



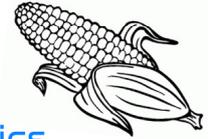
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Some good news with regards to railroads

I have spoken again and again of the big announcement of the FICO East-West railroad at Lucas do Rio Verde back in March of 2010. I was there.

That seems like a lifetime ago. Brazil was on the front page of FT Times showing that Brazil Lifts OFF!!! The pre-salt oil fields were to solve all of Brazil's problems and the dollar was circa 2:1.

Last week the Federal government as approved funding for a part of the Fico. I would imagine in time the next stretch of rail will go from Agua Boa to Lucas. That will depend on what happens in the coming years. Will the rail extend from Rondonopolis to Cuiaba and then to Lucas? Will we get a concession auction for the rail from Sinop north to the Amazon region?

I must ask myself what could go wrong with this announcement. Does the possibility of the wrong guy being elected in October put this funding in jeopardy?

With the new freight table, that is still in up in the air for some, it sure has illuminated the railroad issue again.

If this freight table sticks, every farmer will buy their own trucks and put them on the road.

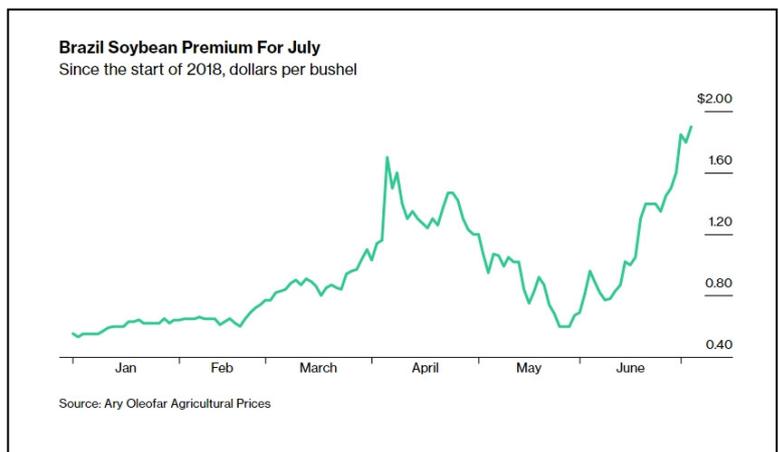
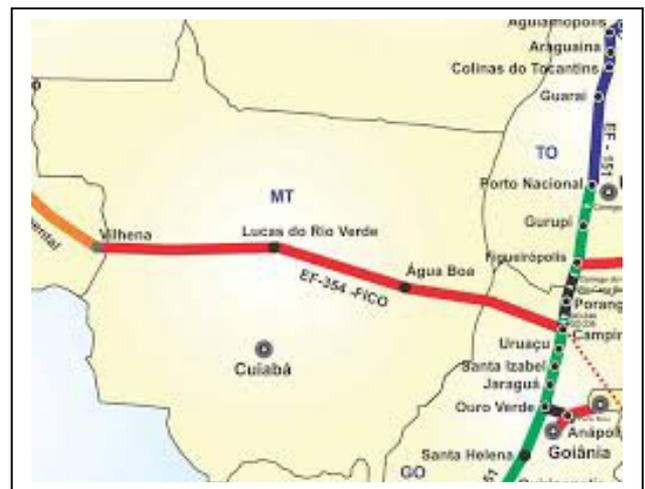
With peak corn harvest in Mato Grosso, shippers are actually paying a slight premium to haul corn from central Mato Grosso to Rondonopolis. (The current railhead.) Law of supply and demand kicks in

Historically, corn from Mato Grosso heads down to Santa Catarina state this time of the year. The truck drops off corn at a feed mill and then zips over to Paranaguá port to load fertilizer to haul back out to Mato Grosso et al.

The new freight table makes this impossible. The freight is more than the corn is worth. Also, in the past, the trucker could undercut the normal price at port to haul fertilizer back out into the interior. As long as he covered his fuel costs to get back to Mato Grosso, in general, he was happy.

With new freight table that establishes a high minimum price for big trucks and long distances, it makes the round from Mato Grosso to port and back a goldmine. The problem is no one can afford to book the freight. It is illegal to undercut the freight table. Anyone caught hauling below these rates will be sued.

So now we have a situation where the trains are doing the long distance stuff. The problem is, the trains from MT do not go to the port of Paranaguá. This is where several million tons of fertilizer are sitting at moment.



Port premiums at Paranagua traded as high as US\$ 2.40/bushel over Sept on Friday. Once the bean rally got started, the premium backed off a bit.

The cash market needs to subsidize these trucks to get them to come to the correct port. At the moment, the easy money are the short hauls within states.

Sorriso, MT traded R\$ 71.50/sac for soybeans picked up now and payment August 30th. ADM was the buyer. This is back to end of May highs.

With all of these shenanigans, i.e. trucker strikes, new freight table, and international trade war, the idea of railroads got kick started again. Enough of this BS.....

The general public is not going to support the truckers a second time. I can only imagine the Chinese are putting pressure on at high levels to get something done with regards to logistics.

I am sure China has their check book ready to fund any reasonable project ASAP.

I read an article this morning out of Minneapolis talking about the trade war affects on soybeans.

Quote from article:

Their research used a mathematical model of agricultural trade that includes equations for myriad interactions in producing, trading and using the commodity. "Elasticities" are a crucial set of variables. An elasticity is a numeric measure of how sensitively price and quantity interact in either supplying or demanding a product. Most commonly, it is the percentage change in some quantity divided by an associated change in price.

I chuckled when I read that. It took me back to Econ 101.

They are correct to bring that up at this time. That is what the last 4 weeks have been all about in Chicago.

I tend to worry more about the law of unintended consequences.

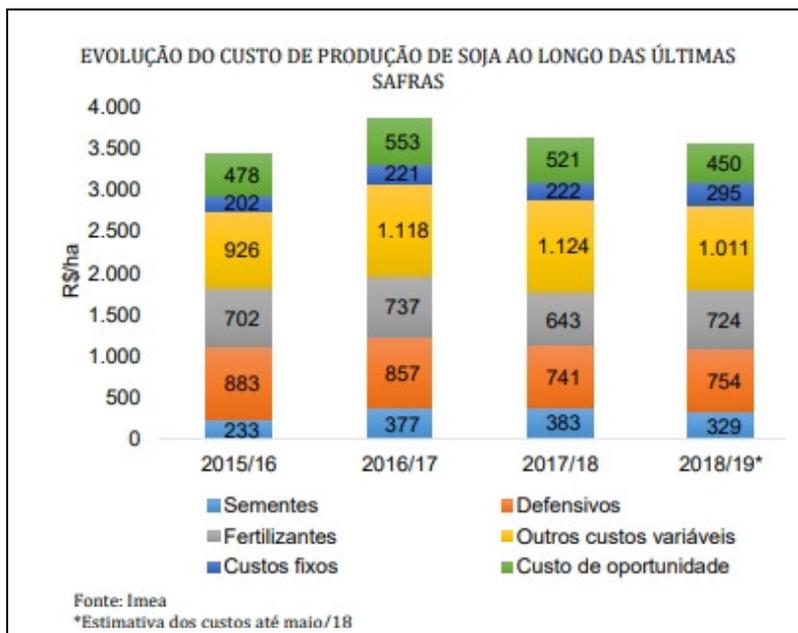
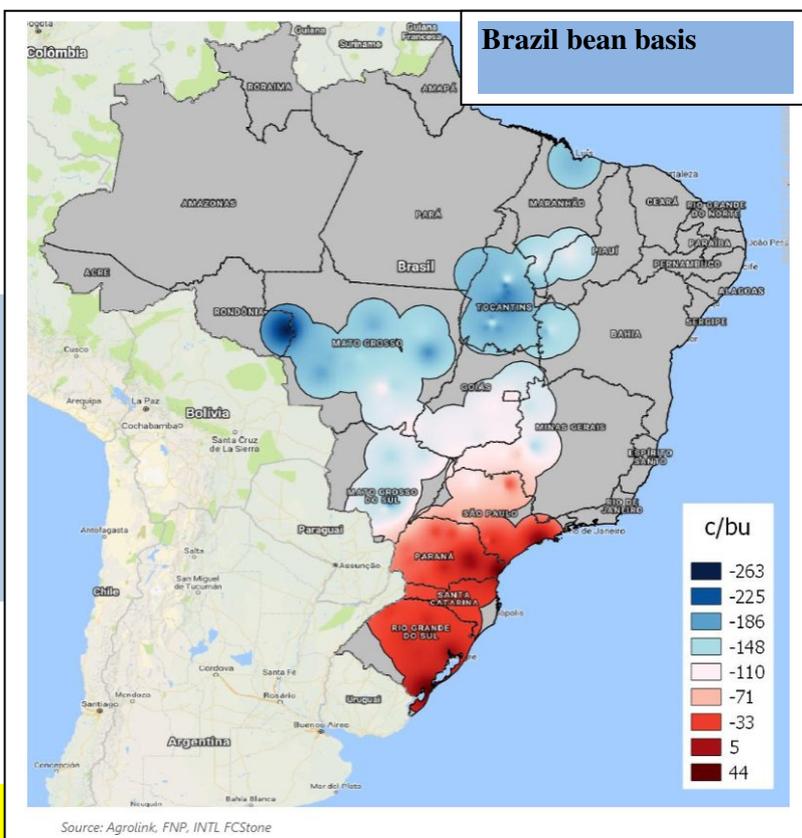
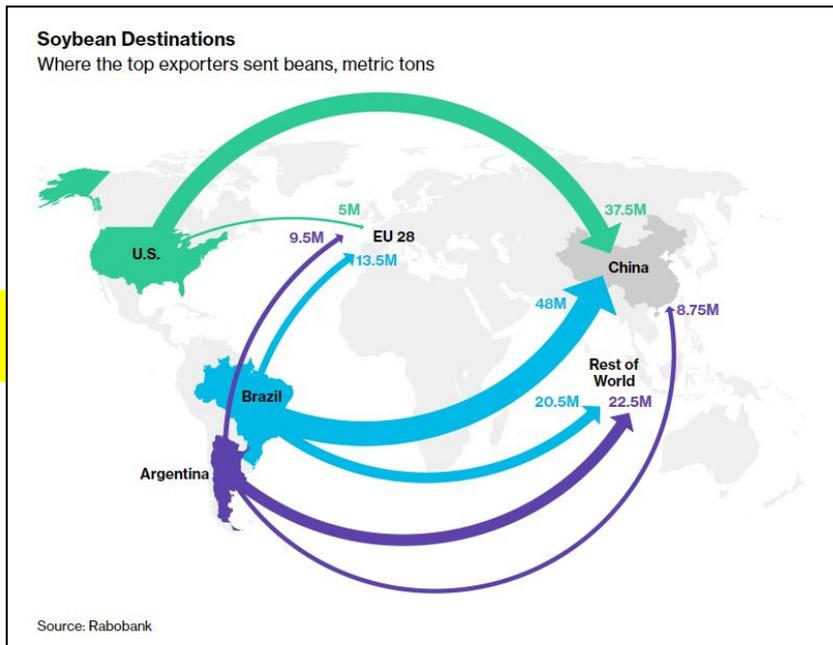
I start to think to myself about the possibility of Brazil importing USA beans in 4th quarter.

I start to think about how many soybeans maybe marketed through Canada this fall.

I wonder if the Mexicans could rail down some unit trains of beans and load their own beans onto ships and send to China?

Why do we need Chicago for soybeans? How do you hedge anything when port premiums are + 2.50 per bushel and maybe the Canada bid for soybeans is + 1.50 per bushel over local cash in northern Red River Valley?

Think about that.... Northern ND is minus US\$ 1.20 under Chicago and Morris, MB is + X.XX for soybeans in Canadian dollars? FX = ???



Will the Canadian FX and BRL FX become more important factor for pricing beans than Chicago? What if?

On the top of 2nd page, Rabobank has a cool graphic on where the beans go. Brazil is said to ship out 73 mmt this year. If we add up the blue numbers, we get 82 mmt. Thus, I assume that is whole beans + meal as a total.

I found the bean basis chart while the truck strike was coming to an end. It might already be old. With new trucker freight table, the values might be a bit low.

The bottom right is a comparative cost of production graph for Mato Grosso farms from IMEA. Overall costs are a bit lower than last year. This assumes producer traded for inputs back in March/April at a good price and FX. Today, the costs would be higher than last year using today's FX to book inputs.

***Fertilizer and chemicals a bit higher.**

***Other variable costs lower**

* **Seed lower**

***Fixed costs higher YoY**

* **Opportunity costs lower**

Investment to triple grain shipments in Port of Paranaguá

07/05/2018

The works on the west pier of the Port of Paranaguá was authorized on Wednesday (04). The investment of R \$ 177.6 million, funded by the Paranaguá and Antonina Ports Administration (Appa), covers the modernization of berths 201 and 202 and the extension of berth 201.

The estimate is that the work will triple the export capacity of grain and increase the competitiveness of the products of Paraná and Brazil, especially the production of the states of Mato Grosso do Sul, São Paulo, Santa Catarina and Paraguay.

According to the superintendent of the Organization of Cooperatives of Paraná (Ocepar), Nelson Costa, the expansion of the wharf will improve the flow of production. "The port comes in a surge of investment in recent years that helps producers bring in the products of the Interior without having a line of trucks or ships. This reduces the cost of logistics, which will decrease further with this new investment," he said.

For the mayor of Paranaguá, Marcelo Roque, the new investment of the port will bring more development and jobs to the municipality. "Most of the vacancies that will be created for the execution of the work will be for the workers of Paranaguá. It's another important investment that brings benefits and jobs to our municipality," he said.

SCHEDULE -The execution **period of the work is 18 months** and will be carried out by the winning bidder, the B201 Consortium (Tucumann and TMSA). The project consists of the extension of 100 meters of the civil structure of the Cradle 201 and modernization of the structures of cradles 201 and 202, which will allow the deepening of the dredging level to 13.70 meters.

The proposal also provides for the replacement of all electromechanical structures, **including two new ship loaders of 2,000 tonnes / hour - currently operating at 1000 tonnes / hour and 1,500 tonnes / hour.** The reforms will include structural reinforcement, pedestrian walkway installation, exchange of fenders, metal spacers, and the installation of new dolfim (column) for mooring ships.

MORE CAPACITY -The director of Appa, Lourenço Fregonese, said that the expansion works and improvements of the dock West of the Port of Paranaguá respond to an old desire of the port community. "It's 28 years of waiting. Since 1990, three versions of the project have been prepared," he explained.

The 100-meter extension of Cradle 201, at the western end of the port, will allow large vessels to land on the spot. With this, the cradle's annual cargo handling capacity will increase from the current 2 million tons of grain to 6.5 million tons.

Lourenço Fregonese explained that every project meets the requirements of the Environmental Construction Plan (PAC). "The PAC presents all the elements directly involved in the construction process of the work, in accordance with the current environmental legislation. We did everything aimed at the development of activities, rationalization of costs, but without damage to the environment," emphasizes Fregonese. According to him, the changes will bring more agility in the operations of the port and the possibility **of mooring larger and heavier vessels, up to 80,000 tons deadweight (TPB).**

FLOOR -The work will also give an extra boost to the East sector of the Port of Paranaguá, which is overloaded and can no longer be expanded. According to a project presented by Appa, the Eastern sector has already been working with repressed demand, mainly in relation to solid plant material, and is close to its logistical and operational limits. **With the expansion of the Western dock, cargo handling will be tripled, decongesting the eastern sector, and opening new alternatives for the agribusiness in the state of Paraná.**