BRAZILIAN SOYBEAN MARKET CHARACTERIZED BY STRONG BASIS

Planting progress in Midwest Brazil is done and weather is going very well everywhere. The reality is a little bit different in south. The planting pace below contemplates the week ending December 11th, so by today, we should be approaching 100% as the weather contributed for the farmers to get in to finish.

SOYBEAN PLANTING FOLLOW-UP - BRAZILIAN 2009/2010 CROP (% OF ESTIMATED PLANTING AREA)				
	2009	**2009**	**2008**	**5 Y AVE**
States	12/11	12/4	12/11	
RS	68%	45%	81%	91%
PR	100%	99%	96%	99%
MT	100%	100%	100%	99%
MS	100%	100%	96%	98%
GO	100%	99%	88%	94%
SP	100%	95%	88%	93%
MG	95%	90%	87%	90%
BA	95%	75%	90%	87%
SC	80%	60%	80%	86%
OCT	90%	80%	85%	87%
BRAZIL	**93%**	**87%**	**93%**	**95%**

Source: SAFRAS & Mercado

This week two of our consultants were traveling Rio Grande do Sul and planting was at all speed. Another comment made was the reduction in corn plantings, numbers show 40 to 50% less planting. However, corn quality was outstanding and exceptional yields are expected, which could make back in terms of volume to may be only a small reduction of 15 to 20%.

As expected, farmers in Mato Grosso already started some harvest activities of short cycled beans, but not enough to really get a feeling for yields yet. We will keep everyone posted. Basis already started to come down in the interior of Brazil by 50 to 70 cts/bu in some states, but farmers strategy of planting earlier and try to capture some of these high basis is paying off; several of our customer said that they were able to capture 100 basis points above historical levels. Now a question remains as up to when will these basis levels sustain?

Basis Evolution - Brazil - 2008 and 2009			
	(US$cents/bu)	**MT**	**RS**
	Biodiesel Consumption/Soybean Production	16,40%	37,03%
	March Basis	-267,1	-107,88
2008	**December Basis**	-100,3	12,89
	Variation	**+166,8**	**+120,77**
	March Basis	-137,1	-10
2009	**December Basis**	5,3	179,08
	Variation	**+142,4**	**+189,08**

Source: CMA and ProptheX

In the table above, we can see that March basis quoted today in the market is trading at much higher levels than March spot historical basis. The B5 mandate for biodiesel was approved for Jan 1st and we believe this additional demand for Jan to Mar delivery has been the reason why basis still pretty strong in the interior. As the harvest reached the pick which will only happen March 15-30 we will see basis pressured.

Interesting to see that already under this new B5 mandate, the need for soybeans to produce the oil for biodiesel in Mato Grosso and Rio Grande do Sul represents about 16,40% and 37,03% of these states production, respectivaly. A question is starting to wonder, with a B6 or B7 expected for 2010 and B20 in the metropolitan cities, one thing is for sure, we might not export any soybean oil, but that reduction in oil export still not enough to meet this additional demand, so shall soybean exports be affect? Another more important question for the future and this has a higher and more macro consequence, will Brazil become a much bigger exporter of meal instead of soybeans? Will China import meal?

Since harvest is coming earlier in Mato Grosso, these farmers are receiving cash earlier and starting to buy fertilizer already and looking into hedges for next crop. This is an incredible movement from them as they typically start only in February after the crop is harvested.

Planejamento, Pesquisa e Projetos Especiais

planejamento@fcstone.com