MMT, 20 percent higher than MY 2017/2018, based on the forecast for abundant supplies from safrinha corn production. The large expected crop will likely push prices lower after the harvest begins in June, making Brazilian corn even more competitive on the international market. However, infrastructure challenges and new taxes may constrain the corn export potential this season. Market year 2019/2020 exports are forecast at 32 MMT, based on the expectation of expanded production next season.

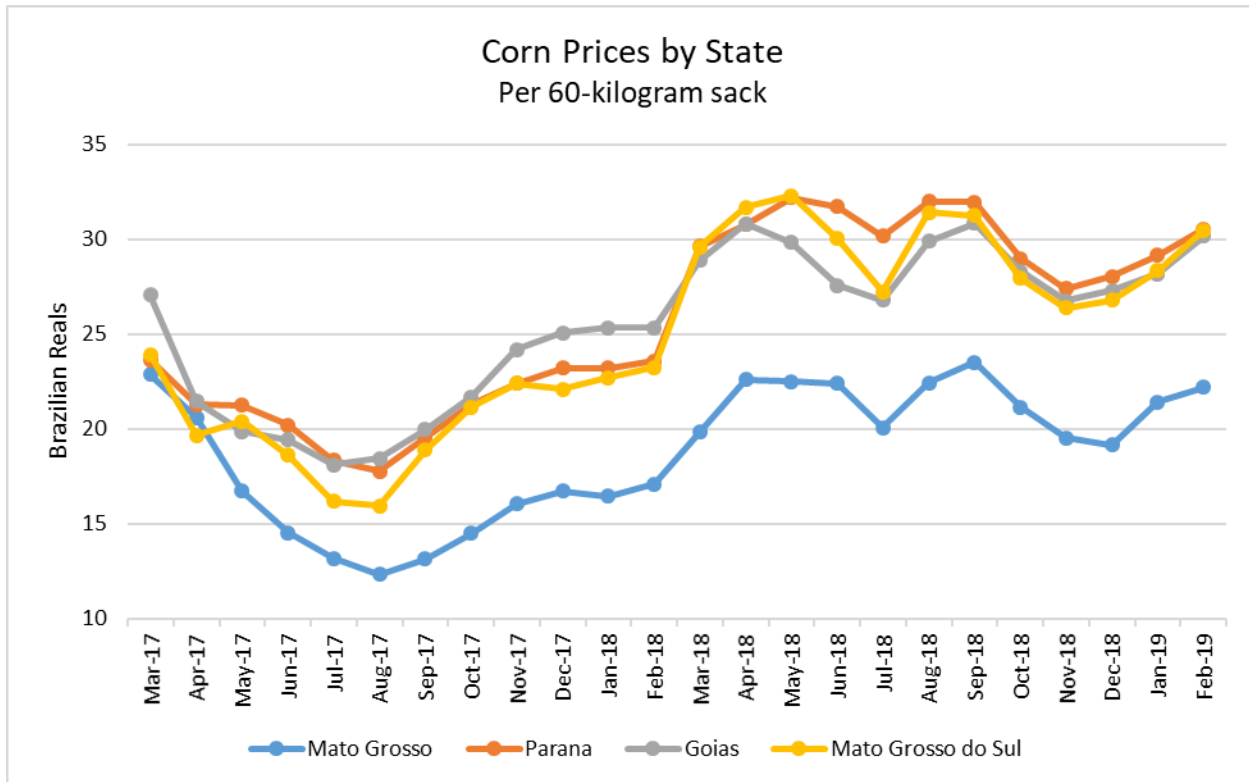
Safrinha corn, largely produced in Brazil's center-west region, has traditionally made up the bulk of Brazil's corn exports. However, these corn supplies face steep logistical challenges and freight rates significantly higher than corn produced in coastal states like Parana. Close of half of safrinha corn in MY 2017/2018 was produced in the state of Mato Grosso, which lies at the geographic center of the continent of South America, making transport to oceangoing vessels very difficult. Corn produced in Mato Grosso must be transported great distances by truck before it can be loaded onto railways, barges, or cargo ships. An increasing share of Mato Grosso's exports are trucked north into the state of Parana, where it can be loaded on barges on a tributary of the Amazon River. The corn then travels overwater toward coastal cities like Belem, where it can be transferred onto oceangoing vessels. This route presents cost savings for corn produced in the northern half of Mato Grosso, but the trucks carrying the grain still must traverse the two-lane BR-163 highway through isolated territory on a journey of roughly 1,000 kilometers.

The BR-163 highway has provided an outlet for soy and corn exports through Northern Arc ports, but the road regularly becomes impassible during the rainy season when a 50-mile unpaved stretch becomes too muddy to traverse. That happened again in early March, leaving thousands of truck drivers stranded with soybean cargoes unable to reach the river port terminals for nearly a week. The Brazilian government has repeatedly promised to complete work on the small stretch of BR-163 that remains unpaved, and the new Brazilian government has also promised to get the job done this year. However, only time will tell whether 2019 is the year the remote, unpaved stretch of BR-163 will be covered in asphalt. Meanwhile, large grain traders are exploring a joint venture to bid on the concession to maintain BR-163, as well as build a “grain” railway parallel to the road. According to press reports, Amaggi Group, ADM, Bunge, and Louis Dreyfus teamed up to commission a study on the potential project and are engaging Brazilian authorities responsible for putting the road and rail concessions up for auction.



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

At the same time, Mato Grosso corn producers are seeing production costs rise this season due to a new export tax imposed in February by the state government. In January, the new governor of Mato Grosso declared the state to have a “fiscal calamity” and implemented a new State Fund for Transport and Housing tax (FENTHAB, in Portuguese). The tax had previously been applied to other agricultural commodities leaving the state for export or sale to buyers in other Brazilian states. However, the state government also began levying the tax on corn as of February. According to the Mato Grosso Institute of Agricultural Economics (IMEA), a 6-percent FENTHEB tax is being collected on each ton of corn leaving the state. Along with the increased cost of transportation and an unfavorable exchange rate from the weakening Brazilian real, the cost of corn production in Mato Grosso has increased 7.15 percent over last year, according to IMEA.



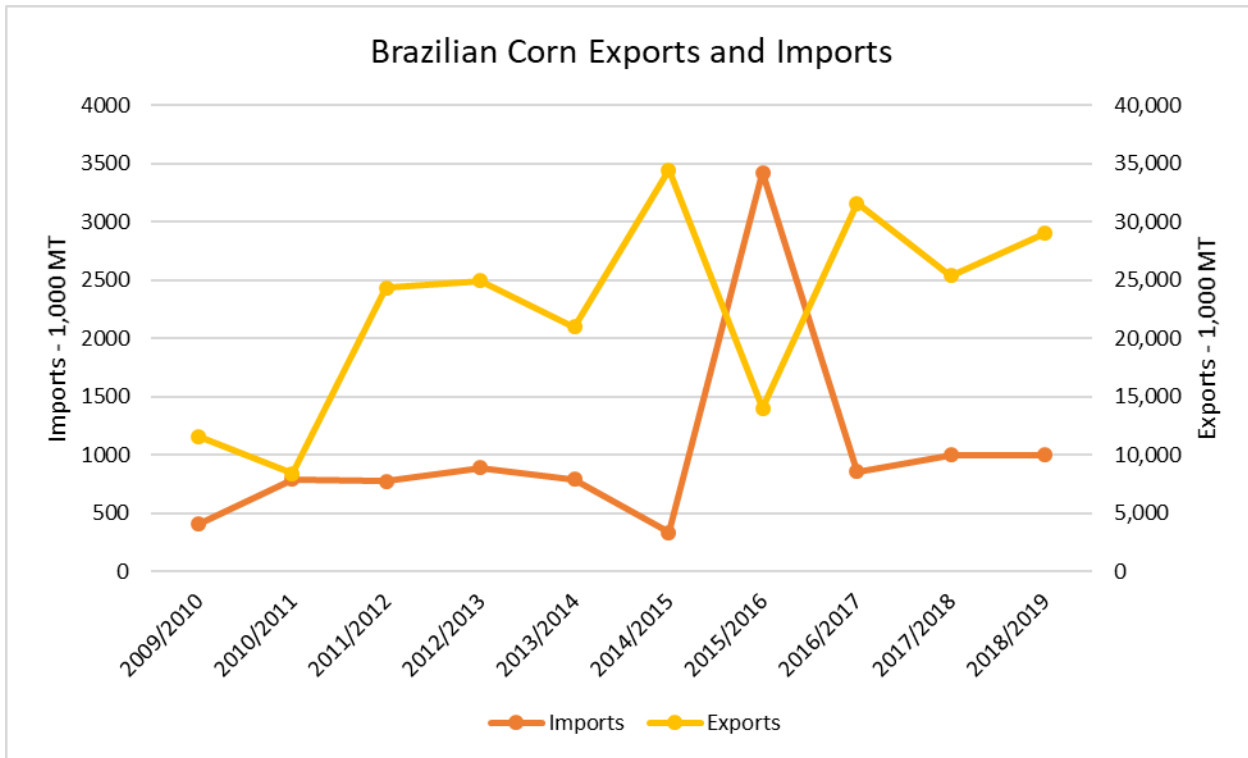
Date Source: CONAB

Market year 2018/2019 imports are forecast at 1.0 MMT, up 9 percent from MY 2017/18. Most Brazilian corn imports come duty-free from nearby MERCOSUL members, Paraguay and Argentina. The shrinking of Brazil’s first-crop corn area, compounded this year by the dry weather conditions, has resulted in unmet domestic demand by the livestock and poultry sector in southern Brazil. While Brazil on the whole 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 where the poultry and pork industries have traditionally been concentrated.

Corn prices rose through late 2018 and into early 2019, reaching a five-month high in February, as the first-crop corn harvest has been smaller than hoped. Average prices in February in both Mato Grosso and Parana were 30 percent higher year-over-year, according to CONAB data. This has squeezed poultry and livestock producers who depend on first-crop corn for feed rations. In response, MAPA announced in mid-March that it would auction up to 500,000 MT of public corn stocks, with an initial 300,000 MT being sold from CONAB’s warehouses in Mato Grosso. At least one large poultry producer also reportedly procured two shipments of Argentine corn in February to supply operations in southern Brazil.

The southern state of Santa Catarina, home to some of Brazil’s largest poultry and swine operations in the western part of the state, only produces about half as much corn as the industry requires for feed. Thus, the poultry and livestock sector frequently imports corn from nearby Paraguay, as it is much less expensive to move corn overland from Paraguay than it is to transport corn domestically from high-production areas in central Brazil. To facilitate imports, the government of Santa Catarina has been working with authorities in Argentina and Paraguay to plan for the construction of a “corn route” that

would make it cheaper to procure Paraguayan corn by moving it across the sliver of Argentina that separates the two, rather than importing it via the direct Brazil-Paraguay land border in neighboring Parana state.



Date Source: USDA/FAS PSD Online

Corn Consumption

Market year 2018/2019 total consumption is forecast at 67.5 MMT, up 5 percent from MY 2017/2018. Likewise, MY 2019/2020 consumption is forecast to grow by another 3 percent, to 69.5 MMT. Brazil’s large poultry sector generally consumes a great portion of the corn crop each year. Increased feed consumption is expected in the poultry and pork sectors, with FAS/Brasilia forecasting chicken meat production to grow 1.8 percent and pork meat by 3.5 percent. Moreover, Brazil’s egg production has been soaring. The Brazilian feed rations association, Sindiracoes, estimates feed demand for laying hens grew by 10 percent in 2018 and expects it to expand further still.

At the same time, the corn ethanol industry continues to grow in central Brazil, where corn supplies are plentiful and relatively inexpensive. Post forecasts FSI corn consumption for MY 2018/2019 will be 11.5 MMT, and will grow to 12.5 MMT in MY 2019/2020. According to Brazil’s Corn Ethanol Union (UNEM), corn ethanol production for 2019 is slated to grow to 1.4 billion liters, up from 840 million liters in 2018. UNEM estimates that 3.4 million tons of corn were used to produce ethanol in 2018. The industry’s rapid expansion shows no signs of slowing, with several new corn-only ethanol plants slated to come on line in the near future. FS Bioenergia, a joint U.S.-Brazil venture that owns Brazil’s sole corn-only ethanol operation already doubled capacity at its first plant in Lucas do Rio Verde, Mato Grosso (opened in 2017). It is also advancing construction of a second plant 65 kilometers to the north in Sorriso, Mato Grosso, and recently announced an investment of 1 billion reais in the construction of a

third plant in Nova Mutum, Mato Grosso, 100 kilometers to the south of its first plant. All three plants will be located along Mato Grosso's busy BR-163 highway, making transport of ethanol and co-products easier and cheaper. At least two other companies are also working to open corn-only ethanol plants in Mato Grosso, according to press reports. There are also new flex fuel corn-sugar cane plants coming online. In total, UNEM says there are 10 Brazilian plants producing corn ethanol at least part of the year.

The increase in corn ethanol production is causing competition over corn supplies for livestock and poultry producers in central Brazil. According to press reports, the CEO of one of Brazil's largest poultry producers estimates corn ethanol plants are already consuming 10-15 percent of corn supplies in some areas. As a result, more poultry and livestock operations are ramping up their use of dried distillers' grains with solubles (DDGS), a protein-rich co-product of corn ethanol production. DDGS are reportedly competitive with soymeal as a feed ingredient, providing another option for the livestock and poultry sector and making corn ethanol even more profitable overall.

Most corn ethanol produced in central Brazil is used in that region or sold to sparsely populated states in northern Brazil. However, the operator of Brazil's only ethanol pipeline is reportedly exploring expansion of the pipeline to the center-west states of Goiás and Mato Grosso. The company is expecting ethanol demand to grow with the implementation of new biofuel incentives under the Brazilian government's RenovaBio program, expected to come into effect sometime next year. An ethanol pipeline reaching into Mato Grosso would make transport of corn ethanol out of the state much easier and cheaper, likely incentivizing even more investment in the industry. To date, Brazil has not exported any corn ethanol.

Brazil Import Statistics							
Commodity: 1005, Corn (Maize)							
Calendar Year: 2016 - 2018							
Partner Country	Unit	Quantity			% Share		
		2016	2017	2018	2016	2017	2018
World	T	2902560	1324670	924239	100.00	100.00	100.00
Paraguay	T	1465053	774665	704689	50.47	58.48	76.25
Argentina	T	1436245	548441	218851	49.48	41.40	23.68
United States	T	532	843	525	0.02	0.06	0.06
Bolivia	T	711	699	167	0.02	0.05	0.02
Spain	T	0	22	5	0.00	0.00	0.00
Mexico	T	18	0	3	0.00	0.00	0.00

Brazil Export Statistics							
Commodity: 1005, Corn (Maize)							
Calendar Year: 2016 - 2018							

Partner Country	Unit	Quantity			% Share		
		2016	2017	2018	2016	2017	2018
World	T	21873310	29265912	23566195	100.00	100.00	100.00
Iran	T	4790853	4832978	6379039	21.90	16.51	27.07
Vietnam	T	2877048	2637305	3001231	13.15	9.01	12.74
Spain	T	365585	2868389	2273856	1.67	9.80	9.65
Egypt	T	1500669	3226017	1980491	6.86	11.02	8.40
Malaysia	T	1609354	1494622	1247568	7.36	5.11	5.29
Korea South	T	1482763	1716965	1233396	6.78	5.87	5.23
Bangladesh	T	723519	1016715	1157838	3.31	3.47	4.91
Taiwan	T	1381126	1760043	663174	6.31	6.01	2.81
Portugal	T	86538	643886	655150	0.40	2.20	2.78
Algeria	T	507014	493866	650399	2.32	1.69	2.76
Morocco	T	164257	484981	631350	0.75	1.66	2.68
Saudi Arabia	T	667113	680764	579507	3.05	2.33	2.46
Netherlands	T	586943	801673	525158	2.68	2.74	2.23
Dominican Republic	T	408146	694241	416507	1.87	2.37	1.77
Jordan	T	50030	163565	271698	0.23	0.56	1.15
Ireland	T	0	329080	255557	0.00	1.12	1.08
Japan	T	2694266	2945944	247452	12.32	10.07	1.05
Indonesia	T	777504	111026	201391	3.55	0.38	0.85
Lebanon	T	284	62287	177302	0.00	0.21	0.75
Mexico	T	0	562833	130330	0.00	1.92	0.55
Cuba	T	111500	110700	115870	0.51	0.38	0.49
Italy	T	36309	235049	97266	0.17	0.80	0.41
Puerto Rico (U.S.)	T	25658	63923	96501	0.12	0.22	0.41
United Arab Emirates	T	166809	81401	88767	0.76	0.28	0.38
Kuwait	T	37758	31596	87266	0.17	0.11	0.37
United Kingdom	T	3	59006	83436	0.00	0.20	0.35
China	T	172481	17190	76111	0.79	0.06	0.32
Senegal	T	25000	0	57584	0.11	0.00	0.24
Venezuela	T	6264	179454	33710	0.03	0.61	0.14
Nigeria	T	227	405	33698	0.00	0.00	0.14
Uruguay	T	290	6	22500	0.00	0.00	0.10
Oman	T	66973	57762	17600	0.31	0.20	0.07
Peru	T	5008	11098	14711	0.02	0.04	0.06
Afghanistan	T	0	0	12817	0.00	0.00	0.05
Paraguay	T	8767	8744	8633	0.04	0.03	0.04
United States	T	117111	61060	7166	0.54	0.21	0.03
India	T	3372	3938	6919	0.02	0.01	0.03

Rice

Rice, Milled Market Begin Year Brazil	2017/2018		2018/2019		2019/2020	
	Apr 2018		Apr 2019		Apr 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1973	1972	1800	1750	0	1750
Beginning Stocks	525	525	333	413	0	203
Milled Production	8208	8208	7480	7140	0	7820
Rough Production	12071	12071	11000	10500	0	11500
Milling Rate (.9999)	6800	6800	6800	6800	0	6800
MY Imports	500	580	850	850	0	800
TY Imports	534	575	750	850	0	800
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	9233	9313	8663	8403	0	8823
MY Exports	1150	1100	700	500	0	600
TY Exports	1245	1245	800	500	0	600
Consumption and Residual	7750	7800	7700	7700	0	7900
Ending Stocks	333	413	263	203	0	323
Total Distribution	9233	9313	8663	8403	0	8823
Yield (Rough)	6.1181	6.1212	6.1111	6	0	6.5714

(1000 HA) ,(1000 MT) ,(MT/HA)

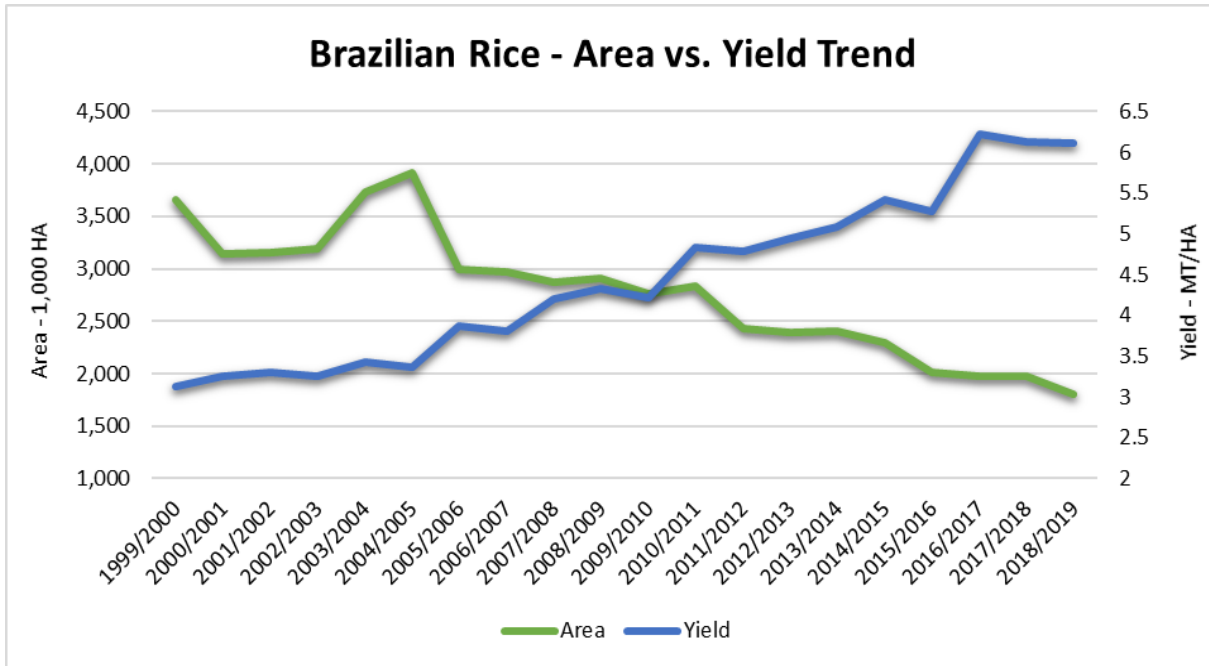
Rice Supplies

Market year 2018/2019 (April 2019 – March 2020) milled rice production is forecast at 7.14 MMT, a decrease of 13 percent from MY 2017/2018 due to decreased area and a slight decline in yields. Market year 2018/2019 harvested area is forecast at 1.75 million hectares, a record low since CONAB began keeping data in MY 1976/1977. Market year 2019/2020 rice area is forecast to remain static at 1.75 million hectares, while milled rice production is forecast to increase to 7.82 MMT on a return to trend yields.

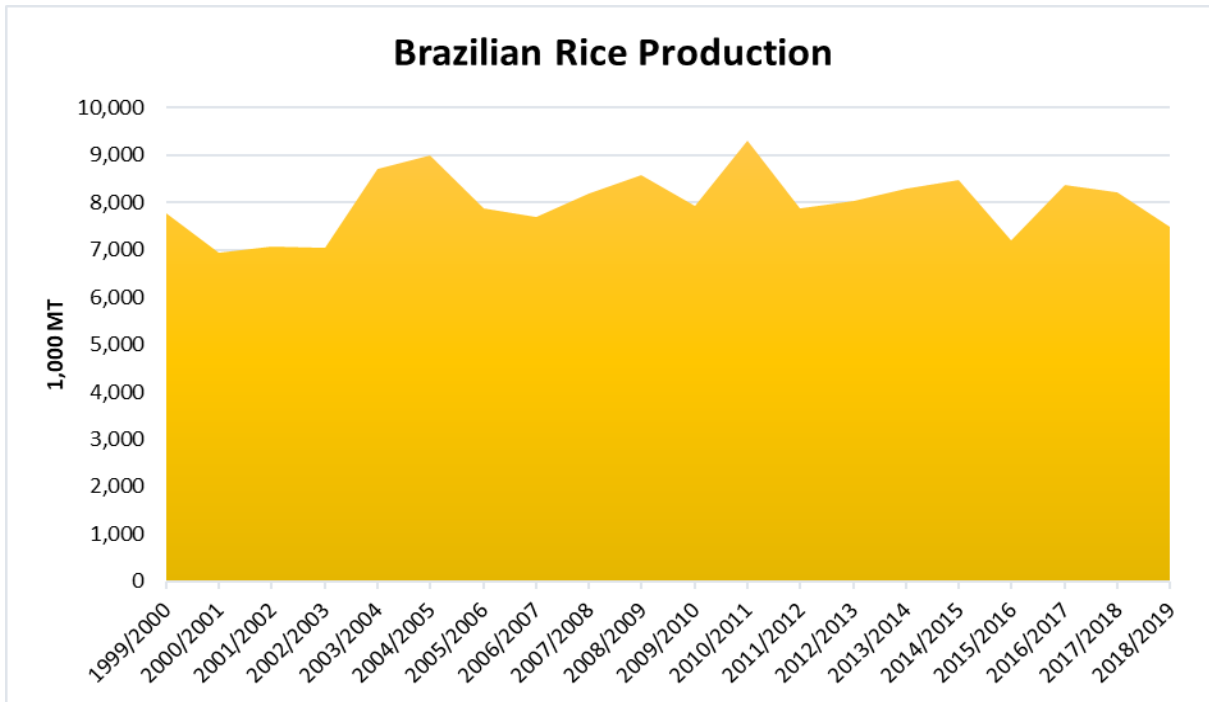
The vast majority of Brazil's rice area is concentrated in the far south of the country, and close to 80 percent is irrigated. Brazil's southernmost state, Rio Grande do Sul, is responsible for almost 60 percent of Brazil's total rice area and 70 percent of total production, all of which is irrigated. The state of Santa Catarina, just north of Rio Grande do Sul, accounts for another 10 percent of Brazilian rice production.

Both Rio Grande do Sul and Santa Catarina have experienced incremental growth in soy area in recent years, which some farmers rotate with rice every two years to maintain soil quality. Unlike the Center-West region, most farmers in southern Brazil only plant one crop per year.

While Brazilian rice area has been cut in half over the last two decades, many analysts believe that it is unlikely to shrink much more without interfering with the crop rotation pattern most beneficial to the soil in southern Brazil. Despite the decrease in area, Brazil remains the world's largest rice producer outside of Asia. Moreover, the overall trend for Brazilian rice production over the last 20 years has been smaller area offset by increasing yields, a tendency that has led to little-changed production volumes over the last two decades.



Date Source: USDA/FAS PSD Online



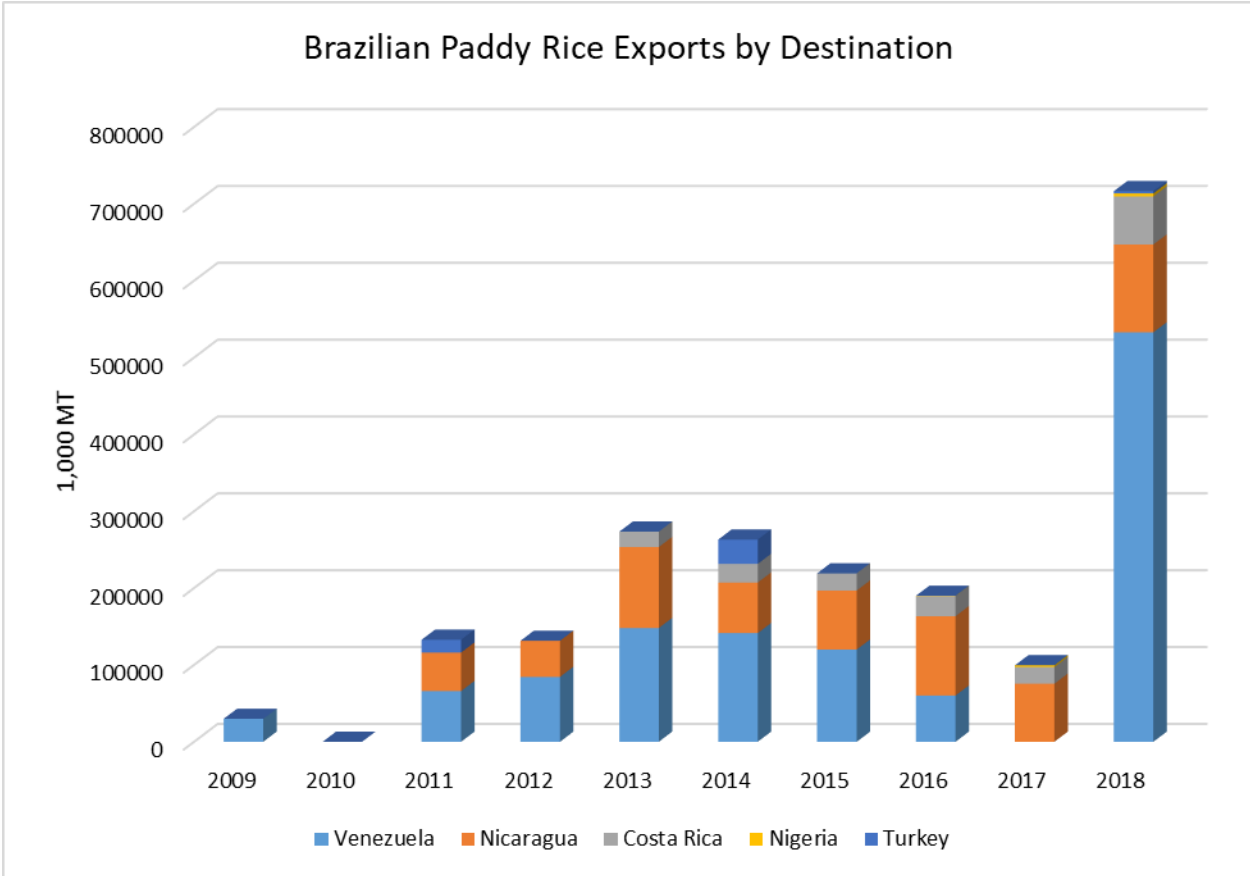
Date Source: USDA/FAS PSD Online

In addition to continued declines in planted rice area, another factor affecting the MY 2018/2019 rice crop was a period of excessive rain in December 2018 and January 2019 in western Rio Grande do Sul. This inopportune precipitation arrived during the flowering stage of much of the rice crop and caused flooding in more than 50,000 hectares of planted rice area, according Emater Rio Grande do Sul (Emater/RS). Weeks of overcast skies and a lack of sunshine also affected rice development. However, the weather improved significantly in February, and most of the affected rice area was able to recuperate

during the grain-filling stage. Overall, CONAB estimates that 3 percent of planted rice hectares in Rio Grande do Sul were a total loss, mostly in the western region of the state. The poor weather conditions during the growing season also resulted in 4.9-percent decline in yields. Rio Grande do Sul’s rice harvest usually kicks off in late February and was roughly 40 percent complete as of late March, according to Emater/RS.

Rice Trade

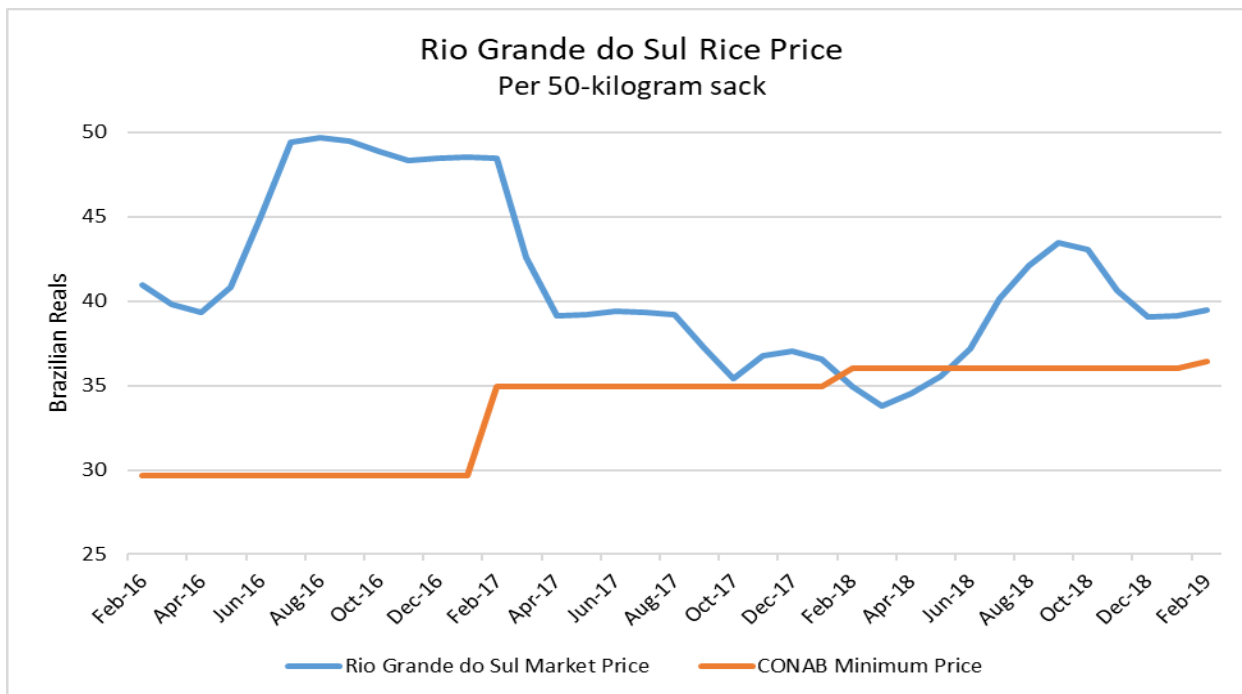
Market year 2017/2018 milled rice exports are estimated at 1.1 MMT on near-final customs data, a volume 32 percent higher than the prior marketing year. Paddy rice destined for Venezuela made up the largest share of Brazil’s exports in MY 2017/2018, more than 300,000 MT in milled equivalent. Political and economic turmoil in Venezuela, including hyperinflation, have led to food shortages in that country and a large number of refugees flowing into neighboring nations, including Brazil. This has led Venezuelan consumers to reduce consumption of animal proteins, turning instead to starchy staples like rice. Brazil’s abundant supplies and relative proximity on the same continent make it a convenient rice supplier for Venezuela.



Date Source: Brazilian Foreign Trade Secretariat (SECEX)

In December 2017, the Brazilian Ministry of Agriculture (MAPA) authorized the use of two programs to prop up slumping rice prices. The Ministry of Agriculture held seven rounds of auctions under these programs, supporting the sale of nearly 500,000 MT of rice, about 4 percent of the MY2017/18 harvest. In total, the Brazilian government spent over 31 million reais (\$8 million USD). Under the Premium for

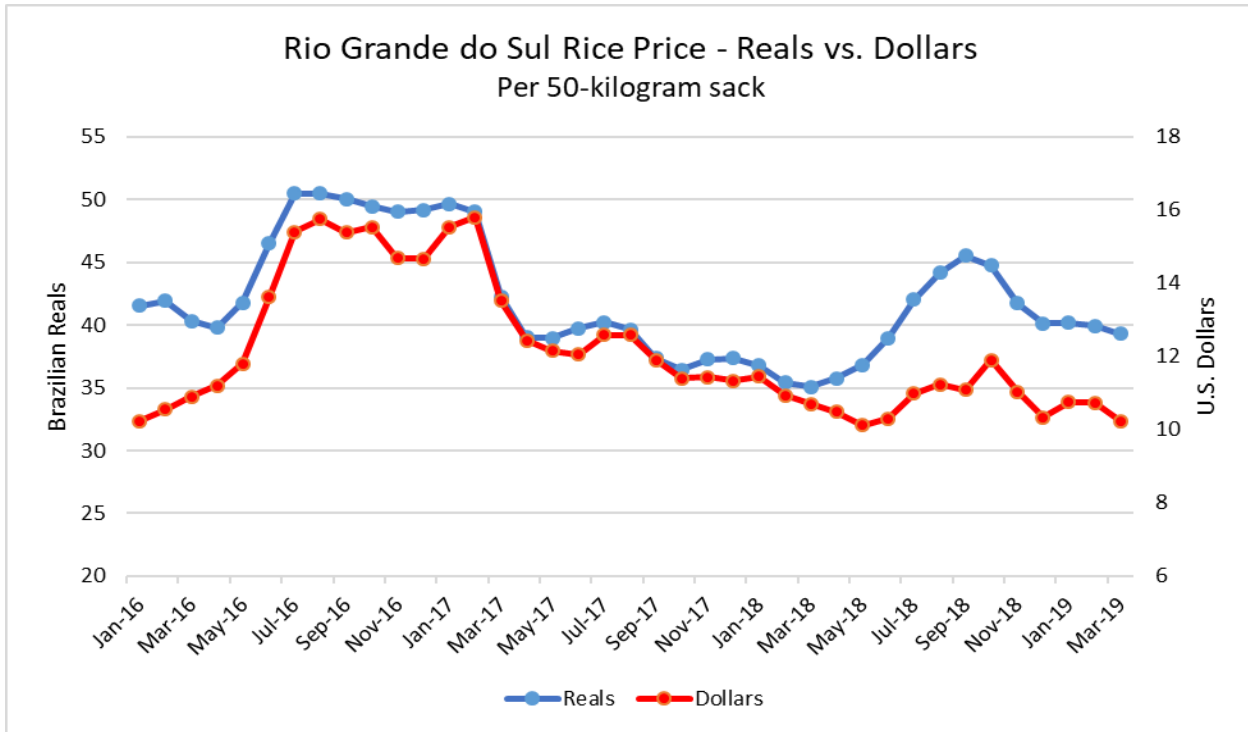
Product Outflow (PEP) and Equalization Premium Paid to the Producer (PEPRO) programs, the Brazil government guarantees a minimum price to producers by paying the difference between the prevailing market price and the government-established minimum guaranteed price, either to the commercial buyer (under PEP) or directly to the producer (under PEPRO). There is no provision under PEP or PEPRO that restricts the auctioned commodity from being exported. Given the large uptick in rice exports during MY 2017/2018, Post believes some if not most of the rice auctioned under the PEP and PEPRO programs was exported.



Date Source: CONAB

Representatives from the Brazilian rice industry met with new MAPA Minister Tereza Cristina in February to discuss what they view as continuing challenges faced by the industry. Among the issues cited were lack of affordable farm credit and high volumes of indebtedness to banks, unbalanced competition from imports from neighboring countries, heavy taxation, and a lack of adjustments in the government-guaranteed minimum price. In fact, the minimum price established by CONAB for rice in Rio Grande do Sul has steadily risen over the last few years, from 29.67 reals per 50-kilogram sack in 2016 to 36.44 reals in 2019, a 23-percent increase over three years. After her meeting with the rice industry, the Minister announced an agreement with Mexico to increase exports of rice to that country in exchange for importing more Mexican beans. Moreover, the Brazilian Rice Industry Association (Abiarroz) believes exports will remain strong in MY 2018/2019, as falling market prices have made Brazilian rice very competitive, especially in U.S. dollar terms as the Brazilian real weakens.

However, the sharp decrease in production due to the effects of adverse weather on yields in southern Brazil will limit the volume of supplies available for export. Post forecasts MY 2018/2019 exports at 500,000 MT on the reduced domestic supply and the need to meet domestic consumption demand. Market year 2019/2020 exports are forecast slightly higher at 600,000 MT on the expected increase in production due to a return to trend yields.



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

Market year 2018/2019 imports are forecast at 850,000 MT, up 47 percent over MY 2017/2018. This comes in response to the smaller domestic crop and waning-but-still-strong domestic consumer demand for rice as a staple food. The vast majority of Brazil’s rice imports come in duty-free from its MERCOSUL neighbors: Paraguay, Uruguay, and Argentina, with nearly 70 percent of MY 2018/19 imports coming from Paraguay alone. Market Year 2019/2020 imports are forecast at 600,000 MT to account for a small uptick in consumption based on population growth and industry efforts to increase rice consumption by Brazilian consumers.

Rice Consumption

Rice is a staple food in Brazil, with most Brazilians consuming it with edible beans one to two times daily. However, industry analysts observed lower consumption rates in MY 2017/2018 in comparison to recent years. While the exact cause is difficult to pinpoint, rice competes with many other starchy foods in Brazilian cuisine, including products made from manioc, potatoes, and wheat. Higher market prices in mid-2018 may also be to blame. In response, the Brazilian Association of Supermarkets (Abrás) conveyed to new Agriculture Minister Tereza Cristina that its members will seek to increase rice consumption among Brazilians.

Post forecasts MY 2018/2019 consumption at 7.7 MMT, and MY 2019/2020 consumption at 7.9 MMT, based on population growth, Brazil’s continued economic recovery from recession, and industry efforts to incentivize Brazilian consumers to put more rice on their plates.

Paddy Rice Exports

Brazil Export Statistics Commodity: 100610, Rice In The Husk (Paddy Or Rough)
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Calendar Year: 2016 - 2018							
Partner Country	Unit	Quantity			% Share		
		2016	2017	2018	2016	2017	2018
World	T	190911	100172	717273	100.00	100.00	100.00
Venezuela	T	60261	30	532921	31.56	0.03	74.30
Nicaragua	T	103188	75666	114247	54.05	75.54	15.93
Costa Rica	T	26251	21634	62503	13.75	21.60	8.71
Nigeria	T	310	2238	3950	0.16	2.23	0.55
Turkey	T	0	0	2922	0.00	0.00	0.41
Guatemala	T	0	224	483	0.00	0.22	0.07
Paraguay	T	588	144	188	0.31	0.14	0.03
Angola	T	0	123	45	0.00	0.12	0.01

White Rice Exports

Brazil Export Statistics							
Commodity: 100630, Rice, Semi-Milled Or Wholly Milled, Whether Or Not Polished Or Glazed							
Calendar Year: 2016 - 2018							
Partner Country	Unit	Quantity			% Share		
		2016	2017	2018	2016	2017	2018
World	T	208652	240330	329046	100.00	100.00	100.00
Peru	T	57652	77448	82444	27.63	32.23	25.06
Venezuela	T	15748	26811	59539	7.55	11.16	18.09
Cuba	T	30450	29000	59000	14.59	12.07	17.93
Burkina Faso	T	0	0	14945	0.00	0.00	4.54
Bolivia	T	19159	15574	13620	9.18	6.48	4.14
United States	T	19097	17048	12908	9.15	7.09	3.92
Puerto Rico (U.S.)	T	1000	9934	10997	0.48	4.13	3.34
Angola	T	13245	3319	9236	6.35	1.38	2.81
South Africa	T	2379	505	7193	1.14	0.21	2.19
Chile	T	2782	5551	7013	1.33	2.31	2.13
Cape Verde	T	7225	8934	6950	3.46	3.72	2.11
Trinidad & Tobago	T	5829	7355	6171	2.79	3.06	1.88
Mali	T	0	0	6003	0.00	0.00	1.82
Sierra Leone	T	0	263	6000	0.00	0.11	1.82
Saudi Arabia	T	6264	8111	5833	3.00	3.37	1.77
Panama	T	8286	3463	4095	3.97	1.44	1.24

Broken Rice Exports

Brazil Export Statistics							
Commodity: 100640, Rice, Broken							
Calendar Year: 2016 - 2018							

Partner Country	Unit	Quantity			% Share		
		2016	2017	2018	2016	2017	2018
World	T	290433	279415	410370	100.00	100.00	100.00
Senegal	T	140651	103614	148623	48.43	37.08	36.22
Gambia	T	56417	60587	87538	19.43	21.68	21.33
Sierra Leone	T	19669	78572	70392	6.77	28.12	17.15
Switzerland	T	39055	30162	41589	13.45	10.79	10.13
United States	T	22024	0	27916	7.58	0.00	6.80
Netherlands	T	5383	0	19199	1.85	0.00	4.68
Guinea-Bissau	T	0	2122	8625	0.00	0.76	2.10

Brown Rice Imports

Brazil Import Statistics							
Commodity: 100620, Rice, Husked (Brown)							
Calendar Year: 2016 - 2018							
Partner Country	Unit	Quantity			% Share		
		2016	2017	2018	2016	2017	2018
World	T	204832	256350	160812	100.00	100.00	100.00
Paraguay	T	86781	129022	111836	42.37	50.33	69.54
Argentina	T	64339	60289	28047	31.41	23.52	17.44
Uruguay	T	50062	63516	18768	24.44	24.78	11.67
Guyana	T	3080	2580	1235	1.50	1.01	0.77
Italy	T	553	922	886	0.27	0.36	0.55
United States	T	18	18	36	0.01	0.01	0.02

White Rice Imports

Brazil Import Statistics							
Commodity: 100640, Rice, Broken							
Calendar Year: 2016 - 2018							
Partner Country	Unit	Quantity			% Share		
		2016	2017	2018	2016	2017	2018
World	T	4976	5170	2256	100.00	100.00	100.00
Paraguay	T	4684	4491	1394	94.14	86.86	61.79
Uruguay	T	0	525	852	0.00	10.16	37.77
Thailand	T	38	50	10	0.75	0.97	0.44

Wheat

Wheat Market Begin Year	2017/2018		2018/2019		2019/2020	
	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	0	2200
Beginning Stocks	2256	2256	1311	1311	0	839
Production	4264	4264	5428	5428	0	6000
MY Imports	7021	7021	7500	7000	0	6700

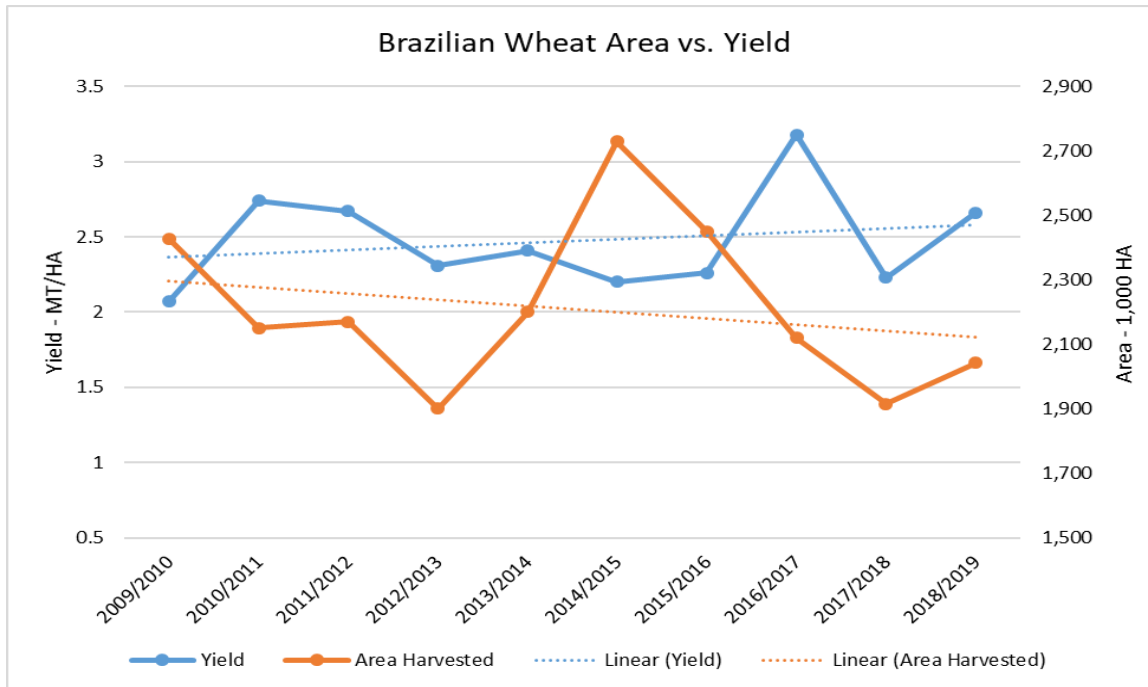
TY Imports	6702	6702	7500	7250	0	6700
TY Imp. from U.S.	186	162	0	400	0	600
Total Supply	13541	13541	14239	13739	0	13539
MY Exports	230	230	800	800	0	700
TY Exports	245	245	800	800	0	700
Feed and Residual	500	500	500	500	0	500
FSI Consumption	11500	11500	11600	11600	0	11700
Total Consumption	12000	12000	12100	12100	0	12200
Ending Stocks	1311	1311	1339	839	0	639
Total Distribution	13541	13541	14239	13739	0	13539
Yield	2.2255	2.2255	2.6582	2.6582	0	2.7273
(1000 HA) ,(1000 MT) ,(MT/HA)						

Wheat Supplies

Market year (October – September) 2018/19 wheat production is estimated at 5.4 MMT, up more than 1 MMT over MY 2017/18. While dry periods and sporadic frosts in major production areas constrained yields in MY 2018/19, conditions overall were far superior to those of the previous season. Assuming normal weather, production for MY 2019/20 is expected to grow to 6 MMT, on expanded crop area, incentivized by strong domestic wheat prices. With planting expected to get underway in April, MY 2019/20 wheat area is forecast at 2.2 million hectares, about 8 percent larger than last year’s crop, spurred by higher prices and less competition from Mercosul imports this season.

Brazil’s wheat production is concentrated in the south of the country, especially in the states of Parana and Rio Grande do Sul. Together, those two states account for roughly 85 percent of total Brazilian production. However, wheat area in this region competes with other crops, mainly safrinha corn in Parana and soy in Rio Grande do Sul.

Strong domestic prices and less-than-normal competition from Argentine imports this MY are spurring southern Brazil farmers to add wheat acreage. Average market prices in Parana were about 30 percent higher in March than they were a year ago, and they were 34 percent higher year-over-year in Rio Grande do Sul. Meanwhile, Argentina, which typically supplies the overwhelming majority of Brazil’s wheat imports has been selling much of its most recent harvest to other markets, leaving Brazilian millers with fewer supplies to import. Moreover, Brazil recently announced that it will implement a 750,000-ton duty-free wheat quota, but a lack of clarity about the bureaucratic process or timeline to implement the policy may be further incentivizing expanded domestic production this MY.

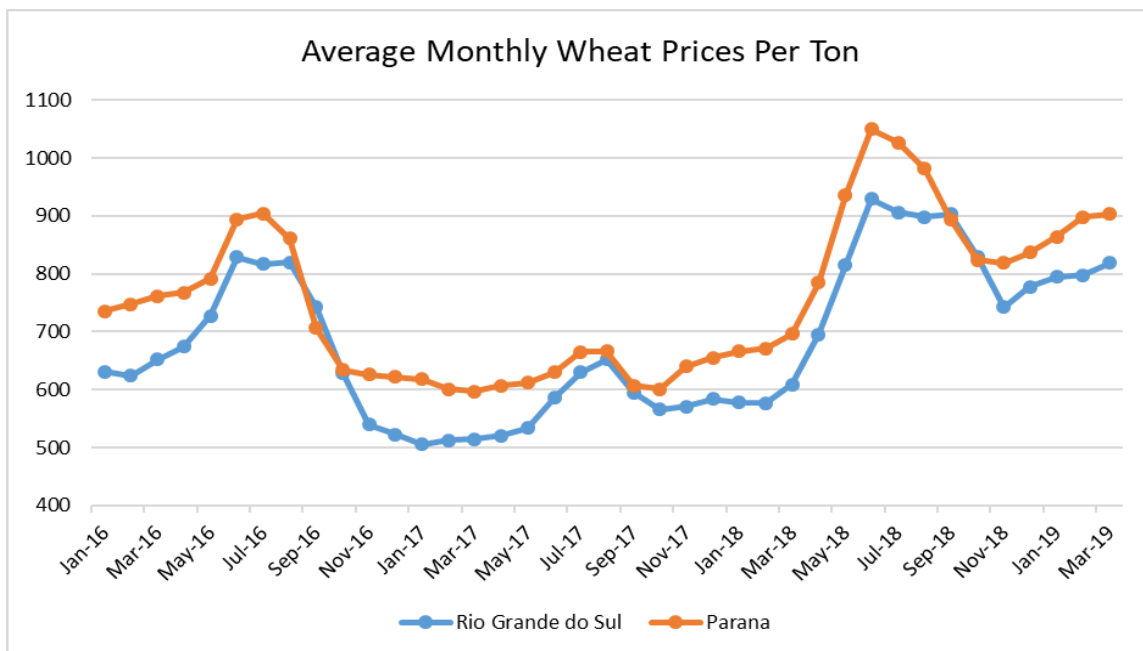


Date Source: USDA/FAS PSD Online

However, expansion of wheat area is constrained by the purchase of inputs, which are typically contracted about six months in advance, according to Parana’s Department of Rural Economy (DERAL). Thus, regardless of rising prices, there is a limit to how much wheat area can be added this close to the planting season, which will commence in April. Unlike much of Brazil’s cotton and soybean production, little wheat is forward contracted, leaving farmers to hope prices will remain firm come harvest time.

In the long term, Brazil is working to expand production of wheat, since the country is heavily dependent on imports to meet domestic demand. Earlier this year, Brazil’s Association of Wheat Millers (Abitrigo) proposed a new government policy to increase domestic production of wheat in order to meet projected increases in domestic demand for bread and other wheat-based products. The proposed strategy, reportedly well-received by new Agriculture Minister Tereza Cristina, includes changes in the legal and regulatory environment, investment incentives, facilitation of international trade and logistics, and expanded infrastructure. Abitrigo would also like to see expanded infrastructure to enable movement of the domestic crop from the south of Brazil to wheat mills that supply population centers in the Northeast, as well as uniform state taxes on wheat, expanded availability of credit lines for the construction of silos, privatization of government warehouses, and the standardization of labels of wheat products.

The policy proposal also aims to expand wheat cultivation to new areas in Brazil, including commercializing wheat varieties that can be grown in the agricultural powerhouse center-west region. Meanwhile, Brazil’s agricultural research agency, Embrapa, has worked in recent years to develop new wheat varieties that can tolerate the dryer conditions in the middle of the country. The Ministry of Agriculture optimistically forecasts Brazilian wheat production to virtually double to 10 MMT in the next decade. Despite this, transportation infrastructure issues and a lack of milling capacity continue to hamper expansion of wheat in the center-west.



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

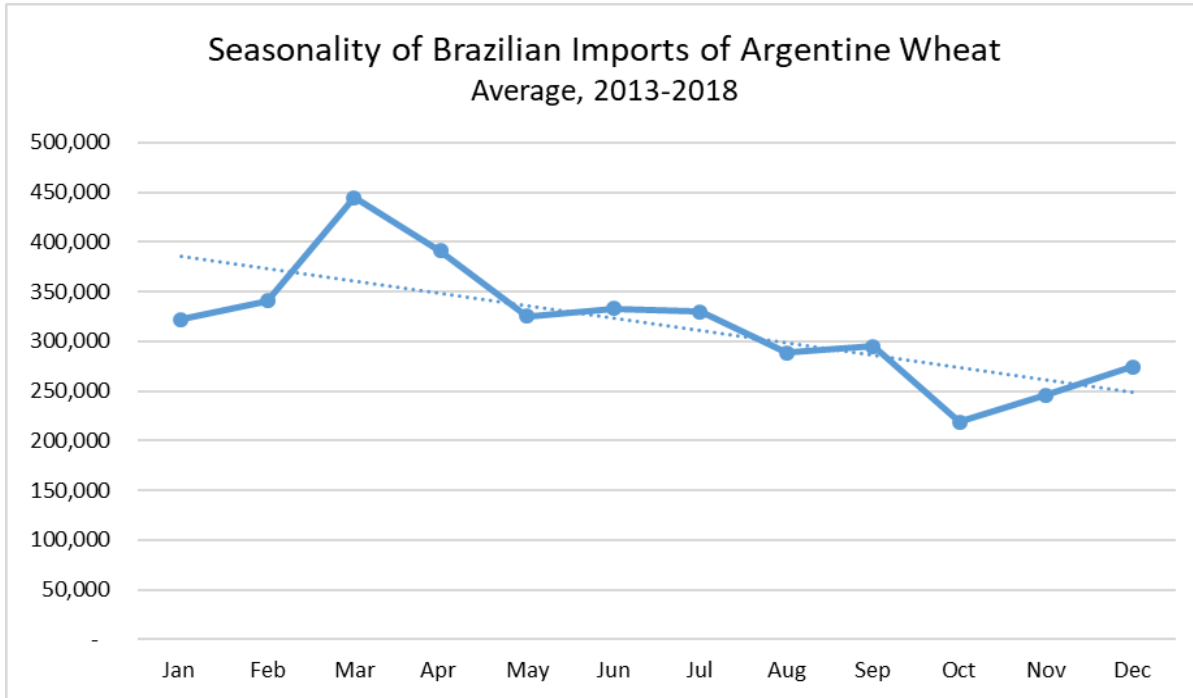
Wheat Trade

Market year 2018/19 imports are forecast at 7 MMT, while MY 2019/20 imports are forecast at 6.7 MMT on higher expected domestic production. Market year 2018/19 exports are forecast at 800,000 MT based on the pace of trade. Exports for MY 2019/20 are forecast at 700,000 MT. Brazil generally has extremely limited exports in years when production is below 5 MMT, but a return to more normal yields in MY 2018/19 and robust trading opportunities in early 2019 have led to higher-than-expected export totals. Brazil had a particularly large volume of exports (378,000 MT) in January 2019 alone. With expanded production in MY 2019/20, exports are expected to remain strong but increased domestic demand will cut somewhat into available supplies.

Imported wheat makes up roughly half of Brazil’s domestic consumption. Most imports in the past were duty-free purchases from Mercosul partner Argentina, which traditionally supplies about 90 percent of Brazilian wheat imports. By comparison, the second-largest supplier in MY 2017/18 was Paraguay with just 3.2 percent of market share, while the United States was the third-largest supplier with just 2.9 percent of the market. However, the market dynamics have shifted somewhat in MY 2018/19, with Argentina exporting a larger volume of its crop to other countries and ending February with the lowest wheat stocks for that month in 16 years, according to the Rosario Board of Trade. Argentina’s market share in Brazil is also down slightly in the first half of MY 18/19, with 86 percent of total Brazilian imports. Meanwhile, Paraguay and the United States have taken larger (but still very small) market shares in MY 2018/19 so far: 8.6 percent and 3.8 percent, respectively. Moreover, Argentine wheat prices had been trending higher, and Brazilian millers were left paying more after a majority of the Argentine crop was sold elsewhere, according to industry sources.

Infrastructure and freight rates remain among the greatest challenges for Brazil’s wheat milling sector, and most large mills are located adjacent to port terminals to minimize transportation costs.

Additionally, it is expensive and logistically difficult to move Brazilian wheat from the largest production region in the south to population centers in the northeast of the country. This is due to interstate taxes and a Brazilian law that requires use of Brazilian-flagged ships to move commodities between ports within the country. At the same time, Argentine wheat may be transported on ships flagged from any country.



Date Source: *Brazilian Foreign Trade Secretariat (SECEX)*

In March, President Trump and Brazil’s new president, Jair Bolsonaro, announced in a joint statement that Brazil will open a 750,000 MT duty-free tariff-rate quota (TRQ), something Brazil originally committed to during its WTO accession in the mid-1990s. In 1996, Brazil notified the WTO that it wanted to withdraw the quota and entered into protracted negotiations with the United States to replace the promised quota with something else. No solution was ever found, and the quota was never opened. However, warmer relations between Brazil and the United States after the election of President Bolsonaro in October 2018 facilitated the announcement of the quota during his visit to Washington. Nevertheless, it remains unclear exactly when the TRQ will go into effect, due to bureaucratic uncertainty and unanswered questions about how trade policy decisions are being implemented under the new Bolsonaro government.

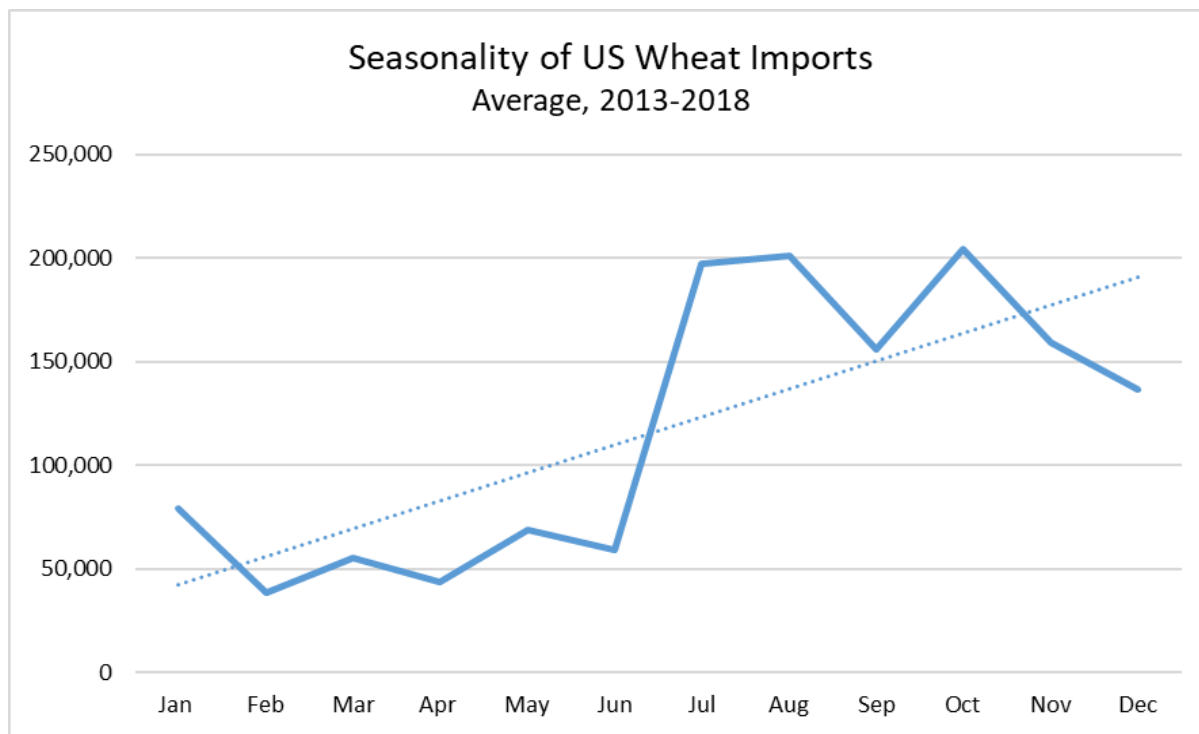
The TRQ will be open to all exporting countries, but it appears that U.S. wheat exported through the Gulf of Mexico may be particularly competitive. This is especially true for millers in Brazil’s northeast region, which have typically imported most of the U.S. wheat that enters Brazil. Millers in the south and center-south regions are more likely to purchase domestic supplies or import from Argentina, due to the geographic convenience and lower prices.

Brazil has periodically dropped the 10-percent Mercosul common export tariff in years when larger wheat supplies were needed, usually as a result of crop failures in Brazil and/or Argentina. In years

when the wheat duty was eliminated (most recently in 2013 and 2014), U.S. wheat exports to Brazil soared.

Argentina’s initial reaction to the announcement of the new permanent TRQ was to threaten a challenge under Mercosul rules. It remains unclear how any possible challenge will proceed, but the quota volume represents only about 10 percent of Brazil’s imports in a typical year, meaning that little of Argentina’s market share will be affected. This is especially true since Argentine wheat has never been very competitive in northeast Brazil, where non-Mercosul shipments are most likely to land. However, wheat shipments from non-Mercosul countries, including the United States, are subject to a marine tax that is not charged to imports from Mercosul members. The 25-percent tax applies to freight and unloading charges at Brazilian ports, making U.S. wheat less competitive against Argentina.

Typically, the bulk of Argentine exports to Brazil have come early in the calendar year, as Brazilian supplies from the past harvest run low and before the new crop comes online starting around August. Conversely, the largest exports of U.S. wheat to Brazil have come later in the calendar year, usually when the Brazilian crop has experienced losses due to adverse weather. While it is unclear how the TRQ will be administered, Argentina will continue to supply the largest share of Brazilian wheat imports by far, while the United States and other non-Mercosul countries should be able to make inroads in some regions and segments of the Brazilian milling industry.



Date Source: Brazilian Foreign Trade Secretariat (SECEX)

Wheat Consumption

Consumption for MY 2018/19 is forecast at 12.1 MMT, marginally higher than MY 2017/18. Market year 2019/20 consumption is forecast about 1 percent higher, at 12.2 MMT, in line with expected population growth and economic recovery.

Brazil generally imports higher-quality wheat so that millers can blend it with domestic supplies to achieve the desired flour quality and protein levels demanded by bakeries. One of Brazil's most popular bread varieties, pao frances, is a minimally dense, crusty French-style roll. The consistency of this type of bread requires a specific flour blend to optimize the height of the roll without compromising the crusty texture of the exterior. Brazilians eat pao frances rolls at any time of day, but they are most popular as a breakfast staple consumed with butter and coffee.

The Brazilian baking sector has reported that consumption of industrially produced bread in Brazil grew by double-digits in the years prior to Brazil's recent economic recession, but has stagnated in recent years. Since 2015, sales of industrially produced bread have slumped, according to the Brazilian Association of Cookie, Pasta, Bread, and Cake Producers (ABIMAPI). The industry is optimistic that the growth of bread consumption will accelerate in the coming year, as Brazil continues its climb out of recession. Meanwhile, industry contacts report that the milling sector is increasing output of more specialized products, including organic, whole-grain, and stone-ground flour varieties for consumer use. While the popularity of in-home baking (usually from pre-made mixes) and artisanal bakeries and pastry shops has grown marginally in recent years, the overwhelming majority of wheat consumption comes from breads, crackers, pasta, and cookies produced by industrial bakeries.

Wheat Imports

Brazil Import Statistics								
Commodity: 1001, Wheat And Meslin								
Calendar Year: 2016 - 2018								
Partner Country	Unit	Quantity			% Share			% Change
		2016	2017	2018	2016	2017	2018	2018/2017
World	T	6866324	6022221	6817138	100.00	100.00	100.00	13.20
Argentina	T	3950036	5043368	5939491	57.53	83.75	87.13	17.77
Paraguay	T	956126	416958	339819	13.92	6.92	4.98	- 18.50
United States	T	1226208	340088	273631	17.86	5.65	4.01	- 19.54
Canada	T	155122	185320	197282	2.26	3.08	2.89	6.45
Uruguay	T	577415	28001	30842	8.41	0.46	0.45	10.15
Russia	T	0	0	26230	0.00	0.00	0.38	0.00
France	T	0	8453	9800	0.00	0.14	0.14	15.93
Lebanon	T	15	32	43	0.00	0.00	0.00	34.35

Wheat Flour Imports

Brazil Import Statistics	
Commodity: 1101, Wheat Or Meslin Flour	
Calendar Year: 2016 - 2018	

Partner Country	Unit	Quantity			% Share			% Change 2018/2017
		2016	2017	2018	2016	2017	2018	
World	T	366846	408271	336240	100.00	100.00	100.00	- 17.64
Argentina	T	321947	367222	304460	87.76	89.95	90.55	- 17.09
Paraguay	T	26207	28591	17738	7.14	7.00	5.28	- 37.96
Uruguay	T	13707	6103	8795	3.74	1.49	2.62	44.10
Italy	T	1199	1947	2860	0.33	0.48	0.85	46.88
France	T	530	841	1174	0.14	0.21	0.35	39.57
United States	T	347	463	367	0.09	0.11	0.11	- 20.76
Portugal	T	64	129	164	0.02	0.03	0.05	26.96
Greece	T	41	211	161	0.01	0.05	0.05	- 23.77
Belgium	T	1974	1627	144	0.54	0.40	0.04	- 91.17
Netherlands	T	72	95	114	0.02	0.02	0.03	19.94
Canada	T	111	812	111	0.03	0.20	0.03	- 86.36
United Kingdom	T	38	33	55	0.01	0.01	0.02	66.57
Turkey	T	241	0	49	0.07	0.00	0.01	0.00
Guadeloupe	T	0	0	46	0.00	0.00	0.01	0.00

Wheat Exports

Brazil Export Statistics								
Commodity: 1001, Wheat And Meslin								
Calendar Year: 2016 - 2018								
Partner Country	Unit	Quantity			% Share			% Change 2018/2017
		2016	2017	2018	2016	2017	2018	
World	T	713313	617643	221249	100.00	100.00	100.00	- 64.18
Philippines	T	224747	0	109792	31.51	0.00	49.62	0.00
Thailand	T	0	0	65331	0.00	0.00	29.53	0.00
Vietnam	T	215912	148973	45474	30.27	24.12	20.55	- 69.47
Nigeria	T	0	0	499	0.00	0.00	0.23	0.00
Paraguay	T	471	48	125	0.07	0.01	0.06	160.57
Bolivia	T	1	27	27	0.00	0.00	0.01	0.00

Related Report References:

[Brazil Grain and Feed Update – October 2018 – BR 1817](#)

[2019 Brazil Poultry and Products Semi-Annual Report – BR 1901](#)

[2019 Brazil Livestock and Products Semi-Annual Report – BR 1904](#)

[2018 Brazil Biofuels Annual – BR 18017](#)

[2018 Venezuela Grain and Feed Update – VE 1811](#)

