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Post: Brasilia

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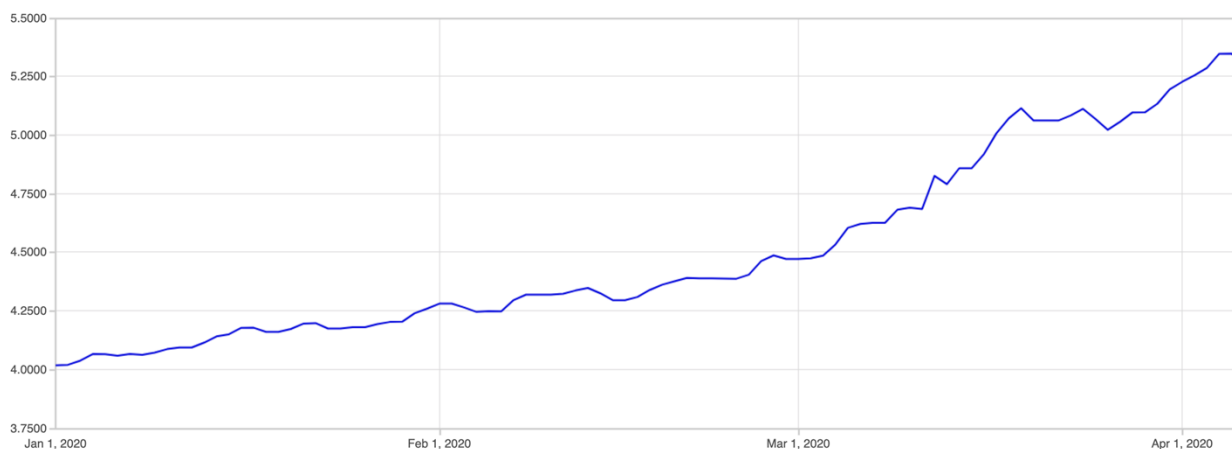
Report Highlights:

Prices for major Brazilian row crops, including soybeans, corn, rice, and wheat, all hit record highs in nominal value in recent weeks. The main reason for the domestic price increase is a steep devaluation of the Brazilian real (BRL). While the BRL has been steadily weakening over the past few years, economic turmoil driven by the coronavirus pandemic has worsened the trend in 2020. As a result, despite the deteriorating economic outlook on the whole, Brazilian grain and oilseed producers are having arguably their most profitable season to date.

Prices for major Brazilian row crops, including soybeans, corn, rice, and wheat, all hit record highs in nominal value in recent weeks. The main reason for the domestic price increase is a steep devaluation of the Brazilian real (BRL). While the BRL has been steadily weakening over the past few years, economic turmoil driven by the coronavirus pandemic has worsened the trend in 2020. With large portions of the country's economy at a standstill, and investors fleeing to the safety of the U.S. dollar (USD), the Brazilian currency nosedived, losing almost a third of its value against the USD since the first of the year. On April 5, the BRL closed at R\$5.35 to the USD, a record-low for the Brazilian currency, which traded at around R\$3-4 to the USD during the depths of economic recession in 2017-2018.

The subsequent sections discuss in greater detail the secondary factors unique to each commodity that further supported the rise domestic prices.

Exchange Rate - Brazilian Real to the USD



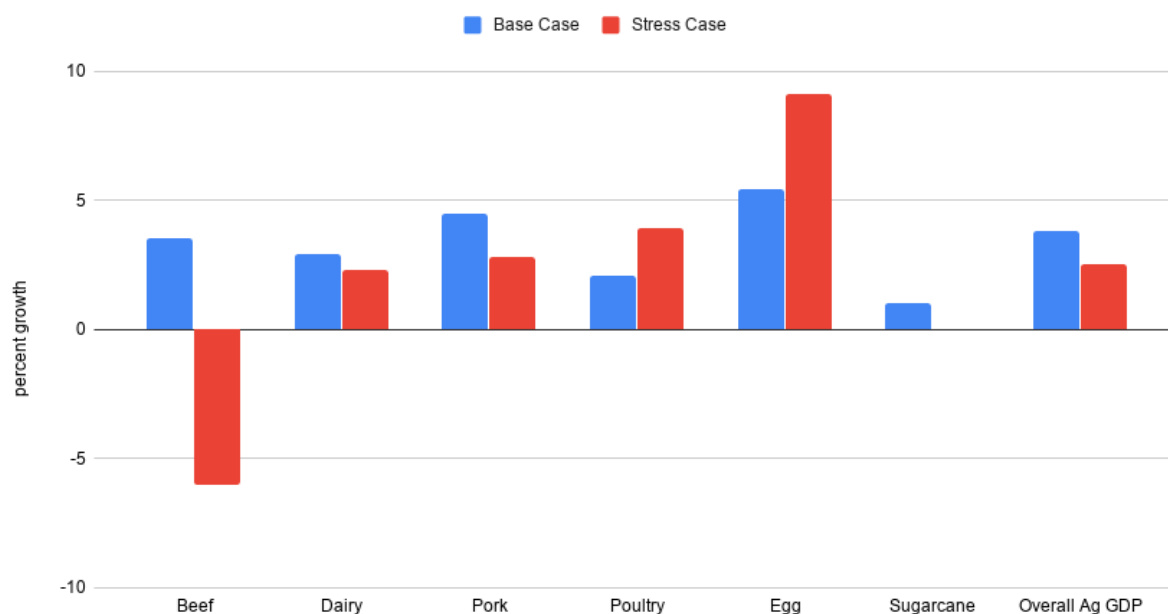
Effects of the Coronavirus Pandemic

The novel coronavirus has wreaked havoc across the globe, and Brazil has not been spared. The general market consensus is that Brazil's gross domestic product (GDP) will shrink in 2020. However, unlike services and to some extent industry, the agricultural sector is expected to fare better in the current crisis.

Overall, the Brazilian Ministry of Economy estimates that as a result of the coronavirus pandemic, the Brazilian agricultural sector will lose 1.3 percent in growth, although agriculture GDP will remain positive, posting a 2.5 percent increase for the year. Some agricultural sub-sectors, such as ethanol and cotton are probably set for a difficult year predicated on collapsing global demand. However, Brazilian government officials estimate that the overall agricultural growth will be fueled by record grain and oilseed harvests, which will go hand in hand with record high domestic commodity prices.

Scenarios for Agricultural GDP in 2020

(select sectors)



Source: IPEA, Ministry of Economy

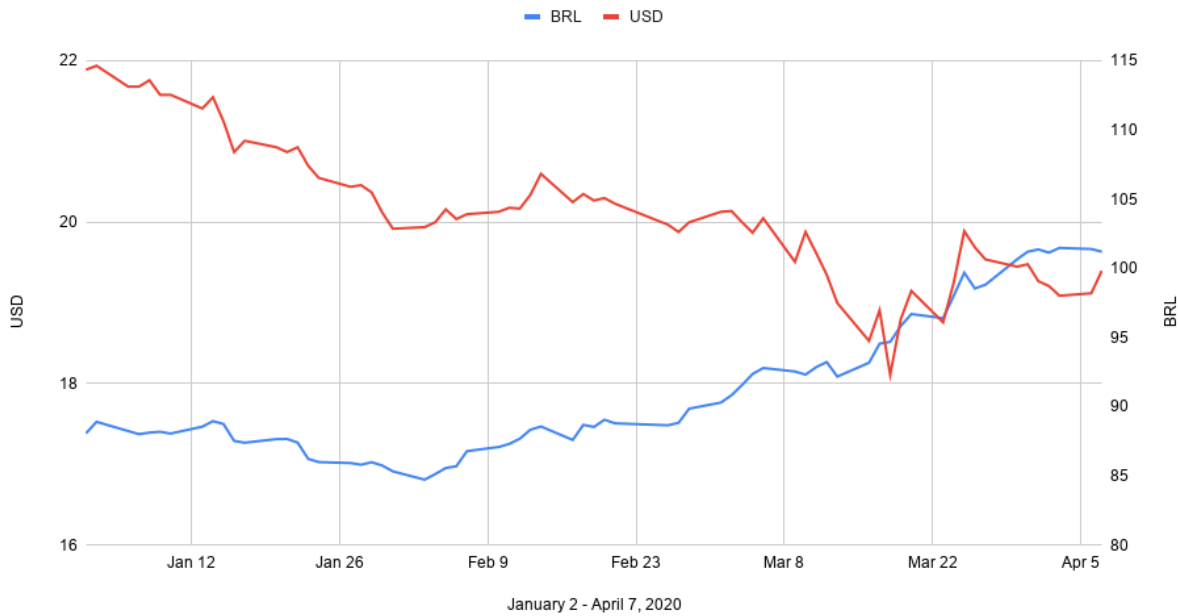
Soybeans

Amid the pandemic induced hardship for the wider economy, soybean producers are arguably looking at their most profitable season to date. According to the Sao Paulo University Center for Advanced Studies on Applied Economics (CEPEA) at the Luiz de Queiroz College of Agriculture (ESALQ), daily domestic soybean prices rose to their historic highs in March, and have since continued to climb.

The CEPEA's ESALQ/ BM&F Price Index in Paranaguá rose a staggering 12.6 percent between February 28 and March 31, closing at R\$101.21 per 60-kilogram (kg) bag (US\$8.94 per bushel) on March 31, the highest nominal level in all CEPEA series that started in March 2006 for soybeans. Similarly, on March 31, the BM&F Price Index in Paraná hit the highest nominal level ever at R\$93.48 per 60-kg bag (US\$8.26 per bushel), or 13.2 percent higher than the price recorded on February 28. Prices topped out at R\$101.48 per 60-kg bag on April 3 in Paranaguá, and R\$94.45 per 60-kg bag in Paraná on the same day. Producers had started the season expecting prices somewhere in the BRL 80 to 90 per sack range, which would have still turned a profit.

While soybean prices in BRL terms have continued their almost unrelenting march upward, the price in USD has reflected the downward trend witnessed on the international commodity markets over the last month. Between February 28 and March 31, according to the BM&F Price Index, the soybean price in Paranaguá decreased to US\$19.48, from US\$20 per 60-kg bag. The BM&F Price Index in Paraná decreased to US\$18.06, from US\$18.46 per 60-kg bag in that same time frame. The decrease in dollar terms highlights that most of the domestic price increase has come thanks to the exceptionally weak Real.

FOB Parangua Soybean Prices



Source: CEPEA's ESALQ/ BM&F Bovespa Price Index for soybean prices in Paranaguá

Domestic soybean prices tend to dip in March in Brazil, as soybean harvest is at its peak at this time. However, this year, prices have found support due to extremely strong demand. Traders have been shipping Brazilian soybeans at breakneck speed, setting a monthly export record in March at over 13.3 mmt, and current indications are that this record will be broken in April, with soybean export volumes topping more than 13.5 mmt. The record-breaking exports are driven by the Brazilian FOB price discount in relation to the U.S. FOB prices, which is evident when comparing prices in USD terms. Brazilian beans are currently priced around \$313 per metric ton (mt), in comparison to U.S. soybeans ringing in at \$337 /mt at the Gulf and \$345 /mt in the Pacific Northwest (PNW). In addition, the Argentine government limiting operations at country's ports as a way to slow the spread of the coronavirus, has also boosted Brazilian soy prices.

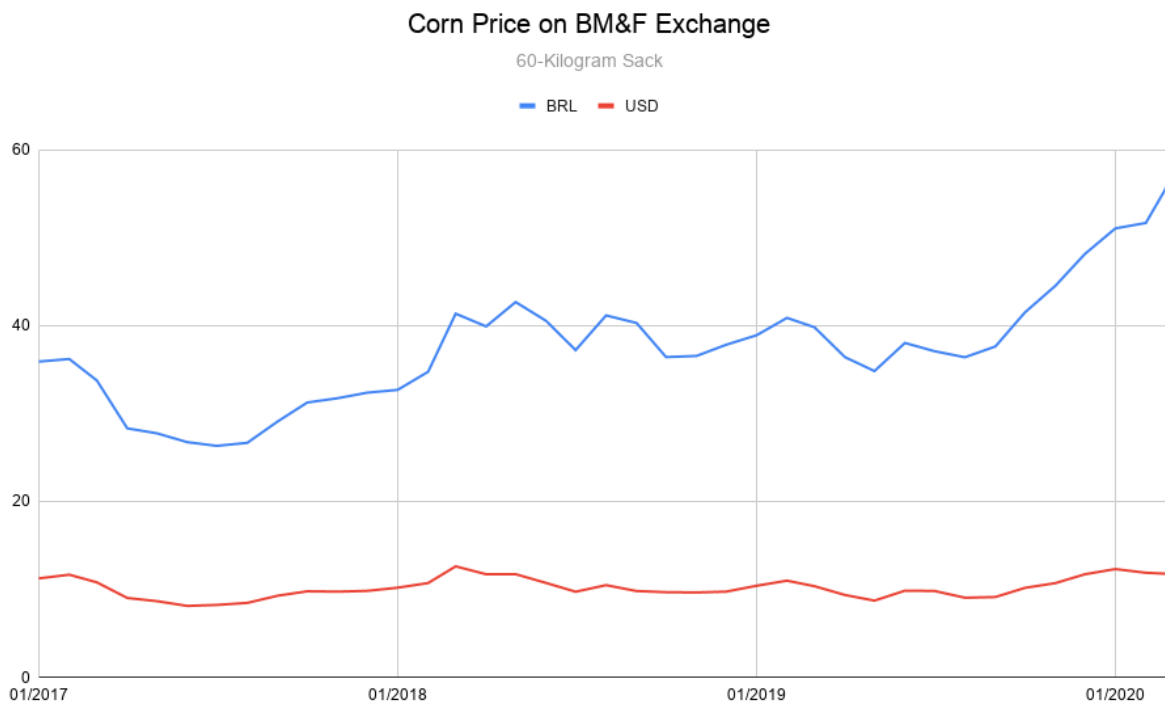
The record prices come at an optimal time for Brazilian soybean producers, coinciding with harvesting of what is likely to be a record crop for Brazil. Post estimates that Brazil will harvest 123.5 million metric tons (mmt) of soybeans in 2019/20. According to market consultancy Agrural, by April 6, Brazil had harvested the majority of its crop, and various market estimates suggest that farmers already sold 75 percent of their crop.

It bears mention that the weaker currency will push up production costs thanks to large quantities of dollarized inputs that Brazil imports. Some of that increase will be counterbalanced by lower prices in a few segments, such as transportation. With the collapse in oil prices, the costs of freight, both truck and ocean, should decrease.

Corn

Daily corn prices on the BM&F Exchange hit an all-time high in Brazilian real (BRL) terms, on March 31, 2020, at R\$60.14 per 60-kg sack (US\$4.91 per bushel), according to data from CEPEA, which has maintained its corn price data series since January 2004. The average price for March was R\$57.41/sack, which was 11 percent

higher than February and 44 percent higher year-over-year. During the month of March alone, the value of a 60-kg sack of corn rose by 12 percent. Prices slumped about 6 percent in early April, ending at R\$56.41/sack (US\$4.60/bushel) on April 9, as the market began anticipating a bumper safrinha corn crop in Mato Grosso, as well as increased corn imports in southern Brazil. However, corn prices overall remain very firm throughout Brazil, 59 percent higher than the same point in the season last year, according to CEPEA data.



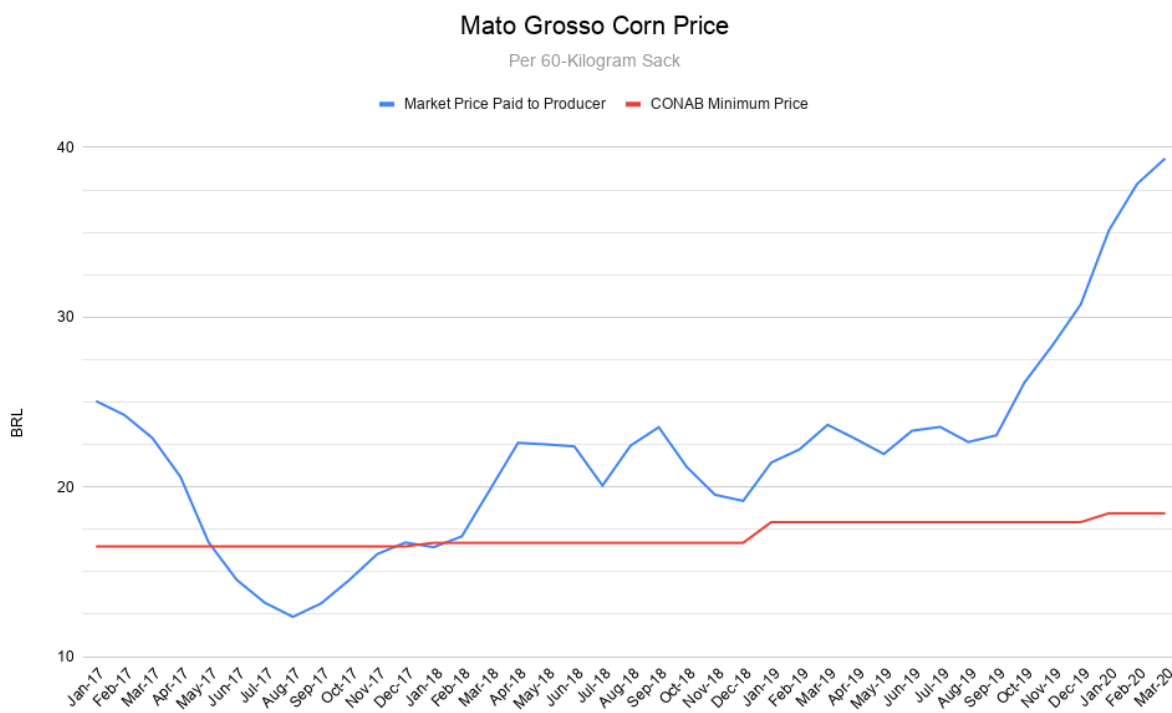
Data Source: CEPEA

In Market Year (MY) 2018/19 (March 2019 – February 2020), record-setting corn production, coupled with an already weakening BRL and weather problems for the U.S. crop, kept Brazilian corn very competitive on the international market. Surprisingly, market prices for corn remained strong throughout MY 2018/19, unlike the collapse seen after the previous record crop, in MY 2016/17. The favorable foreign exchange rate allowed Brazilian producers to competitively sell corn supplies on the international market, while still retaining a decent profit. As a result, Brazil boasted corn record exports of nearly 40 MMT in MY 2018/19, which severely depleted domestic stocks.

As for MY 2019/20 (March 2020 – February 2021) first-crop corn production was hampered by drought in the southernmost state of Rio Grande do Sul, conditions which slashed yields and overall production. The harvest for safrinha corn will not begin until late May or early June, depending on weather conditions. This scenario, as well as depleted carryover from the previous market year, has worried livestock and poultry producers, which use corn for about 60 percent of animal feed in Brazil. At the same time, Brazil's swine and poultry sectors continue to expand, in response to firm demand from China and other overseas markets, even in the face of the coronavirus outbreak.

However, some concerns linger about demand from Brazil’s corn ethanol industry, due to competition with cheap oil and lower overall fuel demand during the coronavirus pandemic. Several ethanol distributors in Brazil declared *force majeure* last month on ethanol purchase contracts. Additionally, the corn ethanol plants in Mato Grosso reportedly began selling off corn stocks in late March, aiming to take advantage of high domestic corn prices and betting on the ability to replenish silos after the safrinha corn harvest in a few months, assuming fuel demand is on the upswing by then.

Thus, limited domestic supplies, firm internal demand, and the weakened BRL have driven up corn prices to record levels in terms of nominal value. This scenario has motivated MY 2019/20 forward sales, which the Mato Grosso Institute of Agricultural Economics (IMEA) reported had reached 73.4 percent as of mid-March, the most recent data available. That pace far exceeds the 5-year average of 50.47 percent at the same point in the season.

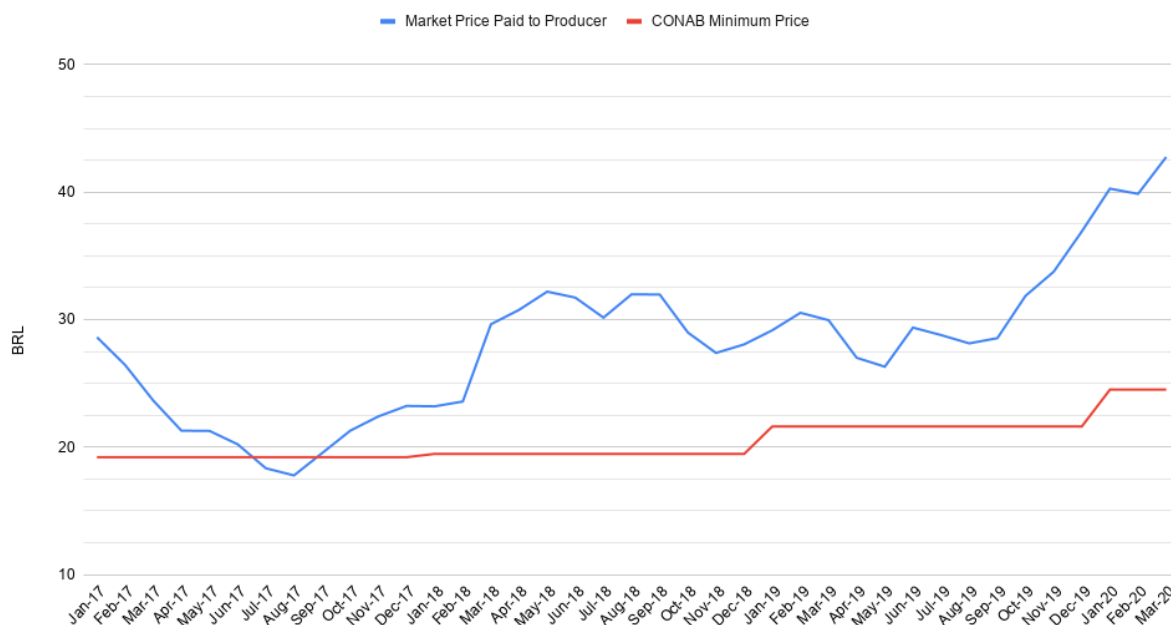


Data Source: CONAB

State-level price data reported by Brazil’s agricultural statistics agency, CONAB, show record highs in both Mato Grosso and Parana. In Mato Grosso, the average monthly price reached R\$39.36/sack (US\$3.22/bushel) in March, more than 66 percent higher than a year ago. In Parana, the average price in March was R\$42.76/sack (US\$3.50/bushel), which is 43 percent higher than the same month in 2019. The higher price reported by CEPEA on the BM&F Exchange represents a nationwide average for corn contracts.

Parana Corn Price

Per 60-Kilogram Sack



Data Source: CONAB

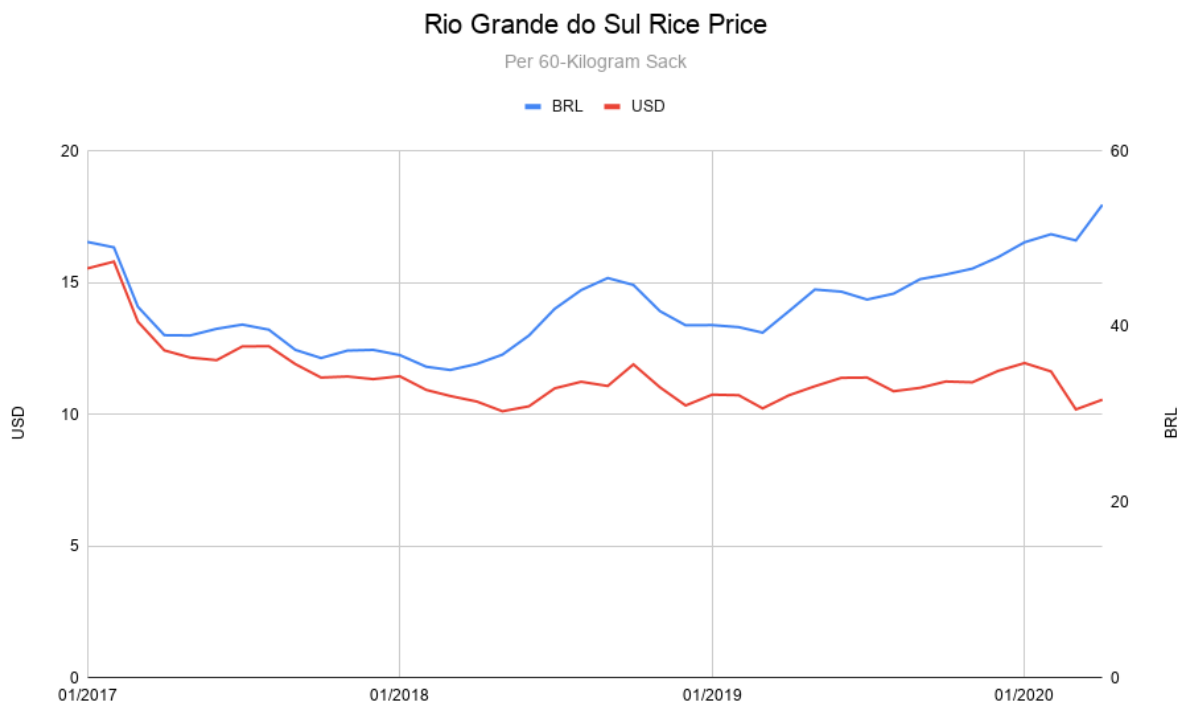
Rice

Brazilian rice prices have remained firm over the last year, rising on April 9 to the highest-ever level of R\$53.87 per 50-kg sack (US\$9.42/hundredweight) of paddy rice, according to the data series maintained by CEPEA since June 2005. That is 12 percent higher than the price at the start of 2020 and 29 percent higher than a year ago. The price spike comes even as the state of Rio Grande do Sul has already harvested 70 percent of its crop. The state's production accounts for about 60 percent of the national rice crop.

The high prices are a result of limited supplies, as the weakened BRL makes exports more attractive, thus depleting domestic stock levels. Starting in early 2018, the rice price in BRL and USD terms started to diverge, representing the weakening of the Brazilian currency during the country's recent economic recession. This made Brazilian rice exports increasingly enticing for foreign markets, but at the same time made imports of fertilizers and agricultural chemicals more expensive for Brazilian farmers. According to the International Grains Council, rice prices have also increased worldwide.

The coronavirus pandemic has spurred rice demand by Brazilian consumers, who reportedly have stockpiled bags of staple foods in recent weeks. Social-distancing measures (either mandated or voluntary) are keeping many Brazilian consumers out of public and have greatly diminished the number of meals eaten in restaurants, which typically include less rice. One Brazilian company producing rice and dry beans reported that the demand for both products had increased by 50 percent during the month of March, and the company reported receiving increased orders from grocery stores throughout the country.

This situation increased demand by millers looking to meet the needs of the supply chain, at a time when rice stocks were already estimated at a 30-year low after two seasons of strong exports. The end result has been record-high rice prices in Brazil.



Data Source: CEPEA

Wheat

Wheat prices hit record levels in early April in Brazil's two largest producing states, which together account for 85 percent of the national wheat crop. On April 8, the average price per ton of wheat in Rio Grande do Sul hit R\$990.99 (US\$5.20/bushel), and on April 9, the average price in Parana hit R\$1152.09/ton (US\$6.05/bushel). Both prices were all-time highs, according to the data series maintained by CEPEA since February 2004.

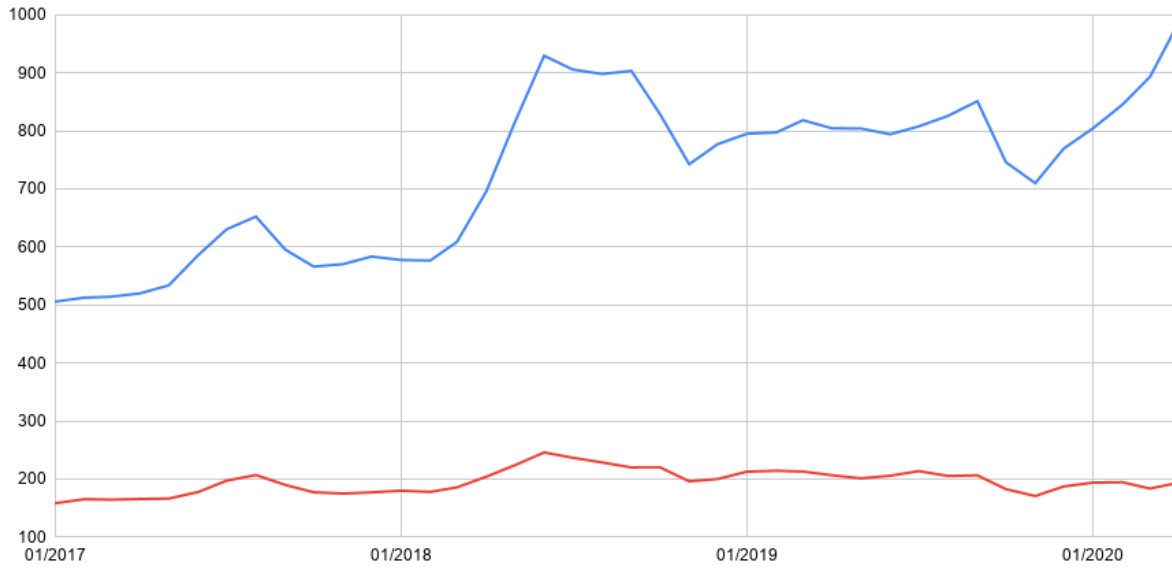
Brazil is the world's third-largest wheat buyer, relying on imports for about 60 percent of its consumption. The weak BRL has driven up import costs for millers, while coronavirus-related trade restrictions in neighboring Argentina, Brazil's main wheat supplier, have added additional uncertainty to the mix. These factors, paired with depleted domestic stocks, have caused domestic wheat prices to rise sharply in recent weeks, a trend which may continue for a while, given that the start of the next Brazilian harvest is still at least four months away.

Prices since the start of the year have increased by 21 percent in Rio Grande do Sul and 31 percent in Parana, leading to expectations that wheat area will expand when the next round of planting starts later this month. Since wheat-based products are important staples in the Brazilian diet, Post believes producers will take the opportunity to expand area. However, such expansion is constrained by the purchase of inputs, which are typically contracted about six months in advance. Unlike much of Brazil's cotton and soybean production, little wheat is forward contracted, leaving farmers to hope prices will remain firm come harvest time.

Rio Grande do Sul Wheat Prices

Per Metric Ton

— BRL — USD

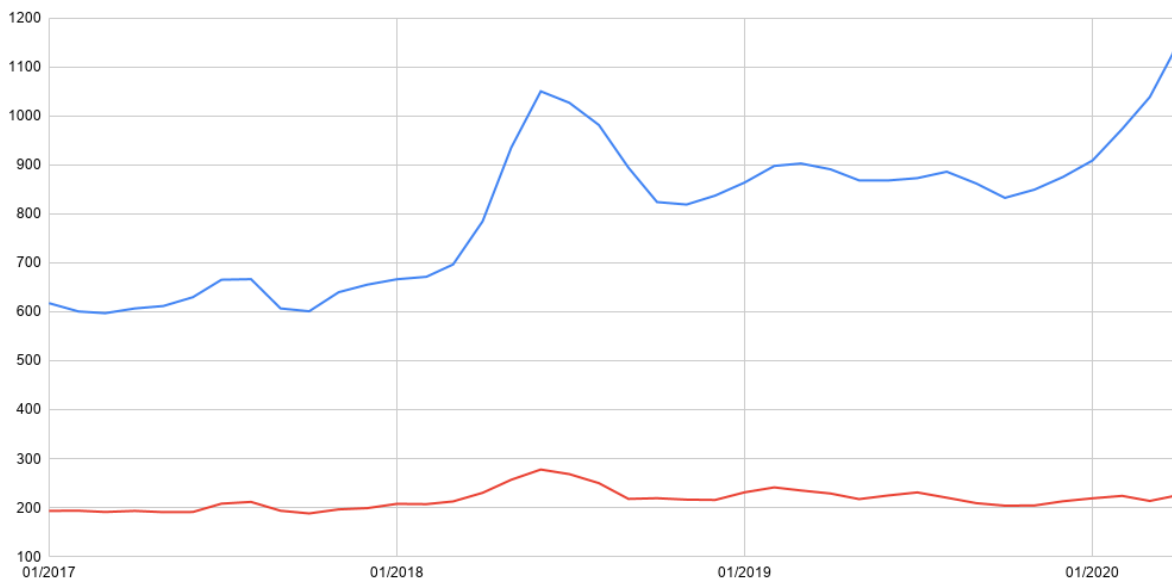


Data Source: CEPEA

Parana Wheat Prices

Per Metric Ton

— BRL — USD



Data Source: CEPEA

Attachments:

No Attachments.