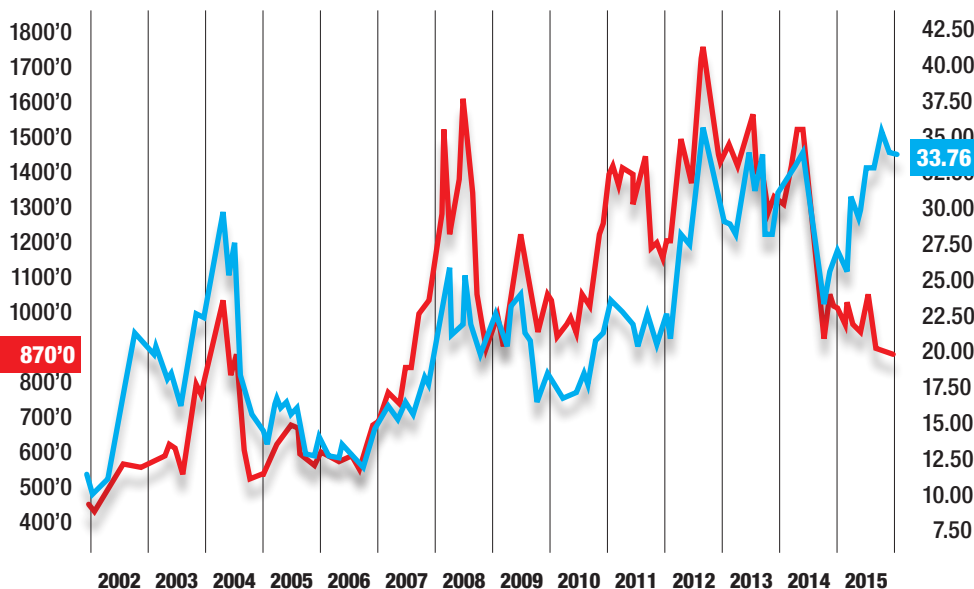


YOUR PROFIT

By Al Kluis

Soybeans/Bushel (in U.S. dollars)

Soybeans/Bushel (in Brazilian reais)



This is the chart of soybean prices in U.S. dollars (the red line) and Brazilian reais (the blue line). You can see how closely correlated the price of soybeans was from 2002 until 2014. Since the fall of 2014, U.S. soybean prices have continued to move lower. Meanwhile, Brazilian soybean prices have rallied back to within 6% of the all-time highs, and U.S. prices are down over 50% from the all-time highs posted in the fall of 2012.

After that high, prices dropped. By fall 2014, U.S. soybean prices were down 45% (to just below \$10 per bushel), and Brazilian soybeans were down 40% (to 21 reais per bushel). After that, however, the price trends have had a huge divergence.

Since fall 2014, U.S. soybean prices have continued falling. Prices are down 53%. The November 2014 low was \$8.44.

In Brazil, because of the weak real, soybean prices have rallied and are now up to 33 reais per bushel.

As I am writing this article, soybean prices in Brazil are down just 6% from the all-time highs posted in September 2012.

With beans at these prices, soybean farming in Brazil is profitable. Farmers will continue to increase soybean acreage by taking land out of pasture and hay, and planting more soybeans. Farmers in Brazil are quick to point out that the low value of the real is also a negative factor when they are buying inputs. Their money does not go as far, and their cost of production continues to increase.

The farmers in Brazil are well educated and are

SOYBEAN FARMING IN BRAZIL STAYS PROFITABLE RISK MANAGEMENT IS A HUGE CHALLENGE.

On my last visit to Brazil, it was great to have CBOT price quotes on my phone. The U.S. farmers on the trip liked getting the market update every hour or so. It was fast to run through the prices, and say, “Corn up 2, soybeans up 5,” whenever anyone had a request. The Brazilian farmers would also ask about the U.S. dollar. In fact, that was the first quote they wanted. Only after hearing about the dollar would they ask about soybean and corn prices. By the time that trip was over, I figured out how to get live quotes on my phone for the U.S. Dollar Index and the Brazilian real

and how to convert reais per sack to dollars per bushel for soybeans, even with my very-limited Portuguese.

That trip – as well as further discussions with Brazilian farmers – was a real eye-opener.

I learned that currency values are very important in the international grain trade. As a result, these days I chart the prices of soybeans in Brazilian reais and build daily, weekly, and monthly charts.

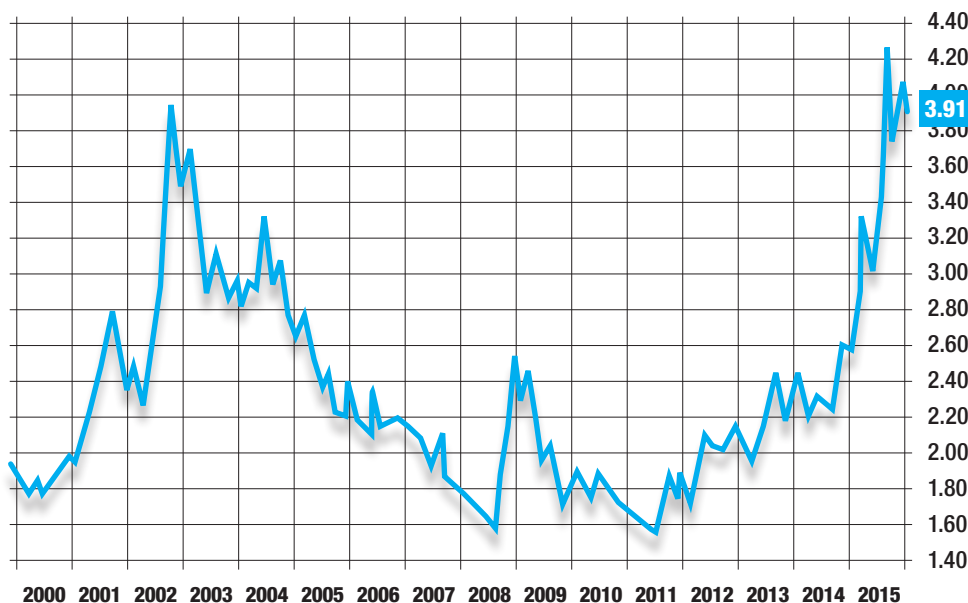
From 2006 through 2012, soybean farming was good wherever you farmed in the world. You can see on the chart above how closely correlated the price of U.S. and Brazilian soybeans were.

In September 2012, the soybean markets put in a major high. That was when the U.S. soybean market rallied to \$17.94 and the Brazilian soybean market rallied to 35 reais per bushel.

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Brazilian Real



This is the chart of the Brazilian real. You can see how volatile the real has been in the last decade. In 2012, it was 2 to the dollar or worth right at 50¢. By December 2015, the real had rallied to 4 to the dollar, so each real was worth just 25¢. This has helped rally Brazilian soybean prices, while the U.S. soybean market has gone lower.

knowledgeable about what was going on in the U.S., China, and around the world. They were focused on their families, they enjoyed growing crops, and they were trying to figure out how to afford bringing in the next generation. They asked a lot of questions about how the CBOT worked, U.S. farm policy, the new farm program, and how commodity funds made buy-and-sell decisions. They found marketing to be very frustrating. Does this sound familiar?

Brazilian farmers also explained how much more difficult managing risk is in a country with very limited crop insurance, limited access to credit, volatile grain markets, and the biggest risk of all – changing currency rates. The currency uncertainty adds another level of risk that has to be managed. If Brazilian farmers sell when the CBOT futures are high but the currency is low, then they can lose money. If they sell when the currency is high and the price of soybeans are low, it is a really tough situation. They also have huge basis swings. Basis can range from as much as \$2.50 below the CBOT futures market to just 50¢ under later in the year.

This year, farmers in central and northern Brazil are also working through a hot, dry weather pattern that has taken the top end of yields. This has delayed planting to as much as 30 days later than their ideal window. As we all know, with high-price soybeans, you can only make a profit if you can get them planted and get a good crop.

I will be watching the weather maps in Brazil very carefully this month. The month of February in Brazil is like the month of August in the U.S. This is the critical month that determines the soybean yield in most of Brazil.

I had the opportunity to speak at several meeting in Brazil,

and I really enjoyed the groups. They had lots of questions. It was also a great arrangement in which I spoke first and then we had a reception with a light meal. This allowed me to visit with many of the farmers after my presentation. It is a format I now try to use whenever I speak at U.S. farm meetings.

They had a lot of questions about yields, farm size, transportation, labor costs and land cost. The discussion of land costs and land rent is where it got really interesting.

With a good translator and a calculator, we were able to figure out yields and how to convert bushels per acre to sacks per hectare. It was easy to convert labor costs from dollars per hour to reals per hour, or to convert a monthly salary in dollars to reals.

The biggest challenge

was to explain cash rents. In Brazil, farmers have very limited experience with cash rents. They usually pay rent by delivering so many sacks of soybeans to an agreed-upon elevator at harvest.

When I explained cash rents of \$200 to \$300 per acre, they struggled to understand. One farmer asked, “Are you loco (crazy)? Why do you give all the profits to the landowner?”

That was one question I could not answer. 🇺🇸

NOTE: Trading of futures and options has substantial financial risk of loss and is not for all investors.

AL KLUIS Commodity Trader

Al Kluis has been trading grain futures since 1974. Sign up for a free trial to his daily morning email and weekly “Al Kluis Report” by going to alkluis.com.



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