

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Brazil**

**Post:**

Brasilia

## **Cotton and Products Update**

### **Higher Cost of Production to Negatively Impact Planted Area**

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#### **Report Highlights:**

Post forecasts Brazil's 2015/16 cotton area to drop to 900,000 hectares (ha), a nine percent drop compared to the previous year. The planted area reduction is a result of the high cost of production and the high cost to borrow money. Post adjusted the planted area for 2014/15 to 994 ha based on new government data. Exports are forecast to reach 4 million bales due to its competitiveness as a result of the weaker Brazilian Real.

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	1120	1120	1020	994	925	900
Beginning Stocks*	5801	5801	7668	7668	7332	7457
Production	8000	8000	7000	7000	6500	6400
Imports	147	147	24	24	50	20
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	13948	13948	14692	14692	13882	13877
Exports	2230	2230	3910	3985	4000	4000
Use	4200	4200	3600	3400	3350	3300
Loss	-150	-150	-150	-150	-150	-150
Total Dom. Cons.	4050	4050	3450	3250	3200	3150
Ending Stocks*	7668	7668	7332	7457	6682	6727
Total Distribution	13948	13948	14692	14692	13882	13877

(1000 HA) ,1000 480 lb. Bales

USDA 2015/16 MY = August 2015 to July 2016

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

## **PRODUCTION:**

### **Post Maintains Planted Area and Production Forecasts for 2015/16**

Post forecasts 2015/16 area planted to cotton at 900,000 hectares (ha), an area reduction of nine percent compared to 2014/15. The reduction is a result of the higher costs of production and the high cost to borrow money. Yields are forecast to be at 1.54 metric tons (MT) per ha, similar to last year's yields, as a result of no significant changes in the technological package to be used. Total production is forecast at 6.4 million bales (1.38 million MT).

The planting of the first cotton crop for 2015/16 in Mato Grosso, the most important producing state (64 percent of total area), is expected to start by December 1<sup>st</sup> as a result of the extended seasonal planting moratorium (Vazio Sanitario). The planting of the 2<sup>nd</sup> crop in Mato Grosso is expected to start between January and February 2016 (after the soybean harvest). Due to erratic rains in the state, the soybean planting pace is behind its 5-year average, which could impact the start of the 2<sup>nd</sup> crop cotton plantings. Out of the 575,000 ha of planted area in Mato Grosso forecasted by Post, it is expected that two-thirds of the cotton will be planted as a second crop.

The Vazio Sanitario is a period where no live cotton plants are allowed in the fields. It typically starts on September 15<sup>th</sup>, but due to the concentration of the harvest expected to take place in June, July, August, and September (2<sup>nd</sup> crop), the state is now giving 15 more days to farmers to clear the fields. The Vazio Sanitario for 2015/16 started on September 30<sup>th</sup> and will end on November 30<sup>th</sup>.

### **Weaker Brazilian Real Impacts Domestic Prices for 2015/16**

The biggest news in 2015 in Brazil continues to be the sharp devaluation of the Brazilian Real (Real). Since the beginning of the year, the Real depreciated over 40 percent against the dollar. As a result, despite the relative lower global cotton prices, the Real depreciation has pushed up cotton domestic prices. For example, the average monthly cotton price in Brazil (in Real) increased by 44 percent since January 2015. In November 2015, the price averaged about R\$239.63 per pound, the highest price in the last four years (see Table 1).

In addition, the cost of production, especially for seeds, fertilizers, and pesticides, has gone up tremendously as most of them are imported and their prices are based on dollar terms. Between September 2014 and September 2015, the cost for seeds, fertilizers, and pesticides, went up by 10 percent, 37 percent, and 32 percent, respectively. In addition, producers are also facing higher energy and labor prices, as well as higher interest rates for production loans.

**Table 1: Cotton Domestic Prices**  
**Prices\* in cents of R\$ per lbs)**

	2012	2013	2014	2015	2014/2015 % Change
January	R\$170.76	R\$175.01	R\$220.82	R\$166.67	-25%
February	R\$170.23	R\$184.47	R\$225.60	R\$167.71	-26%
March	R\$161.17	R\$204.98	R\$218.89	R\$189.29	-14%
April	R\$160.44	R\$209.49	R\$207.20	R\$214.80	4%
May	R\$160.07	R\$197.08	R\$193.55	R\$207.48	7%
June	R\$151.16	R\$193.74	R\$189.63	R\$206.98	9%
July	R\$157.56	R\$211.80	R\$180.53	R\$209.63	16%
August	R\$162.06	R\$216.38	R\$167.08	R\$218.46	31%
September	R\$165.19	R\$212.80	R\$167.28	R\$230.37	37%
October	R\$155.21	R\$214.04	R\$164.30	R\$233.27	42%
November	R\$155.49	R\$208.73	R\$163.93	R\$239.63	46%
December	R\$158.44	R\$212.46	R\$164.34		

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).

Includes freight for point of delivery Sao Paulo city.

### 2014/15 Harvest Completed

For the 2014/15 crop, Post increased its estimates for harvested area to 994 ha with national yields at 1.54 MT/ha, based on new estimates by the Brazilian National Food Supply Company (CONAB). Production also increased to 7 million bales (1.53 million MT). Mato Grosso harvested an estimated area of 563,000 ha and Bahia harvested an estimated area of 299,000 ha. These two states represented 87 percent of total production.

It has been reported that the 2014/15 cotton production is suffering from quality issues. The main problem is the lack of consistency in quality of the crop that has been sold. Out of the 5.5 million bales (1.2 million MT) already commercialized in the 2014/15 Marketing Year (MY), about half is reported to have quality deficiencies. As a result, farmers are receiving up to 6 percent less than market prices in Brazil. In order to assist, the national cotton association (ABRAPA) continues to work in trying to

centralize the quality testing at a soon to be built state-of-the art lab in Brasilia.

## **TRADE:**

### **Brazilian Exports Expected to be Price Competitive for 2015/16**

Post forecasts cotton exports for 2015/16 at 4 million bales as a result of the relative weaker domestic currency, which is making Brazilian cotton more competitive. The ongoing political and economic challenges in Brazil are heavily impacting the value of the Real. Despite the low global cotton prices, high export parity continues to favor the short position in the cotton market. Strong domestic future prices and lower domestic demand are also supporting post's forecast of higher cotton exports.

### **Imports Expected to Drop Even Further for 2015/16**

The weaker Real, high inflation in Brazil, and the lower domestic demand for cotton is expected to push down imports even further. Post forecasts imports for MY 2015/16 to drop to 20,000 bales, a drop of 2 percent compared to the last MY.

## **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 2015/16 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 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.

## **CONSUMPTION:**

### **Negative Economic Outlook Affecting Short Term Demand**

The unfavorable Brazilian economic scenario, which is expected to extend to 2016, is making it unlikely that the textile industry will rebound in the short term and increase domestic cotton demand. As a result, cotton producers will heavily depend on the export market. Post forecasts consumption for 2015/16 to 3.3 million bales (725,000 MT). The economics in Brazil, especially the higher inflation affecting consumers and the increase in energy prices are truly affecting domestic demand.