

# The Daily Dispatch

## Weekly Special Feature

October 01, 2021

### *The Country That Makes Breakfast for the World Is Plagued by Fire, Frost and Drought*

By: Peter Millard, Fabiana Batista, and Leslie Patton – Bloomberg (Published on September 28, 2021)



Fires burn on a farm near environmentally protected land in Sao Paulo state on Aug. 24. [Photographer: Jonne Roriz/Bloomberg]

No country on Earth puts more breakfasts on kitchen tables than Brazil.

The farms that dot the vast plains and highlands that rise above the Atlantic coast produce fourfifths of the world's orange juice exports, half of its sugar exports, a third of coffee exports and a third of the soy and corn used to feed egg-laying hens and other livestock.

So when the region's crops were scorched and then frozen this year by a devastating one-two punch fueled by climate change — the worst drought in a century followed by an unprecedented Antarctic front that repeatedly coated the land in thick frost — global commodity markets shook.

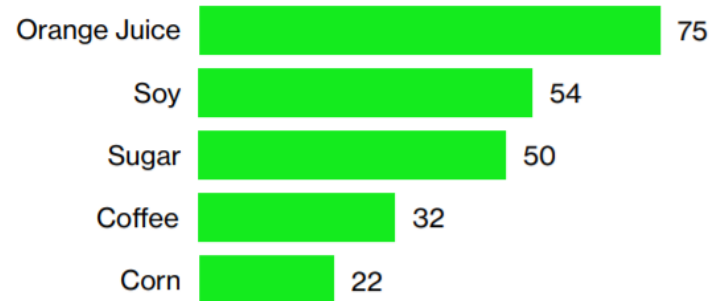
The cost of Arabica beans soared 30% over a sixday stretch in late July; orange juice jumped 20% in three weeks; and sugar hit a four-year high in August.

The price spikes are contributing to a surge in international food inflation -- a U.N. index has jumped 33% over the past 12 months -- that's deepening financial hardship in the pandemic and forcing millions of lower-income families to scale back grocery purchases across the globe. What's more, the episode is sending an ominous warning of what's to come as scientists anticipate rising global temperatures and

declining soil humidity will increasingly wreak havoc on farm lands in Brazil -- and much of the rest of the world.

### Top Food Supplier

Brazilian crops, in percentage of global exports



Source: USDA

"It's a vicious cycle," says Marcelo Seluchi, a meteorologist at Brazil's Natural Disaster Monitoring and Alert Center. "There is no rain because there is no humidity, and there is no humidity because there is no rain." Deforestation of the Amazon, which ranchers clear cut to raise cattle and plant crops, is playing a big role, he says. By his calculation, Brazil hasn't had a normal rainy season since 2010.

"It's been a very peculiar year," he says. "Floods in Germany and China, and there's a very serious drought problem in Brazil."

There's also drought across the border in Argentina and in Chile, Canada, Madagascar, Mexico and Russia. The U.S. has been cleaved in two this summer: The West has been ravaged by record heat waves, forest fires and a drought so severe that, like in Brazil, giant lakes and rivers are drying up and straining hydro-electric power; the East, meanwhile, has been drenched by record-setting tropical storms and deadly floods.

"The world is on a very dangerous path," Seluchi says.

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Top: Frost blankets a farm in the Minas Gerais state of Brazil on July 30. Bottom: A dry bank near a coffee plantation in the Parana River Basin of Minas Gerais just a month earlier. [Photographer: Douglas Magno/ AFP/ Getty Images; Jonne Roriz/ Bloomberg]

All of this, according to a recent study published in the *Journal of Environmental Economics and Management*, will lead to a 10% decline in crop yields over the next three decades, a period in which the global population is expected to grow more than one-fifth.

The destruction wrought in Brazil provides a glimpse of that future. Between the drought and the frost, crops on some 1.5 million square kilometers of land have been damaged — an area the size of Peru. The coffee losses are the most stunning: as much as 1.3 billion pounds of beans destroyed, enough to brew every single cup that Americans drink over a four-month period.

This has triggered a frantic rush among the world's biggest coffee retailers — companies like Starbucks Corp. and Nestle SA — to secure supplies.

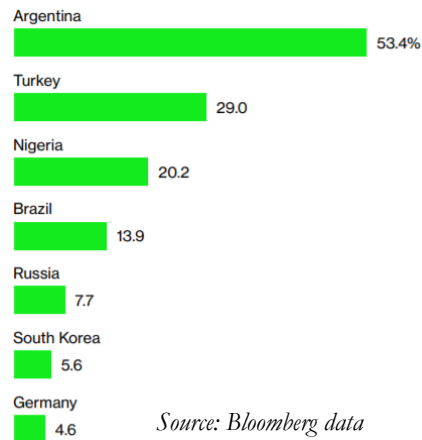
“These guys are scrambling pretty hard,” says Jack Scoville, a trader at commodities broker Price Futures Group in Chicago. Starbucks said in a statement that it always buys months in advance, and Mark Schneider, Nestle's CEO, told investors on a July conference call that the company protected its finances by purchasing hedging contracts that stretch into early next year.

Scoville, though, warned that successfully locking in prices isn't the same as getting enough coffee over the long term.

## Food Shock

Emerging markets bear the brunt of rising food prices

■ 12-month inflation through August



Source: Bloomberg data

Brazil's poor harvest will roil the market for years, he predicts. He's seeing buyers who normally get all of their beans from Brazil and Vietnam suddenly turn elsewhere to try to make up for shortfalls.

That's exactly the situation that Bader Olabi, a roaster in Istanbul, finds himself in. He's hunting for

for new suppliers in Colombia, India and Africa to replace the 100 containers of beans he gets from Brazil each year. He knows it won't be easy to convince customers that those coffees are just as good. In Turkey, Olabi says, “Brazilian coffee is the best.”

In Austin, Texas, Greater Goods Coffee Co., a specialty roaster, is planning to raise prices soon to offset the higher cost it had to pay for beans. Sara Gibson, the head roaster, calls it a wake-up call to customers. They'll have to accept higher bills to help make farming more sustainable in the era of climate change, she says. “That's my hill to die on.”

Brazil is now predicting its coffee crop will shrink by more than 25% this year. Ground zero for this wipeout was Caconde, a hamlet carved out of the lush hardwood forests of northwestern Sao Paulo state.



[Photographer: Jonne Roriz/ Bloomberg]

Antonio Ribeiro Goulart inspects coffee plants destroyed by frost near the town of Caconde in Sao Paulo state on Aug. 25.

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Coffee is 80% of the economy here. Stand on top of the highest peak and it's coffee farms as far as the eye can see. One of them is a tidy, little plot owned by a 70-year-old former banker by the name of Antonio Ribeiro Goulart.

Goulart lost it all when the frost hit.

The leaves on every single tree he has — some 11,000 in all — went from a vibrant green to a dull brown in the span of 24 hours. One month later, he still seemed in a state of shock. He kept running his hands slowly through the dead branches as he talked. The leaves would crackle and then crumble into tiny pieces. “They were completely spectacular before the frost,” he says softly.

Goulart's family has owned this plot for over a century. He inherited it from his father and settled in after spending some three decades at Banco Bradesco. He was a mid-level sort there, tasked with running a branch in downtown Sao Paulo when he retired ten years ago.



Goulart, top left, lost all 11,000 trees on his coffee plantation in Caconde. [Photographer: Jonne Roriz/Bloomberg]

Back in 2019, he had pledged a portion of this year's crop to a supplier that sold him a new husking machine, but that was impossible now. There will be no harvest for Goulart this year or next. Even 2023 is almost certainly lost. He will call the supplier and renegotiate the terms, he said. And then, like thousands of farmers around him, he will lop off all the branches on all the trees in the hope that the trunks sprout new shoots. If they do not, as he fears, he will cut them down to the stump and start from zero.

“There is no other solution,” he says.

Goulart may have loved the way his trees looked before the polar winds swept through, but the truth is the harvest in Caconde was already weak. The drought, which is now in its seventh month, was far too harsh to produce a good crop. Soil humidity was down to a mere 20%. Ideally, that number would be closer to 60%, says Ademar Pereira, the head of the local coffee growers' association.



Brazil relies on hydroelectricity for more than 60% of its power, and the drought has forced the country to increase output of more expensive and carbon-intensive electricity. [Photographer: Jonne Roriz/Bloomberg]

Pereira is standing on top of a bluff and pointing out all the tell-tale signs of the bone-dry weather: the manicured lawns that have turned into brown carpets; the gash that a recent wildfire left in a far-off mountain; and the hydroelectric reservoir down in the valley that is so low that marinas that were built right on the water's edge now stand a quarter-mile away.

“We've never seen that before,” Pereira says.

When you tally up the accumulated rain shortfall over the past decade across many basins in Brazil, it comes to about a year's worth of precipitation, according to ONS, the national electrical grid operator. The monsoons that farmers rely on have been arriving later and later each year. The U.N.'s Intergovernmental Panel on Climate Change predicts this trend will worsen in coming years, with longer dry seasons stretching from central Brazil up into the Amazon.

It was along the outer edge of the rain forest, in a town called Nova Mutum, that Cleverson Bertamoni saw his corn fields go up in smoke one July day.

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Bertamoni frantically piled farm hands into his two water trucks and sent them out to douse the fire. Still, it raged on. Bertamoni pleaded for help. His neighbors rushed over 13 more trucks. By the time the flames were finally out, some six hours later, almost 250 acres had been destroyed.

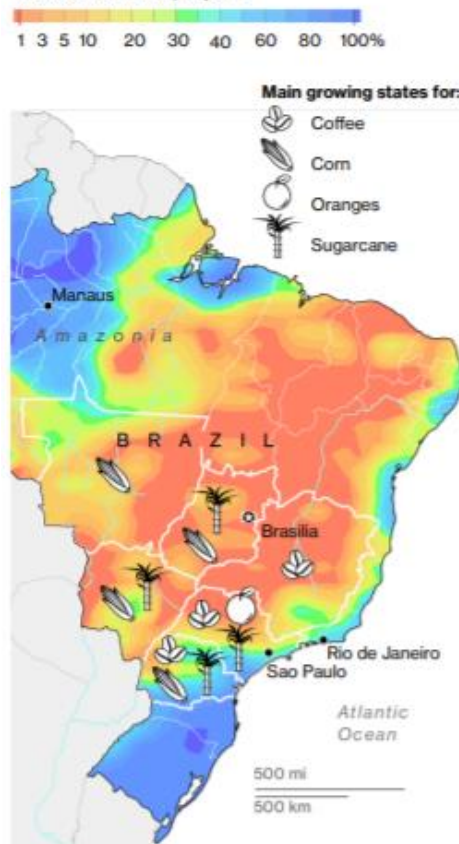
For Bertamoni, 43, it was unlike any fire he's ever encountered in a career that began when he was a young boy following his parents into their soybean and corn

fields. The ground is so dry now, he said, that a simple spark from a combine was enough to trigger the blaze. "It spread so fast."

## Scorched Brazil

The agricultural heartland of Brazil has dried out, with water levels at less than 20% for most crops. Healthy crops require soil storage of at least 60%

Water stored in soil, Sept. 15



Source: Instituto Nacional de Meteorologia

Bertamoni suddenly found himself 16,000 bags of corn short of what he had promised to deliver to trading houses in Sao Paulo. The contract stipulated he had to fork over \$120,000 to make up the difference. This wouldn't work. He didn't have that kind of cash. So he brokered a deal with them: He'd turn over 20,000 bags from next year's harvest instead.

Bertamoni is relieved, albeit a bit edgy. It should all work out fine, he figures, just as long as the rains come and he can keep the fires at bay.

— *With assistance by Tope Alak*

Source: Peter Millard, Fabiana Batista, and Leslie Patton (2021) 'The Country That Makes Breakfast for the World Is Plagued by Fire, Frost and Drought.' *Bloomberg*. Available at <https://www.bloomberg.com/news/features/2021-09-28/climate-change-in-brazil-fire-frost-drought-upends-global-markets> (Accessed 30 September 2021)



Wildfires in Brazil have consumed farms, destroying lands of one of the world's largest agricultural producers. [Photographer: Jonne Roriz/Bloomberg]

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TODAY'S TOP NEWS

## ECQ in August increased unemployment rate to 8.1%

The unemployment rate in August climbed to a four-month high of 8.1 percent from 6.9 percent in July after Metro Manila was placed under the enhanced community quarantine to curb the spread of the more contagious Delta variant of COVID-19, the Philippine Statistics Authority said Thursday.

## A. Brown to sell P1.5-b worth of preferred shares

A. Brown Co. Inc., the listed holding company of the Brown Group of Companies, plans to conduct a P1.5-billion preferred shares offering in October. ABCI will offer up to 10 million preferred shares with an oversubscription option for another 5 million shares at P100 apiece.

## Govt debt up anew in August, hits P11.6T

THE government's outstanding debt reached a new high of P11.64 trillion at the end of August, the Bureau of the Treasury reported on Thursday. The latest figure was up 0.28 percent, or P32.05 billion, from P11.61 trillion a month earlier, Treasury data showed.

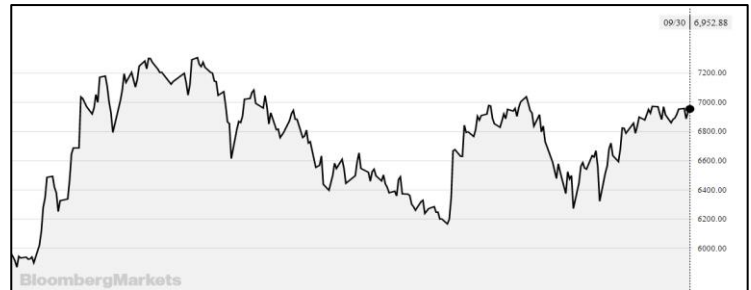
## Meralco to hold auction for supply contract

The Manila Electric Co. (Meralco) will conduct a competitive selection process (CSP) to procure 70 megawatts of power supply it needs from January 2022 to January 2037. In a published bid invite, the utility firm said the power supply should be sourced from baseload power plants or those that continuously run on a 24/7 basis.

## AboitizPower to sell P12B fixed-rate retail bonds

Aboitiz Power Corp. on Thursday said it filed its application with the Securities and Exchange Commission (SEC) for the issuance of P12 billion in fixed-rate retail bonds, which the company will issue later this year in either one or two series.

## Philippine Stock Market Update



**Previous Close:**

6,952.88

**Open:**

6,964.49

**52-Week Range:**

5,825.48 - 7,432.40

**1 Yr Return:**

19.50%

**YTD Return:**

-2.19%

**Source:**

Bloomberg

## Foreign Exchange

As of Sept. 30, 2021

US Dollar	Philippine Peso
1	51.00

## BVAL Reference Rates

As of Sept. 30, 2021

Tenor	Rate
1Y	1.662
3Y	2.496
5Y	3.239
7Y	3.878
10Y	4.498
20Y	5.403

## Daily Quote

“When everything seems to be going against you, remember that the airplane takes off against the wind, not with it.”

--Henry Ford

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## MORE LOCAL NEWS

### Pork imports seen doubling in 2021

The country's pork and chicken imports are projected to increase this year as traders remain optimistic on the gradual reopening of the economy and with the coming holiday season and election year seen to increase people's spending.

### Neda chief optimistic on Q3 GDP performance

The country's chief economist expects a bigger third-quarter gross domestic product (GDP) than the second-quarter output amid supposedly improved management of health and economic risks despite recent Delta strain-induced lockdowns.

### SEC flags Apollo Drugstore's co-franchising plan

The SEC is warning investors against Apollo Drugstore and Diagnostic Center, Inc.'s unlicensed co-franchising program. In an advisory published on its website, the regulator said Apollo Drugstore is "enticing the public to invest their money in the said entity with the promise of high monetary rewards or profits."

### AC Energy takes full control over Batangas plant

AC Energy Corp. now fully owns South Luzon Thermal Energy Corp. (SLTEC) after it acquired the 20% ownership interest of Axia Power Holdings Philippines Corp., a unit of Japan-based Marubeni Corp. SLTEC operates the 270-megawatt (MW) coal-run power plant in Calaca, Batangas.

### AllDay's IPO timing to gain from spending season

AllDay Marts, Inc.'s upcoming P6.03-billion initial public offering (IPO) is seen to benefit from the upcoming holiday season. AllDay's offer period starts on Oct. 18 and will run until Oct. 25, while its market debut is set for Nov. 3. under the ticker symbol, "ALLDY."

### House adopts Senate changes to water franchises

Amendments on bills by the Senate that would provide water concessionaires Manila Water Co., Inc. and Maynilad Water Services, Inc. a fresh 25-year franchise have been adopted by the House on Wednesday evening.

### DECATHLON signs up with SM Supermalls

The Philippines' largest sports retailer DECATHLON and the Philippines' largest mall developer SM SUPERMALLS forge on with 2021 store openings at SM City North Edsa and SM Mall of Asia. Further expansion is planned as multiple stores are expected in the next two years.

### ADB to set up financing platform for infra projects

The Asian Development Bank (ADB) has teamed up with three investment firms for the establishment of a debt financing platform to fund sustainable infrastructure projects in Southeast Asia.

### Hot money reverts to net inflow in August

BSP Governor Benjamin Diokno said in his weekly online press conference that foreign portfolio investments – also referred to as hot money – turned to a net inflow of \$11.51 million in August from net outflows of \$339.7 million and \$126.76 million in July and August last year, respectively.

### Bank lending ends slump, grows 1.3% in August

Banks finally got the better end of record-low interest rates as lending recovered with a 1.3 percent growth in August, ending eight straight months of contraction, according to the Bangko Sentral ng Pilipinas.

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## TODAY'S TOP ASIAN NEWS

### Tata Steel offloads stake in Sg-based unit NatSteel

TS Global Holdings, a subsidiary of India-listed Tata Steel, has divested a 100 per cent stake in its Singapore-based unit NatSteel Holdings for \$172 million, the company said on Thursday (Sept 30).

### Mapletree buys US logistics assets for S\$4 billion

Singapore's Mapletree Investments has acquired two portfolios of logistics assets in the United States for about US\$3 billion (S\$4.1 billion), boosting its presence there. The properties will form the seed portfolio for a US logistics private fund - Mapletree US Logistics Private Trust, the real estate and investment company said

### China orders energy firms to secure supplies

China's central government officials ordered the country's top state-owned energy companies - from coal to electricity and oil - to secure supplies for this winter at all costs, according to people familiar with the matter.

### Japan biz mood improves as firms raise inv plans

Japanese business confidence improved for a fifth straight quarter in the three months to September, a central bank survey showed on Friday, a sign the economy was steadily emerging from the slump caused by the pandemic. Large companies expect to increase capital expenditure by 10.1% in the current fiscal year ending in March 2022

### Rakuten plans to list online banking unit

JAPANESE e-commerce firm Rakuten Group Inc said on Thursday it is preparing to list its online banking unit, raising funds as it soaks up losses incurred from building its low-cost mobile communications network.

## TODAY'S TOP GLOBAL NEWS

### Zoom, Five9 mutually agree to terminate \$15b deal

Five9 Inc (FIVN.O) shareholders voted down on Thursday the call center software firm's \$14.7 billion sale to Zoom Video Communications Inc (ZM.O), scuttling what would have been the virtual conferencing giant's biggest-ever acquisition.

### GM, Ford extend some prod cuts due to chip shortage

General Motors Co (GM.N) and Ford Motor Co (F.N) said Thursday they will cut additional production because of the nagging semiconductor shortage that has hit global auto production.

### Sony buys game studio to bolster PlayStation consoles

[SAN FRANCISCO] Sony on Thursday added Bluepoint Games to its stable of PlayStation studios, looking to crank out titles for its hot-selling consoles and keep its lead over rival Xbox.

### Australian mining giants back net-zero target

[SYDNEY] Australia's powerful mining sector has backed a 2050 net-zero carbon target, heaping pressure on the country's coal-championing government to follow suit.

### Merck to buy Acceleron for about US\$11.5b

[BENGALURU] Merck will buy drugmaker Acceleron Pharma for about US\$11.5 billion, the companies said on Thursday, as the US pharmaceutical giant looks to beef up its portfolio with drugs for rare diseases.