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POLICY

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Brazil

Cotton and Products Annual

Domestic Economic Factors to Affect Cotton Planted Area

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Report Highlights:

Post forecasts planted area for cotton on 2015/16 to drop to 950,000 hectares as a result of low global prices and high cost of production. Production will also drop to 6.5 million bales (1.425 million metric tons), a six percent reduction compared to the 2014/15. Post forecasts cotton exports for 2015/16 at 3.6 million bales as a result of the expected Brazilian currency.

COTTON PRODUCTION

Outlook 2015/16: Low Global Prices and Brazil's Economic Challenges Will Impact Planted Area

Post forecasts planted area for cotton on 2015/16 to drop to 950,000 hectares as a result of low global prices and the high cost of production. Production will also drop to 6.5 million bales (1.425 million metric tons), a six percent reduction compared to the 2014/15. In Brazil, decisions to plant cotton and possible expansion in 2015/16 are currently linked to the stocks situation in China. The uncertainty in the market as a result of the expected high volumes of cotton stocks in China continues to put pressure on global prices. In addition, low oil prices are making synthetic materials more affordable, which directly compete with cotton in Brazil.

For 2016/15, the economic challenges expected in Brazil and higher interest rates for loans will affect the bottom line for cotton farmers. With expectations of low cotton prices through 2015, farmers will opt to plant less cotton and more soybeans and corn, which are expected to have higher returns than cotton. In addition, as farmers begin to make planting decisions for the 2015/16 crop in July, the expected weak value of the Brazilian Real (Real) will have a major impact. Purchases of fertilizer are expected to stagnate as a result of the higher costs due to the devaluation of the Real. For example, since over 70 percent of fertilizers are imported, a weaker Real makes it more expensive to purchase compared to the previous growing season. The expectation is that the value of the Real will stay over 3 Reals per US\$, the lowest since 2003, for the rest of the year.

At the national level, 40 percent of cotton is forecast to be first crop, primarily planted in the states of Mato Grosso and Bahia. The other 60 percent is forecast to be second crop cotton, with planting focused in the states of Mato Grosso, Mato Grosso do Sul, and Goiás. In regards, to technology, post forecasts that biotech cotton seed use will reach 70 Percent of the 2015/16 planted areas. In addition, as of July 2014, there were 38 Genetically Engineered (GE) events approved for commercial cultivation in Brazil, of which 12 were for cotton.

2014/15 Progress: Cotton Production Estimated at 6.9 Million Bales

Post estimates 2014/15 planted area to cotton at one million hectares, a drop of 11 percent compared to 2013/14. Cotton production is forecast to reach 6.9 million bales (1.5 million metric tons). The cotton production forecast is a 12 percent reduction in comparison to 2013/14. The main reason for the reduction in area was high production costs and low domestic and global prices, a major disincentive for farmers opting to plant cotton as a second crop after the 2014/15 soybean harvest.

In Mato Grosso, the largest producing state, the erratic rains in late September and October, delayed the planting progress of soybeans. These delays were significant as it had an effect in the planting window for cotton as a second crop. A reduction in area in Mato Grosso is estimated at 12.5 percent compared to last year. In Bahia, the second biggest cotton producing state in Brazil, the relative low price environment as a result of lower demand by China and high global stocks, is influenced

farmers' decision to plant less in 2014/15. The area in Bahia dropped about 12 percent compared to last

year. Since cotton production in Brazil is extremely capital intensive, high risk, and typically favors economies of scales, farmers who do not own machinery for cotton production opted not to plant cotton this year.

Inputs: Brazil continues to have a deficit in fertilizer production and imports are essential. However, purchases of fertilizer in 2015 for the 2015/16 planting season are expected to stagnate as a result of the devaluation of the Real. According to the National Fertilizer Association (ANDA), imports and total deliveries of fertilizers in the first two months of the year are down 15 and 9 percent, respectively. In 2014, fertilizer deliveries totaled a record 32.2 million metric tons (mmt), up five percent from 2013. Total annual imports of fertilizer in 2014 equaled 24 mmt, up nearly 11 percent from 2013. National fertilizer production in 2014 equaled 8.8 mmt, down five percent from the 2013.

TRADE

Post forecasts cotton exports for Brazil at 3.6 million bales as a result of the weak domestic currency. The economic challenges expected in Brazil are heavily impacting the value of the Brazilian Real (Real). On March 13, 2015, the Real reached its lowest value since April 2003 at 3.25 Reals per US\$. In one year alone (since March 2014), the Real lost over 40 percent of its value. The expectation is that the value of the Real will stay over 3 Reals per US\$ for the rest of 2015, which is making the export market look promising. Despite the lower global cotton prices, high export parity continues to favor the short position in the cotton market. Domestic future prices are also supporting post's forecast of higher cotton exports.

COTTON CONSUMPTION

Domestic Cotton Consumption Forecast to Continue to Decline

The total domestic consumption of cotton in Brazil is expected to reach the lowest levels in 10 years. The decline is due to the global trend of increased use of synthetic fibers as a more competitive option. With the drop of oil prices, these alternatives are more price competitive and are creating additional competition in the domestic market.

Post forecasts domestic consumption for 2015/16 to 3.6 million bales as a result of higher inflationary pressures in Brazil and decelerating growth in the local economy. In addition, Brazilian consumers' preferences are trending in favor of imported clothing continue to hurt the local textile industry. Lastly, the industry is having difficulties competing with textile industries from China and other Asian countries, which has resulted in lost market share.

Cotton Fabrics

Approximately 58 percent of fabrics in Brazil are made of cotton and the other 42 percent are made from synthetics and other natural fibers. In Brazil, about 60 percent of clothing is made of cotton and its most significant exports made from cotton fabrics consist of towels, socks, and undergarments.

Cotton Yarn

Brazil's yarn production is estimated to use 1.5 mmt of fiber—natural, synthetic, and artificial. Brazil uses 1.3 mmt of natural fibers, primarily cotton, jute, flax, ramie, sisal, silk, and wool. Synthetic yarn

production utilized 240,000 mt of viscose, polyamide, polyester, polypropylene and acrylic. Roughly 80 percent of domestic cotton lint is used for cotton yarn production. Brazil is also the world's third largest weaver, and roughly 52 percent of all woven materials have been produced with cotton yarns, the rest coming from synthetics. Annual weaving production is estimated at 500,000 metric tons (mt).

Grading and Classification

Grading and classification in Brazil is a private-led initiative. However, there are initiatives by the producers association to work with the government to get all the laboratories in the country to have uniform grading standards. This initiative is a result of problems over the years with different cotton quality in the country, which has hurt the image of the Brazilian product. One of those initiatives is a new quality cotton lab being built in Brasilia to receive samples from various states and make the grading uniform. The lab is expected to be functional by 2016.

The other issue about grading in Brazil is how long it takes for labs to conclude the testing. It is estimated that from the harvest, to the gin, to the lab, and back to the farmer, the results can take up to 60 days. Since grading in Brazil is voluntary, must farmers do it to get better prices, but the wait for the results can be a problem. As a result, the cotton producers association in the state of Bahia is looking for ways to improve this situation to improve the reputation in the cotton market. Most recently, a lab in Luiz Eduardo de Magalhaes, Bahia, was upgraded to finish the testing of up to 18,000 per day in just 24 hours. The lab has new equipment that will test for fiber strength, length and micronaire and provide much quicker service to farmers in the state.

POLICY

Government Support Program for Cotton Producers Expected for 2015/2016

As a result of the high global stocks, which is putting downward pressure on cotton prices, the President Brazil's National Supply Company (CONAB) is expecting government support programs to continue assisting farmers in 2014. In 2014, the Government of Brazil (GOB) authorized purchases of 905,000 metric tons of cotton from the 2014/15 crop under the Equalization Premium Paid to the Producer Program (PEPRO). The justification for the support has been the drastic drop of prices since January 2014, where prices dropped 23 percent as a result of high global supplies. CONAB agreed to pay the difference between the Official Reference Value (ORV) and the market prices for 905,000 metric tons or 4.2 million bales. The ORV for the 2014/15 crop is R\$54.90 per 15kg sack or R\$1.66 per pound.

Cotton Domestic Prices (Domestic Prices* in R\$ per lbs)				
	2012	2013	2014	2013/2014 % Change

January	R\$1.71	R\$1.75	R\$2.22	27%
February	R\$1.70	R\$1.84	R\$2.27	23%
March	R\$1.61	R\$2.05	R\$2.20	8%
April	R\$1.60	R\$2.09	R\$2.09	0%
May	R\$1.60	R\$1.97	R\$1.95	-1%
June	R\$1.51	R\$1.94	R\$1.92	-1%
July	R\$1.58	R\$2.12	R\$1.82	-14%
August	R\$1.62	R\$2.16	R\$1.69	-22%
September	R\$1.65	R\$2.13	R\$1.69	-21%
October	R\$1.55	R\$2.14	R\$1.64	-23%
November	R\$1.55	R\$2.09	R\$1.63	-22%
December	R\$1.58	R\$2.12	R\$1.64	-23%

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

* Cotton grade 41-4, staple 30/32mm, 8-day term payment, no interstate commerce tax (ICMS).

2014/15 Minimum Price for Cotton in Brazil

Region	Unit ("Arroba")	Price (R\$/unit)	Price (R\$/lb)	Price (US\$/lb)
All	15 kg	54.90	1.66	0.55

Source: MAPA/SPA/DEAGRO
Exchange rate: US\$1.00 = R\$ 3.00

The quantity of cotton supported by the GOB from 2006-2014 is provided in the table below, as well as descriptions of the major government support programs. These programs are utilized to support commodity prices and to assist in the flow of cotton from production areas to consumption areas.

Government Support for the Commercialization of Cotton (1,000 mt)

Program	2006	2007	2008	2009	2010	2011	2012	2013	2014
Acquisition (AGF)	0	1.1	0	0	0	0	0	0	0
PEP	1.8	0	0	0	0	0	0	0	0
PROP	0	0	0	0	0	0	0	0	0
PEPRO	461.5	428.9	1,023.6	792.2	0	0	0	0	0
Total	463.3	730.0	1,023.6	792.2	0	0	0	0	905.3
Production	1,037.8	1,524.0	1,602.2	1,213.7	1,194.1	1,959.8	1,877.3	1,310.3	1,500.0
Participation %	44.6	47.9	63.9	65.3	0	0	0	0	60.3

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Risk Premium for Acquisition of Agricultural Products Deriving from Private Contracts of Sales

Options (PROP): PROP is a subsidy program granted in the form of a public auction for the consumer

to acquire, at a future date, a determined product directly from the producer and/or cooperative at a prefixed price, utilizing a private contract for the option to sell.

The Equalization Premium Paid to the Producer: PEPRO is a premium granted to the farmer or cooperative which sells its products at a public auction. The government pays the difference between the ORV and the value of the premium (the maximum value paid by the government as a guarantee of the Reference Value).

Premium for Product Outflow Program (PEP): Through this program, the government pays the difference between the prevailing market price and the minimum price of the product. The federal government through CONAB conducts public auctions to set a premium for buyers of a given product. These buyers then contact producers interested in selling their production at the current minimum support price. Buyers must transport the product to the destination previously established by the program. The objective of PEP is to move commodities from areas of high product concentration to areas of need, typically in the demographically-sparse parts of the North, and also to the Northeast, of the country. In PEP, the product is taken from private stocks.

Federal Government Acquisition (AGF): This program allows the government to acquire agricultural products at the minimum price when the market price is below the minimum. It also allows the government to acquire products at market prices for use in the Family Agriculture Program and to build strategic stocks.

Production, Supply and Demand Statistics:

Cotton	2013/2014		2014/2015		2015/2016	
Market Begin Year	Aug 2013		Aug 2014		Aug 2015	
Brazil	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	0	0	0	0	0	0
Area Harvested	1,120	1,120	1,000	1,000	0	950
Beginning Stocks	5,801	5,801	7,668	7,668	0	7,368
Production	8,000	8,000	7,000	6,900	0	6,500
Imports	147	147	150	50	0	50
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	13,948	13,948	14,818	14,618	0	13,918
Exports	2,230	2,230	3,750	3,500	0	3,600
Use	4,200	4,200	4,000	3,900	0	3,750
Loss	0	0	0	0	0	0
Total Dom. Cons.	4,050	4,050	3,850	3,750	0	3,600
Ending Stocks	7,668	7,668	7,218	7,368	0	6,718
Total Distribution	13,948	13,948	14,818	14,618	0	13,918

1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA