Required Report - public distribution

Date: 7/10/2018

GAIN Report Number: BR 1811

Brazil

Grain and Feed Update

Lingering Impact of Trucker Strike Affecting Brazilian Grain Crops

Approved By:
Chanda Berk, ATO Director

Prepared By:
Katherine Woody, Agricultural Attaché

Report Highlights:
MY 17/18 corn production is estimated lower at 83 MMT, due to late-planted safrinha corn, reduced crop inputs, and dry conditions in some states. The minimum freight rate policy implemented after the trucker strike caused transportation costs to soar and resulted in a slowdown of Brazilian grain and oilseed trade. MY 17/18 milled rice production is estimated at eight MMT on near-final harvest data, about five percent below last year's levels. Even though area is forecast to expand, MY 18/19 wheat production is forecast at 5.5 MMT, lower than post's previous forecast, due to delayed deliveries of crop inputs that may affect yields.

Corn

Corn	2016/2017		2017/2018		2018/2019	
Market Begin Year	Mar 2017		Mar 2018		Mar 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	17600	17600	16900	16500	17700	18000
Beginning Stocks	6769	6769	14019	14019	8519	8219
Production	98500	98500	85000	83000	96000	95000
MY Imports	854	854	500	700	700	650
TY Imports	2439	2439	800	750	900	750
TY Imp. from U.S.	1	1	0	1	0	0
Total Supply	106123	106123	99519	97719	105219	103869
MY Exports	31604	31604	29000	30000	31000	32000
TY Exports	19794	19794	28000	27000	31000	30000
Feed and Residual	51000	51000	52500	50000	55000	53000
FSI Consumption	9500	9500	9500	9500	10500	10500
Total Consumption	60500	60500	62000	59500	65500	63500
Ending Stocks	14019	14019	8519	8219	8719	8369
Total Distribution	106123	106123	99519	97719	105219	103869
Yield	5.5966	5.5966	5.0296	5.0303	5.4237	5.2778
(1000 HA) ,(1000 MT) ,(MT/HA)						

Corn Supplies: Market Year (MY, March - February) 2017/18 corn production is estimated lower at 83 million metric tons (MMT), a decrease of about 16 percent from MY 2016/17. The decline is due to a combination of factors, mainly planting outside the ideal window for second-crop "safrinha" corn, reduced investment in crop inputs, smaller area for first- and second-crop corn, and dry conditions in the states of Parana and Mato Grosso do Sul, which are the second- and third-largest safrinha producers, respectively.

MY 2018/19 production is forecast higher at 95 MMT based on a return to normal yields and expanded area. Higher prices for the current crop due to the smaller harvest will likely motivate farmers to expand corn area next season, especially for safrinha, which is generally planted after soybeans are harvested. Safrinha corn accounts for a growing share of Brazil's total production, now making up close to 70 percent of the crop, according to Brazil's National Food Supply Company (CONAB).

Corn Trade: MY 2017/18 exports are forecast lower at 30 MMT due to the reduced harvest. Most safrinha corn has typically been bound for the export market, but limited supplies and the residual impact of an 11-day truck driver strike in May will likely hamper exports this year. One of the Brazilian government's concessions to end the strike, a minimum freight rate guaranteed to truckers, is continuing to wreak havoc on grain and oilseed trade. The policy, which was implemented by presidential decree on May 30, was immediately criticized by a number of transportation-dependent industries, chief among them agriculture.

Brazil's lack of substantial rail or inland waterway infrastructure means that producers in the Center-West region must rely on trucks to transport their commodities to ports for export or to domestic consumers in other parts of the country. The minimum freight rate policy has caused the transport of crops to become substantially more expensive, and Brazil's National Confederation of Agriculture and Livestock (CNA) has estimated that the policy is increasing freight rates by 50-150 percent throughout the country, with Brazil's powerhouse agricultural regions being hit the hardest.

CNA and other players in the agricultural sector have challenged the minimum price measure in court through more than 50 lawsuits, and Brazil's Supreme Court is trying to mediate a resolution, but several rounds of meetings with truck drivers have not yet yielded a solution. The court is scheduled to take up the measure again in late August. In a parallel process, the Brazilian congress has also taken up the measure in an effort to make it permanent. The provision was approved by the lower house and will be considered by the senate when they return from recess in August. In the meantime, the original minimum freight rate policy remains in effect.

The policy has caused the transportation of agricultural commodities to slow substantially, with large grain and oilseed traders reporting they have largely stopped participating in the market because freight rates are too high and the future of the policy is too uncertain to make forward purchases. Since soybeans are harvested first, this has largely affected those exports so far. However, the safrinha corn harvest is ramping up across Brazil and limited storage space (already filled with soybeans waiting for export) and expensive freight rates will affect the rate of Brazil's safrinha corn exports.

MY 2018/19 exports are forecast higher at 32 MMT, because the larger expected harvest next year would cause prices to decrease and make Brazilian corn more competitive, especially if the Brazilian real remains weak against the U.S. dollar.

Corn Consumption: MY 2017/18 consumption is forecast lower at 59.5 MMT, down about one MMT from MY 2016/17. Brazil's large poultry sector generally consumes a large portion of Brazil's corn crop each year. However, a recent EU ban on Brazilian poultry exports from 20 processing plants and the forced mass culling of birds during the truck driver strike will likely depress domestic demand in the coming months.

The Brazilian Association of Animal Protein reported that the strike caused the temporary closure of 137 poultry plants, and as feed rations ran low, some poultry operations were only feeding birds once every 48 hours, considered starvation rations. Particularly worrisome for the world's largest exporter of chicken was the fact that poultry operations were forced to cull an estimated 70 million birds (about seven percent of Brazil's flock of one billion birds), bringing the level of chicks on breeder farms down to their lowest levels in a decade.

By mid-June, all affected poultry processing plants had resumed operations, but the sector could still take more than two months to fully recover. Wholesale prices for frozen chicken in Brazil were up more than 40 percent. Moreover, Rabobank revised downward their forecast of the Brazilian poultry sector to an estimated three percent decline for the year (down from a forecasted two-percent expansion).

In April, the EU instituted a partial ban on imports of Brazilian poultry from certain plants after a corruption investigation by Brazilian authorities revealed that management in some processing plants had interfered with food safety checks. The ban has especially affected Brazilian turkey producers, since the EU had been the market for 40 percent of Brazilian turkey exports.

This turmoil in the poultry sector has meant lower feed demand by the ailing industry, which is affecting domestic grain consumption rates. MY 2017/18 feed and residual consumption is therefore lowered to 50 MMT.

MY 2018/19 consumption is forecast at 63.5 MMT, as the poultry sector is expected to recover and industrial use of corn for ethanol production is expected to expand.

Rice

Rice, Milled	2016/2017		2017/2018		2018/2019	
Market Begin Year	Apr 2017		Apr 2018		Apr 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1981	1981	1960	1956	1960	1950
Beginning Stocks	308	308	475	524	450	274
Milled Production	8383	8383	8075	8000	8024	8160
Rough Production	12328	12328	11875	11765	11800	12000
Milling Rate (.9999)	6800	6800	6800	6800	6800	6800
MY Imports	614	663	700	650	700	725
TY Imports	754	684	650	650	700	650
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	9305	9354	9250	9174	9174	9159
MY Exports	830	830	750	850	700	600
TY Exports	594	594	850	850	700	600
Consumption and Residual	8000	8000	8050	8050	8100	8100
Ending Stocks	475	524	450	274	374	459
Total Distribution	9305	9354	9250	9174	9174	9159
Yield (Rough)	6.2231	6.2231	6.0587	6.0148	6.0204	6.1538
(1000 HA) ,(1000 MT) ,(MT/HA)						

Rice Supplies: MY (April – March) 2017/18 milled rice production is estimated at eight MMT on near-final harvest data from CONAB and the Rice Institute of Rio Grande do Sul, the state that accounts for nearly 70 percent of Brazil’s total rice production. This production level is about five percent below MY 2016/17 levels. Delayed planting and drought conditions in the southern part of Rio Grande do Sul had worried some analysts earlier in the irrigated rice growing season, but abundant sunshine and sufficient water for irrigation led to yields and total production levels only slightly lower than MY 2016/17 levels. MY 2018/19 milled rice production is forecast at 8.2 MMT, based on a static forecast for rice area and slightly better expected yields.

Rice Trade: MY 2017/18 imports are forecast at 650,000 metric tons (MT), virtually unchanged from MY 2016/17 levels. The vast majority of Brazil’s rice imports come in duty-free from its MERCOSUL neighbors: Paraguay, Uruguay, and Argentina, with nearly 60 percent of MY 2016/17 imports coming from Paraguay alone. MY 2018/19 imports are forecast at 725,000 MT to account for a small uptick in consumption based on population growth.

MY 2017/18 exports are forecast slightly higher at 850,000 MT on the higher-than-expected domestic supplies as well as support from the Brazilian Ministry of Agriculture (MAPA), which in December 2017 authorized the use of two domestic support programs to prop up slumping prices for rice for the first time since 2011. MAPA held seven rounds of auctions under these programs, supporting the sale of nearly 500,000 MT of rice, or about 6.25 percent of this year’s harvest. In total, the Brazilian government spent over R$ 31 million (US$ 8 million at current exchange rates). Under the Premium for Product Outflow (PEP) and Equalization Premium Paid to the Producer (PEPRO) programs, the Brazil government guarantees a minimum price to producers by paying the difference between the prevailing market price and the government-established minimum guaranteed price, either to the commercial buyer (under PEP) or directly to the producer (under PEPRO). There is no provision under PEP or PEPRO that restricts the auctioned commodity from being exported.

Rice Consumption: MY 2017/2018 consumption is forecast static at 8.05 MMT, slightly higher than MY 2016/17 consumption due to population growth. MY 2018/2019 consumption is also forecast to tick up to 8.1 MMT to meet the demands of a growing population. Rice is a staple food in Brazil, with most Brazilians consuming it one or two times a day. Brazil generally consumes a volume about equivalent to its production level. However, Brazil exports some lower-quality broken rice while importing milled brown and white rice for to be consumed by Brazilian citizens.

Wheat

Wheat	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2120	2120	1916	1916	2000	2050
Beginning Stocks	996	996	2256	2256	1320	1270
Production	6730	6730	4264	4264	4900	5500
MY Imports	7349	7349	7100	7000	7500	7000
TY Imports	7788	7788	6800	7000	7500	7000
TY Imp. from U.S.	1321	1269	0	175	0	0
Total Supply	15075	15075	13620	13520	13720	13770
MY Exports	619	619	300	250	300	500
TY Exports	608	608	300	250	300	500
Feed and Residual	800	800	500	500	600	700
FSI Consumption	11400	11400	11500	11500	11600	11750
Total Consumption	12200	12200	12000	12000	12200	12450
Ending Stocks	2256	2256	1320	1270	1220	820
Total Distribution	15075	15075	13620	13520	13720	13770
Yield	3.1745	3.1745	2.2255	2.2255	2.45	2.6829
(1000 HA) ,(1000 MT) ,(MT/HA)						

Wheat Supplies: MY (October – September) 2018/19 wheat production is forecast at 5.5 MMT, down 500,000 MT from post's last forecast in April 2018. This is due to logistical complications caused in part by the truck driver strike in late May 2018. Farmers are estimated to have expanded planted wheat area—generally sown from April-June in the south of Brazil—in response to high domestic wheat prices after last year's small yields and difficulty in importing adequate supplies from abroad due to the weakened Brazilian real.

However, the potential production of this increased area has been hindered by dry conditions during planting and delayed deliveries of crop inputs such as fertilizer, which in turn caused some delayed planting. While all parts of Brazil were affected by the trucker strike, the south of Brazil was especially hard hit with a concentration of roadblocks and depleted fuel supplies. Moreover, the continuing dispute over the minimum freight rate policy has caused a backlog of ships at Brazilian ports, many of which are carrying cargoes of fertilizer waiting to be unloaded and delivered. According to Brazil's Fertilizer Blenders Association, 60 percent of fertilizer deliveries have been delayed as a result of the backlog.

Overall, post forecasts expanded wheat area of 2.05 million hectares but less-than-ideal yields in the 2018/19 season that will constrain overall production.

Wheat Trade: MY 2017/2018 imports are forecast at seven MMT, down 10 percent from MY 2016/17 on the slower-than-expected pace of trade due to the weakened purchasing power of the Brazilian real. MY 2017/18 exports are also lowered to 250,000 MT on the slower pace of trade.

Imported wheat makes up roughly half of Brazil's domestic consumption, with most imports being duty-free purchases from MERCOSUL partner Argentina. 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 in recent years. The move was part of a political calculus to secure market access for Brazilian pork in Russia. Unmilled 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 early July 2018, news outlets reported that a cargo of 25,000 MT of Russian wheat was bound for Brazil, the first such delivery in eight years. Russian wheat is currently more competitive, as Argentina is between wheat harvests and has limited supplies for sale to Brazil.

MY 2018/19 imports are forecast at a stagnant seven MMT, to compliment an expected return to normal yield and production levels. MY 2018/19 exports are forecast at 500,000 MT, as the country is forecast to have larger domestic supplies next year. Brazil is a negligible exporter of wheat, with small quantities of unmilled wheat exported to Asian counties like Vietnam and small volumes of wheat flour and pasta exported to Venezuela.

Wheat Consumption: MY 2017/18 consumption is forecast slightly lower than last year, at 12 MMT, based on the low level of domestic production and the slower pace of trade. Brazil generally imports higher-quality wheat so that millers can blend it with domestic supplies to achieve the desired flour quality and protein levels demanded by bakeries. MY 2018/19 consumption is forecast slightly higher at 12.45 MMT, based on expected population growth.

Related Report References:
2018 Brazil Grain and Feed Annual – BR 1807
Economic Impact of the Brazilian Trucker Strike (Voluntary GAIN) – BR 1810