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Brazil

Grain and Feed Update

Brazilian Wheat Production, Quality Suffer After Adverse Weather

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Report Highlights:
2017/2018 corn production is forecast lower at 92 million metric tons (MMT), mainly due to reduced area for first- and second-crop corn and an expected return to normal yields. 2016/2017 milled rice production is estimated at 8.4 MMT, up 16.5 percent from the previous year on higher yields, even though total rice area continues to shrink in Brazil. 2017/2018 wheat production is decreased to 4.3 MMT, down sharply from the previous estimate to reflect larger-than-expected losses from drought and frost conditions during critical development stages of the crop.

Corn

Corn Supplies: 2017/2018 corn production is forecast lower at 92 million metric tons (MMT), down roughly 6 percent from 2016/2017, mainly due to reduced area for first- and second-crop corn and an expected return to normal yields. Planted area for first-crop corn has decreased 9 of the last 10 years, but low prices after last year's record harvest and abundant global supplies have pushed even more farmers to choose soy over corn for their first planting of the season. Data from Brazil's National Food Supply Company (CONAB) showed that the average corn price in December 2017 was 25 percent lower than a year before. Lower prices are also reportedly leading some producers to cut back on inputs for corn this year, as the prevailing price in many parts of the country is still below the break-even price for biotech corn.

CONAB estimates a 9.2 percent reduction in first-crop corn area nationwide compared to 2016/2017, with an even larger reduction of 15.8 percent in area for the central and southern portions of the country. CONAB also notes a small 1.3 percent increase in planted area for first-crop corn in the North and Northeast regions, with the northern state of Tocantins showing the largest expansion in area, up 10 percent from the previous year. However, these small increases in area were more than offset by large reductions in the number of planted hectares of first-crop corn in the states of Mato Grosso do Sul (down 46.4 percent), Parana (down 34.4 percent), and Mato Grosso (down 24.4 percent), according to CONAB.

Planted area for second-crop "safrinha" corn, which is typically sown in February after the soybean harvest, is also forecast to decrease slightly. Safrinha corn is forecast to account for approximately 70 percent of Brazil's total corn production in 2017/2018, but delays in soybean planting in Mato Grosso have led to delays in early soybean harvest, narrowing the window for planting second-crop corn (generally by the third week in February) to avoid the dry season in Brazil's Center-West region. The Mato Grosso Institute of Agricultural Economics (IMEA) is forecasting a 9-percent decrease in planted safrinha area, along with a 9-percent decrease from last year's above-average yield levels. Mato Grosso is responsible for 40 percent of Brazil's total corn production and is the state with by far the largest safrinha crop (28.6 MMT in 2016/2017). IMEA is projecting that as much as 30 percent of Mato Grosso's corn crop will be planted outside the ideal window.

Some farmers in western Mato Grosso are also reportedly considering planting cotton instead of corn as a second crop this year, due to attractively high global prices for cotton and already abundant corn supplies globally. The downside of second-crop cotton is that it has a very limited planting window and must be in the ground by early February, a challenge given the slow start to the soy harvest this year.

Corn Trade: 2016/2017 corn exports are reduced slightly to 34 MMT, based on exports to date during the marketing year, which began in March 2017. This would still be more than double the export volume of 2015/2016 and a near-record level overall. 2017/2018 exports are also forecast slightly lower at 34 MMT, to reflect the lower forecast in production balanced by the effort to bring down the high level of stocks.

Brazil remains a negligible corn importer, with small amounts coming from MERCOSUL-partner countries Paraguay and Argentina to supply livestock operations in southern Brazil. Many livestock producers in Santa Catarina find that it is far more cost-efficient to bring corn across the border from

Paraguay rather than pay to have it transported from Mato Grosso, with some reporting a cost savings of up to 70 percent. As such, livestock producers in the south have long urged the Brazilian government to invest in a “corn railroad” to move grain from Mato Grosso to the livestock region in the south. However, no such infrastructure plans exist yet.

Corn Consumption: 2017/2018 consumption is forecast to rise slightly to 61.5 MMT. Most of Brazil’s first-crop corn is consumed domestically by the country’s growing poultry and livestock industries, which are forecast to continue expanding through 2018. Record corn and soybean harvests in 2017 reduced feed costs for poultry and livestock producers last year. This has enabled expansion of the poultry and livestock industries and, along with the slowly recovering Brazilian economy, is spurring Brazilian consumers to begin to add more animal protein back into their diets. This in turn increases domestic grain consumption by expanding livestock operations.

Corn	2015/2016		2016/2017		2017/2018	
Market Begin Year	Mar 2016		Mar 2017		Mar 2018	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	16000	16000	17600	17600	17700	17000
Beginning Stocks	7842	7842	6769	6769	10569	11229
Production	67000	67000	98500	98000	95000	92000
MY Imports	3423	3423	800	960	300	900
TY Imports	1566	1566	2439	2440	700	900
TY Imp. from U.S.	1	1	1	1	0	0
Total Supply	78265	78265	106069	105729	105869	104129
MY Exports	13996	13996	35000	34000	34000	34000
TY Exports	35382	35382	19794	19794	35500	37000
Feed and Residual	49000	49000	51000	51000	52000	52000
FSI Consumption	8500	8500	9500	9500	9500	9500
Total Consumption	57500	57500	60500	60500	61500	61500
Ending Stocks	6769	6769	10569	11229	10369	8629
Total Distribution	78265	78265	106069	105729	105869	104129
Yield	4.1875	4.1875	5.5966	5.5682	5.3672	5.4118
(1000 HA) ,(1000 MT) ,(MT/HA)						

Rice

Rice Supplies: 2016/2017 milled rice production is estimated at 8.4 MMT, up 16.5 percent from the previous year on higher yields, even though total rice area continues to shrink in Brazil (down about 2 percent from 2015/2016). Total rice area in Brazil has declined for 8 of the last 10 years, with rainfed area seeing the largest declines, as rice is replaced with more profitable crops like corn or soy. 2017/2018 milled rice production is forecast at 8 MMT, due to the expected decrease in planted area, which is forecast at 1.95 million hectares.

According to CONAB, irrigated rice accounts for more than 90 percent of Brazil's production and occupies about three-fourths of total rice area, with an estimated 1.4 million hectares to be harvested in 2016/2017, compared with only 500,000 hectares of rainfed rice area. Most rainfed rice area is concentrated in Brazil's North and Northeastern regions. However, the largest producer of rainfed rice is the Center-West state of Mato Grosso, where yield levels are approximately twice as high as many rice-producing states in the North and Northeastern regions.

Irrigated rice production is concentrated in the south of Brazil, with the largest overall producer being the state of Rio Grande do Sul, with about 1 million hectares in rice production (more than half of Brazil's total area), according to CONAB. As such, Rio Grande do Sul accounts for about two-thirds of Brazil's total rice production, owing to the much higher yields of irrigated rice. CONAB reports that 2016/2017 rice planting is virtually complete in Rio Grande do Sul, noting that 77 percent of hectares were sown within the ideal period. The crop is progressing well, but output will depend on weather conditions in the coming weeks.

Rice Trade: 2016/2017 imports are estimated at an unchanged level of 650,000 metric tons (MT). Most of Brazil's rice imports come in duty-free from its Mercosul partners of Paraguay, Uruguay, and Argentina. To date, more than 60 percent of 2016/2017 imports have come from Paraguay. 2017/2018 imports are forecast to increase slightly to compensate for the expected decline in production and a small rise in consumption based on population growth.

2016/2017 exports are estimated slightly lower at 650,000 MT, based on the pace of shipments. Most of Brazil's rice exports are bound for other countries in the Western Hemisphere or Africa. The largest volumes of white rice this market year have gone to South American neighbor Peru, while the African nations of Senegal, Gambia, and Sierra Leone have imported the largest quantities of broken rice. 2017/2018 exports are forecast at 750,000 MT, based on the 5-year average.

Rice Consumption: 2016/2017 consumption is estimated at 8 MMT, relatively unchanged from 2015/2016. Rice is a staple food in Brazil, with most Brazilians consuming it one to two times daily. 2017/2018 consumption is forecast at 8.1 MMT, up slightly based on expected population growth.

Rice, Milled	2015/2016		2016/2017		2017/2018	
Market Begin Year	Apr 2016		Apr 2017		Apr 2018	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2010	2010	1981	1981	2000	1950
Beginning Stocks	641	641	308	299	641	699
Milled Production	7210	7210	8383	8400	7820	8000
Rough Production	10603	10603	12328	12353	11500	11765
Milling Rate (.9999)	6800	6800	6800	6800	6800	6800
MY Imports	904	894	700	650	625	700
TY Imports	786	713	800	800	600	600
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	8755	8745	9391	9349	9086	9399
MY Exports	547	546	650	650	600	750
TY Exports	641	640	600	600	650	700
Consumption and Residual	7900	7900	8100	8000	7950	8100
Ending Stocks	308	299	641	699	536	549
Total Distribution	8755	8745	9391	9349	9086	9399
Yield (Rough)	5.2751	5.2751	6.2231	6.2357	5.75	6.0333
(1000 HA) ,(1000 MT) ,(MT/HA)						

Wheat

Wheat Supplies: 2017/2018 wheat production is decreased to 4.3 MMT, down sharply from the previous estimate to reflect larger-than-expected losses from drought and frost conditions during critical development stages of the crop. This represents a 36 percent decline from the 2016/2017 production level of 6.73 MMT.

The state of Parana, which produces approximately half of Brazil's wheat each year, was hit in July 2017 with drought conditions and frosts in some areas. This damaged the wheat during the critical development stages, causing yields to plummet. The state then faced another period of dry conditions in September, followed by heavy rains in the southern portion of the state during the beginning of the harvest in October. The excessive moisture during this period reportedly caused some damage to the quality of the Parana's crop, and CONAB estimates Parana's average yield at 2,308 kilograms per hectare, a decrease of more than 26 percent, or 832 kilograms per hectare, from the 2016/2017 level. CONAB estimates that reduced yields caused Parana's production to fall almost 35 percent from the 2016/2017 harvest.

The state of Rio Grande do Sul, which accounts for about one-third of the total wheat harvest as Brazil's second-largest producer, was also affected by adverse weather conditions, including drought and frosts in July. Like Parana, Rio Grande do Sul suffered a large drop in yields. CONAB estimates an average yield of 1,826 kilograms per hectare, down 43 percent or 1,388 kilograms per hectare, from the 2016/2017 level. These extremely low yields caused Rio Grande do Sul's production to fall to barely half that of 2016/2017. Moreover, wet conditions in the western part of the state during the early harvest in October also affected the quality of the crop, with CONAB reporting that less than 30 percent of the state's production met the high quality levels necessary for the baking industry, while 45 percent was of such low quality that it is destined for animal feed.

Wheat Trade: 2017/2018 imports are forecast at an increased level of 8 MMT, reflecting the further decrease in estimated domestic production. Brazil generally imports at least half of its domestic wheat demand, with most imports being duty-free purchases from Mercosul-partner Argentina. However, in December 2017, the Brazilian Ministry of Agriculture (MAPA) published a new set of regulations to allow the importation of Russian wheat for the first time. Russian wheat had been banned for phytosanitary reasons, but the new regulation allows imports into Brazil's Northeast region for mills located close to ports (in an effort to limit the spread of any potential disease risk). Despite the comparatively higher transportation costs, Russian wheat might be competitive in Brazil due to the large supplies pouring into the international market. Brazilian government trade statistics do not yet show any wheat imports from Russia.

2017/2018 exports are lowered slightly to 600,000 MT to reflect tighter domestic supplies.

Wheat Consumption: 2017/2018 feed and residual use are forecast slightly higher on reports of the poor quality harvest in the state of Rio Grande do Sul, while food, seed, and industrial consumption is forecast slightly lower based on tighter domestic supplies.

Wheat	2015/2016		2016/2017		2017/2018	
Market Begin Year	Oct 2015		Oct 2016		Oct 2017	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2450	2450	2120	2120	1900	1900
Beginning Stocks	870	870	996	858	2175	1867
Production	5540	5535	6730	6730	4250	4300
MY Imports	6745	6610	7349	7187	8000	8000
TY Imports	5922	5784	7788	7628	8000	7500
TY Imp. from U.S.	422	470	1321	1268	0	500
Total Supply	13155	13015	15075	14775	14425	14167
MY Exports	1059	1057	700	608	800	600
TY Exports	1063	1061	608	600	800	600
Feed and Residual	500	500	800	800	500	600
FSI Consumption	10600	10600	11400	11500	11600	11500
Total Consumption	11100	11100	12200	12300	12100	12100
Ending Stocks	996	858	2175	1867	1525	1467
Total Distribution	13155	13015	15075	14775	14425	14167
Yield	2.2612	2.2592	3.1745	3.1745	2.2368	2.2632
(1000 HA) ,(1000 MT) ,(MT/HA)						

Related Report References:

2017 Brazil Grain and Feed Annual – BR1707
June 2017 Brazil Grain and Feed Update – BR1710
October 2017 Brazil Grain and Feed Update – BR1718
2017 Brazil Poultry and Products Annual – BR1713
2017 Brazil Livestock and Products Annual – BR1714