

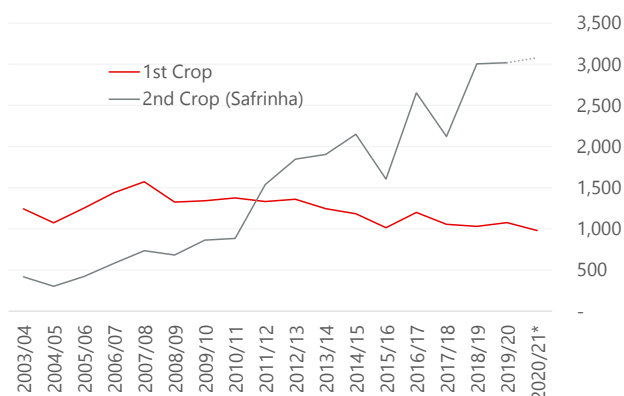
All Eyes on *Safrinha*

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- In the current 2020/21 marketing year, 50% of *Safrinha* was planted by mid-March, too late in comparison with the last 5 years. Delayed planting is a risk for yield because it places the critical growth phases for *Safrinha* farther away from the Brazilian rainy season.
- Crops will rely heavily on high rainfalls in May/June, which historically marks the beginning of drought conditions in these regions. Climate forecasts for the upcoming weeks are key.
- We expect a reduction in US corn carryout this market year due to supply revisions to the downside coupled with demand revisions to the upside. This would mean a lower stock/use ratio, a variable that naturally holds strong negative correlation with price, meaning potential upside risk for grain prices.
- This rally in essential food commodities, backbone to much of the world’s food supply has been stoking food inflation fears. Costs could soon spill over onto grocery store shelves, from grains to animal protein. In Brazil, that is particularly true, especially taking into account the lack of (a usual) cushioning provided by the exchange rate for spikes in commodity inflation.

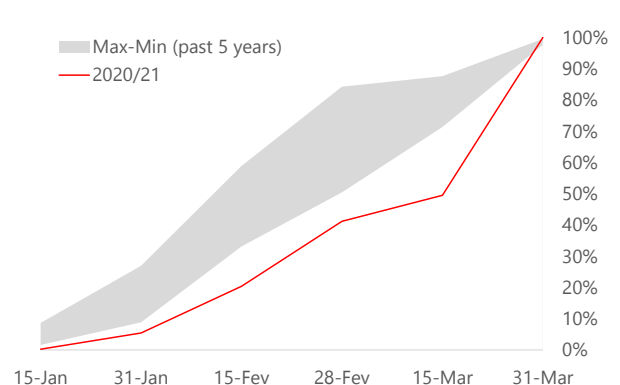
Brazil’s corn production has risen significantly in the past decade, driven by the expansion of the second crop in the winter (known as *Safrinha*). In 2011, its production surpassed the first (summer) crop, leading to record levels of total production, placing the country as a main player in global markets. As of now, *Safrinha* accounts for nearly 75% of corn production in Brazil (see Figure 1).

Figure 1 – Brazil Corn Production – Brazil (Million Bushels)



Sources: Agroconsult, Santander.

Figure 2 – *Safrinha* Corn Planting Progress - Brazil (%)



Sources: Agroconsult, Santander.

Safrinha corn is planted across Midwest states from January to April, in the same area where soybeans are planted in the summer. As such, harvesting delays of the former—owing to rainy weather—usually lead to planting delays of the latter. In the current 2020/21 marketing year, 50% of *Safrinha* was planted by mid-March,

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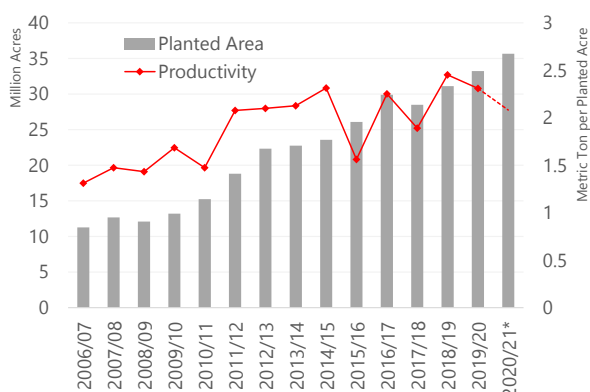
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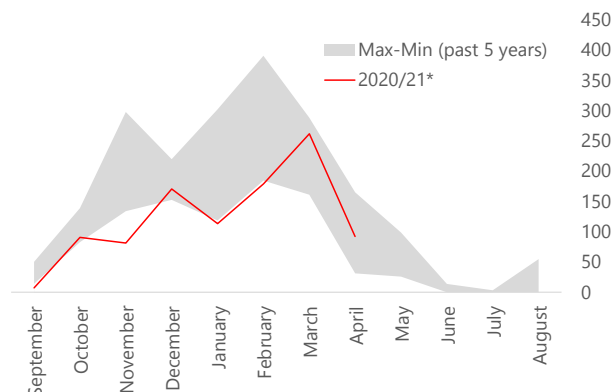
which is below the 5-year maximum-minimum range (meaning the delay in this marketing year is higher than the minimum planting progress observed in the past 5 years) (see Figure 2).

Figure 3 – Safrinha Planted Area and Productivity – Brazil



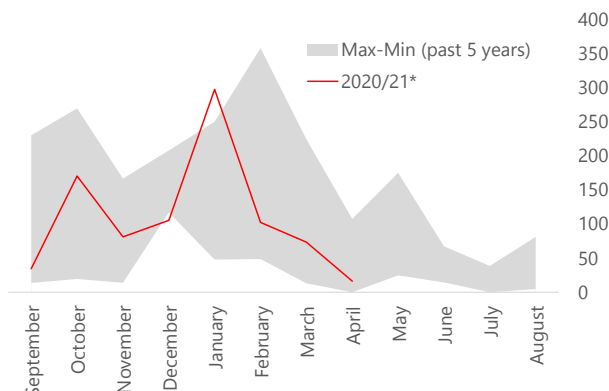
Sources: Agroconsult, Santander.

Figure 4 – Monthly Precipitation – Mato Grosso¹ (mm)



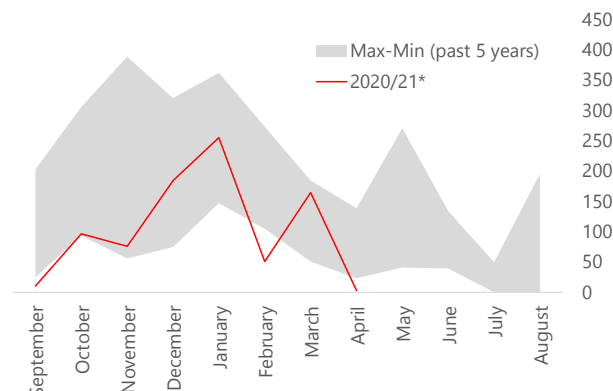
Sources: Somar, Bloomberg, INMET, Santander.

Figure 5 – Monthly Precipitation – Mato Grosso do Sul² (mm)



Sources: Somar, Bloomberg, Santander.

Figure 6 – Monthly Precipitation – Paraná³ (mm)



Sources: Somar, Bloomberg, Santander.

Despite these adverse weather conditions, farmers have been relentless in terms of increasing *Safrinha* planting area as high prices for corn on the international and domestic markets more than offsets the expected loss in crop yield (see Figure 3). The question is how much the rain shortage will weight on productivity. The growing market consensus is that Brazilian total corn production is unlikely to reach 109 million metric tons⁴. On Monday (April 21), the Brazilian Ministry of Agriculture decided to suspend import duties for corn, soybean and soybean byproducts until the end of 2021, which we see as evidence of the tight corn market.

Delayed planting is a risk for yield because it places the critical growth phases for *Safrinha* farther away from the Brazilian rainy season. In the key growing states (Mato Grosso, Paraná, Mato Grosso do Sul and Goiás) crops will rely heavily on high rainfalls in May/June, which historically marks the beginning of drought conditions in these regions (see Figures 4 to 7). Climate forecasts for the upcoming weeks are key. As the USDA claimed in the Agricultural Outlook Forum back in March, **weather will have the last say**.

¹ Weather stations in Caceres-MT, Tangará-MT and Sapezal-MT.

² Weather station in Dourados-MS.

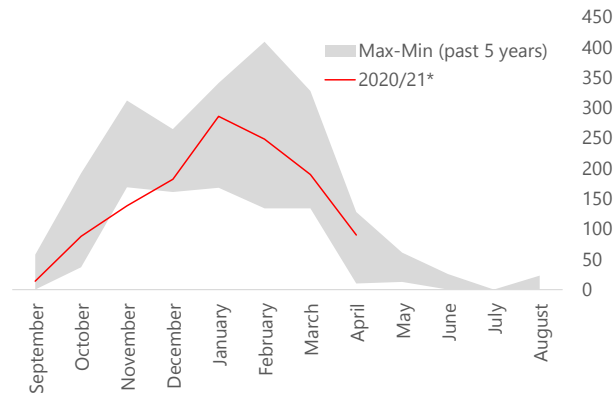
³ Weather station in Astorga-PR.

⁴ April WASDE estimate.



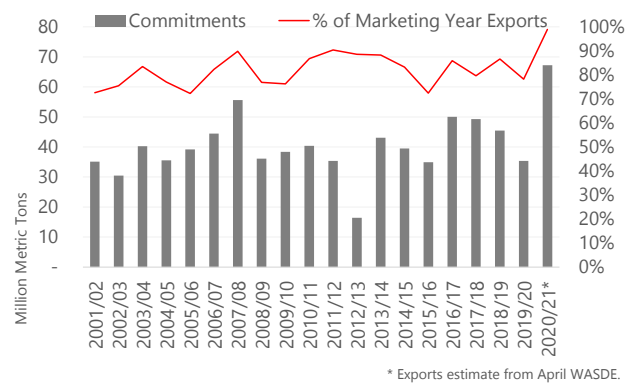
Setbacks in Brazilian crops could further tighten global supply as the country is the second largest corn exporter. Looking at U.S. exports, total export commitments of corn are 67.2 mmt as of mid-April, which represents 99% of the USDA’s latest 67.9 mmt export estimate for the current marketing year and a share level above any season for at least the last 20 years (see Figure 8). Unless sales of the old crop come to a halt or massive cancelations take place, US corn exports are poised to exceed the USDA’s estimate.

Figure 7 – Monthly Precipitation – Goiás⁵ (mm)



Sources: Somar, Bloomberg, Santander.

Figure 8 – US Corn Total Export Commitments - as of mid-April

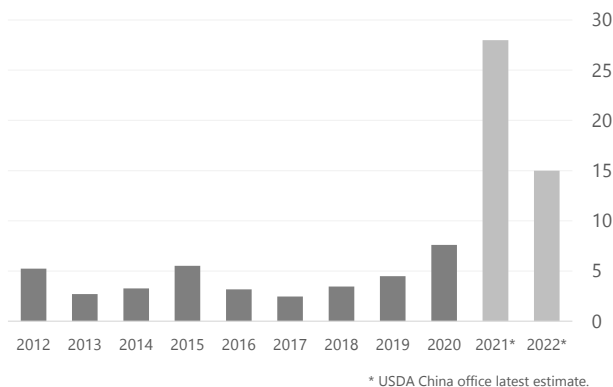


Sources: Bloomberg, USDA, Santander.

Strong U.S. exports have been mainly driven by China. The country’s appetite has recently prompted the USDA Beijing office to review its estimate of total corn imports for the current season to 28 million metric tons (mmt) (see Figure 9). Importantly, net export sales to China already reached 24 mmt, while inspections are at 10mmt. The revision means further demand for an already tight corn market, and given concerns about growing conditions in Latin America, marginal purchases would likely shift towards US production.

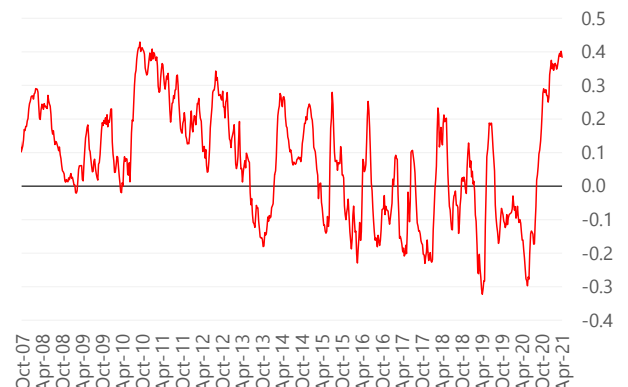
All in all, supply revisions to the downside coupled with demand revisions to the upside are likely to reduce US corn carryout this marketing year, which is currently estimated at 34.3 mmt. This would mean a lower stock/use ratio, a variable that holds strong negative correlation with price (see Figure 11).

Figure 9 – China Corn Imports (Million Metric Tons)



Sources: Somar, Bloomberg, Santander.

Figure 10 – CFTC Corn Managed Money Net Total (Million Contracts)



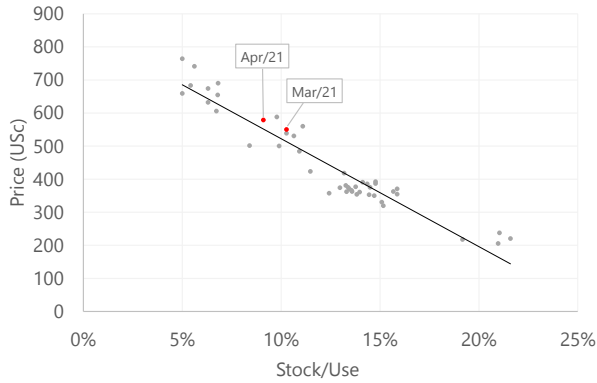
Sources: Bloomberg, CFTC, Santander.

⁵ Weather station in Rio Verde-GO.



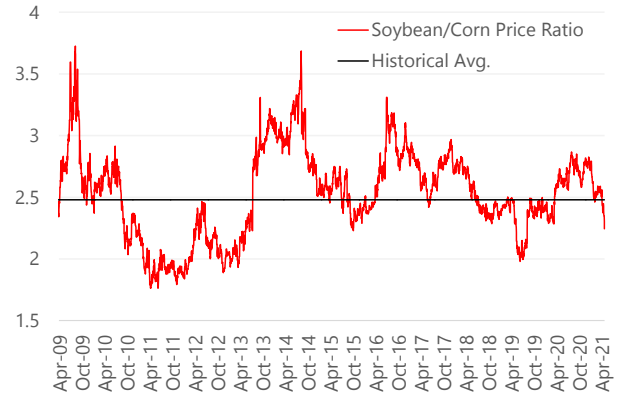
Surging corn price is relevant because it has implications for other grains. Crop markets tend to rally in tandem as a shortfall in any one product boosts the demand for alternatives. For example, given that soybeans and corn usually compete for acreage, the declining soybean/corn price ratio (already below historical average) reduces the likelihood that the soybeans planting area will expand (see Figure 12). Wheat has also been riding the bullish momentum, since the commodity is a cheap alternative for animal feed (see Figure 13). **This rally in essential food commodities, backbone to much of the world’s food supply has been stoking food inflation fears. Costs could soon spill over onto grocery store shelves, from grains to animal protein.**

Figure 11 – US Corn Price x Stock/Use Ratio



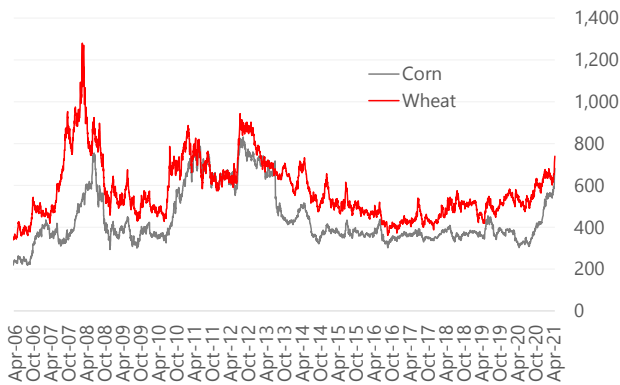
Sources: USDA, Santander.

Figure 12 – Soybean/Corn Price Ratio



Sources: Bloomberg, Santander.

Figure 13 – Chicago Board of Trade Corn and Wheat (USc/Bushel)



Sources: Bloomberg, Santander.



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