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Brazil

Oilseeds and Products Update

Soybean Production Forecast Increased to Record 89.5 Million Metric Tons (mmt), Exports Forecast at Record 46 mmt, Despite Logistical Challenges

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Report Highlights:

Brazil's 2013/14 soybean production forecast is raised to 89.5 million metric tons (mmt), based on increased hectares planted to soybeans and higher-than-expected yields from early-maturing soybean varieties. Post raises the export forecast to 46 mmt, though uncertainty persists in transportation logistics and global market prices. With the crushing forecast at 38 mmt, the industry has experienced marginal growth in the face of diminishing soybean oil margins.

Post:
Brasilia

Commodities:
Oilseed, Soybean (Local)

Oilseed, Soybean (Local) Brazil	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Feb 2012		Market Year Begin: Feb 2013		Market Year Begin: Feb 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	25,000	25,000	27,700	27,700	29,500	29,400
Area Harvested	25,000	25,000	27,700	27,700	29,500	29,400
Beginning Stocks	5,470	5,470	1,183	1,183	1,873	1,873
Production	66,500	66,500	82,000	82,000	89,000	89,500
MY Imports	298	298	240	240	150	200
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	72,268	72,268	83,423	83,423	91,023	91,573
MY Exports	31,905	31,905	42,950	43,000	44,500	46,000
MY Exp. to EU	5,600	5,600	5,800	5,800	6,000	5,800
Crush	36,230	36,230	35,600	35,600	37,625	38,000
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	2,950	2,950	3,000	3,000	3,175	3,200
Total Dom. Cons.	39,180	39,180	38,600	38,600	40,800	41,200
Ending Stocks	1,183	1,183	1,873	1,873	5,723	4,373
Total Distribution	72,268	72,268	83,423	83,473	91,023	91,573
1000 HA, 1000 MT						

2013/14 Soybean Production Forecast Raised to 89.5 million metric tons

Post raises the soybean production forecast to 89.5 million metric tons (mmt), based on increased hectares planted to soybeans and higher-than-expected yields from early-maturing soybean varieties. With only a few minor problems along the way, 2013/14 soybean planting has concluded very well and total area planted to soybeans is estimated at a record 29.4 million hectares. However, there are some areas like the state of Piauí that are still planting in January. Area expansions are being reported in every state, and national area is an estimated six percent larger than 2012/13. In the final days of 2013, some farmers across the biggest soybean-producing state of Mato Grosso began harvesting early-maturing soybeans. Mato Grosso reported that 4.2 percent of its crop had been harvested by mid-January. The state of Paraná began its 2013/14 harvest in the western part of the state in mid-January. Early-maturing soybean varieties have surpassed producers' yield expectations, a validation of the current trend of raising domestic production. Second-crop soybeans in Mato Grosso continue to be estimated at 300,000-400,000 hectares.

Parts of Brazil have experienced irregular rains in late December and early January, which some analysts have termed a *veranico*, or an extended dry spell. The mild disruption in precipitation does not appear to have had any significant impact on production. The states of Mato Grosso do Sul and Goiás both reported that they expect a ten percent decrease in productivity, but these reports may have been premature and yields are likely to make a rebound.

Production costs are constantly being revised upwards for soybean farmers, but the markets are indicating that farmers will still benefit from high margins and liquidity. With a record harvest,

transportation costs and storage costs are estimated to rise. Costs to control the *Helicoverpa* earworm and soybean rust—the prevalence of soybean rust has increased in proportion to the regular rainfalls—are also adding to farmers’ production costs. Finally, farmers are investing more in herbicides to manage volunteer RR corn from the 2012/13 second-crop corn in their soybean fields. Analysts speculate that some seed from the second-crop corn was left inadvertently as refuse in the fields but then germinated along with the soybeans thanks to the favorable rains. As farmers cannot manage the volunteer RR corn with glyphosate, they must purchase other herbicides. Producers have emphasized that this new farm management hurdle is not so much difficult as it is costly. Despite these additional production costs—some estimates are as high as 35 percent—robust market prices are expected to compensate producers. Market prices are predicated on an expected strong demand for soybean exports. Forecast at 50 percent of the harvest, forward sales continue sluggish in contrast to 2012/13. As the harvest has come online, prices have marginally dropped and there has been an uptick in sales.

With the Cooperation of Market Prices, the Record Harvest is Projected to Bolster Record Exports, Forecast at 46 mmt

Post raises soybean exports to a record 46 mmt. With a forecast record harvest in the hopper, Brazil will have an ample supply to meet the needs of the international market. Transportation from the field to the port, and subsequently loading at the port will continue to be the biggest challenges for commodity traders. Transportation and logistical improvements from 2013 to 2014 are marginal and hence these improvements are expected to proffer only marginal relief.

Some interesting export trends:

- Reduced costs along BR-163. In November of 2013, a section of Brazil’s critical soybean artery, highway BR-163, was auctioned to the private sector. The auctioned section stretches from the northern city of Sorriso to the southern city of Itiquira, bordering the state of Mato Grosso do Sul. The auctioned stretch of highway is used to transport approximately 11 mmt of soybeans, i.e. half the state’s soybean production. The road improvements from this privatization are expected to reduce transportation costs by 11 percent.
- The continued, gradual shift of soybean exports from southern/southeastern ports to northern and northeastern ports. See [GAIN Report BR0924 North and Northeast Brazil Port Infrastructure Report](#) for further detail.
- With an export growth of 132 percent in 2013, the southern Port of Rio Grande exported more soybeans than the Port of Paranaguá. During the critical export window, Rio Grande’s wait times for trucks to unload were 15 days, contrasting with Paranaguá’s 100 day wait time.

Any export euphoria is tempered by concerns of uncertainty in global demand and exchange rate movements. While China has proven itself a rather reliable buyer of Brazilian soybeans, this does not amount to certainty in the market. The Brazilian Real has begun to strengthen in the last couple weeks after nearly six months of gradual depreciation. The strengthening of the Real will reduce the competitiveness of Brazil’s soybean exports. In 2013, Brazil’s agricultural exports reached a record of almost \$US100 million. Soybeans were the single largest export line item, responsible for 23 percent of Brazil’s agricultural exports.

Crushing Industry with Limited Growth

2013/14 crush is forecast at 38 mmt, a five percent increase. Studies indicate that crushing margins have been down for 2013. While traditionally in the commodity markets soy oil has been valued at three times the price of unprocessed soybeans, as the 2013 margins in Chicago dropped to a ratio of 2.2, in Brazil the margins dropped to a ratio of less than 2. Hence, while soybean production in 2012/13 grew by 20 percent, the crushing industry grew by five percent. The diminished margins are explained by large influxes of palm oil into the global market. The perennial crops are reaching the apex of their production cycle, eight years after planting, a reflection of the large-scale investments in palm oil production in Asia in the early 2000s. In addition to these lower crushing margins, soybean oil and meal exports continue to be left out of the tax credit program that benefits unprocessed soybean exports. Despite falling soybean oil prices, soybean meal prices increased in 2013. While crushing is estimated to marginally grow in 2013/14, these factors will inhibit faster growth rates.

Related Reports:

[GAIN Report BR0922 December 2013 Brazil Soybean Update Report](#)

[GAIN Report BR0918 October 2013 Brazil Soybean Update Report](#)

[GAIN Report BR0924 North and Northeast Brazil Port Infrastructure Report](#)