Higher Costs Squeeze Margins for Brazilian Soybean Producers

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Soybean farmers in Brazil are actively planting their 2013/14 soybean crops and hoping for a good yield in order to offset the higher costs of producing this year’s crop. The increased cost of seed, fertilizers, and chemicals have squeezed potential margins for producers, especially if the anticipated yields end up being disappointing.

The Mato Grosso Institute of Agricultural Economic (Imea) estimates that the average cost of production for soybeans in the state is R$ 2,340 reals per hectare or 23% more than last year. In other words, it will take 2,500 kg/ha of soybeans (36.2 bu/ac) to pay for input costs if you consider a selling price of R$ 55.70 per sack of 60 kilograms (approximately US$ 11.50 per bushel). The average soybean yield in the state in 2012/13 was 3,010 kg/ha (43.6 bu/ac).

In the state of Parana, which is the second largest soybean producing state in Brazil after Mato Grosso, the Secretary of Agriculture (Seab) estimates that the average cost to produce soybeans is R$ 2,200 per hectare or 19% higher than last year. On average in the state, it would take 2,000 kg/ha of soybeans (29.0 bu/ac) to cover the cost considering a selling price of R$ 66.70 per sack of 60 kilograms (approximately US$ 13.84 per bushel). The average yield in the state in 2012/13 was 3,348 kg/ha (48.5 bu/ac).

These calculations are based on what seems to be optimistic prices given the current price structure in the market where the Chicago Board of Trade prices for March and May of 2014 are more in the range of US $ 12.50 per bushel.

Imea estimates that farmers in Mato Grosso have forward contracted 40% of their anticipated production at an average price in the range of R$ 49 to R$ 50 per sack (approximately US$ 10.17 to 10.38 per bushel). If the remainder of the crop is sold at R$ 44 to R$ 45 per sack (approximately US$ 9.13 to 9.33 per bushel), producer margins will be very small or nonexistent.
Last year was a very good year for farmers in Mato Grosso and as a result, many farmers purchased their inputs for the 2013/14 crop ahead of time in an effort to get ahead of the price increases. That may have worked for seed and fertilizers, but it probably won’t work for chemicals especially those chemicals used to control the corn earworm (Helicoverpa armigera), which is already attacking newly planted soybeans. Some farmers in the state have already sprayed three times for the caterpillar even though the soybeans only emerged about 30 days ago.

The general trend in Brazil has been for farmers to purchase their inputs earlier every year. During the past ten years (2003 to 2012), farmers in Parana have increased their input purchases during the first half of the year by 2.5% per year while decreasing their purchases during the second half of the year by 1.3% per year.