

Kory Melby's

Brazilintl

Brazilian Ag Consulting Services

Soy,Corn,Cane,Ag Equip,Land,Logistics,Econ & Politics

Kory.Brazilintl@gmail.com

www.Brazilintl.com

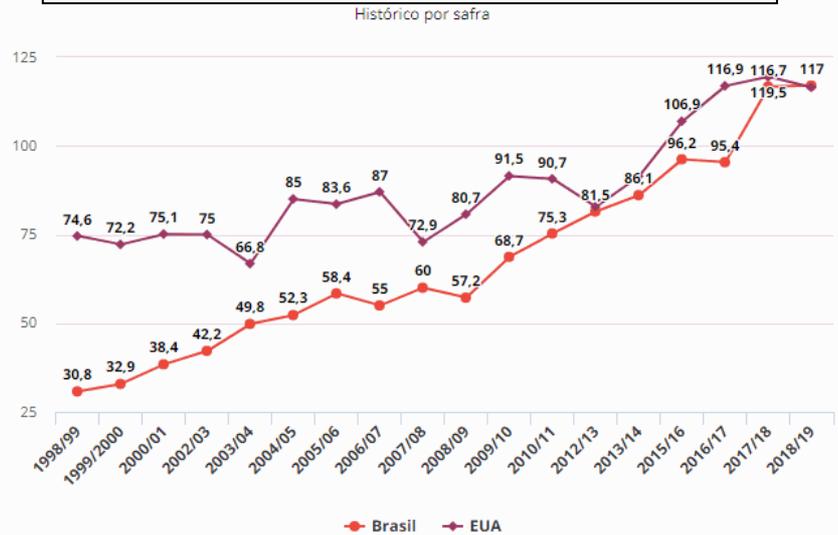
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Soy Production increase review:

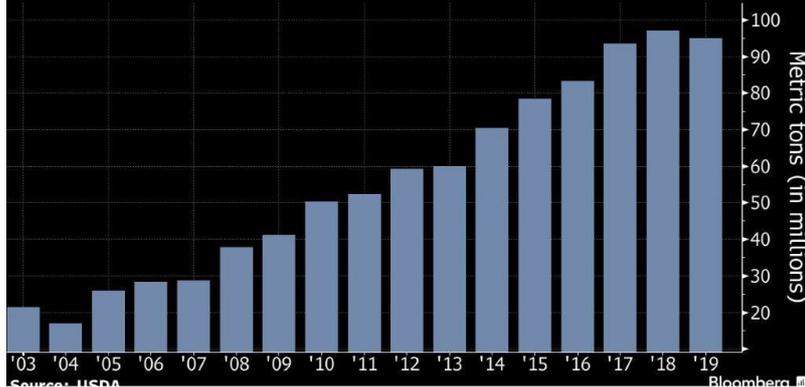
Two crop years ago, we started the season with soy crop size estimate of 102-105 mmt. The final result was 114 mmt. Last year, we started out with a 110-112 mmt estimate and final result was 119 mmt. Each year was a one million ha increase in area. If average production is 3 tons/ha, then we should move up the baseline by about 3 mmt per year. The final production tally has been increasing by 8 to 10 mmt per year. Therefore, all production beyond the initial 3 million ton "Spot" has been a direct function of productivity per hectare due to genetics, climate, and precision ag applications. The 2019 crop size range will start out at 115 mmt to 125 mmt. Lower than 115 is not likely as is above 125 mmt.

Soy production USA vs Brazil historical



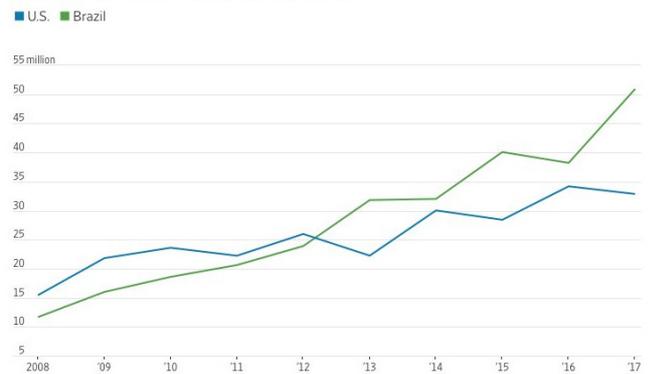
Soy Surge

China's soybean imports have risen for more than a decade



Trading Places

U.S. vs. Brazil soybean exports to China, 2008-2017, in tons



I think back to when I first came to Brazil in 2001. Brazil was at about 40 mmt of soybeans and I was impressed with that. To think that 120 mmt is now the baseline and a 130 mmt is just another 7-8% increase from here is mind blowing for me. I think back to the good old days of the 2004 time frame when Mato Grosso and Brazil were increasing circa 10% per year.

The slowing of Chinese imports bothers me. They maybe can slow the pace for 10-12 months in a protein bluff to try and fake us all out that they are holding pocket Aces, but I think in time, we may find out that all they had were a pair of Dueces. Brazil exports 50 mmt+ per year to China while the USA has been at about 32 mmt until recently. The FOB soybean basis chart on page II shows how distorted the soybean market has become.

The slow fertilizer delivery has everyone worried Brazil cannot expand as much as they would like. After being too conservative for the past two years on crop size potentials when the economics were only mildly favorable, I remain quite confident that Brazil will figure this out as per the FX and prices have the animal spirits awoken. Expansion is in the north and fertilizer can come in from there too. I sense Mato Grosso could surprise us this year after being subdued in recent years. The KCL is broadcast ahead of planting. MAP goes on 20 days after planting. Some farmers still like fertilizer in the row. Mato Grosso with large area of cotton last season can punt a little on fertilizer. I remember when they did not apply any fertilizer to soybeans after cotton and still produced 50 bushel per acre.

The USDA is optimistic with Brazil's ability to expand area.

They are thinking 1 million + hectares of soybeans and another 1 million+ hectares of corn.

Most of the corn will be 2nd crop corn. It is possible we will see yet again a drop in first crop corn area which will get planted to soybeans.

Below, I have included soybean Basis charts from Brazil, North Dakota, and Canada.

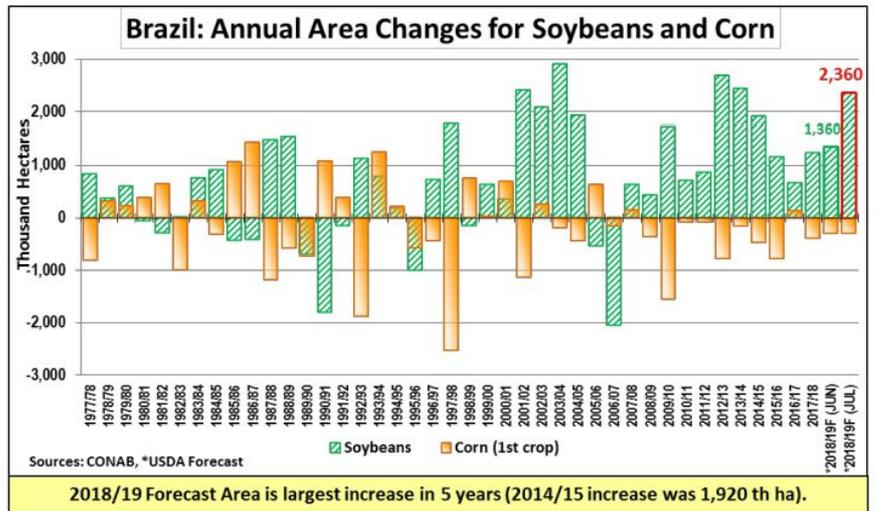
We can see how Brazil and Canada Cash soybean prices have risen and USA remains flat.

One can also look at SLC Agricola stock in New York.

Since the trade war talk began, SLC's stock has risen from 10 dollars per share to circa 16 dollars.

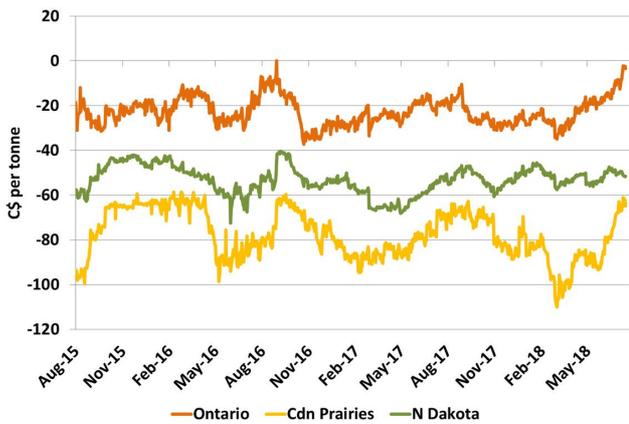
Good cotton crop, good prices, and Great earnings potential for 2019.

Brazil Soybeans: Record Forecast Production Due to 7 percent Increase in Area

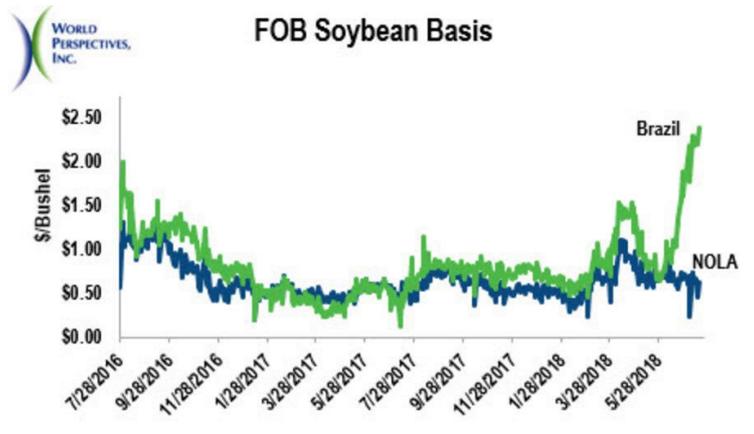


Brazil's soybean production for 2018/19 is forecast at a record 120.5 million metric tons (mmt), up 2.5 mmt or 2 percent from last month and up 1 percent from the previous year. Harvested area is forecast at a record 37.5 million hectares (mha), up 1.0 mha or 3 percent from last month and up 7 percent from last year. Soybean area is forecast to continue expanding as it has for the past 10 years, with 2018/19 forecast to have the highest annual increase in 5 years. It is anticipated that Brazilian producers will plant more soybeans to capitalize on the trade advantage over the United States in response to China's imposition of retaliatory duties. Yield is forecast at 3.21 metric tons per hectare, near the 25-year trend but 6 percent below last year's record. Last year's crop benefited from favorable weather and improved technology that raised yields to record levels almost everywhere, except in the south. Planting begins in September in the primary growing areas of the Center-West and South regions and continues through December in the rest of the country. (For more information, please contact Maria.Amulacion@fas.usda.gov.)

Soybean Basis



FOB Soybean Basis

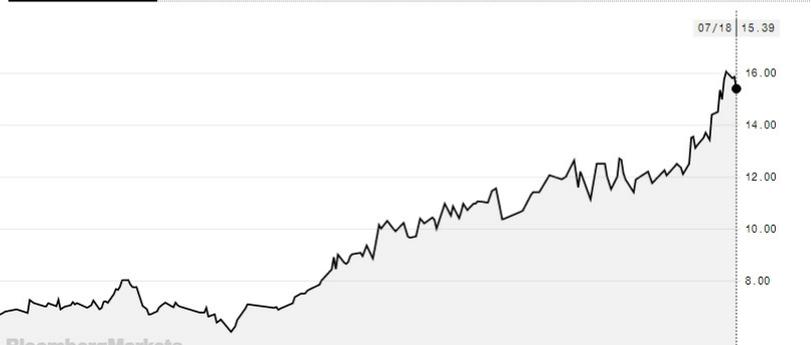


SLC Agricola SA

15.39 USD -0.46 -2.90%

ID 1M 6M YTD 1Y 5Y

Add a comparison



S.A. Soybean Production (MMT)



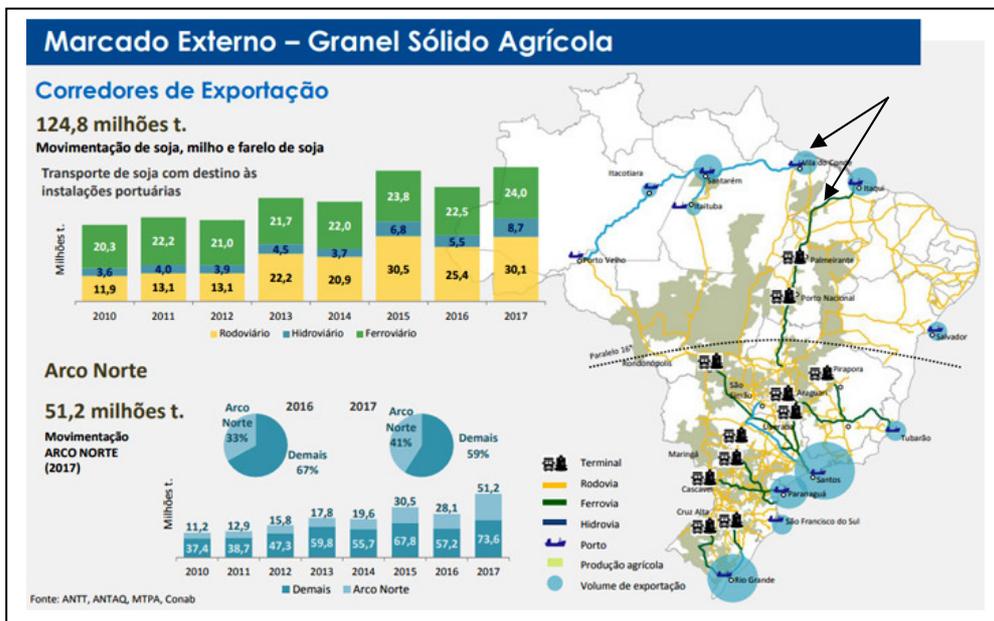
Everyone has seen the crazy videos of trucks trying to go north on BR 163.

The volumes keep increasing. Here The graphic shows 30 million tons of soy and corn moved north via roads in 2017. What if the roads were good?

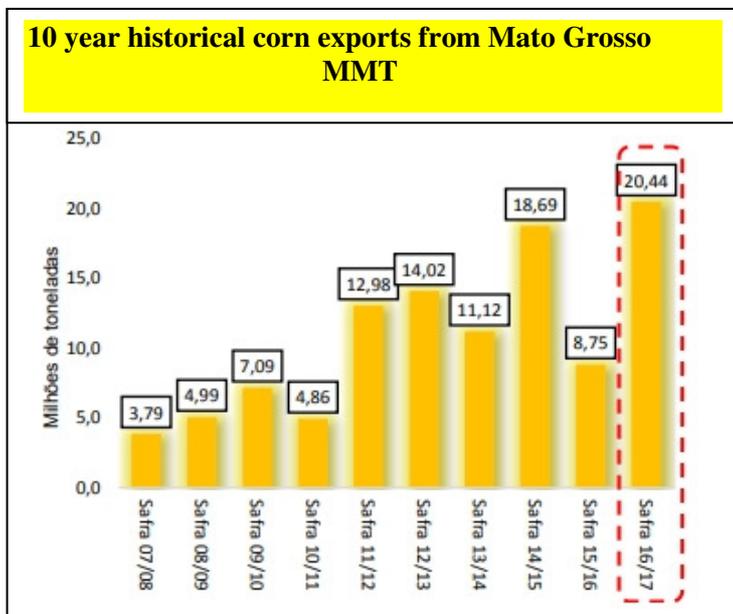
I marked with arrows where the gov't Says they will add a spur to North/South railroad to connect it to Belem.

Below is a graphic from IMEA as per historical corn exports out of Mato Grosso. Last year Mato Grosso exported 20 mmt of the 28 mmt+ corn crop.

This year the crop will be a bit smaller, but, much better than I thought possible given late planting and low prices.



Look for a new record corn production in Mato Grosso in 2019. 30 mmt + likely next season.



So long as planting starts in September for Mato Grosso and Parana, all should be peachy as per another nice crop. The Northeast of Brazil is still another 2 or 3 years away from a drought cycle kicking in. Argentina was hit with 20 mmt loss last season which means they should rebound nicely for 2019.

Brazil 120 + ARG 60 + Paraguay + 10 Bolivia and Uruguay 3 mmt each = we could be looking at a **196 mmt** out of SA in 2019. Look at SA chart above on page II.

We have seen BR soy port premiums trade as high as + US 2.80 per bu over CME. New crop 2019 soy is trading + US 1.50 over March 2019 as of this writing. If any trade agreement is reached, POOF these premiums will drop back to + .30 to + 50 cents over as per norms. Who takes the loss? Chinese? If they cancel, and BR exporter has to resell at a loss, that is bad for long term Chinese business. With these high premiums, we are looking at US\$ 2 to 3 million risk per boat. But a 25% tariff means US\$ 5 to 6 million per boat tax also if USA is origin. How does a buyer calculate the risk reward during this nebulous time? In a business that operates on slim margins and commissions, how does one factor in these US\$ 2 to 6 million dollar swings per boat dependent on political whims of the day?

Cash soy seems to be moving again in Brazil with a 15% increase in freight rates, but still subject to public feedback in August. This is interrupting the ability to price new crop. The biggest risk in my mind going forward is the probability of a 4.4 billion bu USA soy crop combined with a 195 mmt out of SA in 2019 and an agreement in trade with USA/China. SA is over stimulated from FX and false sense of market share. We could be looking at low prices for all countries in 6 months. Then what?

Arco Norte increases by 82% share in the outflow of the agricultural crop
 July 13, 2018

The growth of 82% in the Brazilian agricultural harvest by the Arco Norte port facilities is the fact that calls for more attention in the Statistical Yearbook 2018 produced by the Ministry of Transport, Ports and Civil Aviation. The publication noted the increase in the share of ports in the North and Northeast regions from 33% in 2016 to 41% in 2017 in total water exports of solid bulk cargoes.

The main innovations of the Yearbook 2018 were: to detail all origins and destinations of the goods by mode of transport ; the port and airport movement by state of the federation; technical analysis of transport corridors of some products such as rice, vehicles, bauxite, petroleum products, soy and corn, iron ore, fertilizers and wheat.

Another highlight was the growing demand in Brazilian territory for products and services, with a modest resumption of domestic trade (+ 1.8%) in 2017. This was the best performance for domestic trade in the last four years, increasing the demand for transportation of cargo, especially road and air.

Brazil has set up a fund to finance construction of a rail line that will link the Norte-Sul railroad to the Amazonian port of Barcarena. It could boost transport of grains from new frontier Matopiba to Barcarena, which is closer to the Panama canal and the Asian market.

China and Brazil

Purchases →

Aquisições no Brasil

Jornal Valor Econômico 13/07/18

Principais transações de investidores chineses nos últimos quatro anos⁽¹⁾

Compradora	Adquiridas	Valor
■ State Grid	CPFL Energia	US\$ 7,98 bilhões
■ China Three Gorges	Usina Ilha Solteira, Usina Jupia, Duke Energy Brazil, Rio Verde Energia, Rio Canoas Energia, Triunfo Negócios de Energia e EDP Renováveis	US\$ 4,9 bilhões
■ State Power Investment Corp	Usina São Simão	US\$ 2,26 bilhões
■ China Molybdenum	Anglo American Fosfato e Anglo American Niobio	US\$ 1,69 bilhão
■ CITIC e Yuan Longping High-tech Agriculture	Dow Agrosciences Sementes e Biotecnologia	US\$ 1,1 bilhão
■ China Merchants Port Holdings e Kong Rise Development	TCP Participações	US\$ 921 milhões
■ Hainan Airlines	Azul	US\$ 450 milhões
■ Fosun	Torre Sucupira, Guide Investimentos e Rio Bravo Investimentos	US\$ 300 milhões ⁽²⁾
■ Nantong Yingxin Investment e Shanghai Pengxin	Belagricola Comércio e LandCo Administradora de Bens	US\$ 253 milhões
■ China Communications Construction Group	Terminal portuário de São Luís e Concremat Engenharia	US\$ 217 milhões
■ Grupo Hunan Dakang	Fiagril, Belagricola Comércio e LandCo Administradora de Bens	US\$ 200 milhões
■ Bank of Communications	Banco BBM	US\$ 174 milhões
■ China Gezhouba Group	Sistema Produtor São Lourenço	US\$ 146 milhões
■ Didi Chuxing	99 Táxi	US\$ 100 milhões ⁽³⁾

Fontes: Dealogic e mercado. (1) Valores desconsideram dívidas; algumas transações são de totalidade da empresa e outras de participações acionárias (2) Estimativa de mercado, valor oficial não divulgado (3) Aquisição feita em conjunto com Riverwood

Shaanxi and Mato Grosso closer ties reinforce ties " Brazil / China "

7/18/2018

A delegation of private and government representatives from the Chinese province of Shaanxi visited the state of Mato Grosso, in the center-west of Brazil, for an agenda of meetings with sector entities, state government and businessmen.

At the opening of a forum for economic and trade cooperation between the two sides, Shaanxi Province Governor Hu Heping highlighted the growth of his region, both in terms of Gross Domestic Product (GDP), of 8% last year, and consumption, which exceeded 11% in 2017. Hu stressed that the province has 34 million inhabitants and is able to expand consumption. The capital is Xi'an, known among Brazilians by the Army of Terracotta Warriors.

"Our province of Shaanxi and the State of Mato Grosso have many sectors and areas for cooperation and complementarity, with a wide horizon for various sectors, Hu said.

One of these sectors is innovation in agriculture and has the Yangling Agricultural Technology Demonstration Zone project as a large showcase. The area wants to become China's "Silicon Valley" and is investing in research and innovation in attracting leading universities to the region. In November, a fair should showcase the major achievements in this sector. Yangling will still house a free trade zone.

For the head of the Civil House of Mato Grosso, Secretary Ciro Rodolfo, the round of discussions is a step towards building a healthy environment, involving governments and private initiative. Rodolfo highlighted the legal security and business environment that is increasingly better in Brazil as attractive for business in the country.

According to Rodolfo, Mato Grosso is an important partner of China. Last year, the state's GDP grew by 5%, driven mainly by agribusiness, which accounts for 50% of the regional economy, 33% of jobs and 99% of exports. In Brazil, Mato Grosso produces 28% of soybeans, and in the world this number is 10%. The state is the first in the Brazilian ranking in the production of cattle, cotton, corn and other grains, such as sunflower seeds, as well as soybeans.

Deputy mayor of Cuiabá participates in meeting with Chinese

Mato Grosso has 33,000 agricultural producers associated with the main federation of the sector, called Famato, the Federation of Agriculture and Livestock of Mato Grosso, an entity with representation in the national scenario and interlocution with various levels of government, including federal. The state is the one that produces the most non-transgenic soy in Brazil, or 17% of its production, which is equivalent to 5 million tons. All the production of these grains is sold to Europe, due to regulations. In total, today Mato Grosso produces 66 million tons of grains and fibers in 10% of the state's area, which adds 9.5 million hectares of agriculture.

Even without the need to clear or open new areas for cultivation, local farmers believe that they can increase production, thanks to two-crop planting techniques throughout the year (which occurs on a large scale with soy and corn) and herd management bovine.

Famato estimates that more than 15 million hectares of pasture can be transformed into agricultural plantations in the state. Such a process does not mean a reduction of the herd, but the use of more technology, according to farmers. Mato Grosso produces 70% of Brazilian cotton and now sees in fish farming the new trend.

The deputy director general of the Shaanxi Province Department of Commerce Li Shengrong believes that there are several spaces to increase the sale of Brazilian products to China, with increased consumption being the most evident evidence of this process.

Among the companies present were Longi, which makes batteries and power solutions and serves 37% of the world market in its segment, Shaanxi Yanchang Petroleum Group, SIGC (Shaanxi Investment Group) and Chang'An Bank .

I am not sure what to make of the above meeting with China and Mato Grosso. Both sides showered each other in Kool-Aid on how great each other is. I have seen this a hundred times with various groups. Yet we have the inability to pave BR 163 to its entirety.

The bottom line is that Brazil and China are talking. At the moment USA and China are not. Relationships are being developed and over the long run, we might be surprised at what might happen.

For now we watch and monitor.

Below is historic graph of Brazil ethanol prices.

