20 Years Mato Grosso- Then and Now

Soybeans and a steering wheel for a horse to being told "Kory, a million dollars is nothing out here"

Back in 2000, I was eager to see what was going on in Mato Grosso. A friend of mine and future tour guide sent me a VCR tape that he had received from his contact in Brazil. This tape came to me in September of 2000. A few Sao Paulo businessmen and grain buyers had made a trip to Mato Grosso to scout out a location for their expansion. I was captivated by the Mars-like topography, the amount of land clearing taking place, and the construction of the new Bunge warehouse north of Sorriso(200,000 tons). I asked myself, how can they afford to do this? What are the economic drivers? Where does the lime come from? Soybeans are trading 5 dollars in Chicago. We, in the USA, were surviving on LDP's, CRP and PP programs, and these son of a bitch's are expanding?? This does not compute.

By January 2001, I and my cousin joined a dynamic group of about 14 people to see Mato Grosso and Rio. I had been to Brazil and Argentina back in 1993. Back in 1993, I was more impressed with Argentina. Our group consisted of farmers, brokers, businessmen, and cowboys.

We arrived in Rio and exchanged some dollars for reias. Our Brasilian guide met us and then took us outside the airport door where some guys were trading dollars on the black market. They had fist fulls of cash and with some help, everyone did their business. My first encounter with Jeitinho.

Later that day, we were on a flight to Cuiaba, MT. We arrived at the hotel and crashed. I remember being awoken in Cuiaba by a rooster at about 4 am. Here we are in the state capital and there is a rooster next to the hotel.

We spent 7 days in Mato Grosso touring, learning, and sweating. Here is a story that brings tears to my eyes every time I think about it. They are tears of laughter. As I stated above, we had a couple cowboys with from Wyoming. After our week in Mato Grosso, we were all exhausted by the time we got back to Rio. We were literally punch drunk. Our brains could not handle anymore info. As we got loaded onto the tour bus in Rio to take us to the hotel, our tour guide asked us if there is anything we needed. His voice was shot from a week of talking and interpreting and no sleep. I was in back of the bus near the cowboys. At this time one of the

Aug 2001

cowboys said he could use a BRIDLE. There was a moment of silence. Since we were in Rio, I think all of our brains just assumed he was making a joke and the cowboy was needing a BRIDE?? As our tour guide lifted his hand to his ear to let the cowboy in back know that he could not hear him, I responded with a yell from the rear of the bus saying: **"I think he is looking for a steering wheel for a horse !!!!!"**
The tour guide started to laugh uncontrollably which then spread throughout the bus. We could not stop laughing and the cowboys did not know why we were laughing- which made it all the more hilarious. Here we are, after a week in the interior of Brazil, back in Rio, and the cowboy was looking for a BRIDLE among the most expensive beach real estate on the planet. The comedic situational juxtaposition of place and double meaning of BRIDAL/BRIDLE was the perfect setup for a belly laugh that still continues until today.

Back in 2001, Brazil was producing **42** million tons of soybeans and **6.2** mmt of 2nd crop corn- nationally. Today, Brazil is producing **125** mmt of soybeans and **75** mmt of 2nd crop corn.

In 2001, MT produced 9.6 mmt of soybeans and **1.5** mmt of 2nd crop corn. Today, Mato Grosso produces **35 mmt each** of soybeans and corn. Mato Grosso increased from producing 11 mmt of soybeans and corn to 70 million tons in 20 years- **this is a 536% increase in 20 years.** I thought the production in 2001 was impressive. You can imagine my amazement today at 70 mmt with future projections of 100 mmt in 10 years.

Back in 2002, Governor of Mato Grosso, Blario Maggi, said that by the time he leaves office in 2010, Mato Grosso would be producing 50 mmt of soybeans.
That projection was a little bit off the mark. However, no one could have imagined the gigantic leap in corn production - **a 2233% increase in 20 years.**

As I was on my initial tour of Mato Grosso, I was trying to figure out where I could fit into all of this. I knew there would be a day when I could be in Mato Grosso and be able to communicate with Minnesota. One must remember that only one Brasilian guy, on the first tour, had a cell phone. It worked until a few kilometers out of town.
There was so much small equipment back then. It seemed like even the bigger farms would work with multiple 60 to 80 hp tractors hooked to 5 or 6 row planters. There might be 10 or 20 units in a field, but it was very inefficient from a gringo's perspective. I knew air seeders and 4 wheel drive tractors would need to arrive here. This was before precision ag, but I knew in 2001, if there is a place on the planet to apply economies of scale, it is here.

The biggest change I have noticed in the past 20 years is that of a familial structure to that of a corporate structure. Pre-Ag boom period of 2008 to 2012, one could just pop in for a visit to anyone's farm or office. Everyone always had coffee and tea ready. These days, one must make an appointment. The CEO's and owners are busy guys. The farm managers have much responsibility and they do not want to say something out of place that is considered internal business.

Foreign exchange is probably the biggest challenge, not only for gringos, but also for Brasilians. In this contemporary environment of weak real and strong dollar, it seems like the Brasilian producer always wins. Through the years, the range has been from 1.55:1 to 6:1 in 2020.

I think back to the before the financial crisis of 2008. The dollar:real was in a stable range of 1.80:1 to 2.20:1. With a stable currency, some farmers were lulled into loans in dollars. It seemed, at least for a time, they could get free money. They would borrow in dollars at 2.20 and pay them back later at 1.80:1.

Nov 2007

Along comes the panic of 2008/09 in the USA. All of a sudden Brazil became the carry trade for international banks. Brazil had high interest rates and the USA was slashing the interest rates to near zero. Money was flowing into Brazil at breakneck speed. The dollar:real dropped to 1.55:1 twice - once in 2009 and again in 2011. Brasilians felt wealthy. I felt poor.

There were forecasts for the dollar:real reaching par at 1:1. It was all surreal at the time. I am a gringo, living in a 3rd world country, going broke. *This ain't right* was our local analysis while out drinking expensive domestic beer. Something will happen.

And so it did: It was not long before investigations of wrong doing, impeachment of a president, and a lifting of the veil that showed it was all a house of cards. Soon the FX was trading 3:1 or more and farmers that had loans in dollars were shitting bricks.

This takes us to today where we have one of the biggest paradoxes in global agriculture ever seen. We have the American farmer fighting for survival post trade war and strong dollar, while the Brasilian farmer rides the Chinese demand and FX wave.

Back in 2008 to 2013, the Brazilian farmer did not make that much money. His currency was too strong and FX risk was high for them.

Today, the Brazilian farmer is flush with cash due to demand, currency exchange, and better logistics.

In summary, it is difficult for the foreign investor to time the wave correctly. If one invests in Brazil during a strong domestic currency, it is difficult to cash out and send your money home with a ROI. Vice Versa it seems that when Brazil has a weak currency, investment in Brazil slows and many miss the opportunity to get in at the cycle low. This is where business school types miss the target. It seems like it is best to wait a bit before buying or selling an asset. It does not work to price the asset and FX in real time for both the entrance and the exit. It seems like most are half of a cycle off most of the time.

I started out in Brazil with a humble beginning. I started out as the land guy for a new gringo Mato Grosso start up. This gave me some credibility and a chance to get to know everyone. Soon, thereafter, my son David came along. I now had roots in Brazil. I met another gringo in Goiania that had website experience. I started to blog when no one knew what a blog was. Website traffic increased as did Ag tours. I started to publish a newsletter which was very popular in the early years. I then had a number 1 Google search engine ranking. I did countless tours to Mato Grosso in the early years. I would educate clients about Mato Grosso, they would say it is too expensive, go home, and invest with someone else in Bahia to which they would lose all their money. It was frustrating to see the same mistakes being made over and over again.

The Americano

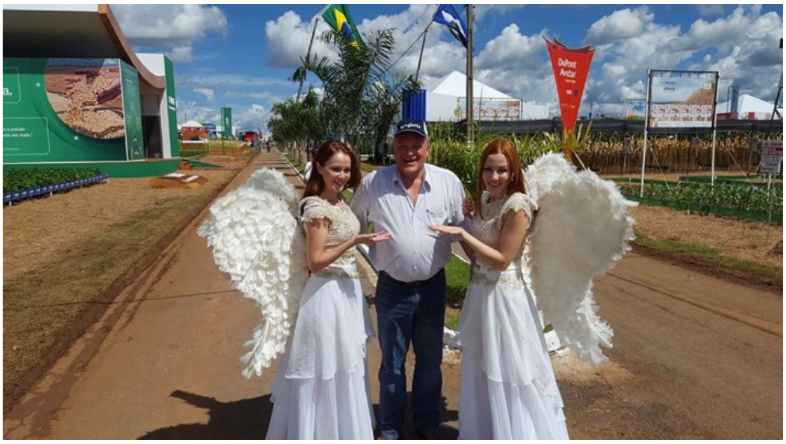
One day, I get a call from Ed in Florida. *Kory, I need your help.* I have a 150,000 ha in Mato Grosso. The son of a bitch's in Sorriso stole it from me.
Huh? What? Are you serious? Is this a prank call?

It took me a long time to believe with whom I was speaking with. I had heard of the "Americano", but I had no idea the land title was still an issue in 2009. The irony is that some of the same characters that I had met on my January 2001 tour, promoting land sales, were from the same family that had stolen all of Ed's land 20-30 years prior.

Ed was the first gringo pioneer of Mato Grosso back in the 1960's accumulating 150,000 ha of pasture and forest. Ed makes the rest of us adventures look like pampered little pioneers with our air conditioning, cell phones, and hotels to sleep in. Ed's story is one of Crocodile Dundee mixed with Indiana Jones and the God Father.

I flew to Sao Paulo to meet Ed. After listening to him and looking through hundreds of pages of land documents and maps, the hair on the back of my neck began to stand up. I told myself, *Kory, this shit is about to get real.* If I piss off the wrong guy, this is how people die in Brazil- messing with land that is homesteaded but has no title.

At a later date, I was asked to attend a mediation hearing in Cuiaba. The Mato Grosso judge in charge of the case asked the lawyers of the two sides to meet to see if there is a settlement to be had. I was the black sheep in this meeting. Who the hell is this guy? I could see this expression on their faces. The lawyer Ed was using, at the time, was also stealing from him. The farmers that showed up to defend their land were also full of fear. I think they thought Ed was going to burst through the doors like a Micheal Jackson concert. Where is Ed?



March 2018

As I tried to approach these farmers during breaks, they would actually run away from me. I was trying to offer an olive branch and a possible private meeting away from these lawyers. They would literally run away from me. I think this was on advise from their lawyer to have no contact. Needless to say, while traveling in Mato Grosso during this timeframe, I would always sleep with one eye open. I was now very well known. Realtors, small town lawyers, and curious onlookers all wanted to wine and dine me- all the while with one eye looking over my backside. What next?

If you are wondering as to how they were able to steal Ed's land, they were able to do so by burning the cartorio or county recorder to the ground in Parana back in the 1980's. After many years, Ed found copies of his land tracts at another cartorio. With that data, a judge was able to keep this protest alive all these years.

Ed secured new counsel. To date, there have been settlements on about 100,000 ha and payments in soybeans are being received each year. There is still a good chunk that needs a settlement. Ed passed away a few years back, but his family continues to fight for what was taken from them so many years ago.

Mato Grosso Today

This takes me to the last six or seven years. Another group wanted to buy land in 2012. This was occurring during the new forest code. Sao Paulo lawyers would see things differently than local lawyers. Gringos needed permission from the Federal government to buy land. It took over two years to close a farm sale of size.

This new land partnership gave way to the inception of Mato Grosso's first all corn ethanol mill in Lucas do Rio Verde. The 2nd mill was built at Sorriso. There are plans to build three more mills depending on economics. A Paraguayan group has also built two corn ethanol mills in the region. These four established mills will process upwards of seven million tons of corn that is produced in Mato Grosso.

Price of soybeans and corn Then and Now

Back in 2001, soybeans were trading R$ 13 to R$ 14 per sac in Mato Grosso. Pre-Asian rust, they were able to break even growing soybeans at this price.

Today, we have soybean prices above R$ 100 per sac for new crop 2021 soybeans.

If we look back to pre-2017 time frame, corn in Mato Grosso was worth R$ 18 per sac or slightly below this value.

I remember corn prices as cheap as R$ 5 per sac, but most of the time corn has traded between R$ 10-15 per sac. With the introduction of 4 new ethanol mills into the region, corn now trades between R$ 32- R$ 40 per sac.

With the entrance of GMO corn varieties and drought tolerance, corn has awoken from its slumber and it is not just a sleepy second crop, that farmers try and breakeven on, to a main driver of cashflows. At the moment, growing a 2nd crop of corn can generate just as much profit as growing soybeans. This is truly a paradigm shift.

The precision ag equipment boom, that started in 2012 time frame, can now find its maximum economic efficiency by growing two crops at a profit instead of one crop at a slight profit and the 2nd at a breakeven price point - just so one can have a cover crop to keep the no-till program intact.

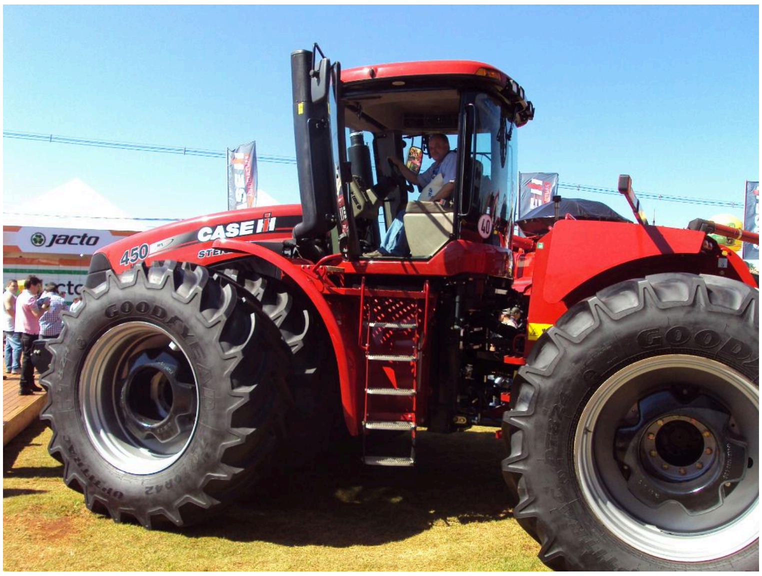
Land prices

Back in 2001, a turn key farm along the BR 163 highway would sell for **250 to maybe 300** sacs of soybeans. This would be about US$ 850 per acre on a whole farm basis. Some farms were 65% open and others were 50% tillable.

I went back to Mato Grosso in August 2001. I wanted to see land clearing in person. At that time, I received proposals to buy 100% forest east of Sorriso for **50 sacs per** hectare and the seller(same family that stole Ed's land) would clear 50% for me, windrow the trees, burn, pick the roots, and get it prepped for 1st crop rice in a period of 1 year to 18 months. The cost to hire the land prep was another 50 sacs of soybeans per hectare. One would have **about 150 sacs per tillable** hectare into the land. This would be about US$ 500 per tillable acre.

During this trip, I heard of an American that had bought land in Querencia, MT. He had bought 24,000 hectares for 25 sacs of soybeans per ha on a contract for deed. 50% to 80% reserve requirements depending on which rule book one reads.

I returned with friends in November of 2001 to see this. Flying around in November, in the Amazon, is much like being in a Jurassic Park movie. One is flying just below the clouds and rain and just above the tree tops. The only thing missing below were Tyrannosaurus Rex's.



Ag Show Sao Paulo May 2018

In November of 2001, in Querencia, they were just building the cell tower. Our cell phone was useless. Today, Querencia has 4G cell service.

Fast forward to 2020 and we see a different scene. First, the climate is dryer than back then. Back in 2002 to 2005, it was normal for Sinop and Querencia to receive up to 3000 mm of rain per year. It was too wet for double cropping, they said. This is when Asian rust exploded onto the scene.

Today, it seems like Mato Grosso gets about 1800 mm per year, which is just enough for double cropping.

Land prices today along BR 163 will run about 1000 sacs per hectare for a turn key farm. This is about US$ 7500 dollars per acre. I have heard of a tract of land at Querencia that has sold in 2020 for 750 sacs per tillable hectare on a contract for deed. This would be about US$ 5500 per acre. These are high end prices with infrastructure included with the farm. This gives the reader an idea of how much has changed in 20 years.

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* It has been told to me over the years, that back in the 1980's, one could have bought land in Mato Grosso for packs of cigarettes per hectare.

Many unheard of pioneers came to Mato Grosso in the 80's and 90's, lost their ass, and went home on a one way ticket- never to return to Mato Grosso.

Those that were able to stick it out, suffer, or were just plain lucky, made more money than we can comprehend.

In conclusion:

In there period of 20 years, I have experienced:

Land prices ranging from 25 sacs of soybeans per hectare to 1000 sacs of soybeans per hectare.

Soybean prices ranging from R$ 13 per sac to R$ 130 per sac(spot).

Corn prices ranging from R$5 per sac to R$ 50 per sac(spot).

I have been told by friends that they were broke to a few years later being told that US$ 1 million dollars is nothing out here for a down payment.

The last 20 years have not been easy. It has been a roller coaster ride with many emotional and financial highs and lows. I have been blessed and betrayed by Brazil.

I have always considered myself as a guest here.
It is not my place to dictate my beliefs onto Brazil.
I have always looked for ways to work with Brasilians and not compete against them. If you are seen as a threat or competitor, the country will eat you alive.
You are dead.

On the flip side, I have made hundreds of new friends not only in Brazil, but around the world, doing consulting, tours, and attempting to solve problems that gringos get into here.

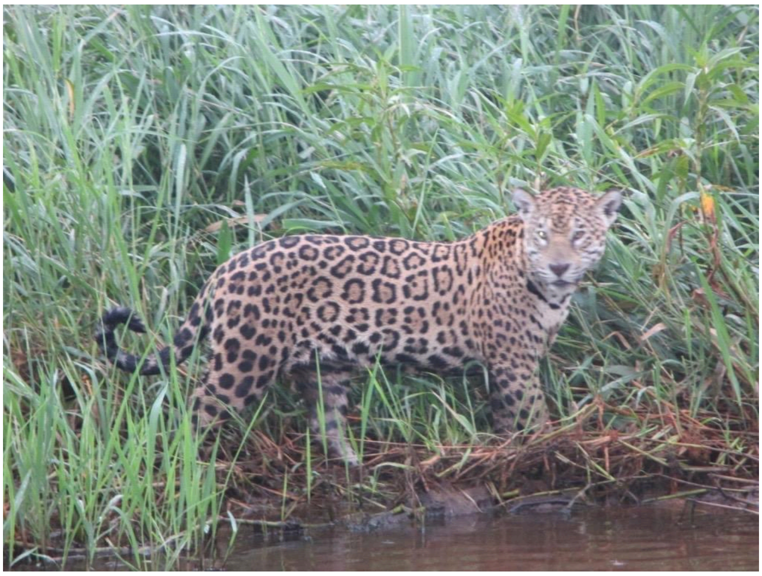
When I was young, 30, I liked to see trees on fire. I grew up doing that in Minnesota- clearing land.

Back in 2001, there was so much forest. It seemed impossible to clear it all. In 2004, Brazil cleared 24,000 square kilometers or 10,000 square miles during that dry season. That is 277 townships in one year.
It was a sight to behold. I was impressed. I was in it- at soybean ground zero back then. Two D-8 caterpillars could lay down 80 ha per day of medium Cerrado.
In 2020, Brazil is on deck to clear that much again- even after the 2012 Forest Code has been installed.

As I write this in 2020, the Pantanal, the world's largest swamp, is on fire. *This ain't right.*

The habitat for animals is being degraded faster than the populations can adapt to. I do not have the answer, but I do see the changes that are occurring right in front of our eyes.

Planting Rice Northeast of Sinop Nov 2008



Pantanal July 2015

Mato Grosso Then and Now