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Report Highlights:

Post's forecast for MY 2019/20 corn production is 101 MMT, matching the MY 2018/19 volume. Post raises the MY 2018/19 export estimate to a record-breaking 42.5 MMT, while MY 2019/20 exports are expected to fall to 34 million MMT on expections of stronger domestic demand, as well as severely depleted carry over. Milled rice production for MY 2019/20 is forecast at 7.14 MMT, based on year-over-year reduced area but a return to better yields. Post also raises the MY 2019/20 milled rice import forecast to 1.2 MMT, about 40 percent larger year-over-year, based on reports of Brazil's dwindling domestic stocks and high internal prices. Post lowers the estimate of MY 2019/20 wheat production to 5.15 MMT, after adverse weather hit the major production regions. Post's forecast for MY 2019/20 wheat imports remains unchanged, at 7.5 MMT, but the expected exports are lowered to 500,000 MT on reports of lower-than-anticipated production volume and quality issues with the Rio Grande do Sul crop.

Corn

Corn	2017/2018		2018/2019		2019/2020	
Market Begin Year	Mar 2018		Mar 2018		Mar 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	16600	16600	17500	17500	18100	18100
Beginning Stocks	14019	14019	9280	9093	4580	3193
Production	82000	82000	101000	101000	101000	101000
MY Imports	915	915	1500	1600	1000	1500
TY Imports	943	943	1189	1189	1300	1400
TY Imp. from U.S.	1	1	0	0	0	0
Total Supply	96934	96934	111780	111693	106580	105693
MY Exports	24154	24341	42000	42500	36000	34000
TY Exports	25116	25115	38914	39083	39500	34000
Feed and Residual	54000	54000	55200	56000	56000	57000
FSI Consumption	9500	9500	10000	10000	10000	11000
Total Consumption	63500	63500	65200	66000	66000	68000
Ending Stocks	9280	9093	4580	3193	4580	3693
Total Distribution	96934	96934	111780	111693	106580	105693
Yield	4.9398	4.9398	5.7714	5.7714	5.5801	5.5801
(1000 HA) ,(1000 MT) ,(MT/HA)						

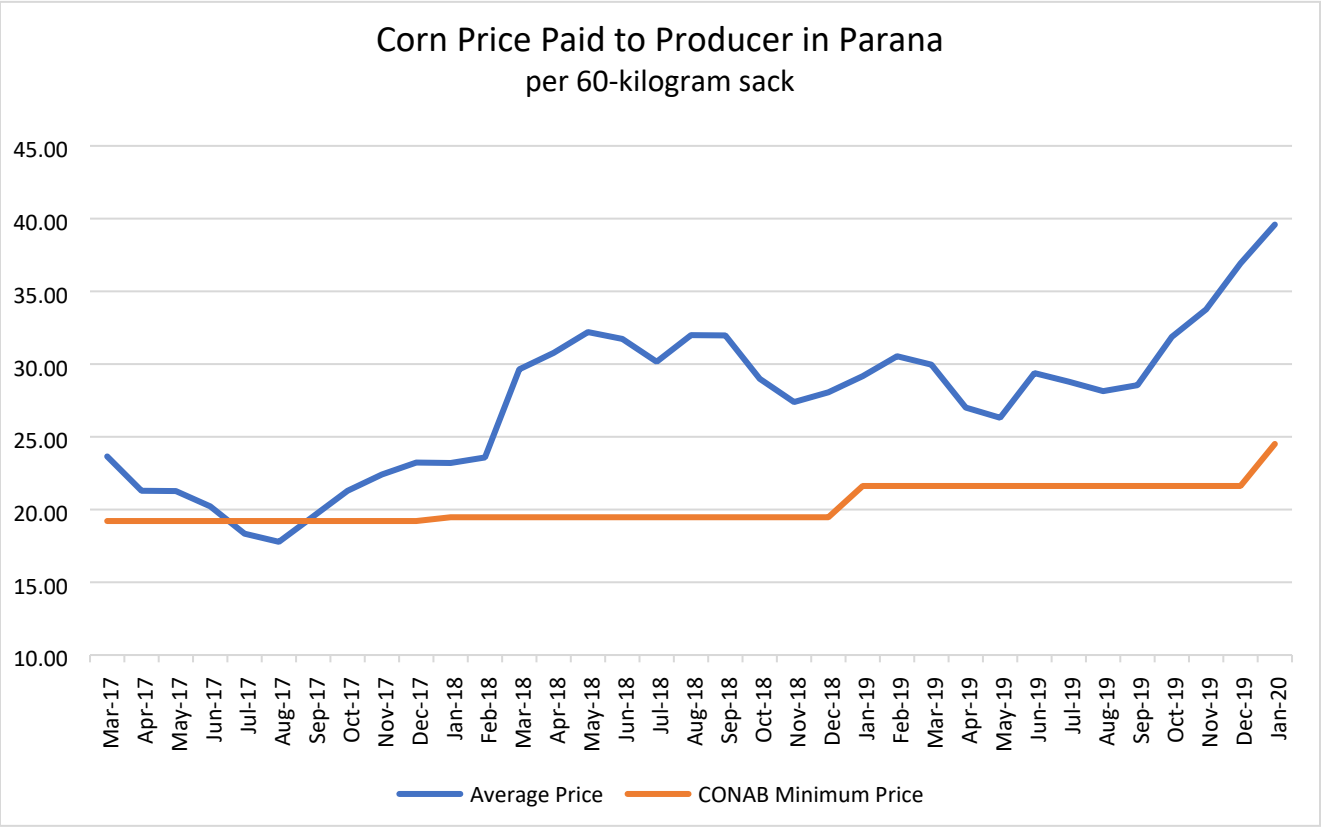
Corn Production

Post's forecast for market year (MY) 2019/20 (March 2020 – February 2021) corn production is 101 MMT, matching the MY 2018/19 volume, based on expectations of expanded area paired with a return to normal trend yields. Post also forecasts MY 2019/20 area to rise to 18.1 million hectares, 3.4 percent larger than the previous season. This is based on strong domestic demand from the poultry and livestock sectors, as well as the growing corn ethanol business. Brazil's domestic corn prices have continued to rise after record high exports in 2019, which is further incentivizing producers to plant corn. Nevertheless, the MY 2019/20 season is not without its challenges. Producers of full-season corn, largely planted in southern Brazil in competition with soy,

have experienced adverse weather in the growing season, and soy planting and harvest delays may endanger yields for second-crop corn.

Brazil's southernmost state, Rio Grande do Sul, is the country's largest producer of full-season corn, accounting for around 20 percent of the first-crop corn harvest. For MY 2019/20, Rio Grande do Sul saw a 5-percent expansion of corn area, but severe dryness and high temperatures in December affected the crop during the flowering and grain-fill stages, severely diminishing yields in some regions of the state. The hardest hit were the farmers who planted their corn fields in September, while earlier plantings in August fared much better. Famer groups in Rio Grande do Sul have reported losses of around 30 percent from initial estimate, which could amount to potential losses of as much as 4 MMT from the state's corn harvest. Some producers have reportedly already made total loss claims to government crop insurance programs. Rio Grande do Sul's corn crop is 22 percent harvested as of late January. Parana's full-season corn crop has fared better, but producers in that state reduced area by 6 percent, in favor of planting more soy. Parana's full-season corn crop is only about 1 percent harvested as of late January, with positive early reports on yields.

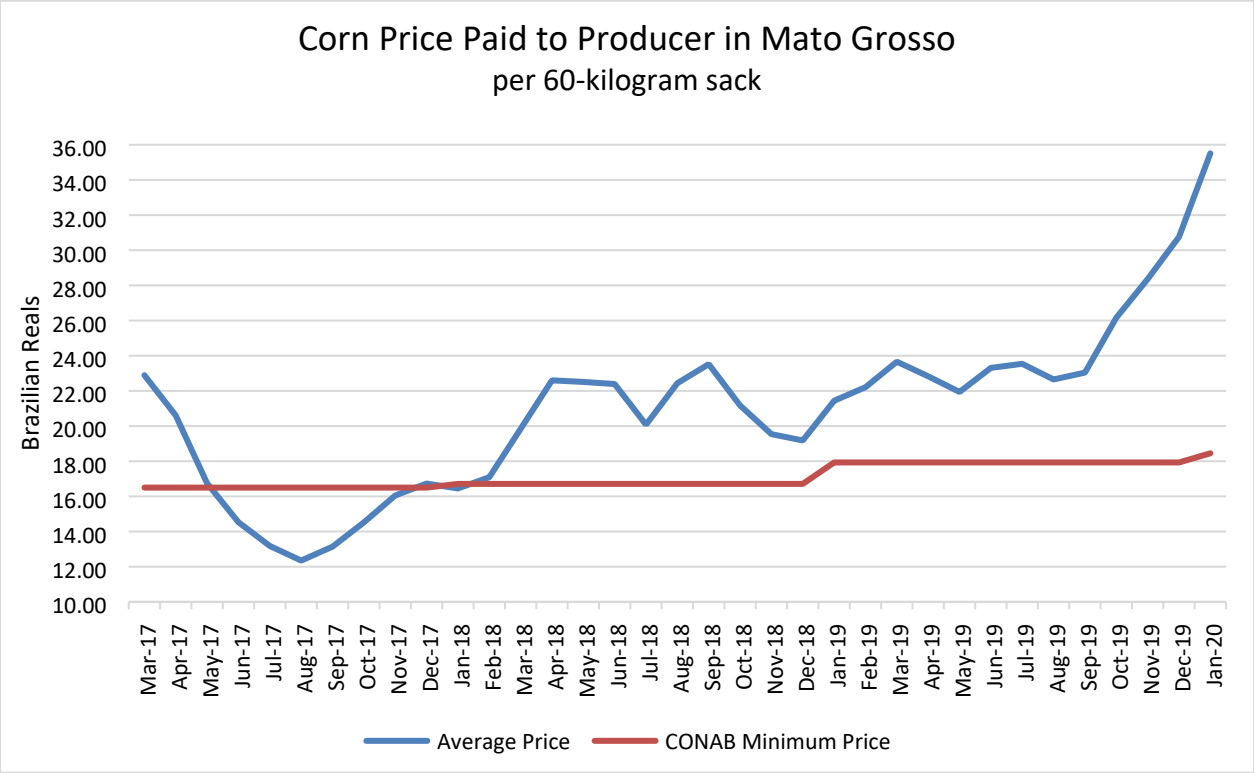
Overall, Brazil's national agricultural statistics agency, CONAB, estimates that full-season corn area grew to 4.15 million hectares, 1.1 percent more than MY 2018/19. CONAB projects MY 2019/20 full-season corn production will reach 26.6 MMT, roughly 1 MMT (3.8 percent) larger than last season. Post largely agrees with this assessment.



Data Source: CONAB

Brazil's second-crop "safrinha" corn is planted after the soy harvest, on the same land. The crop accounts for roughly three-fourths of Brazil's total corn production. As soy area has expanded in states like Mato Grosso and Parana, so too has safrinha corn area, as these regions generally have the climatic conditions to support production of two crops in the same year. However, the success of Brazil's safrinha corn crop is vulnerable to the pace of the soy harvest each year. As of late January, Brazil's soy crop is about 5 percent harvested, but the pace of the harvest – and, subsequently, the pace of safrinha corn planting – have varied greatly by region. Farmers are rushing to get the safrinha crop in the ground within the ideal planting windows. The earliest window closes around the third week of February in southern Mato Grosso do Sul and southern Parana, due to the potential for freezing temperatures in June and July. For Mato Grosso and Goias, the ideal window closes in late February, so the crop has sufficient moisture to develop before rains trail off in the dry season. Corn planted after theses dates faces considerably higher risks and may not be eligible for crop loss payments under government programs.

In the state of Mato Grosso, Brazil's largest corn producer, safrinha corn was already 9.8 percent planted as of January 24, according to the Mato Grosso Institute of Agricultural Economics (IMEA). That puts the place of planting slightly ahead of the 5-year average, and analysts expect the safrinha crop yields in Mato Grosso will fare well, as long as the rainy season does not end early. Although MY 2019/20 safrinha corn production costs have risen by nearly 10 percent year-over-year due to increased prices for crop inputs, labor, and financing, IMEA still expects, and post concurs, that Mato Grosso's safrinha corn area to expand by 2.36 percent, to 4.97 million hectares. With a return to normal trend yields (MY 2018/19 yields were exceptional due to record early planting), post expects the Mato Grosso crop could still top 31 MMT of corn this season.

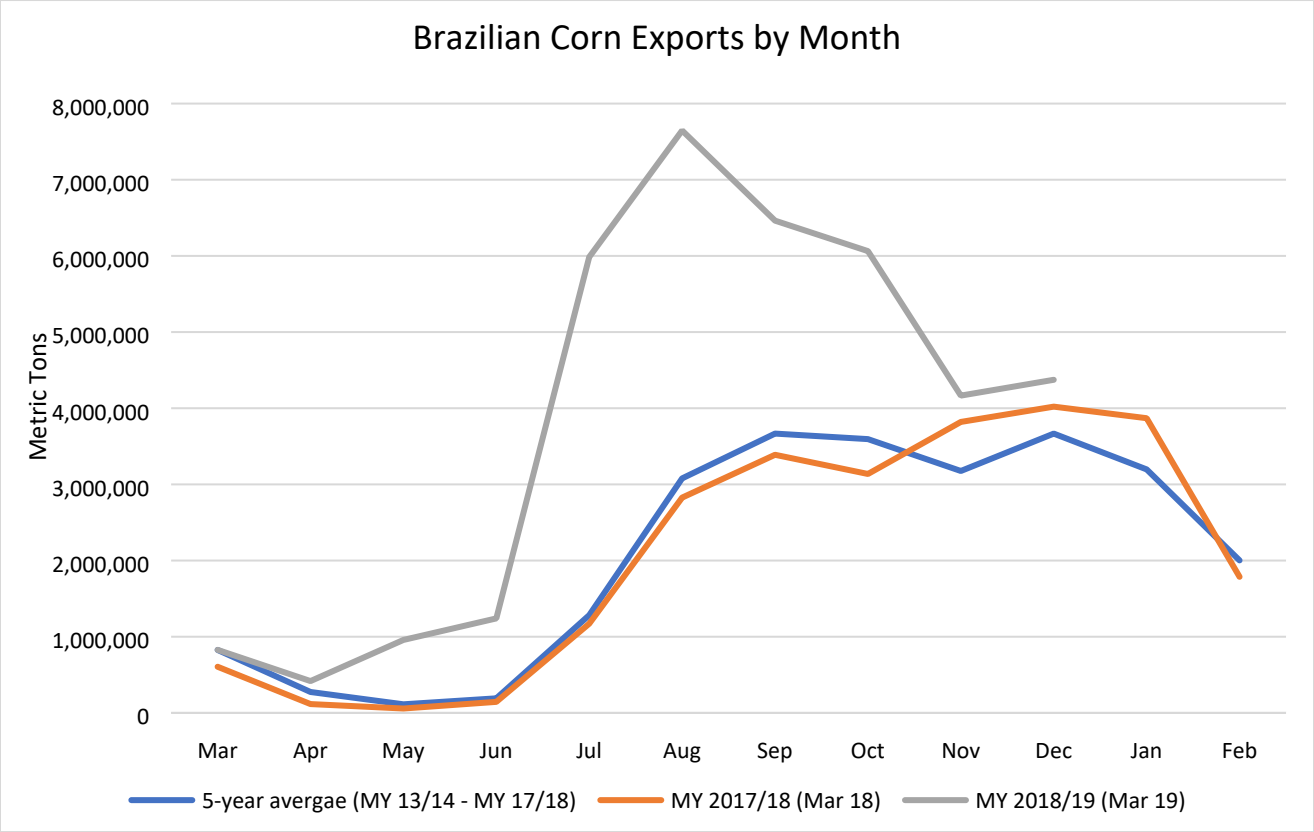


Data Source: CONAB

Parana's safrinha corn crop is facing more hurdles. The soy crop in that state was planted an average of two to three weeks later than normal, with some areas seeing delays of up to 50 days. That has pushed the soy harvest later and is subsequently affecting the timeline for safrinha corn sowing. The Parana Department of Rural Economy (DERAL) reported that the state's safrinha corn crop is about 2 percent planted, which is in line with the pace in recent years. However, post is watching closely to see if the soy harvest will advance in a timely manner. The later safrinha corn is planted in Parana, the larger the risk that the crop could be harmed by frosts as the southern hemisphere winter arrives. Already anticipating the delayed safrinha planting, Parana farmer groups have petitioned the Brazilian Ministry of Agriculture (MAPA) to extend by 10 days the regulatory deadline for planting in order to qualify for government-supported crop insurance programs necessary to help producers mitigate risk. The Organization of Cooperatives in Parana (OCEPAR) had previously applied for a 20-day extension, but MAPA denied that request.

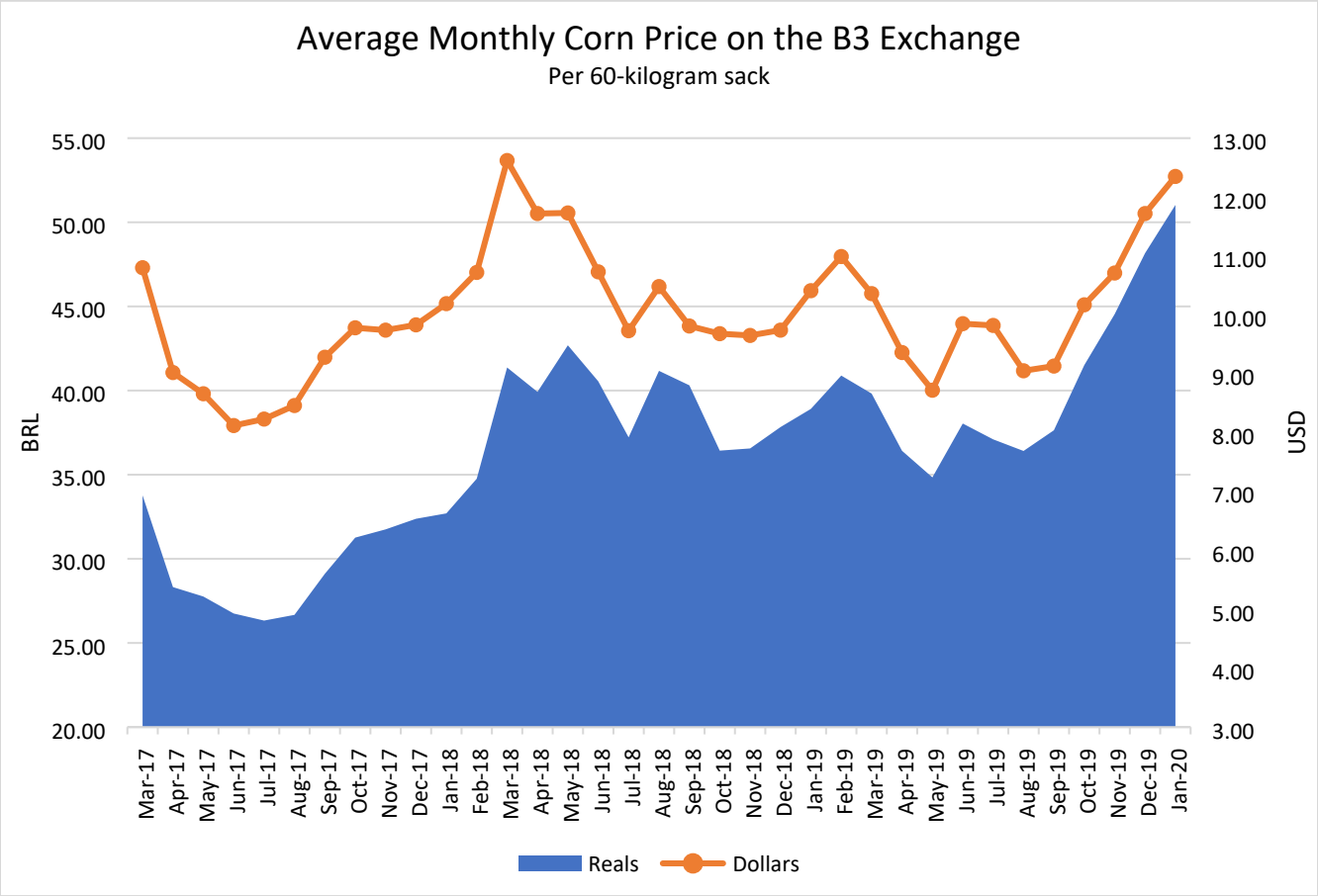
Corn Trade

Post raises the MY 2018/19 export estimate to a record-breaking 42.5 MMT, which is 5.5 MMT higher than the previous forecast and 75 percent higher than the previous season as a result of the exceptional pace of trade in late 2019. The MY 2019/20 export forecast remains unchanged at 34 million MMT, based on expections of stronger domestic demand in the coming MY, as well as severely depleted carry over from MY 2018/19. Increased domestic consumption in MY 2019/20 will come from expanding poultry and livestock sectors, and growth in corn ethanol production.



Date Source: Brazilian Foreign Trade Secretariat (SECEX)

Abundant supplies of safrinha corn, coupled with the weakened Brazilian real and weather problems for the U.S. crop, kept Brazilian corn very competitive on the international market throughout MY 2018/19. Because the real has lost value against the dollar, Brazilian producers are willing to sell corn supplies more cheaply on the international market, while still retaining a decent profit and pushing Brazil to a record 43.3 MMT of corn exported in calendar year 2019. That volume smashed the previous record set in calendar year 2017 with 29.3 MMT. Surprisingly, market prices for corn remained strong throughout 2019, unlike the collapse seen after the last record crop, in MY 2016/17.



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

For MY 2019/20, the Brazilian Association of Corn Producers (ABRAMILHO) estimates that 70 percent of the safrinha crop has already been sold, compared to 40-50 percent in recent years at this point in the season. IMEA reports forward sales of safrinha corn in Mato Grosso have reached 56.88 percent of the expected harvest, well ahead of the rate of 40.66 percent seen at this time last season. Corn futures prices in Brazil have also remained firm, as pork and poultry analysts worry domestic stocks will not be sufficient to meet the sector's needs until the safrinha harvest hits the market in June-July. CONAB-reported corn prices in Mato Grosso and Parana are both at their highest levels in at least three years. In Parana, the price of a 60-kilgram sack of corn is currently 36 percent higher than it was a year ago; in Mato Grosso, it's 66 percent more expensive.

These high prices throughout Brazil have led poultry and pork producers to go in search of cheap imports,

mostly from Mercosul-neighbor Paraguay, which shipped 620,000 MT of corn to Brazil between October and December 2019, almost double the volume from the same period a year prior. Some analysts fear that the amount of corn available in Brazil's center-south is poised to fall to a three-year low by May 2020. The Brazilian Pork and Poultry Exporters Association (ABPA) reports some companies have contracted grain imports for delivery between January and June due to more attractive foreign prices compared to the local market.

Considering these factors and the large volumes of exports in calendar year 2019, post raises the forecast for MY 2018/19 imports at 1.6 MMT. The import forecast for MY 2019/20 is also increased, to 1.5 MMT, in response to the expectation of severely diminished stocks by the start of the market year.

Corn Consumption

Post forecasts Brazil's domestic consumption for MY 2019/20 at 68 MMT, 2 percent higher year-over-year. This is based on a combination of factors, including rapid growth in Brazil's poultry and pork sectors and expanding corn ethanol production.

Brazil's large poultry and pork sectors generally consume a great portion of the corn crop each year. Corn makes up about 60 percent of feed rations for poultry and swine in Brazil. Calendar year 2019 showed a large increase in poultry and pork exports from Brazil, mainly to China, where the hog herd has suffered severely from an outbreak of African Swine Fever. This has sent Chinese importers in search of animal protein imports, and Brazil's large industry was able to expand to meet that demand last year.

MY 2018/19 corn exports were larger than expected due to the market forces described above, which has pushed up the cost of production for pork and poultry products in Brazil. Nevertheless, Brazil's poultry and pork production are both expected to continue expanding in 2020, and corn consumption for animal rations will grow in tandem. USDA forecasts Brazil's chicken meat production will grow by roughly 2 percent in 2020, while pork production is expected to increase by 4.5 percent. The Brazilian pork industry consumes about half as much feed rations as the poultry sector, but the rapid growth is still significant.

Post forecasts MY 2019/20 food, seed, and industrial (FSI) consumption to grow by 10 percent, to 11 MMT, largely due to the expanding corn ethanol industry in Brazil's Center-West region. Brazil's Corn Ethanol Union (UNEM) expects nearly half a billion dollars of investments in the sector over the next 8 years. Large agricultural players in Brazil, such as COFCO and Grupo Amaggi, have shown interest in entering the market. Relatively cheap corn supplies in the region, along with excellent profit margins for ethanol have fueled rapid investment in corn-only and flex (sugarcane/corn) ethanol plants. Industry sources estimate that the sector will consume roughly 6.5 to 7 MMT of corn in 2020, as new ethanol plants come online, and ethanol producers forward contract for cheap corn supplies in the surrounding areas. There are already two corn-only ethanol plants in Brazil, with a third slated to start production in early 2020. That is on top of 10 flex plants that process corn for ethanol for part of the year. Analysts estimate that these ethanol plants can turn a profit as long as they purchase corn for R$32 or less per 60-kilogram sack. Moreover, ethanol plants have been aggressively marketing the co-products of corn ethanol, mainly DDGS and corn oil. News outlets even reported Brazil's first-ever export of DDGS in late December 2019, with two small shipments bound for the United Kingdom and Turkey, respectively.

Rice

Rice, Milled	2017/2018		2018/2019		2019/2020	
Market Begin Year	Apr 2018		Apr 2019		Apr 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1973	1973	1700	1697	1680	1686
Beginning Stocks	625	625	489	660	229	166
Milled Production	8204	8204	7140	7106	7140	7140
Rough Production	12065	12065	10500	10450	10500	10500
Milling Rate (.9999)	6800	6800	6800	6800	6800	6800
MY Imports	562	581	900	850	1100	1200
TY Imports	537	575	770	700	900	850
TY Imp. from U.S.	0	2	0	1	0	0
Total Supply	9391	9410	8529	8616	8469	8506
MY Exports	1152	1150	800	850	600	400
TY Exports	1245	1244	950	981	500	400
Consumption and Residual	7750	7600	7500	7600	7500	7600
Ending Stocks	489	660	229	166	369	506
Total Distribution	9391	9410	8529	8616	8469	8506
Yield (Rough)	6.1151	6.1151	6.1765	6.1579	6.25	6.2278
(1000 HA) ,(1000 MT) ,(MT/HA)						

Rice Production

Milled rice production for MY 2019/20 (April 2020 – March 2021) is forecast at 7.14 MMT, based on year-over-year reduced area but a return to better yields. This is a slight 2-percent increase from Post's last forecast due to a small increase in area, coupled with the expectation of better yields based on favorable weather in the major growing regions of Rio Grande do Sul. While Brazil's rice area has seen a long trend of contraction, production totals have not shrunk quite as much due to improved yields.

The MY 2019/20 harvested area for rice is forecast at 1.68 million hectares, representing a 0.6-percent decrease from last season and a 14.5-percent drop from MY 2017/2018. CONAB and other sources estimate that planted

area for rice fell by 5 percent in Rio Grande do Sul, the state responsible for 70 percent of Brazilian rice production. The state of Santa Catarina, just north of Rio Grande do Sul, accounts for another 10 percent of Brazilian rice production, but its planted area was virtually unchanged from last season.

However, other states saw relatively strong growth in planted area for rainfed rice, notably the state of Mato Grosso, which experienced a 25-percent jump in planted area year-over-year. Mato Grosso, located in Brazil's Center-West region, plants less than a quarter as much rice area as Rio Grande do Sul and the area that is planted is almost entirely raidfed, unlike Rio Grande do Sul, where virtually all production is irrigated. The uptick in rice area in Mato Grosso may be a result of soy farmers planting rice for a season to help inmprove soil quality. Planting rainfed rice for a season or two is a common practice when soy producers bring new land into production, but inevitably the rice area is replaced by soy, which is generally a more profitable crop.

The long, steady shrinking of Brazil's rice area is largely due to decreased rainfed rice area throughout the country. Once widely spread through Brazil, rice production has become increasingly concentrated in the south of the country, largely in irrigated fields (about 80 percent). Rice area in Brazil's southernmost state, Rio Grande do Sul, has remained more or less steady over the last 25 years, according to industry data. However, during that same period, Brazil's total rice area decreased by more than half.

The harvest for the MY 2019/2020 crop will kick off in late February. CONAB and the Rio Grande do Sul Rural Extension Service (EMATER/RS) report the yield and quality levels of this year's crop are expected to be in line with recent trends. Even though some rice producers in southern Brazil faced challenges with excessive rains that delayed their ability to apply fertilizer and herbicide to the crop early in the growing cycle, the quality if not expected to suffer much. The state of Rio Grande do Sul also faced a prolonged dry period in some regions, but the major rice production regions in the south were not affected as much as producers of soy and corn in the northern part of the state.

Rice Trade

Post raises the MY 2018/19 milled rice export forecast to 850,000 MT, based on the pace of trade. Market year 2019/20 exports are forecast lower, at 400,000 MT, as Brazilian rice millers are likely to buy up cheaper domestic supplies after the next harvest to rebuild diminished stocks. Rice prices in Rio Grande do Sul have continued to climb over the last few months and are currently about 20 percent higher than this time last year. In terms of Brazilian reals, the rice price is currently at its highest level since January 2017. This is a result of the weakened Brazilian real making exports more attractive, as well as the resulting depletion of domestic stock levels and a retraction in per-capita domestic consumption.

In May 2019, Brazil concluded a sanitary agreement with Mexico to open rice exports to that country, in exchange for allowing Mexico to export edible beans to Brazil. In November 2019, Brazil reported the first containers of milled rice exported to Mexico. Shipments to Mexico totaled 501 tons through December 2019. While that volume is still small, the president of Rio Grande do Sul's Rice Producers Association, Fedearroz, told news outlets that he expected these initial shipments would be followed by exports of paddy rice bound for Mexico, though none have been reported yet in Brazilian trade statistics. Talks of opening the Mexican market had been ongoing since 2015, as Brazilian producers recognized opportunities for export after decades of falling

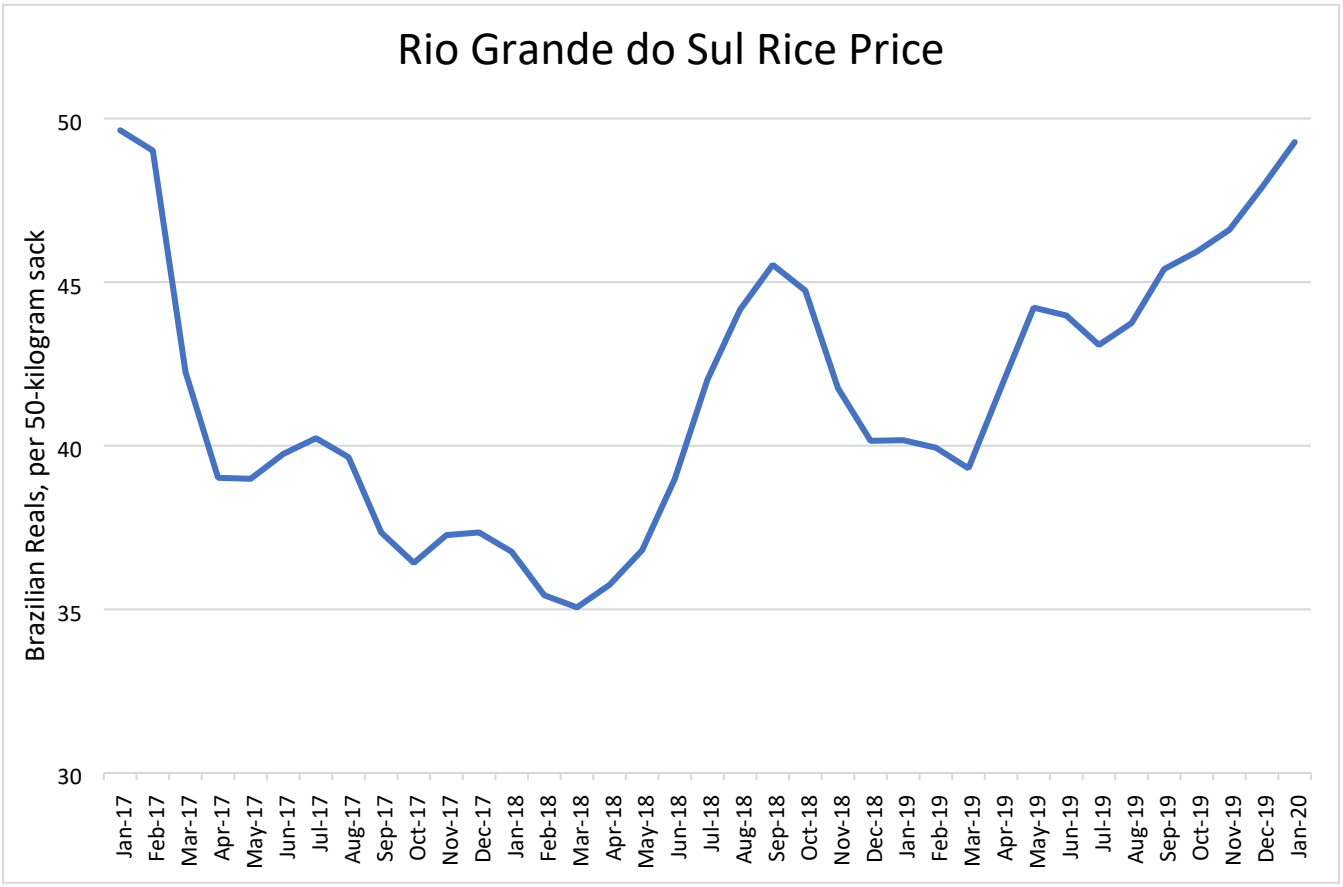
rice production in Mexico at the same time that consumption was increasing. According to Fedearroz, Mexico's rice production dropped by 80 percent from 1985 to 2015, while consumption increased by nearly 30 percent during the same period. Fedearroz says it expects strong demand for Brazilian rice and rice products in the Mexican market.

Venezuela was the largest market for Brazil's paddy rice exports from January 2018 to mid-2019, with 685,830 MT exported from January 2018 through May 2019. However, that trade flow slowed to a trickle in June 2019, with only 7,926 MT exported from June to October last year. Most industry contacts did not believe paddy rice exports to Venezuela would continue in any significant volume going forward, but Brazilian trade data show large volumes shipped in November and December, totaling 87,917 MT. As Venezuela fell deeper into political and economic turmoil over the last few years, Brazil's abundant supplies and relative geographic proximity made it a convenient rice supplier. It remains to be seen whether this trade flow will continue in 2020, as Brazilian rice stocks have dipped extremely low and the domestic price has continued to climb. Nevertheless, if the Brazilian real remains weak against the dollar, Venezuela may still turn to its South American neighbor to but paddy rice.

Post slightly lowers the MY 2018/19 import forecast, to 850,000 MT, which is still a 46-percent increase over MY 2017/18. The change is based on the pace of trade through December 2019. Post also raises the MY 2019/20 import forecast to 1.2 MMT, about 40 percent larger than the current year forecast, based on reports of Brazil's dwindling domestic stocks and high internal prices.

The vast majority of Brazil's rice imports come duty-free from its Mercosul trade bloc neighbors: Paraguay, Uruguay, and Argentina. Paraguay alone has accounted for nearly 70 percent of imports in MY 2018/19 as of December. Brazilian rice producers complain that they face steep hurdles in cultivating the crop and cannot compete with duty-free imports from the region. Fedearroz continues to lobby the state and federal governments for assistance with what it sees as the main challenges of the industry, including high debt levels of producers, high taxation rates, Mercosul competition, and cabotage regulations. As a result of these factors, many Brazilian rice producers have started investing in production in neighboring Paraguay, which like Brazil is a member of the Mercosul trade bloc. As such, rice produced in Paraguay can enter Brazil duty free, and due to geographic advantages can more easily supply certain large population centers, such as the state of Sao Paulo. This has caused Brazilian producers to export a greater share of their crop to external markets (especially when prices received for exports are higher), while a small-but-growing share of Brazilian consumption comes from imported Paraguayan rice.

Rice industry analysts caution that not all Brazilian rice producers are the same. Those with greater capital flows can make huge profits, even better than planting soybeans in years when rice yields are high. Generally, these producers have invested in drying and storage facilities that allow them to keep their harvested crop until rice prices rise later in the year (usually around August or September, when rice stocks are dwindling). They also have the capital to purchase inputs when prices are lower and foreign exchange rates are more favorable. Rice producers with less capital are more likely to be renting the land on which they produce, a factor that drives up the cost of production. To pay the bills, they are often forced to sell their crop right after harvest, when prices are depressed due to the flood of supply on the market. Rice millers, however, take advantage of this situation, building up stocks when prices are lowest.



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

Rice Consumption

Post forecasts market year 2018/19 milled rice consumption at 7.6 MMT, unchanged from the previous year. Consumption for MY 2019/20 is forecast to remain static at 7.6 MMT, contingent on the pace of economic recovery in Brazil. Based on CONAB reports of changes in private and public stock volumes, as well trade data and industry insights, post forecasts per capita rice consumption in Brazil will decrease. Offset by population growth, this means overall consumption in Brazil is forecast to remain stagnant.

Rice is a staple food in Brazil, with many Brazilians consuming it with black beans one or two times every day. However, Brazil has struggled in recent years to emerge from a deep recession, and consumers have tightened the grip on their wallets, cutting back on a variety of expenses. Even with staples foods like rice, consumers have cut back on food waste by saving leftover cooked rice to be consumed at the next meal, thus reducing the total volume purchased. Rice also competes with many other starchy staples in Brazilian cuisine, including manioc, potatoes, and wheat.

Brazilian officials are hopeful that economic reforms will speed recovery and grow incomes. In the meantime, industry groups like the Rio Grande do Sul Rice Institute (IRGA) have launched consumer-oriented campaigns to encourage rice consumption and educate Brazilians about the health benefits of the staple food. IRGA, along

with the Rio Grande do Sul Secretary of Agriculture, also launched a rice “appreciation” program, complete with a variety of recipes to inspire consumers to incorporate rice and rice flour into every part of the Brazilian diet.

Wheat

Wheat	2017/2018		2018/2019		2019/2020	
Market Begin Year	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	2040	2040
Beginning Stocks	2256	2256	1311	1311	1057	1057
Production	4264	4264	5428	5428	5200	5150
MY Imports	7021	7021	7020	7020	7700	7500
TY Imports	6702	6702	7442	7442	7500	7500
TY Imp. from U.S.	186	162	245	314	0	400
Total Supply	13541	13541	13759	13759	13957	13707
MY Exports	230	230	602	602	600	500
TY Exports	245	245	594	594	600	500
Feed and Residual	500	500	500	500	500	500
FSI Consumption	11500	11500	11600	11600	11600	11600
Total Consumption	12000	12000	12100	12100	12100	12100
Ending Stocks	1311	1311	1057	1057	1257	1107
Total Distribution	13541	13541	13759	13759	13957	13707
Yield	2.2255	2.2255	2.6582	2.6582	2.549	2.5245
(1000 HA) ,(1000 MT) ,(MT/HA)						

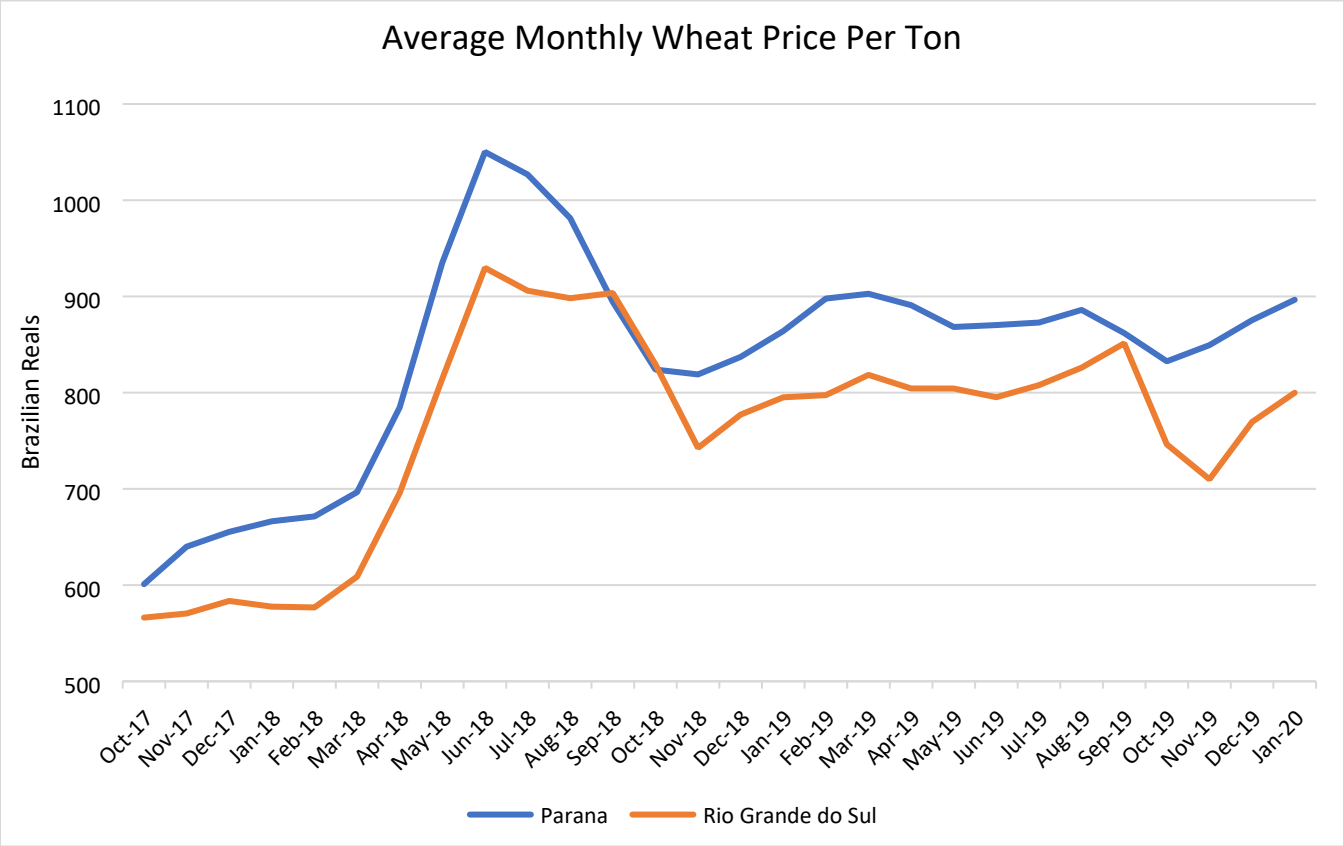
Wheat Production

Post lowers its estimate of MY 2019/20 (October 2019 – September 2020) wheat production to 5.15 MMT, after adverse weather hit the major production regions. This represents a 5-percent decrease from MY 2018/19. Post slightly raised its estimate of harvested area, to 2.41 million hectares based on updated data from industry sources and government statistics agencies. Both of Brazil's major wheat-producing states – Parana and Rio Grande do Sul – experienced adverse weather in MY 2019/20.

Parana saw frosts in early July, followed by dry conditions through August. This combination caused yields in Parana to drop by 15-20 percent year-over-year, according to data from CONAB and DERAL. Combined with a 7-

percent decrease in wheat area in the state, Parana's production fell to 2.1 MMT, 25 percent less than the previous season, making the state of Rio Grande do Sul the top wheat producer in Brazil.

However, Rio Grande do Sul also experienced unfavorable weather during the growing season, including regionalized frosts, as well as below-average rainfall in August when most of the state's crop was entering the flowering stage of development. The crop was then hit by excessively rainy conditions in October and part of November, which slowed the progress of the wheat harvest in the northwestern portion of the state. Some producers reported harm to the wheat crop's quality by way of lowered protein levels. As a result, wheat prices in the state fell by 17 percent from September to November. Despite the weather issues and resulting quality problems, Rio Grande do Sul overtook Parana to become Brazil's largest wheat producer this season, accounting for 43 percent of the country's crop (compared to 34 percent last season). This shift can be attributed to an 8-percent expansion in Rio Grande do Sul's wheat area, according to EMATER/RS. The increased area was largely due to high wheat prices at the time of sowing, boosted further by the weak Brazilian real, but many industry watchers doubt farmers will maintain this expanded wheat area next season.

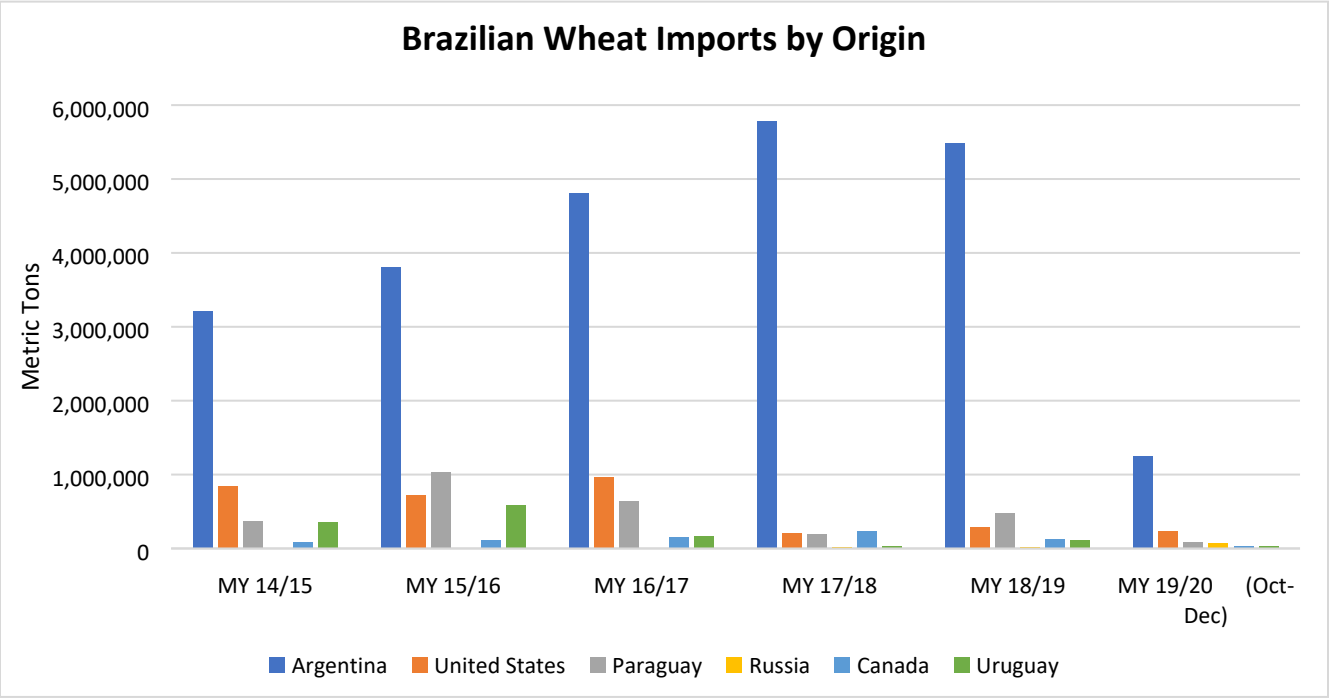


Date Source: University of Sao Paulo Center for Advanced Studies in Applied Economics (CEPEA)

Wheat Trade

Post's forecast for MY 2019/20 imports remains unchanged, at 7.5 MMT. Post lowers its forecast for MY 2019/20 exports to 500,000 MT on reports of lower-than-anticipated production volume and quality issues with the Rio Grande do Sul crop.

Imported wheat typically makes up more than half of Brazil's domestic consumption, making Brazil the third-largest global wheat importer. Most of Brazil's imports are duty-free purchases from Mercosul-neighbor Argentina, which supplied 84 percent of Brazil's unmilled wheat imports for MY 2018/19. In the same period, Paraguay was responsible for 7 percent of Brazil's imports, while the United States and Canada accounted for 4.5 percent and 1.9 percent, respectively.



Date Source: Brazilian Foreign Trade Secretariat (SECEX)

In November 2019, Brazil finally implemented a long-sought duty-free tariff-rate quota (TRQ) for 750,000 MT of wheat imports from non-Mercosul countries. The quota represents 10 percent of Brazil's wheat imports in MY 2018/2019 (October 2018-Novemebr 2019) and just 6.2 percent of Brazilian wheat consumption in the same period. Outside of the TRQ, Brazil is expected to apply the 10-percent Mercosul common external tariff (TEC, in Portuguese) for all wheat imports coming from outside of the trade bloc. This tariff is expected to remain despite high domestic wheat prices and calls from some importers to suspend the TEC. Mercosul countries (Argentina, Paraguay, and Uruguay) continue to enjoy unlimited duty-free access for wheat exports to Brazil.

The TRQ was approved by Brazil's inter-ministerial Foreign Trade Chamber (CAMEX), based on a proposal by the Ministry of Agriculture, Livestock, and Food Supply (MAPA). Sources in the Brazilian government have indicated that they are still pursuing a presidential decree to make the TRQ permanent. While the CAMEX decree was issued without any specified end date to make quasi-permanent, a presidential decree is a stronger way to reinforce the quota's permanence. Brazil pursued the CAMEX route first to get the quota established as quickly

as possible, as government sources have indicated that a presidential decree could still take months to clear all legal and bureaucratic hurdles.

The new quota is open to all wheat-exporting countries that do not already have duty-free access for wheat to the Brazilian market (i.e., non-Mercosul countries). Even with the TRQ in place, 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. The Brazilian wheat millers association, Abitrigo, expects the TRQ will boost imports from the United States, Canada, and Russia. Post expects U.S. wheat exported through the Gulf of Mexico will be particularly competitive, especially in Brazil's northeast region, which has typically imported most of the U.S. wheat that enters Brazil.

Another factor affecting import dynamics has been the political developments in Brazil's southern neighbor, Argentina. On December 14, Argentina's newly elected government announced that it was changing the country's export tax regime, rolling back a grain export duty of 4 Argentine pesos per dollar (an effective 6.7-percent rate as of November 2019) and replacing it with a flat tax of 12 percent on all exports of wheat, corn, sorghum, and barley. Additionally, Argentina's congress granted the administration the authority to raise the grain export tax to 15 percent, but the government has not yet done so.

Argentina is expected to harvest another bumper wheat crop this season, which will likely result in plentiful, cheap wheat supplies for Brazilian millers. In anticipation of rising export taxes, Argentine farmers aggressively contracted future sales prior to the new government taking office. This included forward sales of wheat to Brazil, locking in prices before the hike in export duties. Brazil imported nearly 600,000 MT of Argentine wheat in December alone. Industry sources indicate that high demand for wheat, in addition to the expected hike in export taxes, led to strong forward sales of Argentine wheat, far above the sales pace last year. However, high stock levels should allow Argentina to fill Brazilian needs for most of the market year.

Wheat Consumption

Consumption for MY 2019/2020 is forecast at a stagnant 12.1 MMT. Brazil has struggled in recent years to emerge from a deep recession. Brazilian officials are hopeful that economic reforms will speed recovery and grow incomes, but the Brazilian real has remained weak in recent months and government reforms have advanced more slowly than expected. As a result, Brazilian consumers have cut back on a variety of expenses. Even with staples like bread and rice, consumers have cut back on food waste and reduced the overall volume of purchases. Per capita consumption of wheat has declined slightly but has been offset by modest population growth, leaving the overall wheat consumption level static.

Brazil's bakery industry is trying to spur the consumption of wheat-based products with consumer campaigns promoting customization of traditional staples like "pao frances," a minimally dense, crusty French-style roll consumed daily by many Brazilians at breakfast. Brazilian consumers have also shown growing interest in the improved taste, freshness, and health of wheat products. In response, the baking sector is increasing production of specialized products to meet consumer preferences, especially among younger generations. These expanded options include a larger variety of "rustic" breads with the inclusion of seeds, nuts, and dried fruit, as well as gluten-free and vegan options.

Attachments:

No Attachments