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Brazil

Post:
Brasilia

Cotton and Products Update

Producers Optimistic About Market Conditions

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Report Highlights:

Post forecasts Brazil's 2017/18 cotton harvested area at 1.08 million hectares (ha), a 15 percent jump compared to the previous year. The higher planted area is a result of expected higher prices by producers. Production is forecast to reach 7.73 million bales (1.7 million metric tons), a 10 percent jump. Exports continue to be the main driver for the sector. In the first three months of the 2017/18 Marketing Year (Aug-Oct 2017), Brazil exported 1.7 million bales or 374,777 mt, the highest since 2015 and 35 percent higher than the same time period last season.

Cotton	2015/2016	2016/2017	2017/2018
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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	940	940	1100	1080
Beginning Stocks	7532	7532	6259	6259	7609	7609
Production	5900	5900	7000	7000	7800	7730
Imports	91	91	189	189	125	75
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	13523	13523	13448	13448	15534	15414
Exports	4314	4314	2789	2789	3750	3700
Use	3100	3100	3200	3200	3400	3400
Loss	-150	-150	-150	-150	-150	-150
Total Dom. Cons.	2950	2950	3050	3050	3250	3250
Ending Stocks	6259	6259	7609	7609	8534	8464
Total Distribution	13523	13523	13448	13448	15534	15414
Stock to Use %	84.42	84.42	127.05	127.05	119.36	119.21
Yield	1345	1345	1621	1621	1544	1558
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						

USDA 2017/18 MY = August 2017 to July 2018

*Read the clarification about beginning/ending stocks estimates in narrative

PRODUCTION:

Producers Optimistic about 2017/18 Season

Post kept its Brazil's total harvested area forecast for the 2017/18 season at 1.08 million hectares (ha), a jump of 15 percent compared to the previous year. The increase is due to expected better prices by producers and higher international demand. Total production is expected to increase by 10 percent, to 7.73 million bales (1.72 million metric tons), compared to the 2016/17 season.

In Mato Grosso, post reduced its forecasted harvested area to 700,000 ha, still an 11 percent area increase compared to the last season. The lower area for Mato Grosso is due to some soybean planting delays in the western part of the state. The optimal window to plant cotton as a second crop in Mato Grosso is February 15. Any cotton planting after that date increases the risks and yield potential. Post still estimates about 15 percent of that area planted as a first crop and 85 percent of area as a second crop. In Western Bahia, post increased its forecast for harvested area to 265,000 ha, a 32 percent jump compared to the previous year. The dramatic jump is due to market optimism and export opportunities by producers.

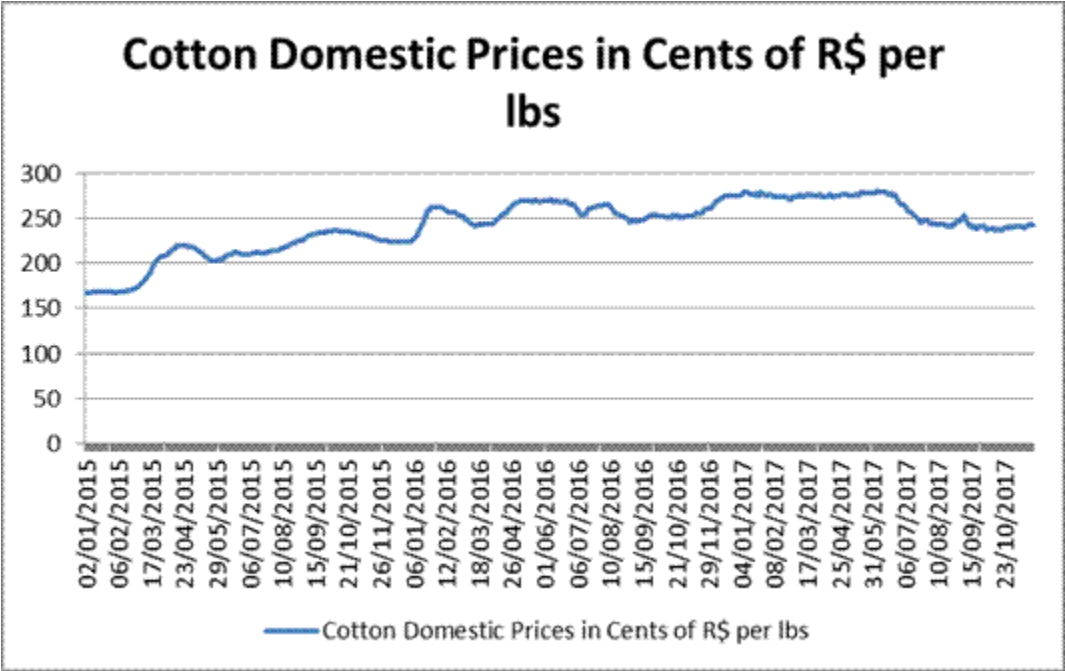
Table 1. Production Forecast by State

State	Area (HA)	Yield (MT/HA)	Production (MT)
Mato Grosso	700,000	1.600	1,120,000
Bahia	265,000	1.600	424,000
Mato Grosso Do Sul	30,000	1.600	48,000
Goiás	30,000	1.550	46,500
Other	55,000	1.500	82,500
Brazil	1,080,000	1.570	1,721,000

Prices:

By the end of October and into the first couple of weeks of November, the U.S. dollar appreciated against the Brazilian Real, which translated into higher domestic cotton prices. The increase in prices temporarily slowed down the pace of forward contracts, but it is not expected to impact the export forecast for Marketing Year (MY) 2017-18.

Graph 1: Cotton Domestic Prices in cents of R\$ per lbs



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

TRADE:

2017/18 Brazilian Export Season Starts Strong

Post forecasts exports for MY 2017/18 (August 2017-July 2018) at 3.7 million bales or 806,000 mt as a result of higher exportable supplies and higher global demand. In the first three months of the 2017/18 MY (Aug-Oct 2017), Brazil already exported 1.7 million bales or 374,777 mt, the highest since 2015 and 35 percent higher than the same time period last season. Vietnam and Indonesia continue to be the top two importers of Brazilian cotton.

China, an important market for Brazil, has already imported 85 percent more Brazilian cotton between August-October of this year compared to the same period last year. Two key drivers affecting this jump is Brazil's ample exportable supply compared to the previous season and the weak Brazilian Real, which makes Brazilian cotton competitive. In addition, the Brazilian industry is hoping that recent environmental restrictions imposed by the Chinese Government, which has reportedly led to the closure of many factories including many for synthetic fibers, can create some new opportunities in this market.

Table 2. Export Statistics

Brazil Export Statistics				
Commodity: Cotton, Group 55 (2012)				
Partner Country	Unit	Quantity		
		Aug-Oct 2015	Aug-Oct 2016	Aug-Oct 2017
World	T	318,469	276,642	374,777
Vietnam	T	66,767	51,204	96,458
Indonesia	T	44,777	46,762	73,192
China	T	56,780	26,971	50,241
Bangladesh	T	7,412	23,935	34,510
Turkey	T	24,952	21,845	32,539

Source: Global Trade Atlas

CONSUMPTION:

Economic Outlook Creating New Optimism

As Brazil continues its economic recovery, the sector is working hard to increase domestic cotton consumption through various marketing initiatives. For MY 2017/18, post increased its forecasts for domestic consumption to 3.4 million bales (750,000 MT).

STOCKS:

Clarification About Beginning/Ending Stocks Estimates

The USDA official estimates as well as this report are based on an August-July Marketing Year (MY). For example, MY 2016/17 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 at nearly 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 in Brazil takes place in June, July, and August, stocks build dramatically as harvest progress outpaces 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 initially and exports do not start in earnest until August.