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Brazil

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Oilseeds and Products Update

Lingering Effects of Truckers' Strike Impact Planting Plans

Approved By:
Oliver Flake, Agricultural Counselor
Prepared By:
Nicolas Rubio, Agricultural Attaché

Report Highlights:
Post forecasts 2018/19 soybean production at 117 million metric tons (mmt), the second largest crop on record. The 2018/19 planted area is forecast to increase to a record of 36.5 million hectares. The lower area compared to USDA's official Production, Supply, and Distribution data (PSD) is due to the lingering effects of the truckers' strike in Brazil. Exports for the 2018/19 Marketing Year are forecast at 69.5 mmt and soybeans destined for processing will reach a record of 44 mmt due to the economic recovery and new biodiesel blending mandate.

SOYBEAN PRODUCTION

2018/2019 Outlook:

Brazil to Plant Record Area for Ninth Consecutive Year

Post forecasts 2018/19 soybean planted area to increase by two percent, to 36.5 million hectares (ha). The increase in area for the 2018/19 crop is due to expectation of higher prices and higher expected demand by Chinese buyers. However, the lower area compared to USDA's official Production, Supply, and Distribution data (PSD) is due to the lingering effects of the truckers strike in Brazil. Most analysts in Brazil think the strike, which resulted in higher freight costs, reduced such a high potential increase.

Currently, fertilizer costs are 20% to 30% more expensive and chemicals are 15% to 20% compared to last year (freight costs and weaker Real). Even with better soybean prices, the higher production costs to open new areas will be an issue. In addition, delivery of inputs have experienced delays. The Mato Grosso Institute of Agricultural Economics (Imea) increased their estimate of producing soybeans in the state from last month's report. Imea is estimating the variable cost of producing soybeans in Mato Grosso in 2018/19 is in the range of R$ 2,829 to R$ 3,124 per hectare.

Post forecasts 2018/19 soybean production at 117 million metric tons (mmt), the second largest crop on record. The lower yield compared to the previous season is due to post's yield calculation based on trend.

Update on Freight Cost Situation

Under rising political pressure 3 months ahead of general elections, Brazil's lower house of Congress passed a bill to establish minimum freight rates across the country amid opposition from the grain export industry, which claims the legislation will increase export costs. The measure was first introduced in May as a negotiating chip to get tens of thousands of truckers to end an 11-day national strike that shut down the supply of fuels and food across the country. The new bill was approved by both houses of congress and signed by the president.

As a result, the National Land Transport Agency (ANTT) now has the responsibility to establish a minimum shipping price list, published biannually on July 20 and January 20, or more frequently if the price of diesel moves more than 10% from the price. The legislation forbids truckers from negotiating contract prices below the ANTT minimum.

However, due to the challenges in courts to implement this decision, forward contracts or farmer sales of 2018/19 crop have stalled in July due to the uncertainty over future freight rates.

SOYBEAN CONSUMPTION

2018/2019 Outlook:

Post forecasts 44 mmt of soybeans destined for processing in 2018/19 Marketing Year (MY). The increase compared to last year is a result of the expected economic recovery in Brazil as well as export demand.

Brazil is considering a higher blending biodiesel mandate in 2019. The National Committee of Energy Policies is conducting tests to see if a blending mandate can increase to 15 percent (B15). There is no timeline as to when the results will be presented, but based on the Brazilian government's commitments to increase the use of renewable fuels; the sector is pressing for a decision next year.

2017/2018 Forecast:

Post forecasts 43.5 mmt of soybeans destined for processing in the 2017/18 MY. The forecast is higher compared to 2016/17 MY as a result of the implementation of a new biodiesel mandate of 10% on March 1^{st}, 2018 and an economic recovery in Brazil. In addition, higher oil and meal exports are expected to support the higher crushing volumes because of the lower soybean crop in Argentina as a result of the drought.

SOYBEAN TRADE

EXPORTS

2018/2019 Outlook:

Soybean exports for MY 2018/19 (February 2019 to January 2020) are forecast at 69.5 mmt. The export forecast is lower compared to the previous year due to lower exportable supplies as a result of the lower crop and higher domestic consumption.

Despite opportunities to continue to take market share from the United States in China as a result of the current trade environment between the two countries, producers and exporters are cautious about next year. The uncertainties on the freight costs as a result of the truckers strike last May is slowing down the pace of future contracts. According to contacts in Mato Grosso, forward contracts only went up half of a percentage between June and July of 2018. Contacts within trading companies have also expressed their frustrations about the market uncertainties, which have not allowed them to accelerate contracts for next year.

At the same time, expectations of a weaker Brazilian Real later in 2018 can also be a lifeline for producers next year. A weaker Brazilian Real due to the open race for the presidency unfolding over the next few months, could translate to higher domestic prices.

2017/2018 Export Forecast:

Total soybean exports in MY 2017/18 (February 2018 to January 2019) are forecast at a record 74.5 mmt. The record crop in 2017/18 increased the amount of exportable supplies. Due to the current 25% Chinese tariffs against U.S. soybeans, China has been aggressively buying soybeans from Brazil. It is expected that China will import over 80% of Brazil's total exports.

STOCKS AND DOMESTIC SOYBEAN PRICES

The fact that China has been buying Brazilian soybeans so strong means that Brazilian stocks will also be fairly low, hovering below 2 per cent of domestic supply. With most of the 2017/18 crop sold, Brazilian producers have been clearing out bins to be ready for the upcoming crop.

The current trade environment between China and the United States has increased Brazilian soybeans FOB prices dramatically. As of July, the difference between FOB prices between Brazil and the United States was about $50 U.S. dollars.

In addition, the weaker Brazilian Real continues to impact domestic prices. As of July 2018, domestic prices increased by 22% due to the weaker exchange rate and the international soybean trade dynamics. At the same time, prices hit its highest level in two years, increasing by 7.7% since August 2016 despite the lower soybean international prices in the last few months.

Table 3: Average Monthly Soybean Prices
(Prices* in R$ per 60 kg)

	2015	**2016**	**2017**	**2018**	**2017/18 % Change**
January	59.29	78.46	71.57	67.42	-5.7%
February	60.20	73.32	68.77	69.42	2.3%
March	64.35	69.95	65.06	73.63	13%
April	63.00	74.12	61.15	79.59	30%
May	62.09	82.28	64.06	80.32	25%
June	62.96	90.59	66.58	78.44	18%
July	67.83	82.83	66.23	81.96	24%
August	72.17	77.57	63.86		
September	76.62	76.13	64.99		
October	78.13	73.96	66.47		
November	75.48	74.72	69.03		
December	77.07	75.06	70.02		

Source: Center for Advanced Studies in Applied Economics (CEPEA)
*Average monthly price in the state of Paraná - wholesale level; export type, cash prices, no ICMS tax included.
*Average R$/US$ as of July 2018 – R$3.71/US$

STATISTICS

Oilseed, Soybean (Local)	2016/2017		2017/2018		2018/2019	
Market Begin Year	Feb 2017		Feb 2018		Feb 2018	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	34000	34000	35100	35100	37500	36500
Area Harvested	33900	33900	35100	35100	37500	36500
Beginning Stocks	2230	2230	2575	2561	2550	986
Production	114600	114600	119500	119500	120500	117000
MY Imports	267	253	425	425	225	200
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	117097	117083	122500	122486	123275	118186
MY Exports	68807	68807	73200	74500	74400	69500
MY Exp. to EU	6200	6200	6000	5900	5800	5900
Crush	42312	42312	43200	43500	42700	44000
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	3403	3403	3550	3500	3590	3500
Total Dom. Cons.	45715	45715	46750	47000	46290	47500
Ending Stocks	2575	2561	2550	986	2585	1186
Total Distribution	117097	117083	122500	122486	123275	118186
CY Imports	250	0	230	350	225	175
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	68155	68155	73800	73000	74100	72000
CY Exp. to U.S.	0	0	0	0	0	0
Yield	3.3805	3.3805	3.4046	3.4046	3.2133	3.2055
(1000 HA) ,(1000 MT) ,(MT/HA)						