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Brazil

Grain and Feed Update

Record U.S. Wheat Imports Forecast, with Domestic Production at 5-Year Low; 2013 Corn Production on Target, Record Exports for 2012; Steady Rice Scenario

Approved By:

Robert Hoff

Prepared By:

Caleb O'Kray

Report Highlights:

The 2012/13 wheat production estimate is revised downwards by ten percent due to volatile weather. With limited wheat supplies in South America, Brazil will need to look to import North American wheat. Post forecasts 2012/13 corn production at 72.5 million metric tons, with some producers opting out of second crop corn production due to delayed soybean planting. The rice production forecast is raised slightly thanks to favorable weather in the South. Low rice stocks continue to concern producers.

Post:
Brasilia

Commodities:

WHEAT

Wheat Brazil	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,150	2,150	2,170	2,170	1,900	1,900
Beginning Stocks	2,598	2,598	1,862	1,862	1,734	1,734
Production	5,900	5,900	5,800	5,800	4,800	4,300
MY Imports	6,699	6,699	7,308	7,308	7,500	7,400
TY Imports	6,746	6,746	7,052	7,052	7,500	7,300
TY Imp. from U.S.	405	405	108	108	0	1,500
Total Supply	15,197	15,197	14,970	14,970	14,034	13,434
MY Exports	2,535	2,535	2,036	2,036	1,500	1,300
TY Exports	2,539	2,539	1,860	1,860	1,500	1,500
Feed and Residual	200	200	500	500	300	400
FSI Consumption	10,600	10,600	10,700	10,700	10,800	10,700
Total Consumption	10,800	10,800	11,200	11,200	11,100	11,100
Ending Stocks	1,862	1,862	1,734	1,734	1,434	1,034
Total Distribution	15,197	15,197	14,970	14,970	14,034	13,434
1000 HA, 1000 MT, MT/HA						

2012/13 Wheat Supplies:

Post lowered the 2012/13 wheat production estimate to 4.3 million metric tons (mmt), the lowest wheat production in five years. This sizeable and significant loss is attributed to frosts and constant precipitation during the harvest.

The state of Rio Grande do Sul estimated its final 2012/13 wheat production at 1.95 mmt, a 23 percent decrease from the 2.5 mmt harvest that the state had projected. Rio Grande do Sul was the only state in Brazil to increase area planted to wheat (five percent) in 2012/13, but the reduced harvest, concluding in early December, reflected severe losses. Adverse weather events, ranging from late frosts and constant rains during the flowering and grain filling stages, significantly pulled down the average yields in the state of Rio Grande do Sul, initially projected at 1.96 mt/ha. In many cases, the state's wheat no longer has the necessary quality for domestic milling (pH levels averaged 72), which was also a consequence of the weather.

The state of Paraná has decreased by 30 percent the area planted to wheat over the last two years. In spite of the current wheat production doldrums, Parana's cooperative organization, OCEPAR, has stated that national wheat production has the potential to reach five million hectares, representing a 250 percent increase over the 2012/13 production area. While Brazilian wheat producers may argue wheat production has not reached its potential due to the absence of political support, wheat prospects tend to measure poorly against soybean and corn prospects. Provided they have the right climate and financing, many producers are opting to farm corn and soybeans instead of wheat, citing as reasons the prospects for greater profits and liquidity, and a desire for lower risk. Despite the decrease in production, Paraná's

2012/13 wheat quality (pH levels averaged 78) was better than the prior year and superior to Rio Grande do Sul's wheat.

On December 13, 2012, Brazil's House of Representatives approved a measure to extend till December 2013 the PIS/Cofins tax (a federal receipt tax, similar to the VAT) exemption for wheat, wheat flour, and pre-mixes.

2012/13 Wheat Consumption:

Bucking the trends of relatively lower commodity prices during and after the harvest, domestic wheat prices have continued to remain high, currently around US\$370 (R\$750)/mt for Paraná wheat. The robust prices do not reflect the quality of the wheat so much as the scarcity in the market, even immediately post-harvest. Millers and processors have reported the price crunch is very atypical for this time of year and that the added price will be reflected in wheat derivative products on the market.

2012/13 Wheat Trade:

Post anticipates that Brazil will increase its 2012/13 imports to 7.4 mmt, accentuating even more its role as already one of the world's largest wheat importers. Higher wheat imports become imperative with the short domestic crop and steady consumption trends. While Argentina has been Brazil's primary traditional wheat supplier, analysts are now estimating that in order to meet the domestic demand Brazil will need to import 2.5-3.0 mmt of wheat from North America, conservatively estimating 1.5 mmt from the United States.

Argentina's short supply has been a concern for the Brazilian wheat industry. The Argentine government suspended wheat export shipments till mid-December, 2012. Since then, Argentine wheat has been flowing steadily into southern Brazil. A March 6, 2013 meeting is scheduled between the Argentine government and traders to determine the amount of export licenses that will be made available. The Brazilian industry continues to criticize Argentina's wheat export policies, which have facilitated and created an incentive for exporting flour as opposed to wheat, a move frustrating Brazilian millers. According to Abitrito, Brazil's flour imports from Argentina have grown over 300 percent.

While the Ministry of Agriculture, Livestock and Food Supply (MAPA) does not typically publish the winter crop minimum prices until May, the deadline for the National Food Supply Company (Conab) market analysts around the country to submit proposals for the minimum prices in their respective regions was December 14, 2012.

**Commodities:
CORN**

Corn Brazil	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Mar 2011		Market Year Begin: Mar 2012		Market Year Begin: Mar 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	13,800	13,800	15,200	15,178	15,500	14,900
Beginning Stocks	9,989	9,989	10,276	10,276	10,076	9,807
Production	57,400	57,400	73,000	72,731	71,000	72,500
MY Imports	791	791	800	800	800	800
TY Imports	287	287	937	942	800	800
TY Imp. from U.S.	0	0	0	0	0	
Total Supply	68,180	68,180	84,076	83,807	81,876	83,107
MY Exports	8,404	8,404	21,500	21,500	17,500	18,000
TY Exports	11,583	11,583	12,674	12,685	22,500	20,000
Feed and Residual	42,500	42,500	45,000	45,000	47,000	47,000
FSI Consumption	7,000	7,000	7,500	7,500	8,000	8,000
Total Consumption	49,500	49,500	52,500	52,500	55,000	55,000
Ending Stocks	10,276	10,276	10,076	9,807	9,376	10,107
Total Distribution	68,180	68,180	84,076	83,807	81,876	83,107

1000 HA, 1000 MT, MT/HA

2012/2013 Corn Supplies:

2012/13 area planted to corn is revised downwards to 14.9 million hectares. The reduction in area planted to corn comes from a projected diminished second crop. Many Center-West farmers will opt out of second crop corn production due to the soybean planting delays, which push back soybean harvests dates and subsequently narrow or eliminate the planting window for second crop corn. Robust first crop corn yields in southern Brazil help the 2012/13 production forecast stand at 72.5 mmt. Forecast corn production is the second highest on record. Uncertainty remains concerning the final production statistics as they will depend on producers' final—and frequently eleventh hour—planting decisions and the extent to which the rains continue in April.

Mato Grosso: Despite the intentions of many producers in the state of Mato Grosso to plant second crop corn, the delayed soybean planting is anticipated to reduce the state's production by six percent. The late soybean plantings will impact not only the amount of area planted to second crop corn but also the yields. As the yields typically are predicated on rainfall, the later the second crop corn is planted, the less rainfall the crops are likely to receive. It is conceivable that many farmers will rationalize planting second crop corn late in the season to be too risky and will opt out for the season. Nevertheless, a wild card is also possible: producers may hedge on profits for planting corn even if the corn is planted late. It would not be the first time. As many producers are using early-maturing soybean varieties, the logic continues to be to plant second crop corn as soon as possible. Many producers target late January. Other producers believe early February is ideal. Anecdotally, some hold February 20 to be the cut-off date. Early March has even been floated as a still viable planting date for second crop corn production—though this may difficult as traditionally rainfall ceases in early April and the corn harvest does best with 60 days of rain. Essentially, the final planting dates will be determined by (i) the region of the state, (ii) the defined agricultural zoning for climate-related risk, which MAPA published for the 2012/13 second corn crop at the end of November, and (iii) producer risk tolerance levels.

Goiás: Goiás is reporting reduced area for second crop corn planting also due to the delayed soybean planting, caused by the late precipitation.

2012/2013 Corn Consumption:

The municipality of Lucas do Rio Verde, a hub of agricultural production in the heart of Mato Grosso, is reportedly investing US\$100 million for the construction of a corn-based ethanol plant. Construction may begin as early as the second half of 2013. The plant is estimating that it will initially use 480,000 mt of corn to produce 190 million liters of ethanol. Production byproducts, dried distiller grains with solubles (DDGS), will be used as animal feed for the many local livestock and poultry facilities. This will be Brazil's second corn-based ethanol plant, both of which will be located in Mato Grosso.

2013/2013 Corn Trade:

2012/13 corn exports are forecast at 18 mmt. With a forecast production of 72.5 mmt, Brazil will have a vast supply for export. 2012/13 exports in many ways should mirror the exports of 2011/12. However, Brazil may face competition (absent in 2012 due to the drought) in export markets from the United States, contingent on the U.S. 2013 harvest. Nonetheless, Brazil is now the world's second biggest corn exporter, overtaking Argentina for the first time on record.

2011/2012 Corn Consumption:

Exports have provided a significant boost to domestic corn prices, in spite of the record harvest.

Reports are indicating that sales of 2011/12 corn stocks are progressing slower than the forward sales for the 2012/13 corn, which are currently forecast at 40 percent.

Government programs continue to operate actively for corn, involving the Value for Marketing Products Program (VEP), the Federal Government Acquisitions Program (AGR), and, in a first for corn, its exchange program ("Troca"). After months of waiting, poultry and livestock producers in the state of Rio Grande do Sul began receiving Conab-subsidized corn in late October. Rio Grande do Sul joined its southern neighboring state of Santa Catarina, whose poultry and livestock industry has been receiving Conab-subsidized corn shipments to the tune of 1,200 mt per day. The exchange program sold unprocessed corn for a simultaneous purchase of bags of corn, all destined for the drought-stricken northeastern state of Ceará.

The Value for Marketing Product Program (VEP): VEP is the sister program of Brazil's Premium for Product Outflow Program (PEP). When market prices dip below the official minimum price, Conab uses PEP auctions to negotiate contracts for private stocks at the market price plus a premium paid by the government. VEP functions in the same way except that Conab auctions public stocks instead of private ones. In late May, the Brazilian Government announced that it would auction 500,000 mt of public stocks of corn to supply the drought-stricken regions of the Northeast. Since then, multiple VEP auctions have taken place. All VEP auctions have specified that the purchases must have specified states in the North and Northeast as their final destination. These announcements preclude the option of international exportation. The corn has predominantly come from the states of Mato Grosso and Goiás, and to a lesser degree, Bahia.

2012 VEP CORN AUCTIONS			
	Auctioned (1,000 mt)	Sold (1,000 mt)	Premium (US\$)
June	120.00	37.72	\$5,375,270
July	54.34	5.97	\$803,808
Aug	131.54	47.44	\$8,892,628
Sept	90.02	44.07	\$7,198,234
Oct	120.01	77.44	\$12,112,109
Total	515.91	212.64	\$34,382,048

2011/2012 Corn Trade:

2011/12 corn exports are estimated at a record 21.5 mmt, more than double Brazil's corn exports in 2010/11. October and November registered all-time export records, 3.7 and 3.9 mmt respectively, challenging the logistical capacity of the corn export supply chain.

EU Approval of MIR 162 a Boon for Brazilian Corn Exports: The EU's approval of corn variety MIR 162 on October 22, 2012, has paved the way for Brazilian corn to supplement short corn supplies in the EU. Approved by Brazil's biotechnology regulatory body, CTNBio, in September 2009, MIR 162 was first planted in Brazil for the 2010/11 corn harvest.

A summary of Brazil's 2012 Largest Corn Export Markets:

- **Iran:** Brazil's largest corn export market, Iran imported 2.8 mmt of Brazilian corn, a 278 percent growth in comparison to 2011.
- **Japan:** A traditional U.S. corn export market, Japan imported 2.4 mmt of Brazilian corn, a 281 percent increase in comparison to 2011.
- **Others:** South Korea, Taiwan, Egypt, Morocco, Mexico, Argentina, the United States, and China (80,000 mt).

Commodities:
RICE, MILLED

Rice, Milled Brazil	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Apr 2011		Market Year Begin: Apr 2012		Market Year Begin: Apr 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,833	2,833	2,427	2,427	2,420	2,400
Beginning Stocks	550	550	803	803	391	531
Milled Production	9,300	9,300	7,888	7,888	8,160	8,160
Rough Production	13,676	13,676	11,600	11,600	12,000	12,000
Milling Rate (.9999)	6,800	6,800	6,800	6,800	6,800	6,800
MY Imports	632	632	750	740	750	700
TY Imports	591	591	720	740	750	700
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	10,482	10,482	9,441	9,431	9,301	9,391
MY Exports	1,479	1,479	1,000	1,000	750	800
TY Exports	1,296	1,296	1,200	1,153	800	800
Consumption and Residual	8,200	8,200	8,050	7,900	8,050	7,900
Ending Stocks	803	803	391	531	501	691
Total Distribution	10,482	10,482	9,441	9,431	9,301	9,391
1000 HA, 1000 MT, MT/HA						

2012/2013 Rice Supplies:

The 2012/13 production forecast for Brazil's rough rice production stands at 12 mmt, reflecting the anticipated yield increases from robust crop development thus far. Area planted to rice remains steady at 2.4 million hectares.

Despite producers' earlier concerns about a shortage of water supplies for rice irrigation, water supplies have proved sufficient for production in Rio Grande do Sul. Planting concluded in mid-December. Overall, producers seem very pleased with the quality and vigor of the planted regions, auguring well for the 2012/13 harvest. Average yields are forecast at 7.5 mt/ha. Santa Catarina, the second largest producer state, is expected to reduce slightly its production, estimated at 1 mmt.

Production in Mato Grosso will continue to occupy a smaller profile. Rice production had been a preferred method to introduce a first crop into crop area converted from degraded pastures, before planting soybeans. Thanks to soybean prices and new soybean varieties and their better yields, many producers now, however, are choosing to introduce soybeans directly into the new areas, without planting rice for the first year or two. The latter method typically requires an extensive application of lime to balance the soil pH for soybean production. Many producers in Mato Grosso, however, view rice production as a favorable crop for crop rotation in old soybean production regions. Given the distance and logistics, Mato Grosso will continue to serve as a natural rice supplier for the north and northeastern regions of Brazil.

Debt Refinancing Available: The National Monetary Council approved a proposal from Brazil's Ministry of Agriculture that would allow for the renegotiation of debts (from rice production operational costs) acquired by June, 30, 2011. With a financing period of ten years, farmers will make annual payments on their loans at the newly-established annual interest rate of 5.5 percent.

Despite strong market prices, producers are still having a tough time making ends meet. Five of the last ten harvests have ended in significant producer losses, hence indebtedness levels are high. The result is that many farmers do not have access to the capital necessary to incorporate the best technology available for production.

2012/2013 Rice Trade:

2012/13 potential regional imports may be limited, even as the short rice supply situation of 2011/12 is forecast to repeat itself in 2012/13, with domestic production rising only slightly. Brazil's rice imports tend to represent five percent or less of national production and have a ten-year average of 650,000 mt. Most of this rice comes from Brazil's Mercosul partners Argentina and Uruguay. Supplies in other Mercosul rice-producing countries dropped 16 percent in 2012; production and stocks are expected to drop even further in 2013, which may perhaps open a window for other market suppliers, like the United States.

Conab, whose traditional role has been to administer public stocks and legislatively-mandated support programs, is in the process of developing a strategic action arm. Currently only a draft law, the action arm, known as ConabPAR, would enable Conab to sell public stocks of food and grains not just internally or to foreign countries but also to private-sector companies abroad. The domestic rice industry views this as a measure to optimize Brazilian rice exports.

2011/2012 Rice Consumption:

Producers are concerned by low on-farm stocks. Stocks are low because most producers have taken advantage of the excellent rice prices over the past year, which have outstripped initial expectations. In addition, many producers have sold their rice supplies through government auctions.

Related Report References:

- [2012 Brazil Annual Grain and Feeds Report](#)
- [April 2012 Brazil Grains and Feed Update](#)
- [July 2012 Brazil Grains and Feed Update](#)
- [October 2012 Brazil Grains and Feed Update](#)