

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 4/6/2017

GAIN Report Number: BR1709

Brazil

Cotton and Products Annual

Improved Price Signals to Encourage an Area Increase Next Year

Approved By:

Clay Hamilton, Agricultural Minister Counselor

Prepared By:

Nicolas Rubio, Agricultural Attaché

Report Highlights:

Post forecasts cotton planted area for 2017/18 to increase to 1.0 million hectares based on higher prices and domestic demand. Production for 2017/18 is forecast at 7 million bales (1.52 million metric tons). For Marketing Year 2017/18, post forecasts consumption to increase to 3.44 million bales (750,000 MT) as a result of an expected economic recovery and higher consumer confidence, which should lead to increased textile sales. Post forecasts cotton exports to increase to 3.2 million bales for the MY 2017/18 as a result of higher exportable supplies.

COTTON PRODUCTION

2017/18 Outlook:

Post forecasts Brazil's 2017/18 cotton area to recover to one million hectares (ha), 7.5 percent higher than 2016/17. The increase is based on a recovery of domestic prices and an expected improvement in the domestic economy. Production is forecast to increase to 7 million bales (1.52 million metric tons), about 4.5 percent higher compared to the 2016/17 season.

Post forecasts Mato Grosso (MT), the biggest cotton producing state in Brazil, to have about 65 percent of total area, or 650,000 ha, mostly planted as a second crop starting in January. The state of Bahia, the second most important cotton producing state, is forecast to plant 250,000 ha. The increase in both Mato Grosso and Bahia will be mostly driven by higher demand and better prices.

2016/17 Progress:

Post estimates 2016/17 area planted to cotton at 930,000 ha, an area reduction of 2.6 percent compared to 2015/16. Cotton production is forecast at 6.7 million bales (1.458 million metric tons). The drop in area was a result of lower commodity prices and higher cost of production. However, production is expected to rebound by 14 percent compared to last year as a result of better yields and much better weather conditions compared to 2015/16.

With the completion of the planting in the two largest producing regions, producers continue to work on pest control and invasive plant management. The harvest is scheduled to begin in mid-July 2017. The climate so far has been favorable in both regions, which has greatly encouraged producers, and yields are expected to be the highest compared to the last five years.

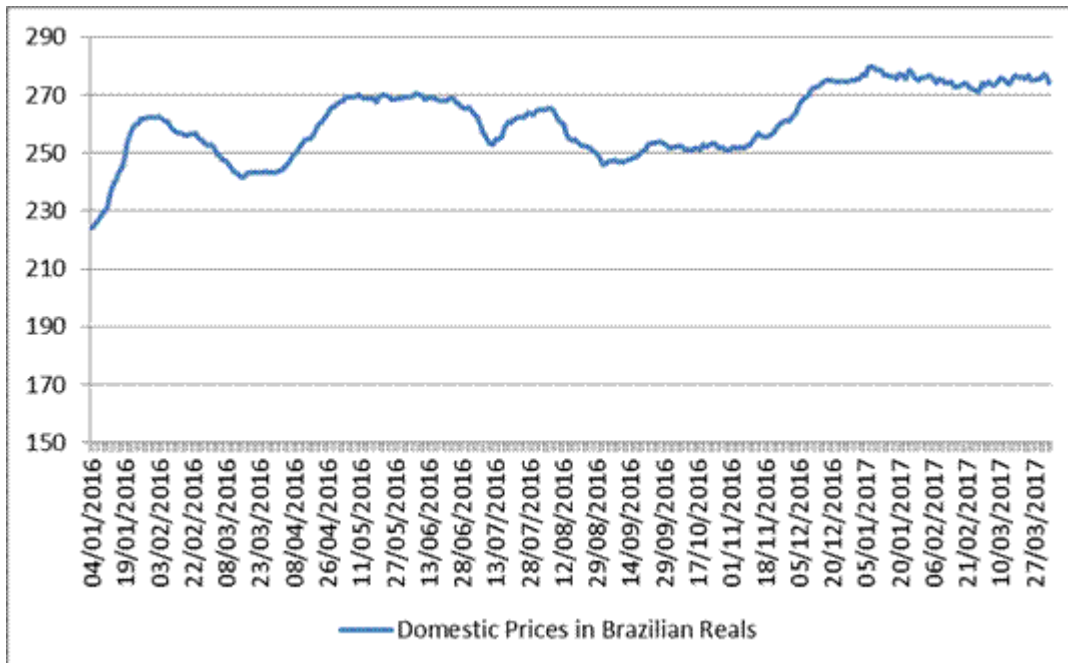
Table 1. Production Statistics by State (2016/17)

State	Area (HA)	Yield (MT/HA)	Production (MT)	
Mato Grosso	620,000	1.580	979,600	
Bahia	200,000	1.470	294,000	
Mato Grosso Do Sul	30,000	1.600	48,000	
Goiias	27,000	1.550	41,850	
Other	53,000		94,550	
Brazil	930,000	1.57	1,458,000	

PRICES

Since December 2016, domestic daily prices started to move upwards, hitting their highest levels since January 2016. The increase in prices is mainly linked to the international situation. In China, ending stocks are expected to continue to decline, consumption continues to significantly exceed production, and imports will remain restricted. As a result, the situation in China is helping eliminate much of existing global stocks.

Table 2: Cotton Domestic Prices in cents of R\$ per lbs (2012-2016)



Source: Center for Advanced Studies in Applied Economics (CEPEA)

CONSUMPTION

2017/18 Outlook:

For Marketing Year (MY) 2017/18, post forecasts consumption to increase to 3.44 million bales (750,000 MT). The increase is a result of an expected economic recovery and higher consumer confidence, which should lead to increased textile sales. After a 7.3% fall in real Gross Domestic Product (GDP) in 2015 and 2016, policy adjustments are expected to bolster confidence and bring a mild recovery in 2017 and 2018. In addition, consumer prices in the last 12 months have eased; bringing the last 12-month inflation rate to 4.8%, down from double-digit rates.

2016/17 Progress:

As a result of the worst economic crisis in Brazil’s history, the textile sector was hit hard and consumption dropped dramatically. However, it seems that the crisis hit bottom in 2016, thus the sector has started to experience a recovery. Post forecasts consumption for MY 2016/17 at 3.2 million bales (700,000 MT).

At the same time, the Brazilian Cotton Producers Association (Abrapa) is putting a lot of effort in promoting cotton usage. 2016, Abrapa launched a national marketing campaign (“I’m made of cotton”) to encourage the use of cotton products. The initiative is one of Abrapa’s main national initiatives and has support of Bayer and the Brazilian Cotton Institute (IBA).



In
the

In order to increase consumption and improve the image of Brazilian cotton, Abrapa also opened a reference lab for cotton analysis, which will standardize and systematize fiber quality information to foreign buyers. This lab, located in Brasília, is part of the Brazilian Center for Cotton Analysis Reference (CBRA) initiative, which will audit the work of 15 other fiber-grading labs throughout the country to ensure international standards.

STOCKS

Clarification on Beginning/Ending Stocks Estimates

All of the USDA official cotton estimates as well as this report are based on an August-July MY. For example, MY 2017/18 (August 2017-July 2018) correlates with Northern Hemisphere countries and not Southern Hemisphere countries such as Brazil. Hence, USDA’s beginning/ending stocks estimates capture Brazilian stocks mid-harvest on July 31st when they are nearly at their peak. This timing issue accounts for the relatively high stock levels and low volatility in stocks-to use typically reported by USDA and this report for Brazil.

As the main harvest takes place in June, July, and August, stocks build dramatically as harvest progresses and then outpace domestic consumption and exports. Part of the reason for the inevitable buildup of USDA reported stocks is the structural delay between harvest and the shipment of exports. Ginning, consolidating, and transport to ports delays exports of new crop cotton and exports do not start in earnest until August.

TRADE

2017/18 Export Outlook:

Post forecasts cotton exports for the MY 2017/18 to increase slightly to 3.2 million bales (653,000 MT). The export forecast is slightly higher compared to the previous MY, but significantly lower compared to MY 2014/15 and 2015/16. It is important to note that global demand is not as strong as the last few years as a result of lower Chinese demand. In addition, competition with synthetic fibers as a result of lower oil prices continues to put pressure on the natural fiber sector.

2016/17 Export Progress:

For MY 2016/17, post forecasts cotton exports at 2.90 million bales (630,000 MT). The lower exports are a result of higher domestic prices compared to the export market as well as declining available supplies.

Table 3: Marketing Year Brazil Cotton Exports (in metric tons)

Brazil Export Statistics				
Commodity: Cotton, Group 55 (2012)				
Year Ending: July				
Partner Country	Unit	Quantity		
		2013/14	2014/15	2015/16
World	T	498,273	867,778	954,644
Vietnam	T	39,132	99,381	142,136
Indonesia	T	115,435	185,506	141,875
Korea South	T	97,303	95,659	123,983
Turkey	T	19,325	71,157	122,217
China	T	98,311	181,181	106,403
Malaysia	T	23,498	44,289	82,612
Pakistan	T	6,317	41,519	77,556
Thailand	T	26,049	43,398	47,072
Taiwan	T	36,761	36,877	32,414
Bangladesh	T	4,512	18,692	25,387
Japan	T	13,006	16,180	11,845

*MY 2015/16 (August 2015-July 2016)

Source: Global Trade Atlas

2017/18 Import Outlook:

For MY 2017/18, post forecasts imports to drop to 92,000 bales (20,000 MT). The increase in production and a higher Brazilian exchange rate compared to the U.S. dollar will reduce the need to import.

2016/17 Export Progress:

For MY 2016/17, post forecasts imports at 225,000 bales (49,000 MT). The increase is due to the Brazilian Government approval in February 2017 of imports up to 75,000 MT duty free for the period of February-July 2017. The decision was made as a result of the lower supplies available due to weather problems in 2016. The current tariff for cotton imports is 6% and trade sources estimate that most of

these duty free cotton imports will come from the United States.

Table 4: Marketing Year Brazil Cotton Imports (in metric tons)

Brazil Import Statistics				
Commodity: Cotton, Group 55 (2012)				
Year Ending: July				
Partner Country	Unit	Quantity		
		2013/14	2014/15	2015/16
World	T	33,875	5,322	21,903
United States	T	17,197	136	17,488
Argentina	T	1,869	952	2,918
Egypt	T	1,376	850	1,005
Spain	T	89	270	376
Israel	T	164	206	91
Germany	T	-	23	25

*MY 2015/16 (August 2015-July 2016)

Source: Global Trade Atlas

STATISTICS

Production, Supply and Demand Statistics:

Cotton	2015/2016		2016/2017		2017/2018	
Market Begin Year	Aug 2015		Aug 2016		Aug 2017	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	955	955	930	930	0	1000
Beginning Stocks	7532	7532	6159	6199	0	7174
Production	5900	5900	6500	6700	0	7000
Imports	91	101	200	225	0	92
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	13523	13533	12859	13124	0	14266
Exports	4314	4384	2800	2900	0	3200

Use	3200	3100	3200	3200	0	3440
Loss	-150	-150	-150	-150	0	-150
Total Dom. Cons.	3050	2950	3050	3050	0	3290
Ending Stocks	6159	6199	7009	7174	0	7776
Total Distribution	13523	13533	12859	13124	0	14266
Stock to Use %	81.97	82.83	116.82	117.61	0	117.11
Yield	1345	1345	1522	1569	0	1524
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						