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GAIN Report

Global Agricultural Information Network

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Brazil

Oilseeds and Products Annual

Lower Prices and Ample Carry-In Stocks to Slowdown Area Expansion

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Report Highlights:

Post forecasts 2017/18 soybean production at 105 million metric tons (mmt), a reduction of 4.5 percent compared to the current season as yields are forecast to return to trend levels, after an almost perfect growing season in MY 2016/17. The 2017/18 planted area is forecast to increase to a record of 34.4 million hectares. The MY 2016/17 is set to break production and export records, with production forecast at 110 mmt and exports 61.5 mmt. Due to export demand, new biodiesel mandates, and an economic recovery in Brazil, soybean meal and oil production as well as consumption for MY 2016/17 are also expected to increase.

SOYBEAN PRODUCTION

2017/2018 Outlook:

Record Planted Area Forecast, but Not Production

Post forecasts 2017/18 soybean production at 105 million metric tons (mmt), a reduction of 4.5 percent compared to the current 2016/17 production estimate. The 2017/18 planted area is forecast to increase to 34.4 million hectares (ha), an increase of 1.5 percent compared to the 2016/17 season. The lower production, despite the record area, is due to a lower yield (based on trend) compared to 2016/17's record. In addition, the slower pace for area growth for 2017/18 compared to the one in the last five years is attributed to lower soybean prices.

Lower commodities prices and returns at the farm level will continue to be the producers' main concern for the upcoming crop. With record crops in the United States and Brazil in 2016/17, downward pressure on prices will impact farmers' decisions for next year. In addition, the higher production costs will also discourage producers' desire to open/convert new areas. For example, in Mato Grosso, the most important soybean producing state in Brazil, farmers are expected to face higher production costs in 2017/18.. Cost of production for biotech varieties, the majority of the production in the state, is expected to reach an average of R2,962 Reals per hectares, a 11 percent increase compared to 2016/17. (1 USD = R3.15 on 3/29/2017)

Table 1. Estimated Production Costs for Biotech Soybeans Varieties in Mato Grosso (Reals per ha)

	2016/17	2017/18*	% Change
Costs of production			
Seeds	267	382	+43
Fertilizers	669	635	-5
Herbicides	795	724	-9
Machinery Operation	120	91	-24
Labor	93	134	+44
Other Expenses			
Technical assistance, transportation, storage, and taxes	492	527	+7
Financing Expenses and Depreciation Costs			
Interest payments, depreciation of machineries and installations	244	469	+48
Total Operational Costs	R2,680	R2,962	+11

Source: Mato Grosso's Institute of Ag Economics (IMEA)

*Estimate

2016/2017 Progress:

Soybean Crop Estimated at 110 Million Metric Tons

Post increased its estimate for Brazil's 2016/17 soybean production to 110 mmt as a result of above average yields and excellent weather throughout of the growing region. The planted area, 33.9 million ha, is based on the latest estimates by the Brazilian Food Supply Company (CONAB). The growth in area for the 2016/17 season took place in all the regions in Brazil except for the South. The South region of Brazil decreased its area by one percent as farmers in the state of Paraná shifted areas to first season corn due to the higher domestic prices.

Post estimates national yields at a record of 3.24 metric tons per ha. Favorable weather at the beginning of the planting season and throughout most of the season helped yields reach an all-time record. Despite some localized weather issues in places like Mato Grosso and the Northeast, Brazilian farmers are about to finish harvesting a bumper crop.

SOYBEAN CONSUMPTION

2017/2018 Outlook:

Soybeans will remain the primary oilseed produced in Brazil. Post forecasts 43 mmt of soybeans destined for processing in 2017/18 Marketing Year (MY). The increase is a result of higher biodiesel blending mandates, lower commodity prices, a slight recovery in the Brazilian economy, and export markets.

2016/2017 Forecast:

Post forecasts 42.5 mmt of soybeans destined for processing in the 2016/17 MY. The forecast is higher compared to 2015/16 MY as a result of higher exports of soybean meal and new biodiesel mandates in Brazil.

SOYBEAN TRADE

EXPORTS

2017/2018 Outlook:

Soybean exports for MY 2017/18 are forecast at 60 mmt, about two percent lower compared to the record forecast for MY2016/17. The small reduction is based on lower exportable supplies due to lower production and higher domestic consumption. The forecast is also based on strong expected demand by China.

The Chinese market is forecast to continue to import record amounts of soybeans. The forecast also takes into account advances in logistical infrastructure to help reduce the domestic costs to export soybeans. Brazil's ports have received strong investments from the private sector over the last few years, which has increased the export capacity of ports in the northern arc" to 41 mmt. Roads, on the other hand, are still a concern for many producers. However, some are hopeful that the famous

BR163 will be completely paved by the end of 2018, which will help the flow of trucks to the northern ports.

2016/2017 Export Forecast:

Soybean exports in MY 2016/17 are forecast at a record 61.5 mmt. The increase in exports compared to MY2015/16 is due to the record crop available and strong global demand, mainly by China. The Chinese market is forecast to import record amounts of soybeans, as it takes advantage of the lower commodity prices. Brazil's exports over 70 percent of its soybeans to China.

One key difference of this MY compared to MY 2015/16 is the lower pace of soybean export contracts. Producers have been reluctant to sell for various reasons: a) low soybean prices, logistical problems in early March, and the appreciation of the Brazilian Real (Real). The Real has appreciated six (6) percent since November 2016 (Graph 1), which has reduced the value of domestic prices.

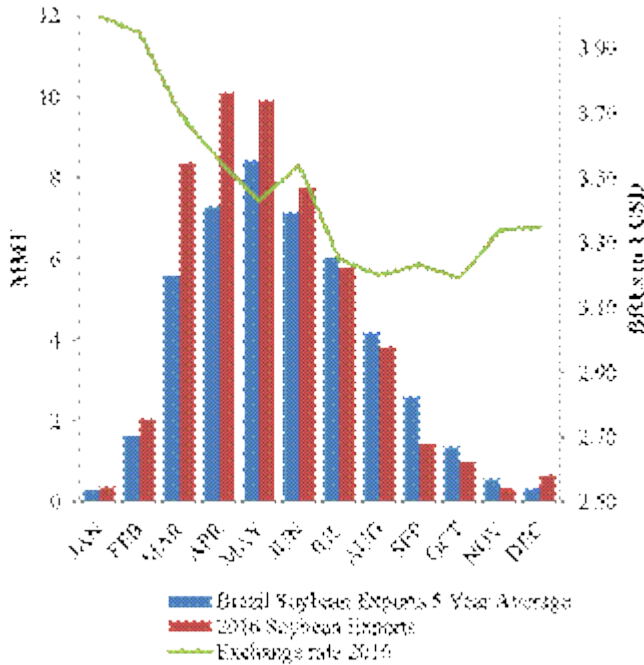
Expectations of a weaker Real later in the year is making producers hold sales compared to last year, as a weaker Real usually translates to improved domestic prices in Brazil. Looking at the first half of 2016, exports were above of the 5-year average due to the attractive domestic market. During the second half of 2016, the pace was below the 5-year average as the Real started to appreciate and farmers held back sales (Graph 2). On the other hand, some producers are keeping an eye on weather forecasts and planting intentions in the United States as it can trigger a recovery in global prices.

On infrastructure, there were concerns regarding soybean exports after heavy rains in areas along highway BR-163 in northern Brazil. After being inaccessible for several weeks due to heavy rains and poor road conditions, the flow of trucks north to the Amazon River is now back to normal. Despite potential traffic jams along the main soybean export corridors do to the massive crop and high level of exports, Brazil should be able to reach the export forecast for MY 2016/17.

Graph 1: Brazilian Real's Exchange Rate Against U.S. Dollar (January 2016-March 2017)



Graph 2: 2016 Brazilian Soybean Exports and Exchange Rates



Source: G15

Table 1. Brazil Soybean Marketing Year Exports (in MT)

Brazil Export Statistics				
Commodity: Soybeans, Group 57 (2012)				
Marketing Year (February-January)				
Partner Country	Unit	Quantity		
		2013/14	2014/15	2015/16
World	T	45,746,729	54,633,334	52,099,270
China	T	32,649,571	41,239,344	38,995,388
Spain	T	2,120,346	2,376,257	1,621,691
Thailand	T	1,303,556	1,733,596	1,553,300
Netherlands	T	2,000,436	1,496,072	1,490,261
Iran	T	66,611	551,592	1,182,706
Russia	T	557,703	527,033	1,044,454
Taiwan	T	724,678	1,008,382	875,521
Germany	T	650,111	458,583	758,937
Korea South	T	425,785	727,113	524,340

Source: Global Trade Atlas

*Marketing Year: For 2015/16, it runs from February 2016 to January 2017

IMPORTS

In the last five years, soybean imports from Paraguay became a good option for Brazilian processing plants in states bordering the country. Even though insignificant compared to Brazil's total exports, the growth indicated an interesting dynamic. Since imports from Mercosur members, like Paraguay, enter Brazil duty free, some crushers are avoiding the Circulation of Goods and Services Tax (ICMS) incurred by cross-state trade.

However, abundant domestic supplies as a result of a bumper crop and high stocks will reduce the need for imports. For MY 2017/18, post forecasts imports to decrease to 125,000 metric tons (MT), mainly from Paraguay. For MY 2016/17, imports are reduced to 200,000 mmt.

Table 2. Brazil Soybean Imports (in MT)

Brazil Import Statistics				
Commodity: Soybeans, Group 57 (2012)				
Marketing Year (February - January)				
Partner Country	Unit	Quantity		
		2013/14	2014/15	2015/16
World	T	579,216	329,204	361,970
Paraguay	T	579,140	328,154	361,296
Argentina	T	75	1,050	671

Source: Global Trade Atlas

*Marketing Year: For 2015/16 (February 2016 to January 2017)

STOCKS AND DOMESTIC SOYBEAN PRICES

The biggest story in Brazil for MY 2017/18 is shaping up to be the high beginning stocks expected and low domestic prices. Beginning stocks are forecast to be 5.3 mmt, the largest since MY 2009/10, which will continue to put downward pressure on prices. The record crop for 2016/17, the high carry over expected for 2017/18, and current exchange rate levels are already impacting prices, which in March dropped by 7 percent compared to the same time last year.

Table 3: Average Monthly Soybean Prices

(Prices* in R\$ per 60 kg)

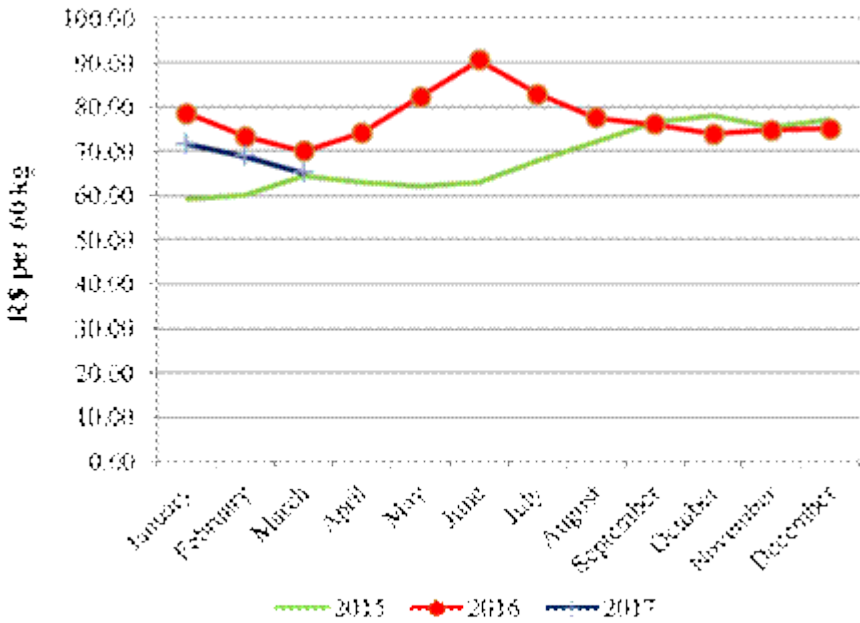
	2014	2015	2016	2017	2016/17 % Change
January	67.43	59.29	78.46	71.57	-9%
February	66.87	60.20	73.32	68.77	-6%
March	68.78	64.35	69.95	65.06	-7%
April	67.89	63.00	74.12		
May	67.81	62.09	82.28		
June	67.54	62.96	90.59		
July	63.72	67.83	82.83		
August	63.45	72.17	77.57		
September	58.94	76.62	76.13		
October	59.58	78.13	73.96		
November	63.01	75.48	74.72		
December	62.42	77.07	75.06		

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 December 26 – R\$3.30/US\$

Graph 3: Evolution of Monthly Prices (2015-2017) in Brazilian Reals



Source: CEPEA
 *Average monthly price in the state of Paraná

MEAL SECTION

Post forecasts soybean meal production for 2017/18 MY at 33.3 mmt as a result of higher export and domestic demand. For the current 2015/16 MY, post forecasts soybean meal production at 32.8 mmt. These increases are a result of higher demand due to lower domestic soybean prices and increasing export demand.

Domestically, Brazil’s feed sector continues to use soybean meal as the second most important ingredient for animal feeding. After a 7.3% fall in real Gross Domestic Product between 2015 and 2016, policy adjustments are bolstering confidence and a mild recovery is expected for 2017 and 2018. This should help increase domestic consumption of meat products this year and next. Domestic consumption of soybean meal in MY 2017/18 is forecast at 17.2 mmt. For MY 2016/17, domestic consumption is forecast at 16.7 mmt.

Despite a reduction in exports due to the lower available supplies in MY 2015/16 as a result of the drought, exports are forecast to continue its upward trend in MY 2017/18 and MY 2016/17. Higher demand in Asian markets is bolstering exports. Exports for MY 2017/18 are forecast at 16.1 mmt and 15.8 mmt for MY 2016/17.

Table 4: Brazil Exports Statistics for Soybean Meal (in MT)

Brazil Export Statistics				
Commodity: Soybean Meal, Group 43 (2012)				
Marketing Year (February – January)				
Partner Country	Unit	Quantity		
		2013/14	2014/15	2015/16
World	T	13,720,780	15,105,457	14,650,497
Netherlands	T	3,294,853	3,203,479	2,861,165
France	T	1,748,190	1,839,099	1,713,072
Korea South	T	895,758	1,070,605	1,562,757
Thailand	T	1,199,598	1,301,614	1,490,057
Indonesia	T	1,479,231	1,991,428	1,465,265
Germany	T	1,403,228	1,484,005	1,369,762
Slovenia	T	607,278	758,689	837,501
Iran	T	231,523	434,170	758,614
Spain	T	509,992	472,428	500,536
Japan	T	127,326	61,547	284,019
Vietnam	T	294,243	594,974	256,804

Source: Global Trade Atlas

*Marketing Year: For 2015/16 (February 2016 to January 2017)

SOYBEAN OIL SECTION

Post forecasts 2017/18 MY soybean oil production at a record 8.25 mmt as a result of a higher biodiesel mandate as well as a recovery in the domestic economy. For 2016/17 MY, post forecasts production at 8.15 mmt as a result of the current B8 mandate.

As part of the new biodiesel regulation, the sector will see an increase to B9 and B10 in the next year, but the sector is already thinking of anticipating the mandate based on studies. In the next few months, the government will consider increasing the B9 mandate in July 2017 and the B10 in March

2018. As a result, MY 2017/18 total domestic consumption is forecast at 6.8 mmt, 100,000 mt higher than MY 2016/17.

STATISTICS

Oilseed, Soybean (Local)	2015/2016		2016/2017		2017/2018	
Market Begin Year	Feb 2016		Feb 2017		Feb 2018	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	33300	33300	33900	33900	0	34400
Area Harvested	33300	33300	33900	33900	0	34400
Beginning Stocks	650	650	2710	2710	0	5310
Production	96500	96500	108000	110000	0	105000
MY Imports	380	380	350	200	0	125
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	97530	97530	111060	112910	0	110435
MY Exports	52100	52100	62200	61500	0	60000
MY Exp. to EU	6000	6000	6200	6200	0	6200
Crush	39220	39220	41500	42500	0	43000
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	3500	3500	3610	3600	0	3600
Total Dom. Cons.	42720	42720	45110	46100	0	46600
Ending Stocks	2710	2710	3750	5310	0	3835
Total Distribution	97530	97530	111060	112910	0	110435
CY Imports	382	382	350	200	0	100
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	51582	51582	62175	61000	0	59500
CY Exp. to U.S.	0	0	0	0	0	0
Yield	2.8979	2.8979	3.1858	3.2448	0	3.0523
(1000 HA) ,(1000 MT) ,(MT/HA)						

Meal, Soybean (Local)	2015/2016	2016/2017	2017/2018
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Market Begin Year	Feb 2016		Feb 2017		Feb 2018	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	39220	39220	41500	42500	0	43000
Extr. Rate, 999.9999	0.7741	0.7741	0.7735	0.7718	0	0.7744
Beginning Stocks	3895	3895	3431	3431	0	3732
Production	30360	30360	32100	32800	0	33300
MY Imports	27	27	20	1	0	0
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	34282	34282	35551	36232	0	37032
MY Exports	14651	14651	15200	15800	0	16100
MY Exp. to EU	10800	10800	10700	10800	0	10900
Industrial Dom. Cons.	0	0	0	0	0	0
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	16200	16200	16800	16700	0	17200
Total Dom. Cons.	16200	16200	16800	16700	0	17200
Ending Stocks	3431	3431	3551	3732	0	3732
Total Distribution	34282	34282	35551	36232	0	37032

(1000 MT) ,(PERCENT)

Oil, Soybean (Local)	2015/2016		2016/2017		2017/2018	
Market Begin Year	May 2015		Feb 2016		Feb 2017	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	39220	39220	41500	42500	0	43000
Extr. Rate, 999.9999	0.192	0.192	0.192	0.1918	0	0.1919
Beginning Stocks	446	446	381	381	0	271
Production	7530	7530	7970	8150	0	8250
MY Imports	75	75	40	40	0	75
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	8051	8051	8391	8571	0	8596
MY Exports	1250	1250	1500	1600	0	1600
MY Exp. to EU	50	50	50	50	0	50
Industrial Dom. Cons.	2840	2840	2875	3100	0	3200
Food Use Dom. Cons.	3580	3580	3630	3600	0	3600
Feed Waste Dom. Cons.	0	0	0	0	0	0
Total Dom. Cons.	6420	6420	6505	6700	0	6800
Ending Stocks	381	381	386	271	0	196
Total Distribution	8051	8051	8391	8571	0	8596
(1000 MT) ,(PERCENT)						