Prospects in AGRIBUSINESS

2nd. Sem./2019

1 - Edition

Prospects in AGRIBUSINESS

2019/2020 Harvest Season

INTRODUCTION

Banco do Brasil has an agribusiness specialty team (comprised of agricultural engineers, forestry engineers, zoological technicians, and veterinarians) that performs relevant work to BB in supporting the development of the Country.

The technical support provided by this team allowed Banco do Brasil to take an active role in key moments in the Brazilian agribusiness in recent decades, including the arrival of soybean planting in the Brazilian Center-Western plains, the no-tillage system, expansion to new agricultural frontiers, low-carbon agriculture, among others.

These professionals are scattered throughout the Country, providing service and technical consultancy, getting to know the stories and specifics of the agricultural and growing businesses in each Brazilian locality.

Our specialists went into the field to assess the prospects for the 2019/20 harvest season for the key agricultural and growing cultures in the country. By talking with rural producers, technical consultants, agricultural product resellers and other agents in Brazilian agribusiness, the trends in planting and the use of technology were identified.

These information were used in outlining agricultural and growing scenarios that, together with the prospects for the national economy, foreign exchange rates and other factors influencing the costing of commodities, provide some guidance to the 2019/20 Brazilian harvest season.

The information on the macroeconomic scenario were prepared by Banco do Brasil's economics team, and the ones regarding climate by Climatempo's team.

BB AGRIBUSINESS Prospects

2019/2020 Harvest Season

Climate

The 2018/19 harvest season has seen some volatility. At the beginning of the season rains were irregular, an effect from the transition to El Nino (abnormal warming of the Equatorian Pacific waters). Therefore this issue affected soybean and corn planting in some States.

Under this phenomenon, the second harvest season was impacted by new periods of drought that occurred punctually.

According to the NOAA (the National Oceanic and Atmospheric Administration), the El Niño phenomenon will predominate in the next harvest season. This would entail certain expected impacts, especially with regards to the irregularity of rainfall. The first projections for the 2019/20 grain harvest season point to delayed rainfall that can impact the sowing window.

Projections indicate negative anomalies (below-average rainfall) in the region spanning from northern Rio Grande do Sul to southern Pará, and from Acre to Western Bahia. These rains are expected to be between 50 and 200 mm below average.

Adequate handling of the soil may be the differentiating factor. A well-structured soil, with coverage, may have a significant impact in reducing evapotranspiration and the resulting plant water deficit.

The climate framework requires constant monitoring to allow the best decisions regarding planting for the next harvest season to be taken. Monitoring of climate conditions is essential to planning the next harvest season under the correct prospect of gains.

Indications show that the best path will be to adopt earlier crops and hybrids, with improved resistance to water deficit.

Climate

With the El Niño phenomenon lingering on, even if weakened, projections indicate a new harvest season marked by irregular rainfall: below-average rains one month, followed by a recovery of the water situation in the following month, as shown and broken down in the table below:

	South	Southeast	Center-West	North	Nordeste
September	Frequent rainfall on the three states – above average.	Climate remains dry in most of the Region. In SP the trend is above-average rainfall.	Low rainfall on most areas. Rainfall only in western MT and MS.	PA, AM and RR with below-average rainfall.	Dry climate in the Region. Some instability over the costaline with light rains.
October	Above-average rainfall on almost the entire RS, except on the northeastern part. Drier-than-normal climate in the other parts.	Below-average rainfall in SP, RJ and a larte portion of MG. Rainfall above average only in ES and northwestern MG.	Below-average rainfall throughout the agricultural province in the Region.	Above-average rainfall in PA, AP, northern TO, and in the northern and southern parts of Amazonas. Below-average rainfall on the other areas.	Within-average rainfall in a large portion of the region, except for AL, PB and PE where rainfall should be above-average.
November	Irregular rainfall on practically all RS and PR. Only in SC rainfall should be above average.	Above-average rainfall in western SP, the Minas Triangle, central MG, and Zona da Mata. Northern MG and ES should expect rainfall between 50 and 100mm below average. Central SP should expect rainfall slightly below average (approx. 25mm).	Above-average rainfall in southeastern and eastern GO, southern MT and practically all MS. Below-average rainfall expected in northern MT, northern and central GO, in addition to the DF.	Abundant rainfall only in AC, central AM and in TO. Other areas should expect rainfall below the historic average.	Rainfall within the average on most of the NE region, however there is the expectation of above-average volumes in central BA and in PI.
December	Above-average rainfall on nearly all regions, except in western PR and in SC and northeastern RS.	Below-average rainfall in practically all areas. Above-average rainfall expected only for southern SP.	Irregular rainfall in almost all areas. Above-average volumes are expected only for southeastern GO, eastern MT, and northwestern MS.	Below-average rainfall in practically all areas. Above-average rainfall expected only for RO and on western AM.	Average rainfall expected for most of the Region, except for the interior of BA which should expect above-average rainfall. Dry climate trend for the Sertão backlands.

Watch the climate!

Macroeconomics

In the foreign environment, despite continuing tensions caused by commercial disputes among some major players in the market, the first months of the year were characterized by accelerating economic activity in the main world economies. In fact, the US, the Eurozone, and the United Kingdom achieved GDP growth in the first quarter slightly above the last months of 2018.

Even with this modest recovery, no major inflationary trends were observed in these countries. Price increase deceleration during the first months of 2019 reduced the expectations that the monetary stress process that was ongoing in many of those economies in 2018 would continue. Therefore, the previous projections of a continuation of interest rate hikes in the US were abandoned, and a reduction of Fed Fund rates is expected to converge to a range between 1.75% and 2.00% p.a. until the end of 2019.

On the domestic side, the first half of the year saw a lower-than-expected speed in the economic recovery. Part of this performance resulted from specific factors that reduced industrial and agribusiness production, the latter influenced by adverse climate over the soybean and corn fields in the country's Center-South region.

Indeed, the negative GDP in the first semester (-0.2% Tn./Tn. previous) affected the expectations in large portions of the market. This fact negatively affected household consumption and especially investments, causing a process of lowering growth projections for 2019.

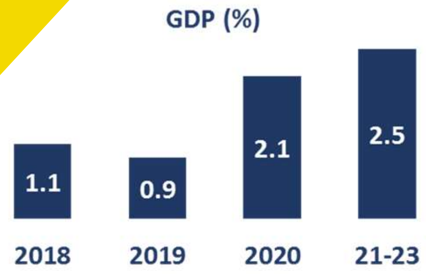
BB AGRIBUSINESS Prospects

2019/2020 Harvest Season

Macroeconomics

GDP

With this we expect the GDP to grow 0.9% in 2019. This projection supposes activity will gain more impulse in the second semester, after greater clarity on the approval of the pension reform.



IPCA

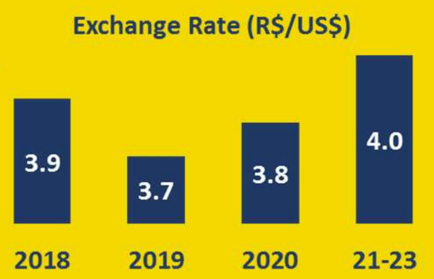
Low economic growtn and high vacancy in the industry tend to keep inflation under control and in line with the goal established by the National Monetary Council for 2019 (4.25%). In fact, we expect the IPCA fluctuation in this year remains below the central goal for the year (3.8%).

SELIC

Consequently, the Central Bank may increase flexibilization of its monetary policy, reducing the Selic rate to 5.75% p.a. in 2019 and slightly raising only to 6.5% p.a. until the end of 2020.

Macroeconomics

Within this perspective and assuming the pension reform is passed before the year-end, we expect the exchange rate to be reduced along the second half of 2019. In this regard we point to two major forces. The first is the reduced pressure with monetary policy abroad, considering interest rates will remain at lower levels than projected in the beginning of the year. In this environment, pressures to devaluate currencies in emerging economies tend to decrease.



In addition, we expect the volume of investments entering the country to increase after the previdence (social welfare system) reform is passed, which will cause an appreciation of the local currency. However, we do not foresee a strong devaluation of the Brazilian currency, given the challenges still remaining in the economy. We thus project the Real to close the year at around R$/US$ 3.70.

In summary, we note that our projections are based on the agenda of structural reforms proposed by the current federal administration, which are expected to reduce the perception of domestic risk, which would result in positive repercussions to the economic activity.

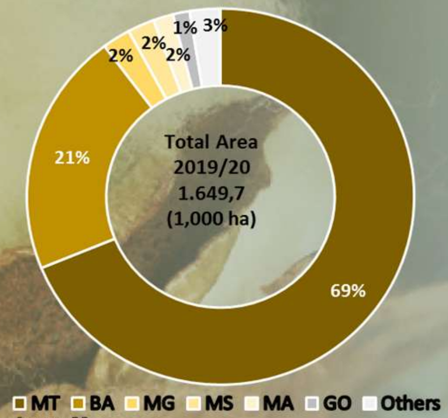
In this environment, inflation is expected to remain at lower levels, which supports our expectation of interest rate cuts by the Central Bank still this year.

Cotton

The assessment shows 1.65 million hectares cultivated.

Especially in Mato Grosso and Bahia, responsible for 90% of the estimated area.

With the beneficial climate expected for cotton crops, the national production is projected for 2.8 million tons of plume cotton, maintaining the proportion of 90% of production in Mato Grosso and Bahia.



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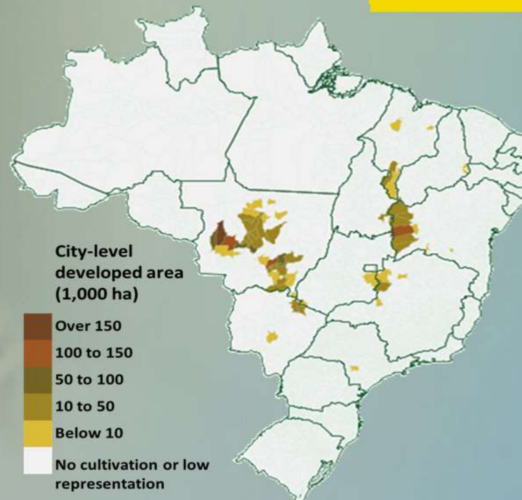

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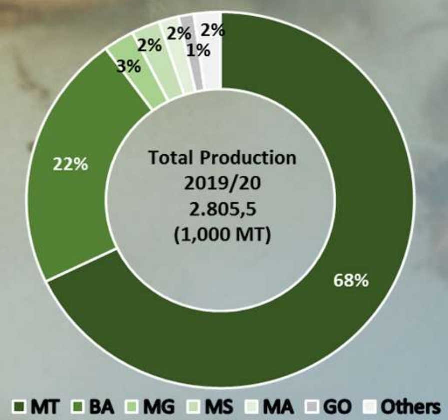

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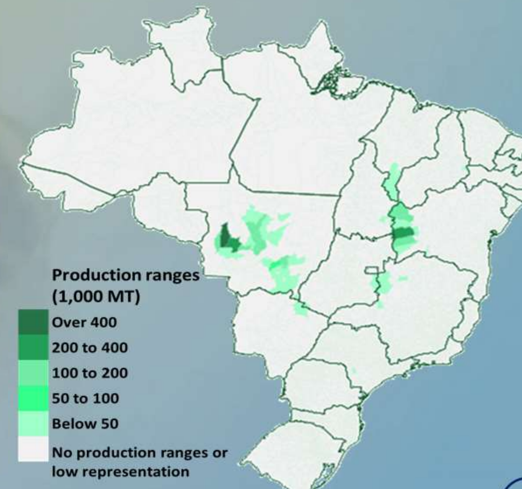


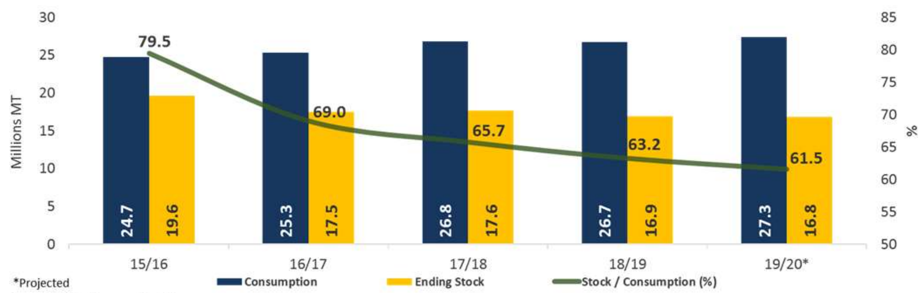
Source: BB

Cotton

Scenario

In recent years, cotton consumption grew beyond world production, resulting in reduced world stocks. Despite the high stock/consumption ratio (61.5%), a large part of the stock are Chinese, with uncertain levels of quality for industrial purposes. These factors influenced the recovery of the international price for plume, which continued to fluctuate according to the price of oil, the exchange rate and the prospects of performance in the main global economies.

World Stock/Consumption Ratio



*Projected
Source: USDA; Prepared by: BB.

Factors of price influence of the 2019/20 harvest in Brazil:

Positive

- China x US commercial relations;
- Increase in world demand;
- Good performance of important world economies;

Negative

- Projected reduction in oil prices;
- Valuation of the Real over the Dollar (export parity);
- Projected increase in the Brazilian offer for the 2019/20 harvest.

Cotton

In Summary

Adopting a scenario of increased worldwide demand, reduced offer in the US, and displacement of the demand to Brazil and an offset of the projected reduction in the exchange rate and oil prices, average sale prices are expected to be higher to those in the previous harvest, also taking into account the producer's sale strategy.

Prices, Costs and Margins - Cotton

An average increase of 4% in production costs is projected, despite a scenario of lower exchange rates. On the other hand, expected average sale prices are 6% above the previous harvest.

Based on these assumptions, the national average margin projected for cotton producers in the 2019/20 harvest is 49%, with some possible variation due to fluctuations in the fundamentals.

Regardless, it is important to take advantage of moments in which prices and dollar rates are high to establish sales and stop prices and exchange rates.

Margin history and projection

Source: BB. 1- Operating Cost: Variable cost + fixed cost (depreciation of Machinery, Equipment, Improvements and Facilities - not including own capital and land remuneration).

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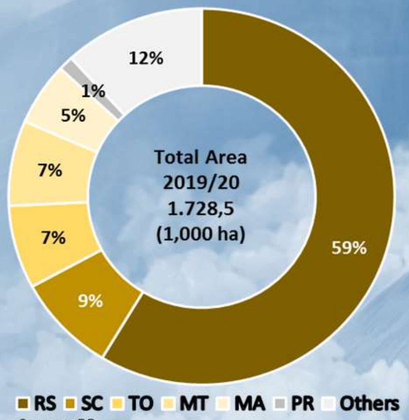
Rice

The challenges faced in the rice chain are expected to continue in the 2019/20 harvest season. However, a modest increase in the cultivated area in the Country is expected as well as the recovery of part of the production in the Southern Region plantations, more influenced by the effects of El Nino.

Planted area is expected to reach 1.73 million hectares. Especially in Rio Grande do Sul and Santa Catarina, which correspond to 68% of the total projected area for the 2019/20 harvest.

Benefited by the climate, national production may reach 11.36 million tons with Rio Grande do Sul and Santa Catarina answering for 81% of the projected totals for the 2019/20 harvest.



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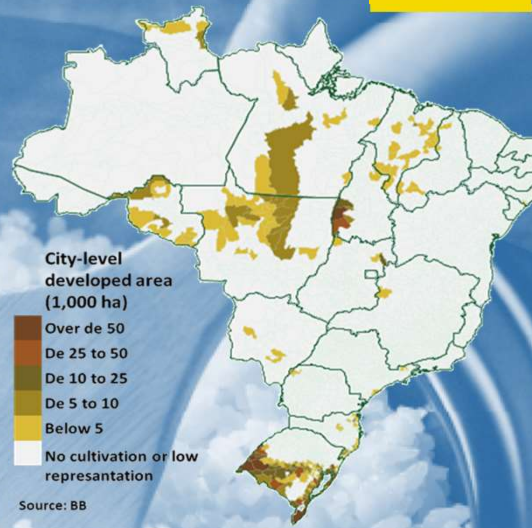

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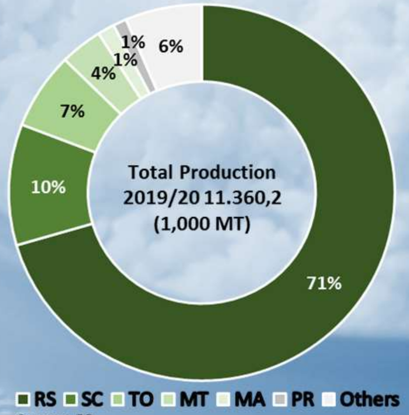

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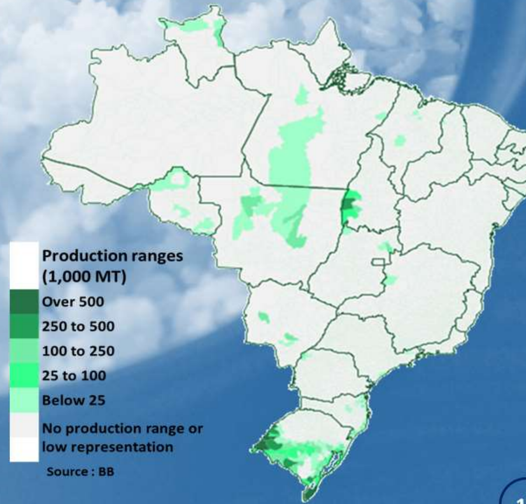


Source : BB

Rice

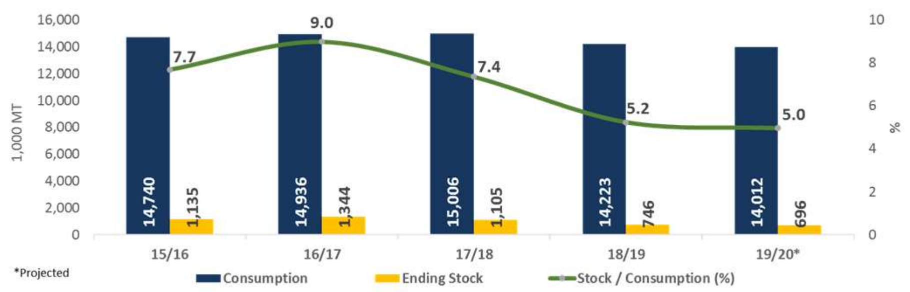
Scenario

Formation of the internal price is strongly influenced by the logistics of the product, by traditional cultivation factors, the form of distribution of rice in the internal market, and sales to Mercosur.

Internal consumption remains stable in recent years, and the main production regions plant the product in already established areas apt for planting this cereal only. Production therein is greater than national consumption, and the excess is sold to the international market.

Therefore, external sales have had great influence in internal pricing, given the stock/consumption fundamentals and the import/export parities. In this sense, the reduction in stocks from Mercosur, especially from Brazil, has resulted in an adjustment to internal prices, also influenced by the exchange rate.

World Stock/Consumption Ratio



*Projected

Source: USDA; Prepared by: BB

Note: Data converted from processed base to husk base, with a 68% yield.

Factors influencing price in Brazil for the 2019/20 harvest:

Positive

- Reduced stocks in the Mercosur in the 2018/19 harvest;
- Paced sale strategies by Brazilian producers;

Negative

- Valuation of the real over the dollar (export parity);
- Projected increase of the Brazilian offer for the 2019/20 harvest;
- Main countries importing the Brazilian product face economic difficulties;
- Concentrated buying market;
- Competition with products from the Mercosur and the US.

Rice

In Summary

Exchange rates are likely to continue directing internal prices in the 2019/20 harvest, considering the projected increase in local offer for the 2019/20 harvest. The scenario adopted points to a reduced exchange rate which, at the time of sale, may influence the competitiveness of the product in the international markets. During the peak of national harvest, prices may also be influenced by seasonability of the offer.

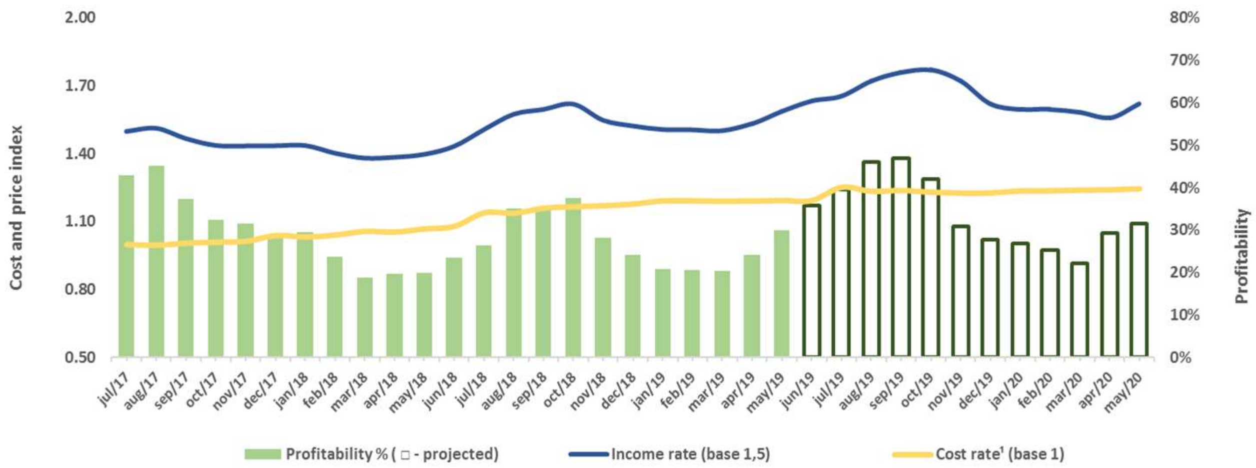
Prices, Costs, and Margins - Rice

Despite the projected reduction in exchange rate, the Brazilian cost of production is greatly influenced by external factors.

Average sale prices for the following harvest may also be lower than average levels seen in 2019.

Given these fundamentals, the national average margin projected for rice producers in the 2019/20 harvest is around 32%, with possible variations as a result of fluctuations in the fundamentals.

Margin history and projection



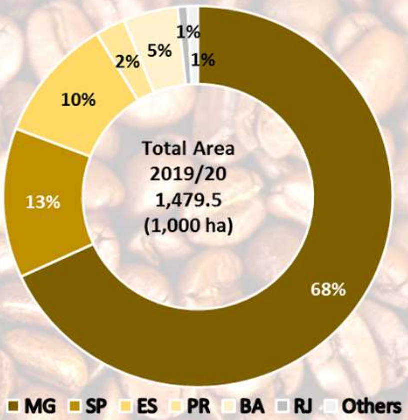
Source: BB. 1- Operating Cost: Variable cost + fixed cost (depreciation of Machinery, Equipment, Improvements and Facilities - not including own capital and land remuneration).
Note: not including land and water leases.

Arabica Coffee

Production areas are expected to remain stable for Arabica coffee, since these are perennial plantations. The State of Minas Gerais answers for 68% of the Country's production area.

Crop yield may be influenced by reduced investment in plantations, due to lower prices accrued for the product over recent months.

However, with a favorable climate for most of the coffee development period, even with a negative biennial period, a lower reduction is expected compared with other negative cycles, with a forecast production of 40.7 million bags.



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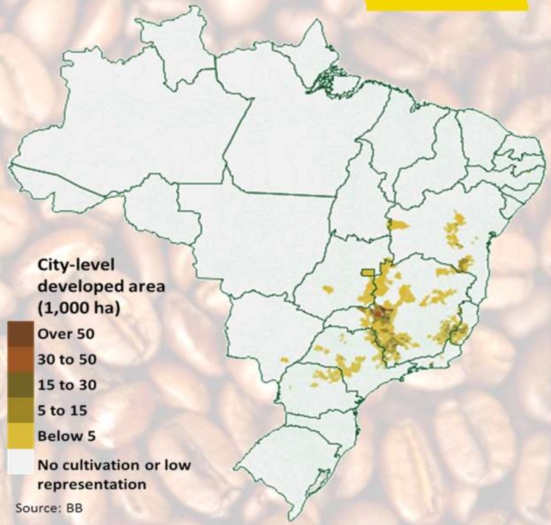

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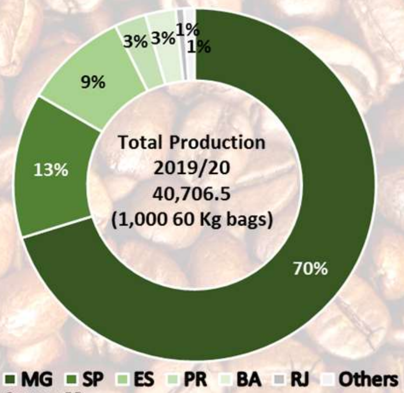

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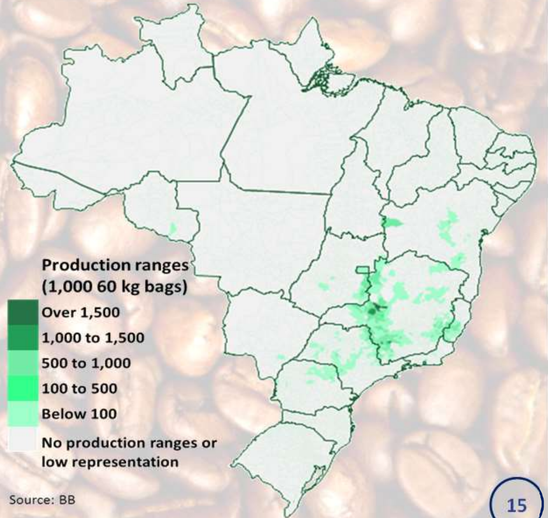


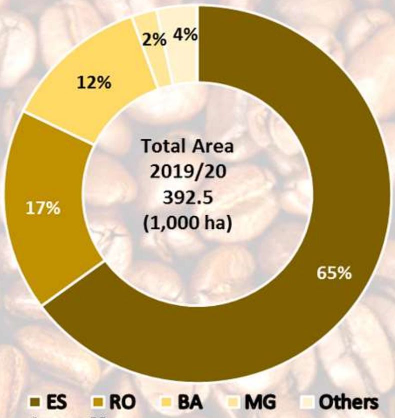
Source: BB

Robusta Coffee

Incorporating certain areas that were under formation, the expectation is that 392,500 hectares will be in production, with 65% of plantations located in the state of Espírito Santo.

As well as for Arabica, a reduction in investment in plantations is also expected.

Negative biennality is of little significance in the variety and adequate climate may allow production to reach 16.54 million bags, with the states of Espírito Santo and Rondônia answering for 87% of the total projected volume.



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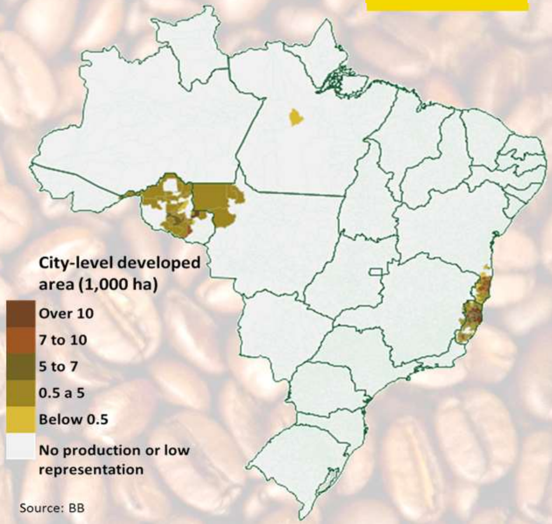

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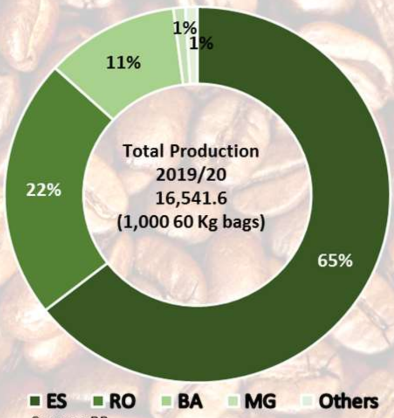

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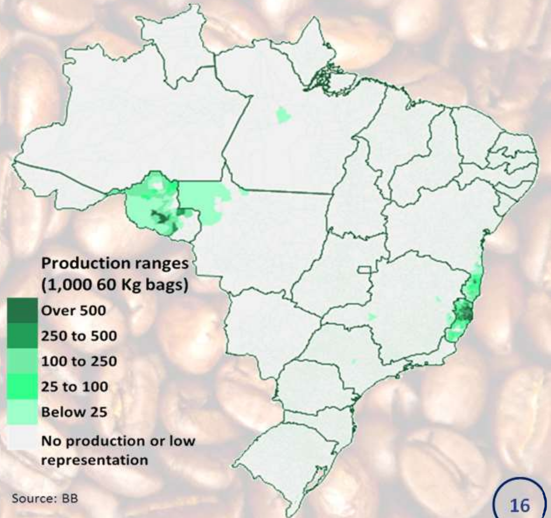


Source: BB

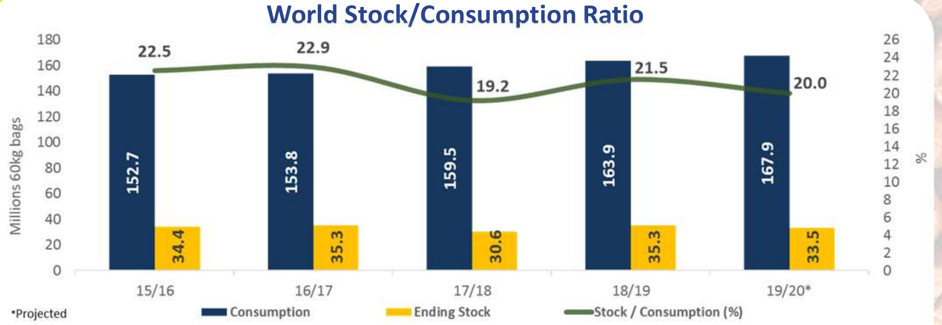
Coffee

Scenario

The prospects for the 2019/20 harvest are positive, considering that climate conditions were adequate for cultivating throughout most of the development period. It is known that production will be lower than the obtained in the 2018/19 harvest due to the coffee plantation phisiology, however with lower reduction than the observed in other years.

In the second semester, after the peak of harvest (offer), adding to the likely increase in consumption from countries in the northern hemisphere and to the pressure of Brazilian offer dissipating, certain stability in prices is expected.

However, the increase in world production in recent years has been greater than growth in consumption, keeping the worldwide stock/consumption ratio relatively stable for the last four harvests, which limited a sizable hike in the prices of the commodity.



*Projected
Source: USDA; Prepared by: BB

Factors influencing price in Brazil for the 2019/20 harvest:

Positive

- Growth in global consumption;
- Exchange rate prospects still providing satisfactory internal pricing;
- Paced sales strategies by Brazilian producers;

Negative

- Main consumer countries in the world with high stock;
- Large harvest in Brazil and record harvest in Vietnam (30.5 million bags) should limit sizable hikes in prices;
- 2019/20 harvest still with projected surplus.

BB AGRIBUSINESS Prospects

2019/2020 Harvest Season

Coffee

In Summary

2019 has proven to be a challenging year for coffee producers, who facing tight pricing abroad have looked to maximize their margins by paying special attention to production costs. The increase in searching for price/exchange rate protection has shown the awareness of producers to the movements of high offer and uncertainties regarding price behavior, looking to ensure business profitability.

Prices, Costs, and Margins – Arabica Coffee

The national average margin projected for the 2019/20 harvest is around 26%, with variations possible due to fluctuations in the fundamentals. Exchange rate and international quotation hikes should be taken advantage of for sales or stops with options.

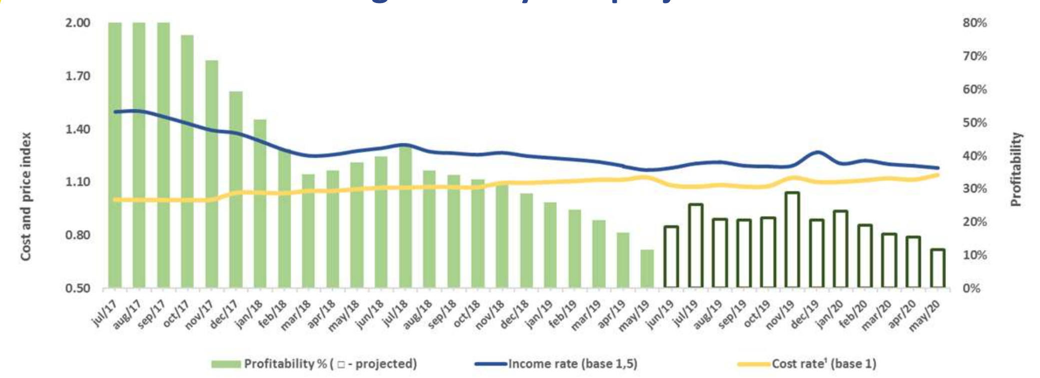
Margin history and projection

Source: BB. 1- Operating Cost: Variable cost + fixed cost (depreciation of Machinery, Equipment, Improvements and Facilities - not including own capital and land remuneration).

Prices, Costs, and Margins - Robusta Coffee

The national average margin projected for the Robusta producers in the 2019/20 harvest is estimated at 20%. As with Arabica, hikes in exchange rates and international prices should be taken advantage of.

Margin history and projection



Source: BB. 1- Operating Cost: Variable cost + fixed cost (depreciation of Machinery, Equipment, Improvements and Facilities - not including own capital and land remuneration).

BB AGRIBUSINESS Prospects

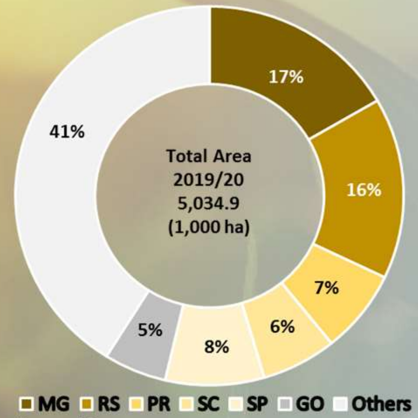
2019/2020 Harvest Season

Corn 1st. harvest

For the 2019/20 harvest, the assessment made points to an intended cultivation of 5.03 million hectares, with planting taking place in practically all Brazilian states. Especially in the South and Southeast Regions, with 54% of the area to be planted in the country.

Unstable climate is projected for the time of planting the crops, with delays in the initial rainy period resulting in a smaller sowing period, which may affect the plantation's production potential.

However, it is expected they become regular during the plantation development period. Thus, a production of 27.98 million tons is expected.



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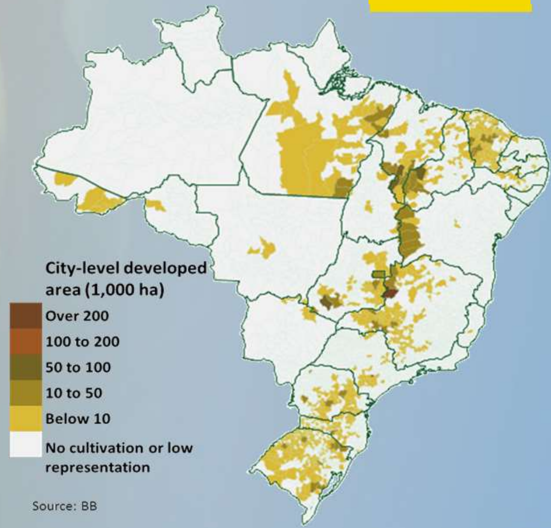

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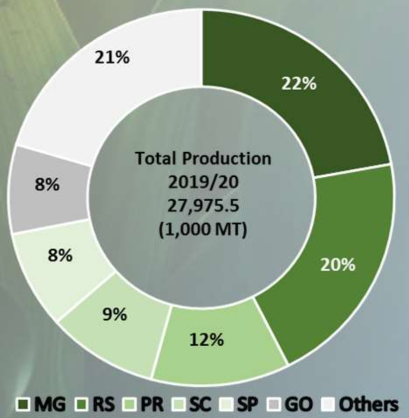

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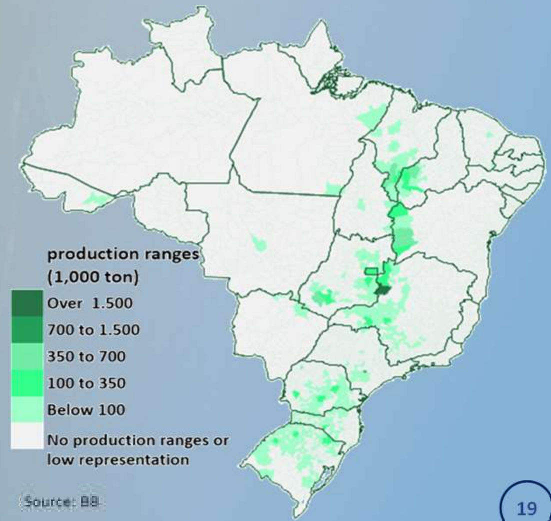
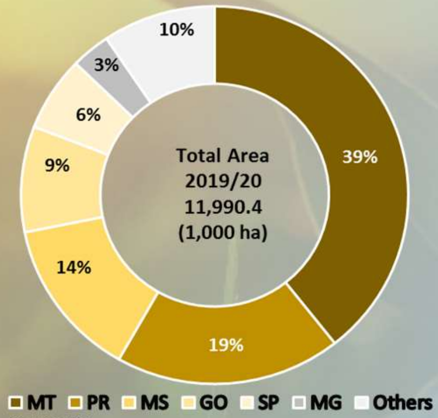


Source: BB

Corn 2st. harvest

The assessment made points to an area of 11.99 million hectares directed for planting corn in the 2nd. 2019/20 harvest in Brazil. Of those, 81% will be located in the States of the Center-West region and in Paraná. However, variations may take place in the area allocated for cultivation, due to the long period until the start of cultivation on those areas and to issues related with the international market and internal offer.

Estimated productivity is slightly lower than the expected for the 2018/19 harvest, due to possible variations in the climate and the use of cultivation technologies. Thus, projections point to a production of 67.63 million tons with the States above producing 85% of the expected total for the 2019/20 harvest.



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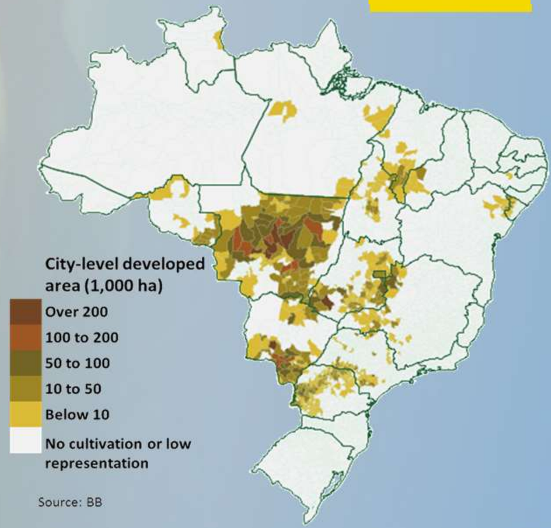

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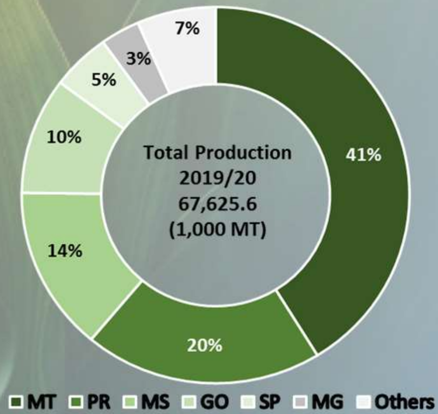

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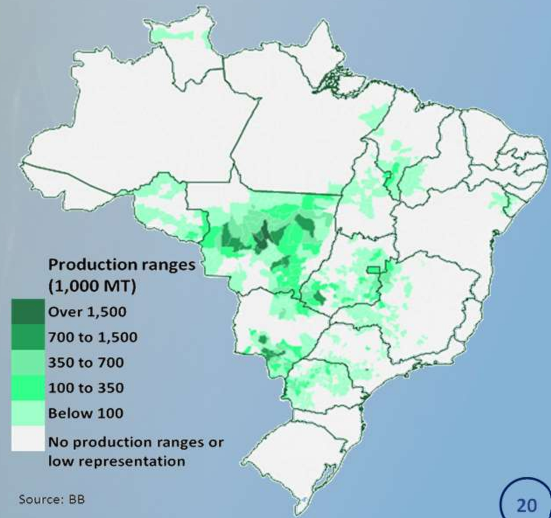


Source: BB

BB AGRIBUSINESS Prospects

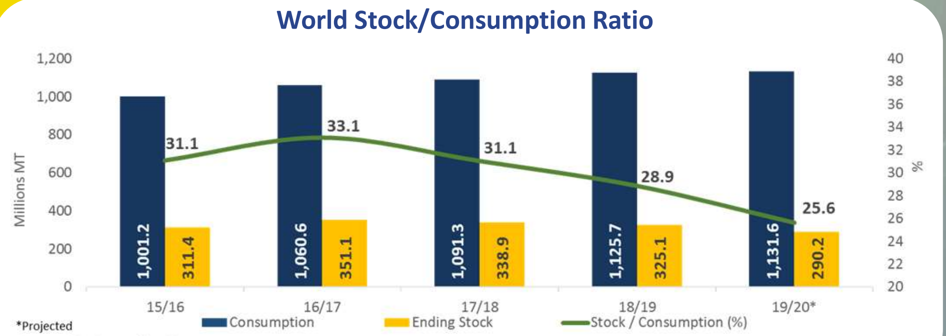
2019/2020 Harvest Season

Corn

Scenario

After the record stock observed in the 2016/17 harvest, world consumption greater than production has been allowing reductions in the stock/consumption ratio.

Despite still high, the prospects for a greater reduction in this ratio for the 2019/20 harvest has been allowing positive adjustments to the product pricing worldwide.



*Projected

Source: USDA; Prepared by: BB.

Factors influencing price in Brazil for the 2019/20 harvest:

Positive

- Prospects of adverse climate for the 2019/20 harvest in North America;
- Projected reduction in the cultivated area and on the production in the US (the largest worldwide producer and exporter of the cereal);
- Reduction in world stocks;
- African and Asian Swine Flu (increased consumption of corn from Brazil for the production of animal protein for export);

Negative

- Valuation of the Real before the Dollar (export parity);
- Projected increase in the Brazilian offer for the 2019/20 harvest;
- China x US commercial relations (reduced CBOT quotation, impacting the Brazilian export parity).

Corn

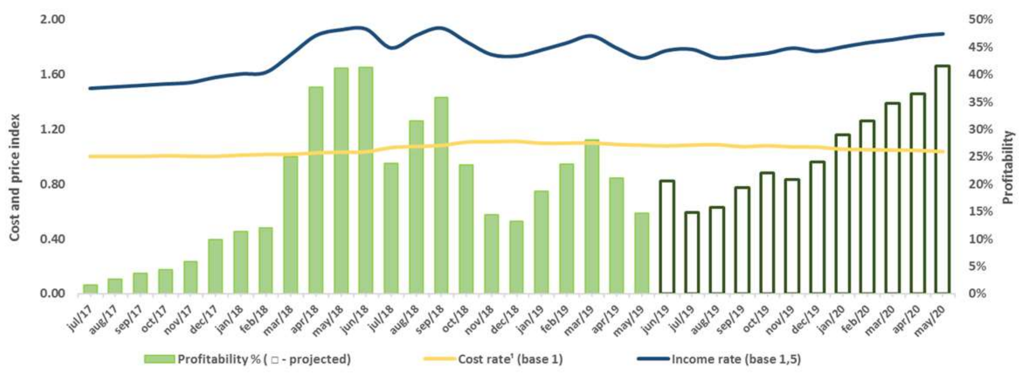
In Summary

The North-American climate scenario continues to be the main factor directing product prices in the Chicago Exchange - CBOT, a world reference in pricing for the product. Excess rains caused delays in planting and reduced crop areas in the US and projected reduction in the country's production for the 2019/20 harvest. This factor continues to be beneficial for prices in Brazil. However, the projected large national harvest and reduced dollar exchange rate may limit the incorporation of this spike, with a greater reflex over the 2nd. Brazilian harvest.

Prices, Costs, and Margins – Corn 1st. harvest

The national average margin projected for corn producers in the 1st. 2019/20 harvest is around 35%, with possible variations due to fluctuations in the fundamentals.

Margin history and projection

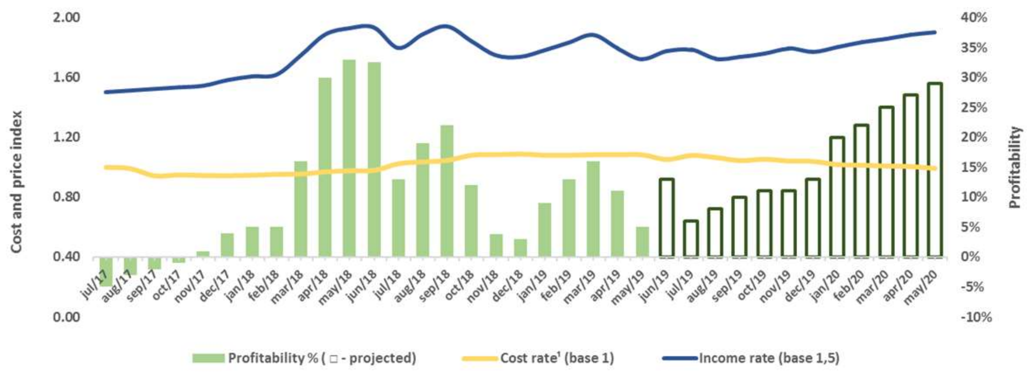


Source: BB. 1- Operating Cost: Variable cost + fixed cost (depreciation of Machinery, Equipment, Improvements and Facilities - not including own capital and land remuneration).

Prices, Costs, and Margins - Corn 2nd. harvest

For the 2nd. 2019/20 harvest, the projected average margin is 25%, considering anticipated sale and price hedge with options.

Margin history and projection

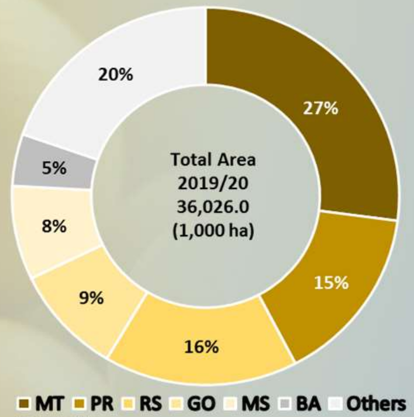


Source: BB. 1- Operating Cost: Variable cost + fixed cost (depreciation of Machinery, Equipment, Improvements and Facilities - not including own capital and land remuneration).

Soybeans

In the expectation of filling the gaps opened as a result of commercial negotiations between important market players and also due to the high probability that the offer of Soybeans by the US for the 2019/20 harvest is lower, the assessment found that Brazilian producers intend to plant 36.03 million hectares for the 2019/20 harvest, with 80% of the total projected area concentrated in 6 States.

Production is likely to be influenced by irregular rains during the implementation of the crops. Given the resilience of soybean plants and the expectation that the rainfall regime will return to regularity allowing crops to develop, production is expected to be 120.42 million tons during the 2019/20 Brazilian harvest.



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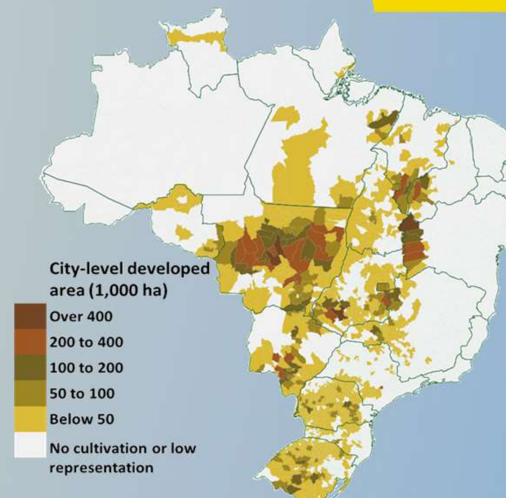

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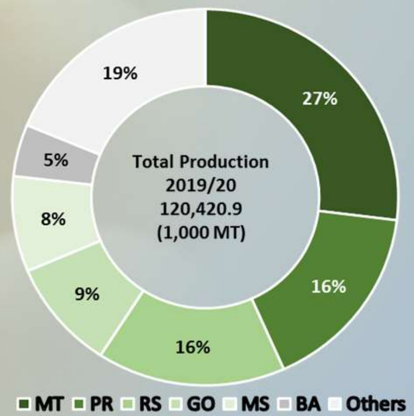

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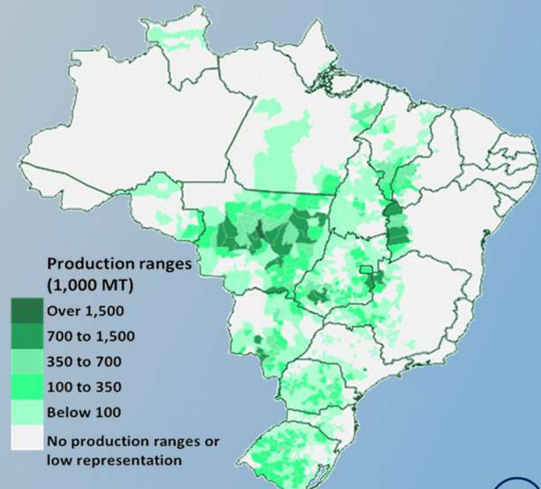


Source: BB

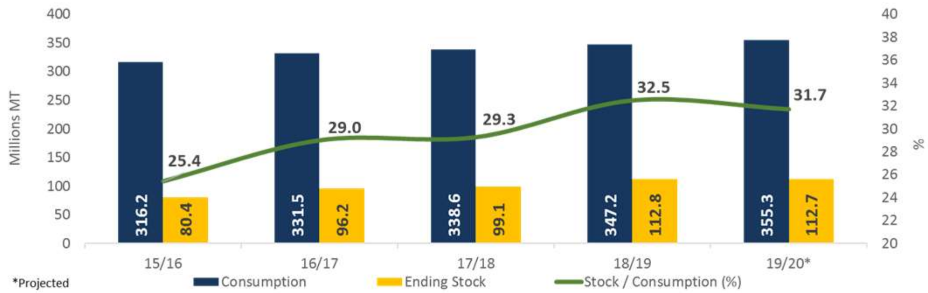
Soybeans

Scenario

The high worldwide production in the latest harvests has improved world stocks, that reached record levels. Added to that, sanitary problems have occurred to swine herds in Asia (influencing the reductions in worldwide consumption of soy), and instabilities in commercial negotiations, which negatively affected the price of soybeans.

Soybean plantations are being implemented in the US, one of the world's main exporter countries, and the adverse climate continues to prevent cultivation to the areas expected for the 2019/20 harvest in full. With this, speculations about the reduced offer allows for positive adjustments to the prices at the CBOT. Uncertainties regarding the country's production will continue until the fourth quarter of 2019, when harvest occurs. The high worldwide stock continues to be a limiting factor to the rising prices of this commodity.

World Stock/Consumption Ratio



*Projected
Source: USDA; Prepared by: BB

Factors influencing price in Brazil for the 2019/20 harvest:

Positive

- Adverse climate for the 2019/20 harvest in North America;
- Projected reduction in the planted and production area in the US;
- China x US commercial relations (shifting part of the demand for Brazil);

Negative

- Valuation of the Real before the Dollar (export parity);
- Projected increase of the Brazilian offer in the 2019/20 harvest;
- Swine Flu in Africa and Asia (reduced Chinese demand for soybeans for livestock feed with greater relevance to internal pricing than the rise in internal consumption of soybeans).

Soybeans

In Summary

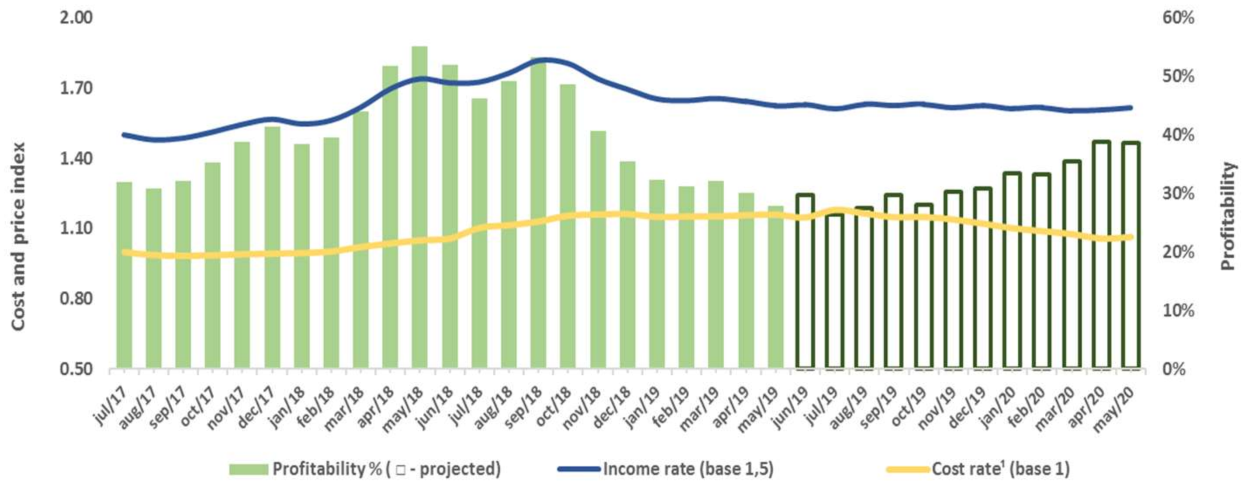
The climate, especially in North America, continues to be the main basis that currently directs prices. However, world stocks still continue close to world records, which limits stronger price hikes in the commodity. For Brazil, the projected valuation of the Real over the Dollar may limit the internalizing of world price hikes. However, the prospects of diverting part of the demand to Brazil may favor the formation of internal prices and premiums at the ports.

Prices, Costs, and Margins - Soybeans

Production costs may not initially reflect the projected reduction in exchange rates given the time of purchase of goods by suppliers and their relaying to producers, with certain cost stability being expected.

Internal prices should continue to follow international prices and exchange rates. In this sense, producers must take advantage of moments where high exchange rates combine with the CBOT prices to make anticipated sales and price hedge with options for part of their production, to ensure a projected average margin for the 2019/20 harvest of 35%.

Margin history and projection



Source: BB. 1- Operating Cost: Variable cost + fixed cost (depreciation of Machinery, Equipment, Improvements and Facilities - not including own capital and land remuneration).

BB AGRIBUSINESS Prospects

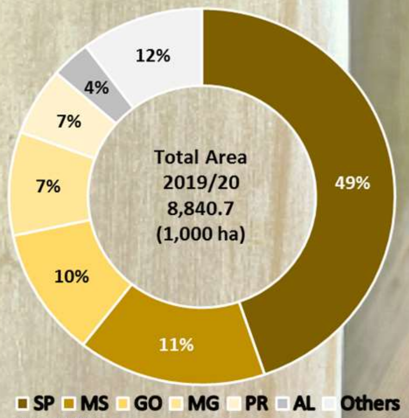
2019/2020 Harvest Season

Sugarcane

The assessment indicates a production area of 8.8 million hectares.

São Paulo is at the forefront with the largest planted area in Brazil, corresponding to 49% of the projected total.

Production is likely to benefit from the climate, which influences a sugarcane production estimate of 631 million tons.



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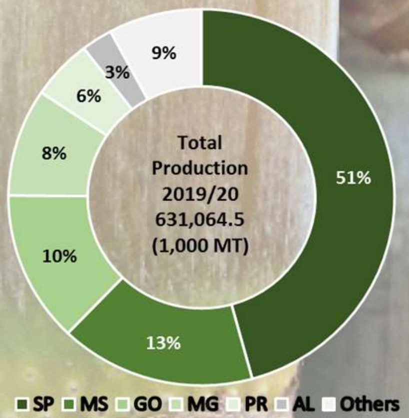

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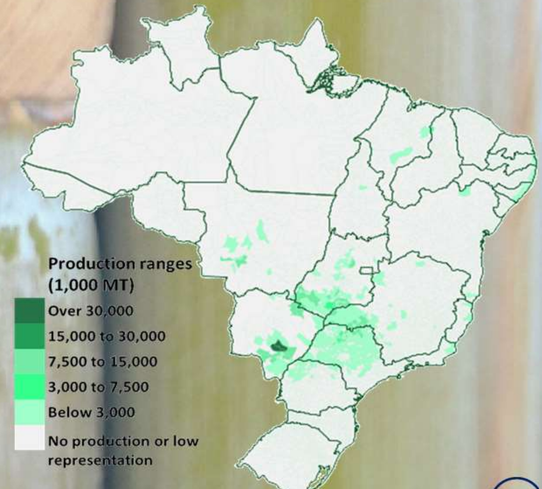


Source: BB

Sugarcane

Scenario

In its first assessment for the 2019/20 harvest the USDA projected a total production of 180.73 million tons, 1% growth (1.8 million tons) over the previous harvest. Considering a growth of 2.49 million tons in the global demand, the new harvest tends to be 4.28 million tons in surplus. With the record harvest of 2017/18, which resulted in a high surplus, the balance between offer and demand tends to equilibrium, also reinforced by the growth in global demand in recent harvests.

India and the European Union are two key competitors to Brazil regarding world sugar production. Regarding India, projections point to a reduction in the offer of sugar, with an increase in the percentage of ethanol added to gasoline. In addition, climate issues (drought) affected some important producing areas.

In its turn, the European Union tends to resume cultivation in areas not used in previous harvests and thus increase its production in up to 1 million tons (USDA). Despite part of the reduced Indian production being offset by the projected increase in Brazilian production in this harvest, global stocks will likely retract for the second harvest in a row due to increased worldwide consumption.

Factors influencing price in Brazil for the 2019/20 harvest:

Positive

- Reduction in global stocks of sugar;
- Increase in the global consumption of sugar;
- Internal demand boosted by ethanol, especially hydrated.

Negative

- Forecasted growth in global sugar production, especially in Brazil;
- Scenario of reduced oil prices;
- Favorable climate for planting in Asia, with monsoons forecast to be within normality;
- Global surplus in the production of sugar.

Sugarcane

In Summary

The internal scenario points to a production mix more geared towards biofuels due to the increased internal demand and to external prices of sugar being less attractive to the sugarcane mills. However, due to the increase in the projected offer of sugarcane, both products may be favored. Therefore, considering the external scenario and the flexibility of local production between sugar and ethanol, business is expected to take place within a historical level of normality with surplus margins to sugarcane producers.

Prices, Costs, and Margins - Sugarcane

Considering the assumptions listed, the average national margin projected for sugarcane producers for the 2019/20 harvest is around 64% for the harvest sales period, with possible variations due to fluctuations in the fundamentals.

Margin history and projection

Source: BB. 1- Operating Cost: Variable cost + fixed cost (depreciation of Machinery, Equipment, Improvements and Facilities - not including own capital and land remuneration).

Beef Cattle

Scenario

2019 has been a positive year for cattle breeders and the market, especially the international market, which brings good prospects for Brazilian beef cattle growing. Beef prices are above those practiced in the same period of 2018. One of the reasons for this price increase results from the African Swine Flu (ASF) outbreak in China, which is reducing the herds in the Asian giant. Another reason relates to the possible opening of new markets to Brazilian beef (Middle East and other Asian regions) and to the possibility that the US resumes consumption of Brazilian “in natura" beef.

China is the world’s largest producer and consumer of pork, and the reduction in its herds will create a gap that tends to be filled by other proteins. The increase in external demand has already reflected in prices here in Brazil. In addition to the external factors mentioned, internally the value of beef pound rose during the first semester of 2019, considering the climate has allowed for good quality pastures, affording growers to keep the animals in the pastures for a longer period during this season. Another factor is the replenishment market, which has been bullish for some months.

Thus, considering a favorable external scenario, with increased demand and favorable exchange rates at the moment, Brazilian beef tends to increase in competitiveness internationally. The prospects are for shipments to increase substantially during the second semester.

Factors influencing price in Brazil for the 2019/20 harvest:

Positive

- The main importer of Brazilian beef (40%), China indicates an increased need to import animal protein due to reduced herds caused by the outbreak in ASF. This reduction in the swine herds may create opportunities to increase the consumption of other proteins, such as poultry and pork. Vietnam is also being affected by ASF.
- Brazilian exports are set to reach new records.

Negative

- Possible commercial agreement between the US and China could result in the demand being directed towards the US and hinder the flow of the Brazilian product. This would increase the internal offer within Brazil, which would not be capable of absorbing the surplus, therefore affecting prices.

Beef Cattle

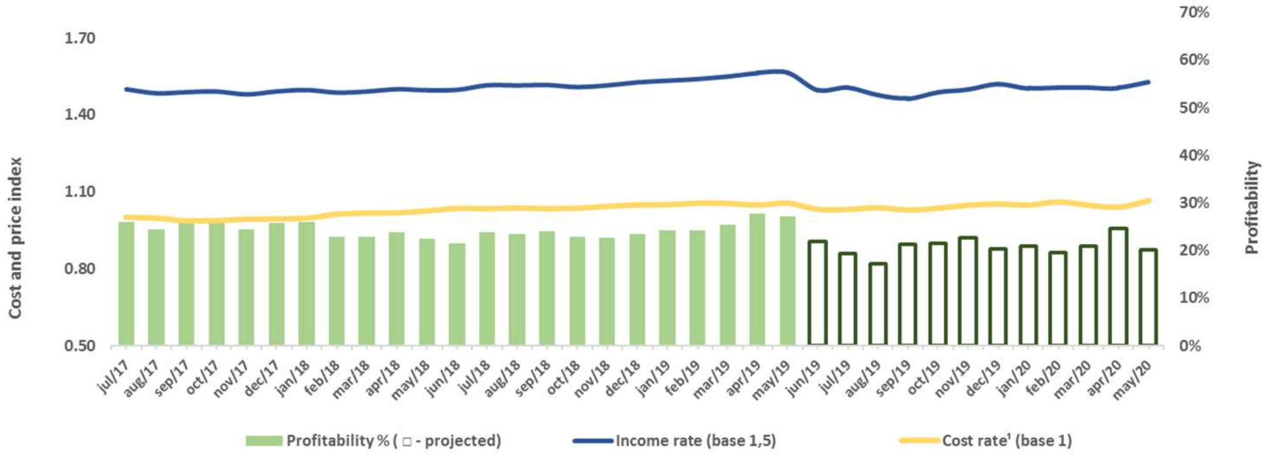
In Summary

2019 has been positive to cattle breeders, who have been taking the best advantage of the climate period to keep the herds out in the pastures, as well as for high demand. Projected high external demand to continue.

Prices, Costs, and Margins – Beef Cattle

It is important to monitor the profile of Chinese consumption in the coming months and take into account that replacement of pork tends to also direct consumption to poultry. Considering this positive scenario, but still with some uncertainties, there is space for increase in the options market, with future price hedge to minimize potential risks to incomes from the business.

Margin history and projection



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