

A review of the first three months of 2020

Is it just me? Or does it feel like we have lived through a year's worth of events in the last three months?

From time to time I am tasked with writing quarterly reports for investors in Brazil. I have been reflecting on what I wrote back in January and how that compares to today. There is very little today that resembles that of January. We started out 2020 with USD:BRL at 4:1. We have traded as high as 5.35:1 in early April. I wrote in a February newsletter that a close above 4.32:1 opens up a move to 5.20:1 on the charts. I had no idea it would happen in three weeks or what the catalyst would be. The economic forecasts being touted by major banks were looking at a GDP for Brazil of + 2.5% for 2020 and now we are looking at a recession with a -2.5% GDP or less. The Brazilian Selic interest rate was lowered to 3.75% with talk that it could drop to 1.5% yet in 2020. As recently as 2015, this interest rate was 14%.

The peak Brazilian soybean production forecast by a reputable analyst came in at 128 mmt this season. This was happening during a flash drought in RGDS. In Conab's April report, they lowered the total Brazil soybean crop to 122 mmt. The key adjustment came to Rio Grande's production which dropped from **18 mmt to 13 mmt- a drop of 5 mmt**. The Cerrado states had fantastic productivity this season which gave Brazil the potential to produce 127 mmt this year.

Production highlights to note are:

Mato Grosso 35 mmt soybeans

Mato Grosso 34 mmt corn (potential)

Parana 21 mmt soybeans (very good considering terrible start to growing season with replant)

MGDS 10 mmt

Goias 12.5 mmt

Tocantins 3.3 mmt

Bahia 5.7 mmt

Soybean	ÁREA (Em mil ha)		PRODUTIVIDADE (Em kg/ha)		PRODUÇÃO (Em mil t)				
	Safra 18/19	Safra 19/20	VAR. %	Safra 18/19	Safra 19/20	VAR. %	Safra 18/19	Safra 19/20	VAR. %
	(a)	(b)	(b/a)	(c)	(d)	(d/c)	(e)	(f)	(f/e)
AP	20,9	20,9	-	2.751	2.837	3,1	57,5	59,3	3,1
PA	561,4	591,7	5,4	3.044	3.061	0,6	1.708,9	1.811,2	6,0
TO	1.028,6	1.074,2	4,4	2.850	3.111	9,2	2.931,5	3.341,8	14,0
NORDESTE	3.332,2	3.336,9	0,1	3.167	3.346	5,6	10.553,4	11.165,0	5,8
MA	992,4	976,4	(1,6)	2.940	3.181	8,2	2.917,7	3.105,9	6,5
PI	758,1	758,9	0,1	3.063	3.129	2,2	2.322,1	2.374,6	2,3
AL	1,6	1,6	-	2.792	2.792	-	4,5	4,5	-
BA	1.580,1	1.600,0	1,3	3.360	3.550	5,7	5.309,1	5.680,0	7,0
CENTRO-OESTE	16.102,8	16.574,4	2,9	3.269	3.490	6,8	52.637,5	57.839,4	9,9
MT	9.699,5	10.004,1	3,1	3.346	3.489	4,3	32.454,5	34.904,3	7,5
MS	2.853,7	2.950,7	3,4	2.980	3.450	15,6	8.504,0	10.179,9	19,7
GO	3.476,4	3.545,1	2,0	3.290	3.516	6,9	11.437,4	12.464,6	9,0
DF	73,2	74,5	1,8	3.300	3.900	18,2	241,6	290,6	20,3
SUDESTE	2.571,1	2.759,7	7,3	3.147	3.599	14,4	8.091,8	9.932,2	22,7
MG	1.574,9	1.650,5	4,8	3.222	3.565	10,6	5.074,3	5.884,0	16,0
SP	996,2	1.109,1	11,3	3.029	3.650	20,5	3.017,5	4.048,2	34,2
SUL	11.879,6	12.085,1	1,7	3.184	3.026	(5,0)	37.822,4	36.569,3	(3,3)
PR	5.437,5	5.502,7	1,2	2.989	3.791	26,8	16.252,7	20.860,7	28,4
SC	664,6	680,6	2,4	3.585	3.483	(2,8)	2.382,6	2.370,5	(0,5)
RS	5.777,5	5.901,8	2,2	3.321	2.280	(31,9)	19.187,1	13.338,1	(30,5)
NORTE/NORDESTE	5.320,5	5.428,5	2,0	3.097	3.264	5,4	16.478,2	17.179,3	7,5
CENTRO-SUL	30.553,5	31.419,1	2,8	3.226	3.321	3,0	98.551,7	104.340,9	5,9
BRASIL	35.874,0	36.847,6	2,7	3.206	3.313	3,3	115.029,9	122.060,2	6,1

2 nd Corn	ÁREA (Em mil ha)		PRODUTIVIDADE (Em kg/ha)		PRODUÇÃO (Em mil t)				
	Safra 18/19	Safra 19/20	VAR. %	Safra 18/19	Safra 19/20	VAR. %	Safra 18/19	Safra 19/20	VAR. %
	(a)	(b)	(b/a)	(c)	(d)	(d/c)	(e)	(f)	(f/e)
MA	192,2	182,6	(5,0)	4.184	4.200	0,4	804,2	766,9	(4,6)
PI	77,8	62,0	(20,3)	4.661	4.459	(4,3)	362,6	276,5	(23,7)
CE	501,9	572,7	14,1	792	834	5,3	397,5	477,6	20,2
RN	53,7	53,7	-	645	551	(14,6)	34,6	29,6	(14,5)
PB	96,1	102,7	6,9	480	511	6,5	46,1	52,5	13,9
PE	133,3	139,8	4,9	470	800	20,2	62,7	111,8	78,3
CENTRO-OESTE	8.179,2	8.680,9	6,1	6.136	6.123	(0,2)	50.186,6	53.155,2	5,9
MT	4.869,1	5.385,2	10,6	6.376	6.342	(0,5)	31.045,4	34.152,9	10,0
MS	1.860,0	1.840,0	(1,1)	5.040	5.100	1,2	9.374,4	9.384,0	0,1
GO	1.412,0	1.417,6	0,4	6.720	6.600	(1,8)	9.486,6	9.356,2	(1,4)
DF	38,1	38,1	-	7.300	6.880	(5,8)	278,1	262,1	(5,8)
SUDESTE	914,3	965,8	5,6	6.090	5.992	(1,6)	5.567,9	5.786,7	3,9
MG	420,5	485,1	16,6	6.982	6.649	(4,8)	2.935,9	3.092,4	5,3
SP	493,8	500,7	1,4	5.330	5.381	1,0	2.632,0	2.694,3	2,4
SUL	2.248,0	2.187,3	(2,7)	6.004	5.711	(4,9)	13.497,0	12.491,7	(7,4)
PR	2.245,0	2.187,3	(2,7)	6.004	5.711	(4,9)	13.497,0	12.491,7	(7,4)
NORTE/NORDESTE	1.536,5	1.629,7	6,1	2.555	2.456	(3,9)	3.926,2	4.003,2	2,0
CENTRO-SUL	11.341,5	11.834,0	4,3	6.106	6.036	(1,1)	69.251,5	71.433,6	3,2
BRASIL	12.878,0	13.463,7	4,5	5.682	5.603	(1,4)	73.177,7	75.436,8	3,1

Mato Grosso

Mato Grosso reached a new soybean planted area record of 10 million hectares this year – an increase of 3% over 2019. Mato Grosso has also planted a record area of 2nd crop corn with an area of 5.4 million hectares.

The 2nd crop corn has had a very wide planting window to deal with. The total planted area for Brazil 2nd crop corn is a new record at 13.4 million hectares. This is almost 600,000 hectares more than last year's record.

I have seen images of 2nd crop corn being **harvested** in Mato Grosso as of April 10th - which is very early. I have seen images of 2nd crop corn being **planted** in MGDS as recently as April 1 - which is very late. Parana state had a late planted soybean crop which means the 2nd crop corn crop is also very late. The potential is there for a huge corn crop, but weather i.e. late season rains and no frost are factors to consider for the next two months.

A paradox of two world's

The juxtaposition of the USA and Brazil corn and soybean markets for the first three months of 2020 are worthy of a college econ course all to themselves.

In Chicago, the soybean market made a high on January 2nd and declined until March 18th.

In Brazil, the soybean market bottomed on Feb 2nd and has rallied to all time record high prices as of April 7th. Port premiums, soybean meal demand and the weakening of the BRL are all factors.

As of late March, the domestic corn market peaked at R\$ 60 per sac in southern Brazil- a new record high price. At the same time, the soybean market was trading at or near R\$ 90.00 per sac in Rio Grande do Sul. This gave us a soybean/corn spot ratio of 1.5:1. This was happening even though last year Brazil had a record corn crop and there was not a problem with current corn crop in Brazil. The new crop ratio is closer to 2:1.

In the USA, at the same time, corn and soybean prices were trading at or near their contract lows with a ratio of 2.46:1.

Looking Forward

As of April 13th, a few mayors in Mato Grosso are opening their communities back up again. The use of masks will be required. There will be some limitations on the number of people in a given area or restaurant setting.

The President of Brazil has been criticized for his crass style and comments during this crisis. Some say he is ignorant. Others say he is just being a realist. I have been in Brazil long enough that if you are worried about dying, you probably should not be here. At the time of this writing, 1000 deaths have been recorded because of COVID-19. In the USA, the number is 20,000 and climbing. It is possible, that as we go into winter, Brazil's worst days are ahead? I prefer to remain optimistic and I feel that much of this lock down has been overdone. Many in USA are comparing numbers to common flu in a given season. In Brazil, where we are accustomed to a homicide rate of 40,000 to 60,000 per year, I can understand how a military guy like Bolsonaro tends to have a cold outlook on how to handle the situation. He is pragmatic. We may save a few thousand lives due to COVID-19 with proper health care, but if we send hundreds of thousands into poverty because of no work, the latter is a much worse "military scenario" to deal with long term. I have already seen the increase of homeless asking for handouts as I am out and about.

Closing comments

It looks like Brazil will load out another 13 million ton of soybeans in April. The ports are working and the trucks are moving. Fuel prices are dropping. I do not see any trucker strike on the horizon because there is work for everyone and their fuel bill is dropping. Given that others in Brazil will likely face unemployment in the coming months, I doubt anyone will feel sorry for a trucker if they chose to strike. That would be the only thing that could interrupt the current agriculture boom in Brazil. I have seen images of new land being prepped for 2021 soybeans. Brazil will expand area again. The incentive to do so is very strong.

A recent forecast has the BRL ending the year at 4.70:1. It seems like all forecasts are wrong. In Brazil, formal business plans do not work well. MBA types have difficulty here. Brazil is not a logical country. We could make the same argument about the USA these days. I ask myself daily: where is the TEA Party today? I remember the 2008/09 period so clearly. I was glued to Bloomberg back then. Today, I do not even turn on the TV and I am happier. I remember Hank Paulson getting on his hands and knees begging Nancy Pelosi for 785 Billion. Eleven years later, Trillions are being approved on a weekly basis. We are now incentivizing banks to shove money out the door. Do you guys remember the 80's and the 90s with regards to farm bill approval and disaster aid? If Congress would have acted like this back in the 80s with regards to FHA money for farmers? Could there have been less pain? How many times in the 90's did the ag sector have to wait for 1.9 Billion disaster aid package and then have to pick one of two years? It is shocking to see those that claim to be anti-socialism lining up for their cheap loans, stimulus checks, and MFP 3.0 payments these days. Enough of my rant- just a few things that float through my mind in recent days.

I prefer to remain optimistic. I know in ag it seems like the end of the world with low prices, dumping milk, culling herds, and lack of operating lines of credit for many. Here in Brazil it is the exact opposite.

With the soy and corn in tighter and tighter hands in Brazil and Argentina, I think we will see USA back in the market soon. Maybe the winter wheat crop will be black in USA by the time you read this? (Cold temps) I still say this is inflationary and will cause further supply disruptions around the globe in time with more and more money chasing fewer and fewer profitable investments. At some point, AG and likely ag land will be the beneficiary of all this fiscal foolishness. If I were the Joker planning my next move- I think hard assets that have a productive return will pay off handsomely into 2024.