Forecasting cost risks of corn and soybean crops through Monte Carlo simulation

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Abstract

The production of corn and soybeans has been growing significantly in recent years. Considering that the strategies for investing in the production of these crops are conditioned by production costs and risk, the objective of this research work was to develop a simulation model to predict the production costs of these commodities, considering the variability and correlation of key variables in the period between 2018 and 2022. Using data provided from fifty specialized companies from the state of São Paulo, Brazil, Monte Carlo simulations showed that the total cost of corn production/ha may range between USD 600.00 and USD 1150.00, with a level of certainty of 84.7%, and soybeans between USD 260.00 and USD 420.00, with a level of certainty of 86.4%. The model predicts a trend of decreasing production costs for the crops in the 2023/24 and 2024/25 harvests, if the costs of the most important inputs (i.e., fertilizers) decrease. On the other hand, the costs related to labor, soybean seed, and fungicides may show an upward trend, while the cost of dolomitic

limestone corrective remains stable. Combined, these changes in the cost of inputs will increase the cost of crops and consequently their prices in the market.

Keywords: Corn and soybean production. Product costs. Monte Carlo simulation.

1. Introduction

Worldwide, corn and soybeans stand out among the main commodities of agribusiness. For example, in Brazil, over the last decade, they have been the most produced and exported agricultural commodities, contributing to the Brazilian trade surplus with export revenues exceeding $53.889 billion in 2021 (Aragão and Contini, 2022). The competitiveness of exports of these crops is correlated to long term production and transportation costs, as well as export policies and fluctuations in exchange rates, among other aspects (Meade et al., 2016; Belik, 2020). In early 2022, for instance, the prices of corn and soybeans crops increased due to a higher global demand (Belik, 2020), rising fertilizer costs (Amorim et al, 2021; Oliveira et al, 2022), and the drought in South America caused by the La Niña phenomenon. The war in Ukraine also contributed to the increase in production costs for all commodities (Oliveira et al.,2022).

According to current predictions, it is likely that the high prices of soybeans and corn will continue during the next periods (Sun et al., 2023). Given this scenario, forecasts of production costs in agribusiness result particularly important for decision-makers (Grafton and Manning, 2017; Lips, 2017, Gao et al., 2023). According to Pitrova et al. (2020) and Amorim et al. (2020), computational simulation has proven to be an appropriate support tool for decision-making in this context. Meade et al. (2016) highlighted the costs related to logistics, land, and storage, while Oliveira et al. (2022) added fertilizers, seeds, fuel, pesticides, among others. In this regard, the analysis of the relationship among these variables is fundamental to understand and improve the performance of agrobusinesses, namely, providing predictions for short, medium, and long-term decision-making (Oliveira et al., 2022; Amorim et al., 2020).

The model proposed in this paper supports decision-making by enabling better economic and financial planning and strategic decision-making. For example, it helps selecting the best crop to plant and facilitates negotiations and contracts involving the purchase of inputs and labor. Furthermore, it reduces the risk of financial losses and allows the adoption of strategies that maintain high competitiveness in the production and export of these crops.

2. Literature

The literature offers a significant number of studies conducted in different countries focused on the production costs of corn and soybeans crops (Meade e t al., 2016; Pengue, 2004; Goldsmith, 2019; Migliorin, Milani, 2021; Pratine et al., 2021; Rocha, 2020; Silva, 2020; Silva, 2022; Ishkawa-Ishikawa, Furuya, 2021; Ventura et al., 2020; Heueta, Martin, 2002), economic feasibility and risk analysis through case studies (Granjo et al., 2017; Olortegui et al., 2021; Osaki et al., 2017; Thompson et al., 2020; Arce, Arias, 2015; Calviño, Monzon, 2009; Wu et al., 2004), and analysis of soybean and corn prices (Krah, 2023; Wang, Wei, 2021). However, there is a gap and a need for models focused on the expected costs and their trend for the near future. Therefore, it is important to identify the inputs that significantly influence price and cost variations of corn and soybeans crops. This study focused on data from companies from the state of São Paulo due to the significant presence of both crops in the region. The variation and correlation among inputs, prices, and production costs of corn and soybeans was analysed, as well as how these factors impact predictions for these crops' next harvests.

Simulation applications in agribusiness has shown that models based on intelligent systems can be highly suitable for a wide range of applications in various fields. Unlike equations structured in linear, quadratic, or other predetermined formats, these models offer significantly greater adaptability to response data. They surpass the limitations of traditional statistical models, for instance. Using Monte Carlo Simulation (MCS), several possible scenarios of production costs can be considered, including uncertainty and variability in the prices of selected key variables. By integrating the cost trend analysis with MCS, it was possible to understand and predict how fluctuations in input and labor markets influence the final production cost of corn and soybeans.

Rather than providing static estimates, Monte Carlo simulation accounts for the uncertainties surrounding each variable, conducting multiple simulations to derive a probabilistic distribution of potential outcomes, thereby taking into consideration market volatility and uncertainties (Oliveira et al., 2022; Silva et al., 2019; Graveline et al., 2012; Odavić et al., 2017; Dharmawan, 2017, Oktoviany et al., 2021). It is worth noting that this methodology is still relatively underexplored in the context of agricultural products. However, it is of crucial importance because it enhances the accuracy of estimates.

3. Material and Methods

3.1. Case study

The cultivation of corn in São Paulo plays an important role in the state's economy. In 2022, the estimated corn production in São Paulo was 4.8 million tons (Miura, 2022). The contribution of corn cultivation to the state's agriculture increased from 3.9% in 2017 to 6.1% in 2021 (Seade, 2022), and Brazilian exports experienced significant growth, leading to important changes in the domestic market. In 2022, the state of São Paulo contributed to the international shipment of 97,8268.18 tons, which represents 2.3% of Brazilian exports of this grain (Ministério da Agricultura, Pecuária e Abastecimento, 2023).

The cultivation of soybeans in the state of São Paulo is relatively more recent and has experienced significant growth since the 1990s. The planted area of soybeans in the state increased from approximately 580,000 hectares in the 2001/2002 crop season to 1,263.6 thousand hectares in the 2021/2022 period (Camargo et al., 2022). Soybeans now represent the second largest crop in the state's agriculture, accounting for 12.1% of the total cultivated area, second only to sugarcane, which remains the primary crop with a share of 48.3% (Moriasi et al., 2007). In 2022, São Paulo exported 5,059,820.089 tons of soybeans, which represents 6.4% of the total export of this commodity (Ministério da Agricultura, Pecuária e Abastecimento, 2023). The main destinations for these exports were China, Iran, Thailand, and Spain (Camargo et al., 2022).

3.2. Data collection

The data for was obtained from the database of the Institute of Agricultural Economics - IEA (IEA, 2023), using the questionnaire of Average Prices Paid by Agriculture in the state of São Paulo, available electronically (http://www.iea.agricultura.sp.gov.br/out/Bancodedados.php). This questionnaire collects the selling prices of inputs used by farmers, using data from retailers located in the state of São Paulo, in a monthly basis.

IEA adopts a random sample that includes retailers, cooperatives, and manufacturers, who are invited to provide information on selling prices. Data collection is carried out through questionnaires sent by email, on site visits, and telephone interviews. Additionally, some research is made on websites of governmental agencies, such as the National Agency of Petroleum, Natural Gas, and Biofuels, and the National Association of Transportation and

Logistics. For the present study, the sample includes data obtained from 50 companies of the state of São Paulo, and the data collection was developed from January 2018, to December 2022 (n = 60).

The data includes the prices in USD for diesel fuel, Trifloxystrobin Tebuconazole fungicide, Glyphosate herbicide, Thiamethoxam Lambda-Cyhalothrin insecticide, Dolomitic limestone corrective, NPK 05-25-25 fertilizer, Potassium chloride fertilizer, USD exchange rate, Soybean price per bag, Corn price per bag, Soybean seed, Corn seed, Tractor operator labor, Daily labor, and Urea fertilizer. Given the wide variety of fertilizers available in the market, only the main fertilizers used in the cultivation of corn and soybeans.

3.3. Descriptive analysis

The descriptive analysis was focused on the minimum and maximum values, arithmetic mean, total range, variance, standard deviation, coefficient of variation (low < 10%, medium between 10 and 20%, high between 20 and 30%, and very high > 30%), skewness (symmetric variation=0; >0 positive <0 negative), and kurtosis (leptokurtic: K < 0.263; mesokurtic: K = 0.263; and platykurtic: K > 0.263).

3.4 Spearman correlation coefficient (r) and coefficient of determination (R^2)

The Spearman correlation coefficient (r) was used to measure the existence and degree of correlation between the price (in USD) of corn or soybean per bag (independent variable) and the price (in USD) of the other dependent variables used in this study, collected monthly. Sperman's rank correlation (ρ), an interdependence technique used when no variable or group of variables are treated as dependent or independent (Ferraudo, 2014). Sperman employs a correlation estimate based on ranking, meaning that variables are categorized in consecutive order according to the observed values.

The result of this analysis is presented as a dimensionless index, with values ranging from -1.0 to 1.0, reflecting the strength of a linear relationship between two sets of data. If the value of r is equal to 1, there is a perfect positive correlation between the two. If the value of r is equal to -1, there is a perfect negative correlation (Hair et al., 2005; Moriasi et al., 2007).
The coefficient of determination (R^2) is the square of the Spearman correlation coefficient and is a measure of the quality of the model fit. It describes the proportion of variability in one variable that is explained by the variability in the other variable. The value of R2 can range

from 0 to 1, and since it is difficult to find a perfect correlation in practice, higher values are associated with lower error variance. In this study, R^2 values ≥ 0.7 were considered to indicate a strong correlation in the interpretation of the correlation data (Moriasi et al., 2007).

3.5 Cost analysis

The costs of corn and soybean (USD/ha) were calculated using Equation 1. The Brazilian Real currency was converted to dollars using the exchange rate of US$ 5.25.

$$ATPC = TPC / APROD \quad (1)$$

Where ATPC: Average Total Production Cost (USD/ha) corn or soybean; TPC: total production cost (USD/ha) corn or soybean (the sum of all costs considered in this study); APROD: average productivity (ton/ha) corn or soybean. It is the total production cost (USD/ha) divided by the total quantity produced (ton/ha).

3.6 Monte Carlo simulation

The main production costs per bag of soybean and corn were investigated in relation to all the variables through cumulative frequency analysis using the Crystall Ball® software (Oracle, 2023). To analyze the probability of cost variation and gross net revenue, Monte Carlo simulation (MCS) was used through a stochastic approach (Oliveira et al., 2022; Osaki et al., 2017; Thompson et al., 2020; Silva et al., 2019). The average result of the MCS for each variable was obtained using Equation 2.

$$a_m = \frac{1}{r} \sum_{i=1}^{n} xi \quad (2)$$

Where a_m is the average result of the MCS for the variable, and x represents the individual result of each simulated iteration, and n is the number of simulations (iterations).

In this research, 50,000 iterations were made, which is the maximum number of iterations provided by the software and it is a significant number for this specific problem. Similar values were used in the studies developed by Oliveira et al. (2022) and Silva et al. (2019). To forecast future events, it was used the Predictor tool, a stochastic simulation tool available from the software. It was used to make predictions based on time series data by analyzing historical data from which it was possible to identify trends and seasonal patterns. These insights were then used to forecast the most probable outcomes.

The scenarios were forecasted using the software for a period of 24 months, based on the data from 2018 to 2022. The MCS use quantitative methods based on time series for forecasting (Oracle, 2023), namely: Simple Exponential Smoothing (SES), AutoRegressive Integrated Moving Average (ARIMA), Damped Trend Non-Seasonal (DTN-S), Double Moving Average (DMA), Non-Seasonal Smoothed Trend (TANS), and Double Exponential Smoothing (DES). The distribution used by the predictor was the triangular distribution. This model was employed due to the low dispersion of the values presented in the descriptive analysis of the MCS.

4. Analysis and Discussion of Results

4.1. Descriptive analysis

The result of the descriptive analysis (Table 1) revealed a significant variability in the total range of all the variables chosen for this study.

This fact can be explained by the increase in prices of inputs used in the production of corn and soybeans from 2018 to 2022. The 59% appreciation of the dollar is related to the rise in prices of fertilizers, soil amendments, and agricultural pesticides during the studied period (Cepea, 2018a; Cepea, 2019; Cepea, 2020; Cepea, 2021; Cepea, 2022), as the dollar is the currency used in international transactions, including the trade of agricultural inputs that need to be imported by farmers.

In addition to these factors, uncertainties caused by the Covid-19 pandemic have led to imbalances between supply and demand of inputs in the global market, which have influenced significant fluctuations in prices of fertilizers, herbicides, fuel, and other inputs analyzed in this study (Shadidi, Najafi, 2021). The uncertainties stemming from the pandemic have affected all sectors of the agribusiness, from production to distribution and marketing, resulting in negative economic impacts across all segments, particularly in input costs (Lin, Zhang, 2020; Amorim et al., 2021).

In contrast, the increase in the value of the dollar can also stimulate the exports of corn and soybeans, thereby reducing the domestic supply and further raising prices (Cepea, 2023). Given this scenario, it is crucial for the agricultural sector to be attentive to exchange rate fluctuations and seek alternatives to mitigate the impact of the rising dollar on production costs.

The lowest variances and standard deviations were found for the collected prices of diesel fuel, dollar exchange rate, soybean seed, and corn seed. This indicates that the values of these inputs and the exchange rate did not deviate significantly from the mean during the study period.

The coefficient of variation results indicated that the prices of the following variables: diesel fuel, glyphosate herbicide, dolomitic limestone corrective, NPK 05-25-25 fertilizer, corn bushel, soybean bushel, soybean seed, potassium chloride fertilizer, and urea fertilizer exhibited a high dispersion. On the other hand, the prices of tiamethoxam lambda-cyhalothrin insecticide, dollar exchange rate, corn seed, and casual labor had a moderate dispersion, while the prices of trifloxystrobin tebuconazole fungicide and tractor operator labor were classified as having low dispersion.

The highest coefficient of variation was found for the glyphosate herbicide. The literature suggests that in addition to the external factors, internal factors such as market demand, production costs, distribution, and sales of each company, as well as government intervention (such as taxation on imported products), influence the costs and consequently the price formation of this herbicide (Facuri, Ramos, 2019).

The lowest coefficient of variation was found in the price of the variable "tractor operator labor”. Although it showed low dispersion over the study period, expenses related to tractor operators' salary payments have shown great relevance in the total production costs of corn and soybeans (Rabelo et al., 2017; Batista et al., 2022).

Table 1: Descriptive measures referring to variables related to the cost of production of corn and soybeans (USD) from January 2018 to December 2022.

	DOIL	FUTT	HEGL	INTL	DLLC	NPKF	DLR	SOY	COR	SOYS	CORS	TRAC	DAI	PCF	URF
N	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60
MIN	0.57	16.95	18.91	29.59	14.8	278.4	3.18	12.61	5.66	0.57	2.33	302.26	13.25	352.38	339.04
MAX	1.41	22.66	92.02	48.68	40.98	1205.24	5.67	36.51	18.53	2.29	4.31	387.01	18.9	1256.63	1201.48
RANGE	0.84	5.71	73.11	19.09	26.18	926.84	2.49	23.9	12.87	1.72	1.98	84.75	5.65	904.25	862.43
MEAN	0.80	19.28	36.22	38.17	25.28	576.043	4.66	22.57	11.27	1.332	3.299	2.83	15.37	602.53	580.38
VAR	0.0586	3.1021	625.35	24.85	64.30	104435	0.5986	72.132	20.392	0.3075	0.114	706.85	2.81	113307.91	85958.13
SD	0.24	1.7613	25.0071	4.9851	8.0191	323.1645	0.77	8.4931	4.5157	0.55	0.33	26.58	1.67	336.61	293.18
CV	30.1%	9.1%	69.0%	13.1%	31.7%	56.1%	16.6%	37.6%	40.0%	41.6%	10.2%	7.8%	10.9%	55.8%	50.5%
SKEW (g1)	1.2158	0.5324	1.3291	0.3488	0.73	0.947	-0.265	0.2153	0.2287	0.4712	-0.2119	0.2294	0.6285	1.0545	1.0692
KURT (g2)	0.0765	-1.2306	0.026	-0.7111	-0.7596	-0.8431	-1.443	-1.7728	-1.693	-1.4971	1.1549	-1.2933	-0.8398	-0.7136	-0.5489

N: sample size (monthly data collected from 2018 to 2022); MIN: minimum; MAX: maximum; RANGE: total range; MEAN: arithmetic mean; VAR: variance; SD: standard deviation; CV: coefficient of variation; SKEW: skewness; KURT: kurtosis; DOIL: diesel oil (L); FUTT: fungicide trifloxystrobin tebuconazole (L); HEGL: herbicide glyphosate (L); INTL: insecticide thiamethoxam lambda-cyhalothrin (L); DLLC: dolomitic limestone corrective (ton); NPKF: NPK 05-25-25 fertilizer (ton); DLR: dollar exchange rate; SOY: soybean bag (kg); COR: corn bag (kg); SOYS: soybean seed (kg); CORS: corn seed (kg); TRAC: tractor operator labor (h); DAI: daily laborer labor (h); PCF: potassium chloride fertilizer(kg); URF: urea fertilizer (kg).

Descriptive analysis was conducted using data collection of the prices (in USD) of the variables used in the study.

No variable exhibited symmetry in the analyzed prices during the period from 2018 to 2022. Positive skewness distributions were found for: diesel oil, fungicide trifloxystrobin tebuconazole, herbicide glyphosate, insecticide thiamethoxam lambda-cyhalothrin, dolomitic limestone corrective, fertilizer NPK 05-25-25, soybean bag price, corn bag price, soybean seed, tractor operator labor, daily laborer labor, potassium chloride fertilizer, and urea fertilizer. This means that the prices of these inputs remained above the average for a significant part of the analyzed period, which can be explained by the factors discussed earlier. The US dollar and corn seed were the only variables in which prices exhibited negative skewness distributions, meaning that they remained below the average for a significant part of the analyzed period. Despite reaching high values at times, the dollar remained below the average in recent years due to a combination of factors, including a decline in the performance of the US economy, which has not remained as strong due to global instabilities and political tensions (Palma, 2023). Regarding corn seed, the study conducted by Seidler et al. (2022) suggests that in addition to the exchange rate, the prices of this commodity in São Paulo are influenced by the prices in Sorriso - MT and in Paraguay, as they are the main national production areas and the origin of most of the corn imported by Brazil.

For the analysis of kurtosis, it was evident that the prices of corn seed exhibited a platykurtic distribution, meaning that the values were more concentrated around the mean. The price of corn seed in São Paulo increased by 120% from 2018 (USD 1,827.1) to 2022 (USD 4,028.54) [54]. This significant variability can be explained by changes in the commodities market and currency fluctuations that affect corn costs (Alves et al., 2018; Staugaitis, Vaznonis, 2022; Brum et al., 2023).

Regarding the price of the herbicide glyphosate and the price of diesel fuel, the mesokurtic distribution found for these inputs (moderate concentration of values around the mean) may be related to economic and environmental factors related to production, supply, and demand of these products (Facuri, Ramos. 2019; Diesse, 2022). The remaining variables exhibited a leptokurtic distribution (relatively low concentration of values around the mean). The leptokurtic distribution in the prices of the agricultural inputs studied may have been influenced by the pandemic (Olortegui et al., 2021; Shadid, Najafi, 2021), variations in agricultural productivity (Abreu and Amorim, 2017), supply and demand (Joubert, Pretrorius, 2017), and the price of the dollar (Cepea, 2018, Cepea, 2021; Cepea, 2022).

Understanding the factors that influence the costs of inputs to produce corn and soybeans, as well as the behavior of price variability, is crucial for producers to make informed decisions and better plan their crops. By doing so, it becomes possible to ensure the sustainability of agricultural production and maintain competitiveness in the global market.

4.2. Economic Analysis of Corn and Soybeans

The data related to prices, quantity of inputs used in soybean and corn cultivation, production costs, and net profit were collected from (Table 2). The 'description' column highlights the quantity used of the different inputs, while the 'crop' column indicates whether they are used in corn, soybean, or both. The average cost per hectare for the different inputs are also presented. The inputs that contribute more to the total production cost of these crops are NPK 05-25-25 fertilizer (45.9% in corn production and 56.5% in soybean production), soybean seeds (15.7% in soybean production), corn seeds (10.5% in corn production), potassium chloride fertilizer (9.6% in corn production), and urea (9.2% in soybean production).

Table 2: Economic Analysis of Corn and Soybeans.

Items	Description	Unit	Crop	Cost/ha (USD)	Cost/ha/corn (%)	Cost/ha/soybean (%)
DOIL	36	L/ha	Corn/soybean	29.8	4.7	5.8
FUTT	0.750	L/ha	Corn/soybean	28.9	4.6	5.7
HEGL	5	L/ha	Corn/soybean	36.2	5.8	7.1
INTL	0.750	L/ha	Corn/soybean	28.6	4.6	5.6
DLLC	1	T/ha	Corn/soybean	25.3	4.0	5.0
NPKF	500	T/ha	Corn/soybean	288.0	45.9	56.5
COR	60	Kg/ha	Soybean	10.5	NA	NA
SOY	20	Kg/ha	Corn	11.3	NA	NA
SOYS	60	Kg/ha	Soybean	79.9	NA	15.7
CORS	20	Kg/ha	Corn	66.0	10.5	NA
TRAC	2	2 h/ha	Corn/soybean	2.83	0.5	0.6
DAI	2	2 h/ha	Corn/soybean	3.84	0.6	0.8
PCF	100	Kg/ha	Corn	60.2	9.6	NA
URF	100	Kg/ha	Corn	58.0	9.2	NA
TCOST	NA	ha	Corn	627.7	100	NA
	NA	ha	Soybean	509.5	NA	100
Productivity Data						
EPROD	91 bag/ha	60 kg/bag	Corn	11.3	NA	NA
	50 bag/ha	60 kg/bag	Soybean	22.6	NA	NA
Gross Income				**USD**		
Corn				1026.3		
Soybean				1128.6		

DOIL: diesel oil; FUTT: fungicide trifloxystrobin tebuconazole; HEGL: herbicide glyphosate; INTL: insecticide thiamethoxam lambda-cyhalothrin; DLLC: dolomitic limestone corrective; NPKF: NPK 05-25-25 fertilizer; DLR: dollar exchange rate; SOY: soybean bag; COR: corn bag; SOYS: soybean seed; CORS: corn seed; TRAC: tractor operator labor; DAI: daily laborer labor; PCF: potassium chloride fertilizer; URF: urea fertilizer. TCOST:

Total Cost; EPROD: Expected Yield/Productivity; L: liter; T: tonelada; Ha: hectare; Kg: kilogram. h: hours; NA not applicable. Source: Elaborated by the authors based on Richeti and Ceccon (2020) and IEA (2023).

The average production cost per hectare is 627.7 USD for corn and 509.5 USD for soybean. The Expected Yield/Productivity per hectare for corn and for soybean were based on the literature (EPROD in Table 2). In the market, these grains are sold in 60 kg bag, thus the average production cost per bag was presented. The Gross income was calculated by multiplying the expected productivity by the average price of corn and soybean bags.

The levels of certainty regarding the average production cost per hectare of corn associated with the analyzed variables were calculated using MCS and are presented in the frequency graph presented in Figure 1.

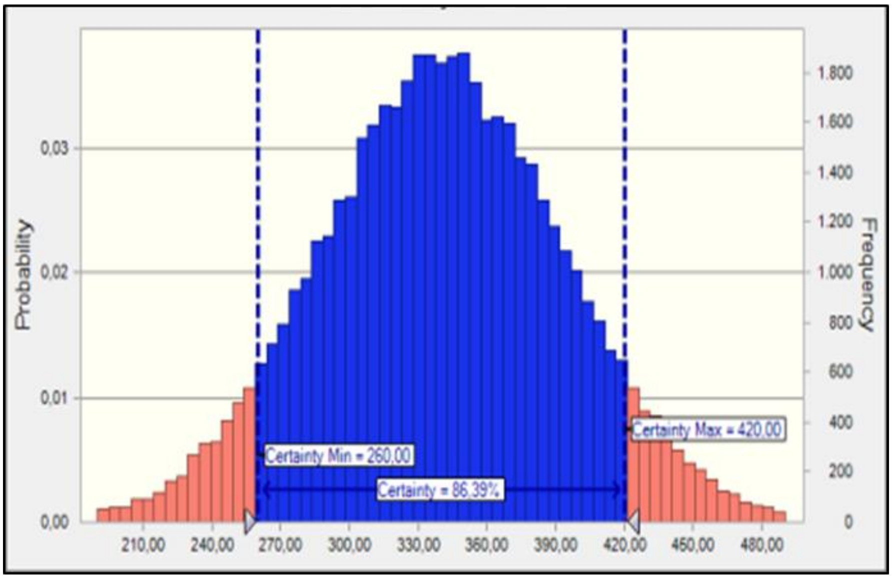

Figure 1: Frequency graph of Total cost soy/hectare.

The simulation results presented in Figure 1 show that the average production costs of soybean per hectare paid in the state of São Paulo ranged between USD 260.00 and USD 420.00 contains, with a level of certainty of 86.4% for an average of USD 340.20 and a standard deviation of USD 53.55, in the period between 2018 and 2022.

These results are based on historical prices. Thus, the analysis conducted can help minimize uncertainty regarding soybean production costs for the state and support decision making regarding input purchases.

The results obtained in this study are supported by the data collected by Conab (2022a) for the state of São Paulo, specifically the city of Assis, one of the main corn producers municipalities in the state. The values provided by Conab are presented in Brazilian Reais and have been converted to US Dollars using the average exchange rate (R$/USD) for each year. The data used in this analysis were obtained from IPEA-data, available from the authors upon request. For comparison purposes, the average calculation was performed considering only the costs of operating expenses, excluding other costs such as storage, charges, among others. The average production cost of soybeans was found to be USD 417.77 during the period betweeen 2019 to 2021.

The levels of certainty of the average production cost per hectare of corn associated with the analyzed variables were calculated using MCS and are presented in the frequency graph (Figure 2).

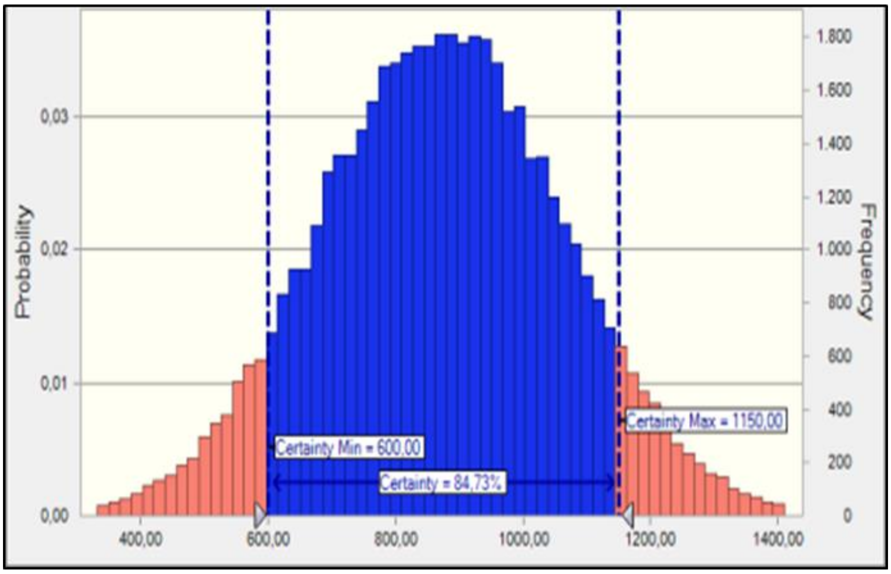

Figure 2: Frequency graph of Total cost corn/hectare.

The simulation results show that the range between USD600.00 and USD1150.00 contains the average production costs of corn per hectare in the state of São Paulo, with a level of certainty of 84.7% for an average of USD870.80 and a standard deviation of USD192.40, considering the period from 2018 to 2022.

The monitoring data from Conab (2022b) regarding the production costs of the second corn crop for the years 2019 and 2020 show an average production cost of USD421.26, represented by the city of Assis. On the other hand, Ventura et al. (2020) indicate costs in other productive states in Brazil that corroborate with the results, ranging from USD613.00 to USD653.00 in the 2018/19 and 2019/20 crops (using transgenic seeds).

It was observed that the production costs in each municipality/state were influenced by differences in productivity. Areas with higher productivity had lower production costs compared to smaller areas (Ishikawa-Ishikawa and Furuya, 2021). In addition to productivity, other factors contribute to the observed differences in corn production costs in the different regions, such as climate (Münch et al., 2013), prices of inputs (Artuzo et al., 2018) and technology used (Nóia Júnior and Sentelhas, 2019; Brokes, Barfoot, 2020).

The most significant production costs for corn and soybeans (fertilizers and soil amendments) account for 68.7% and 61.5% respectively. Equally important,are the costs of agricultural inputs (herbicides, insecticides, and fungicides) which amount to 15% and 18.4% for both crops.

An alternative to reduce these costs would be the use of Variable Rate Technology (VRT) (application of soil amendments and fertilizers according to each point analyzed by grid or management zone) (Amorim et al., 2020). Supporting the above statement, Baio et al. (2018) reported that this technique is employed in precision agriculture for the application of inputs and agricultural pesticides, which allows for the rationalization of these products. The authors stated that the use of a VRT system proved to be advantageous in agricultural production.

Another hypothesis to reduce consumption and, consequently, the cost of chemical fertilizers in Brazil would be the use of organ mineral fertilizers (combinations of organic sources). Corroborating this, Freitas et al. (2021) stated that this type of fertilizer emerges as an alternative for nutrient supply in corn cultivation and contributes to a reduced dependence on imported mineral fertilizers, in addition to an increased productivity.

Reinforcing this statement, a case study in soybean cultivation in Brazil demonstrated that organ mineral fertilizers proved to be effective, achieving a productivity of 3,648.96 kg/ha, and could be an alternative to traditional mineral fertilization (Costa et al., 2019). In general, international evidence on the effectiveness of using organ mineral fertilizers in agricultural production has been emphasized by Marchuk et al. (2023) and Smith et al. (2020).

Another possibility to reduce the total cost regarding the use of agricultural pesticides, which has shown significant growth, is the use of biological products. Van Lenteren et al. (2018) reported that the use of biological control is growing at a rate of 10% to 20% per year worldwide. Spark (2021) stated that the use of biological products in Brazil covered approximately 33 million hectares, with the largest areas being soybean (20 million ha) followed by corn (9.8 million ha).

To conclude, the gross revenue of corn is 9.1% lower than that of soybeans. This is due to several factors, such as the higher production cost per hectare for corn (18.8%)

compared to soybeans, and a 7.6% lower price per 60 kg bag, as mentioned above. However, the average prices (paid to farmers during the studied period) for corn at USD 11.3 and soybeans at USD 22.6 are close to the price levels of September 2020, suggesting stability in prices.

4.3. Spearman correlation coefficient (ρ) and coefficient of determination (R^2)

The Spearman correlation coefficient (ρ) was used to measure the existence and degree of correlation between the price (in USD) of corn or soybean per bag (independent variable) and the price (in USD) of the other dependent variables.

The degree of correlation between prices (in USD) and the selected dependent variables considered in this study (diesel fuel, fungicide Trifloxystrobin Tebuconazole, herbicide Glyphosate, insecticide Thiamethoxam Lambda-Cyhalothrin, Dolomitic Limestone amendment, NPK 05-25-25 fertilizer, exchange rate, soybean seed, corn seed, tractor operator labor, daily laborer labor, Potassium Chloride fertilizer, Urea fertilizer) and the independent variable (corn or soybean price in USD) is presented in Table 3.

The variables were defined according to their use in the crops and product information availability.

Table 3: Spearman correlation coefficient (p) and coefficient of determination (R^2).

DV	IV	p	R²	DC	IV	p	R²	DC
DOIL	Corn	0.72	0.52	Strong	Soy	0.81	0.65	Strong
FUTT	Corn	0.88	**0.77**	Strong	Soy	0.92	**0.85**	very strong
HEGL	Corn	0.65	0.42	moderate	Soy	0.74	0.54	Strong
INTL	Corn	0.79	0.64	Strong	Soy	0.83	0.68	Strong
DLLC	Corn	0.81	0.65	Strong	Soy	0.87	**0.77**	Strong
NPKF	Corn	0.80	0.64	Strong	Soy	0.86	**0.75**	Strong
DLR	Corn	0.79	0.62	Strong	Soy	0.77	0.59	Strong
SOY	Corn	0.92	**0.93**	very strong	Soy	0.97	**0.93**	very strong
SOYS	Corn	0.92	**0.93**	very strong	Soy	0.97	**0.93**	very strong
CORS	Corn	0.15	0.02	negligible	Soy	0.27	0.08	Negligible
TRAC	Corn	0.91	**0.83**	very strong	Soy	0.95	**0.90**	very strong
DAI	Corn	0.87	0.75	Strong	Soy	0.92	**0.85**	very strong
PCF	Corn	0.72	0.54	Strong	Soy	0.81	0.66	Strong
URF	Corn	0.77	0.60	Strong	Soy	0.84	0.70	Strong

DV: dependent variable; IV: Independent variable; p: Spearman Correlation Coefficient; R2: coefficient of determination; DC: degree of correlation; DOIL: diesel oil; FUTT: fungicide trifloxystrobin tebuconazole; HEGL: herbicide glyphosate; INTL: insecticide thiamethoxam lambda-cyhalothrin; DLLC: dolomitic limestone corrective; NPKF: NPK 05-25-25 fertilizer; DLR: dollar exchange rate; SOY: soybean bag; SOYS: soybean seed; CORS: corn seed; TRAC: tractor operator labor; DAI: daily laborer labor; PCF: potassium chloride fertilizer; URF: urea fertilizer.

The results show the weight of each cost item in the product cost structure. In this regard, the dependent variables: diarist, Glyphosate, and Trifloxystrobin Tebuconazole do not have the same degree of correlation among the dependent variables. However, the remaining variables have the same degree of correlation among the dependent variables.

The highlighted variables show a correlation coefficient ≥ 0.70 (strong). The variables that showed strong correlation and R2 ≥ 0.70 for the soybean or corn crops, given that any value was selected for future forecasting analysis (24 months) using MCS (predictor).

4.4. Time series forecasting based on historical data

The urea fertilizer (Figure 3A) shows a trend of stability in its price for the next 24 months, while the NPK 05-25-25 fertilizer shows a downward trend (Figure 3B). It is possible to infer that the production cost of soybean planting is likely to decrease for the next two harvests, as the price of the NPK 05-25-25 fertilizer shows a strong correlation with the production cost of this crop. The stability in the price of urea for the next 24 months is due to the significant increase in the exchange rate in recent months, especially for the nitrogen component. It is important to note that the NPK 05-25-25 fertilizer uses 5% of this component in its formulation.

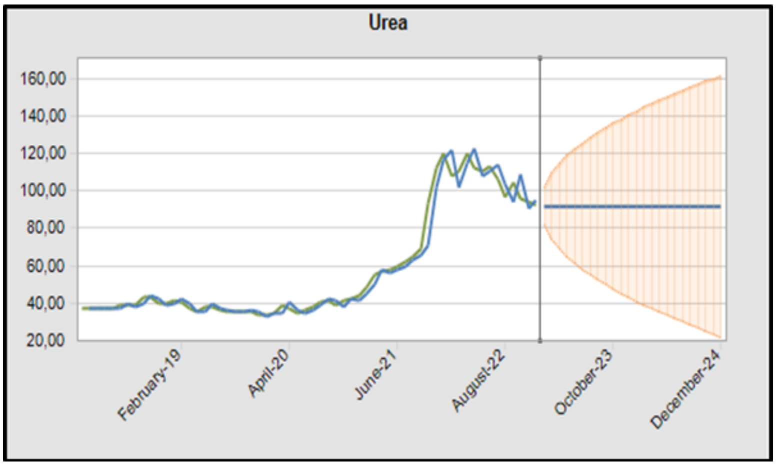

Figure 3A

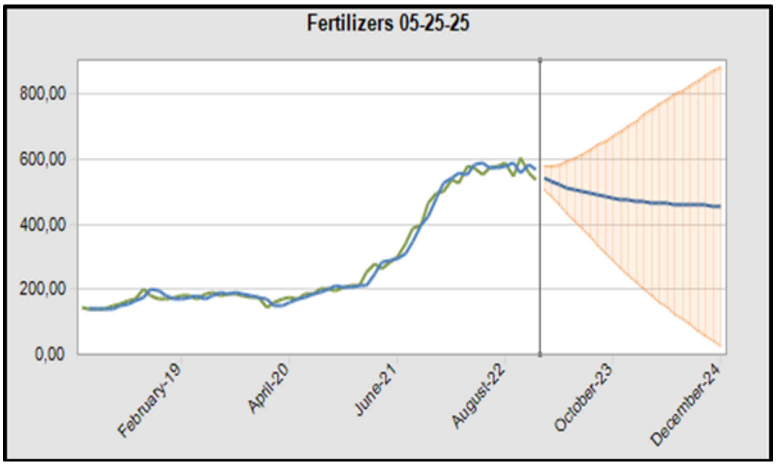

Figure 3B

Figure 3: Price trends for the next 24 months of the variables urea fertilizer (3A) and NPK 05-25-25 fertilizer (3B).

Where: The blue line represents the price trend, and the yellow one shows its range in the future.

Among the models suggested by the software to forecast costs/ha for the next 24 months, DTN-S was able to capture the expected scenario for a nearterm trend (730 days) for the cost/ton in Figure 3A, while ARIMA was used for Figure 3B. The blue line represents the price trend (3A) e (3B), and the yellow line shows the range where this value can be found in the future trend.

The minimum cost/ha/soybean value for Figure 3A (urea) was USD 33.90, and for Figure 3B (NPK 05-25-25 fertilizer) it was USD 139.20. The average values were US$ 58.04 and USD 288.02, and the maximum values were USD 120.15 and USD 602.62, with a standard deviation of USD 29.32 and USD 161.58, respectively. The purchasing power of rural producers to acquire one ton of fertilizers was reduced until July 2022, when a recovery trend began, observed in October (Cepea, 2019). As of April 2023, the price of one ton of NPK 05-25-25 fertilizer is US$ 696.00, and the price of urea fertilizer is US$ 718.00 (IEA, 2023). These values are considered above the average predicted in this analysis. The difference between the maximum and minimum values presented in this analysis was significant.

Using the penalizing criteria of Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC) it was found the best model for all the simulations performed. AIC acknowledges the existence of an unknown "true" model that describes the data and aims to select, among a group of evaluated models, the one that minimizes the Kullback-Leibler divergence (KL) and BIC, also known as Schwarz Information Criterion, is a criterion for model selection among a finite set of models. Models with lower BIC values are usually preferred (Oracle, 2023).

Knowing that the model that best fits the series is the one with the lowest value, it can be concluded that the most suitable model for Figure 3B is ARIMA (1, 1, 2) series. The model indicates an order of 1 for the AR component (Auto Regressive), an order of 1 for the 2 component (Integration or differencing), and the last 2 for the MA component (Moving Average). The values for AIC were 5.99 and for BIC were 6.10* for Figure 3B, based on the lowest mean squared error. For Figure 3A, the AIC was 3.32 and the BIC was 3.36*.

The ARIMA model for Figure 3A showed that the series has an insignificant auto-regressive (AR) component. This is due to the partial autocorrelations of the series, as evidenced by the ARIMA (0, 1, 1) model. However, even so, the autoregressive coefficients and the model coefficient weighted the behavior of the forecast, increasing the accuracy of this variable, thus demonstrating an appropriate model. Additionally, it can be observed that the Durbin-Watson (DW) statistic values, which indicate no first order correlation, whether positive or negative, are equal to 2.0 for Figure 3A.

The TANS model for Figure 3B demonstrated that the series has a non-stationary stochastic process, as the statistical properties of at least one finite sequence of components differ from those of the sequence for at least one integer. In other words, a non-stationary stochastic process is one where the joint distribution of any set of variables changes if we change the variables over time. This is due to the partial correlations of the series, as evidenced by the ARIMA (1, 1, 2) model. Additionally, it can be observed from the Durbin-Watson (DW) statistic values that there is first order correlation, whether positive or negative, with values close to 2.0 for Figure 3B.

The results presented in Figure show the predicted values for dolomitic limestone corrective. The forecast indicates a stable scenario for the next 24 months. The minimum cost/ha/soybean/corn value was USD 14.80. The average value was equal to US$ 25.29, and the maximum value reached USD 40.98, with a standard deviation of USD 8.02.

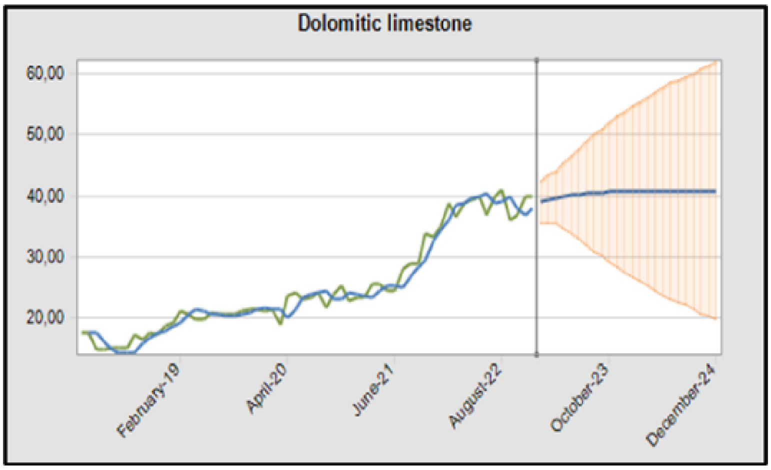

Figure 4: Price trend for the next 24 months of the dolomitic limestone corrective.

Where: The blue line represents the price trend, and the yellow one shows its range in the future.

The current cost of dolomitic limestone corrective per hectare is US$ 25.3 (IEA, 2023), which falls within the predicted average. The literature indicates that the costs associated with this soil corrective are mainly influenced by the freight rates during its transportation (Cepea, 2018b).

According to the Predictor, the best method with the lowest mean squared error chosen for all groups was the Damped Trend Non-Seasonal. Furthermore, it can be observed that the values of the Durbin-Watson statistic indicate not first, second, or third order correlations, whether positive or negative. The analyzed product is essential for the cultivation of corn/soybean, as soil acidification is a concern in almost all countries with significant production of these crops, and its reversal contributes to water and nutrient exploitation, aiding the plant during periods of drought (Beerling et al., 2018).

The results presented in Figure 5 show the estimated values of the Fungicide Trifloxystrobin Tebuconazole, which showed a strong relationship with the production costs of corn and soybean. The forecast indicates a scenario of price increase for the next 24 months. This fungicide was the only agricultural pesticide with $R^2 \geq 0.70$ for both crops, and thus, it can influence the increase in production costs for the studied crops.

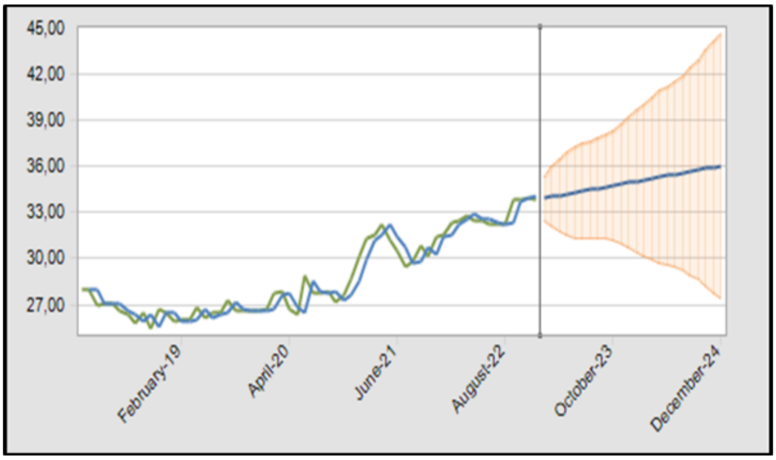

Figure 5: Price trend for the next 24 months of the fungicide variable Trifloxystrobin Tebuconzole.

Where: The blue line represents the price trend, and the yellow one shows its range in the future.

The minimum cost per hectare for soybean/corn, as shown in Figure 5, was USD 25.43. The average cost was USD 28.92, and the maximum cost was USD 33.99, with a standard deviation of USD 2.64. According to the IEA (2023), the current cost of Trifloxystrobin Tebuconazole per hectare is USD 28.9, indicating that although there is a trend of price increase for this input over the next 24 months, the average cost remained within the estimated price by this forecast.

The statistical results conducted, according to the Predictor, showed that the best method with the lowest mean squared error chosen for all groups was DTN-S. This method is efficient for data with trends but without seasonality (Oracle, 2023), which was the case in this analysis.

The estimated values for soybean seed are presented in Figure 6. The results correspond to the values for both analyzed crops as dependent variables (corn/soybean). The forecast indicates a scenario of price increase for the next two years. The minimum cost per hectare for soybean seed was USD 34.29. The average cost was USD 79.93, and the maximum cost was USD 137.14, with a standard deviation of USD 33.28. The current cost of soybean seed per hectare is USD 79.9 (Conab, 2022a). This value also falls within the predicted average of this study.

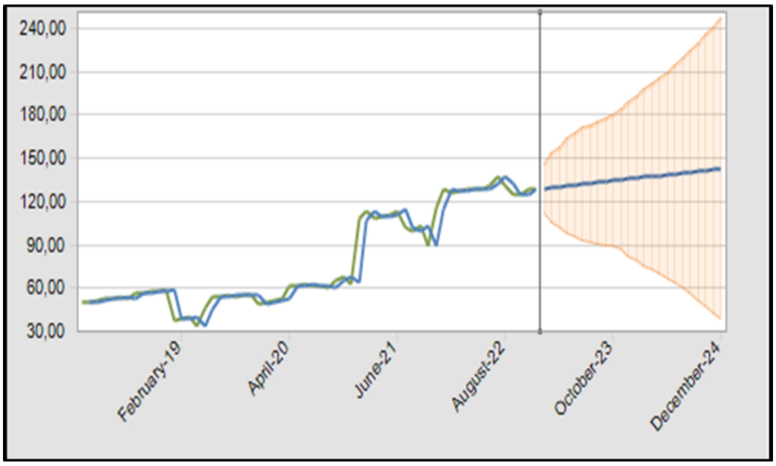

Figure 6: Price trend for the next 24 months of the variable Soybean seed.

where: The blue line represents the price trend, and the yellow one shows its range in the future.

For the variable Soybean seed, the most suitable method was DES. The results showed that the values of the DW statistic among all groups are close to 2.0.

Figure 7, presented below, show the values and trends for the costs related to tractor drivers and day workers for both crops (corn/soybean). Figure 7A and 7B present the trends for these variables, respectively. Both variables indicate an upward trend for the next 24 months.

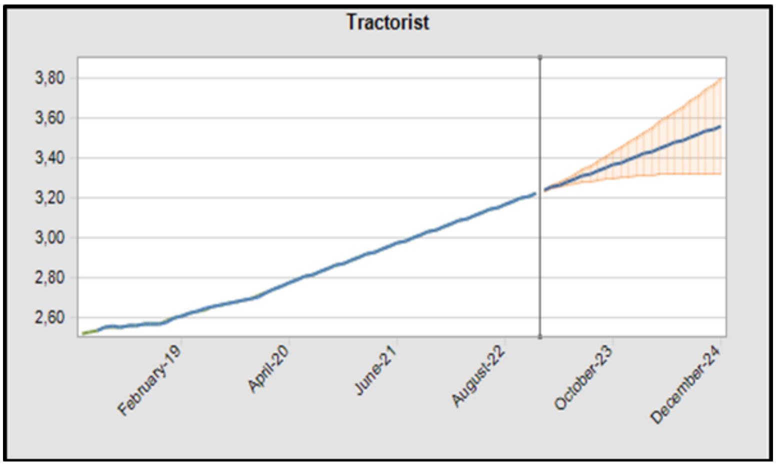

Figure 7A

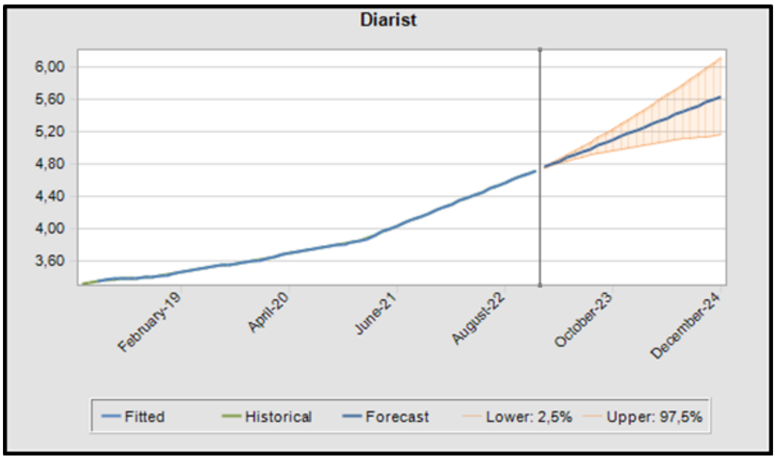

Figure 7B

Figure 7: Price trend for the next 24 months of the tractor driver labor costs (7A) and day workers labor costs (7B).

where: The blue line represents the price trend, and the yellow one shows its range in the future.

The minimum cost per hectare for corn/soybean as shown in Figure 7a was US$ 2.52, and for Figure 7b it was US$ 3.31. The average costs were US$ 2.83 and US$ 3.84, and the maximum costs were US$ 3.23 and US$ 4.72, with standard deviations of US$ 0.22 and US$ 0.42, respectively. The average values obtained from the forecast align with the current values of US$ 2.83 for tractor driver labor and US$ 3.84 for day laborer labor (IEA, 2023).

The ARIMA models for Figure 7a and 7b demonstrated that the series has an insignificant autoregressive (AR) component. This is evident from the partial autocorrelations of the series, as shown in the ARIMA (0,2,0) model. The values of the DW statistic indicate that there is no first-order correlation, either positive or negative, with a value of 2.0 for Figure 7a and close to 2.0 for Figure 7b.

The results presented in Figure 8 are related to the values for the price trend per bushel of corn in the near future. However, it is evident that there is a stable price trend for corn per bushel in the coming months (24 months).

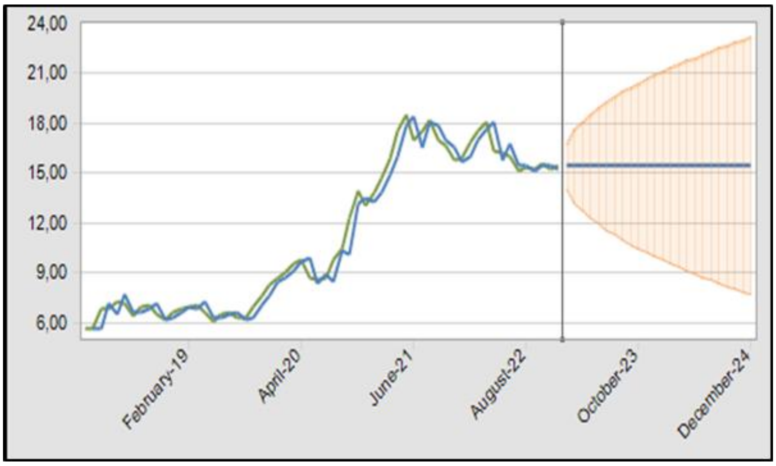

Figure 8: Price trend for the next 24 months of corn per bag.

where: The blue line represents the price trend, and the yellow one shows its range in the future.

The minimum price per bag for corn, as shown in Figure 8, was USD 5.66. The average price was US$ 11.28, and the maximum price was US$ 18.53, with a standard deviation of USD 4.52. The current price is USD 11.3, which falls within the predicted price range of this analysis (IEA, 2023).

Using the penalizing criteria of AIC and BIC, like Figure 3a, the ARIMA (1, 1, 1) model was found to be the best fit for the series. The AIC value was -0.65, and the BIC value was -5.58*, based on the lowest mean squared error.

The statistical values for the MCS analysis conducted using the predictor, presented in the Figures 3 to 8, (thorough a normal distribution) are summarized in Table 4.

Table 4: Statistical analysis of the costs of corn/soybean and corn prices.

	Statistic DW			Theil' s U			
	DTN-S	**Arima (1,1,2)**	**DES**	**DTN-S**	**Arima (1,1,2)**	**DES**	**EM RMSE**
NPKF (soybean)	1.92	1.92	1.97	0.96	0.96*	0.97	9.9%
URF (soybean)	Tans 1.91	Arima (0,1,1) 2.0	Sed 1.64	Tans 0.94	Arima (0,1,1) 0.92*	Sed 0.94	27.2%
DLLC (soybean)	DTN-S 1.82	DMA 1.76	DES 2.00	DTN-S 0.99*	DMA 0.96	DES 0.94	9.0%
FUTT (soybean)	DES 2.00	DTN-S 2.01	SES 2.01	DES 0.98*	DTN-S 0.98	SES 0.98	3.9%
CORS	DES 1.99	DTN-S 1.99	SES 1.99	DES 0.96*	DTN-S 0.96	SES 0.97	3.6%
TRAC (corn/soybean)	DTN-S 1.70	Arima (0,2,0) 2.00	DES 1.70	DTN-S 0.99	Arima (0,2,0) 0.99*	DES 0.99	6.0%

DIA (corn/soybean)	DTN-S	Arima (0,2,0)	DES	DTN-S	Arima (0,2,0)	DES	2.0%
	1.58	1.82	1.58	0.99	0.99*	0.99	
CORB (corn/soybean)	DTN-S	Arima (1,1,1)	DES	DTN-S	Arima (1,1,1)	DES	2.7%
	1.99	1.85	1.61	0.99	0.94*	0.99	

Statistical DW: Durbin-Watson; DTN-S: Damped Trend Non-Seasonal; DES: Double Exponential Smoothing; DMA: Double Moving Average; SES: Single Exponential Smoothing; NPKF: NPK 05-25-25 fertilizer; URF: Fertilizer Urea; DLLC: dolomitic limestone corrective; FUTT: fungicide trifloxystrobin tebuconazole; CORNS: corn seed; TRAC: tractor operator labor; DAI: daily laborer labor; CORB: Corn bag. EM: Error Measure, RMSE: Root Mean Squared Error

5. Conclusions

In an industry highly dependent on fluctuations in agricultural input prices and market volatility, the ability to accurately predict costs is essential to ensure the economic viability of agricultural operations. In this context, this study identified historical prices (2018 to 2022) of inputs related to corn and soybean production and analyzed their influence on the production costs of these commodities. The results showed that inputs such as NPK 05-25-25 fertilizer, Urea fertilizer, Dolomitic Limestone corrective, Trifloxystrobin Tebuconazole fungicide, soybean seed, day workers labor costs, tractor drivers labor costs, and corn seed are relevant variables in estimating the production costs of corn and soybeans. Furthermore, cost forecasting using Monte Carlo simulation provided a clear view of the expected costs for the next 24 months, enabling farmers to make strategic planning and resource allocation decisions.

Although different approaches exist in the literature to enable such forecasting, classical deterministic approaches rely on fixed estimates for each variable involved and do not consider the uncertainty of projected scenarios. They often only consider an ideal scenario, resulting in unrealistic predictions and underestimation of risks (Graveline et al. 2012; Odavić et al., 2017). On the other hand, the application of Monte Carlo simulation employs a stochastic approach in which the involved variables are modeled as probability distributions. Instead of providing fixed estimates, Monte Carlo simulation considers the uncertainty associated with each variable and generates multiple simulations to obtain a probabilistic distribution of possible outcomes, considering market variability and uncertainty (Oliveira et al., 2022; Silva et al., 2019; Graveline et al. 2012; Odavić et al., 2017; Dharmawan, 2017; Oktoviany et al., 2021).

Considering the numerical simulations, adjustments, and error measures, the model proposed in this article has shown accuracy in estimating future production prices of corn and soybeans. This makes it a useful tool for generating prices under different production scenarios for these commodities, including periods of significant fluctuation.

In practical terms, this model assists in the development of strategies and decision-making in trading, considering external factors that influence the production costs of corn and soybeans. It can also be used by other countries, especially emerging or developing ones that have similar production models.

Methodological approaches can help agribusiness decision-makers understand the key cost variables. Thus, investors/agriculturists have the option to seek cost reduction alternatives through the substitution of new products (technological innovation) and also identify and forecast intentions regarding better profitability in subsequent crop production. Thus, the prices of the commodities analyzed in this study (corn and soybeans) can be used as auxiliary predictors in this process.

The cost and price variables can provide relevant information for decision-makers regarding the production behavior of the mentioned crops. We estimated cost and price forecasting models to statistically analyze and estimate the costs and prices of two agriculturally significant crops in Brazil, considering variables that have disparate correlations among them, including significant cost variables for the cultivation of these activities.

The results reveal interesting findings, such as a reduction in fertilizer costs, an increase in labor costs, soybean seed and fungicide costs, and stability in dolomitic limestone corrective costs in the near future (24 months). Additionally, the Monte Carlo simulation (MCS) provided insights by considering a range for corn production costs between USD 600.00 and USD 1150.00, and for soybean production costs between USD 260.00 and USD 420.00. Our findings also revealed that soybean profitability surpasses that of corn based on the variables analyzed in this study.

Based on the results of this research, farmers can adopt sustainable practices in their businesses. Considering the reduction in fertilizer costs, efficient management of these inputs through optimized management practices and precision technologies is highly recommended. With the expected increase in labor costs, it is essential to invest in training for workers, as well as considering possible mechanization to mitigate financial impacts. Additionally, a careful analysis of soybean seed varieties, adoption of integrated pest management, and strategic use of dolomitic limestone are relevant measures to address the constantly changing costs. Adequate financial planning and consideration of the feasibility of redirecting some of the cultivation area to soybeans, given their higher profitability compared to corn, are also recommended. However, all of this should be adjusted according to the specificities of each farm and the market context in which farmers operate, as well as a continuously monitoring of the production and market conditions to make informed and sustainable decisions.

Although our results are valuable for agribusiness decision-makers, further research is needed to better understand the costs and prices for corn and soybean crops. For instance, replicating the analysis in other countries with significant production of these crops, such as the United States and Argentina, would be highly relevant. Moreover, these results can contribute to a better understanding of food security implications in the studied countries.

One of the limitations of this study is the limited availability of primary information on the costs of inputs used in the production of corn and soybeans in Brazil, as compared to other sectors such as the pharmaceutical industry, for example. As a suggestion for future research, it is recommended to use other mathematical models, such as the fuzzy logic system, to identify the significant variables that influence the production cost of corn and soybeans.

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