

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:** 10/2/2017

**GAIN Report Number:** BR1716

## **Brazil**

**Post:**  
Brasilia

## **Cotton and Products Update**

### **Cotton Area in Brazil to Surge by 15 Percent**

**Approved By:**  
Clay Hamilton

**Prepared By:**  
Nicolas Rubio

**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 and a shift in some second crop corn area to cotton production due to better returns. Production is forecast to reach 7.73 million bales, a 10 percent jump. With the economic recovery in Brazil, post forecasts a marginal increase in domestic consumption, but exports will continue to be the main driver for the sector. Post forecasts exports to increase by 24 percent compared to 2016/17 due to higher global demand and improved quality of the Brazilian product.

<b>Cotton</b>	<b>2015/2016</b>		<b>2016/2017</b>		<b>2017/2018</b>	
<b>Market Begin Year</b>	<b>Aug-15</b>		<b>Aug-16</b>		<b>Aug-17</b>	
<b>Brazil</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Area Planted</b>	0	0	0	0	0	0
<b>Area Harvested</b>	955	955	940	940	1050	1080
<b>Beginning Stocks</b>	7532	7532	6259	6259	7609	7498
<b>Production</b>	5900	5900	7000	7000	7500	7730
<b>Imports</b>	91	91	189	189	100	75
<b>MY Imports from U.S.</b>	0	0	0	0	0	0
<b>Total Supply</b>	13523	13523	13448	13448	15209	15303
<b>Exports</b>	4314	4314	2789	2900	3400	3600
<b>Use</b>	3100	3100	3200	3200	3400	3350
<b>Loss</b>	-150	-150	-150	-150	-150	-150
<b>Total Dom. Cons.</b>	2950	2950	3050	3050	3250	3200
<b>Ending Stocks</b>	6259	6259	7609	7498	8559	8503
<b>Total Distribution</b>	13523	13523	13448	13448	15209	15303
<b>Stock to Use %</b>	84.42	84.42	127.05	122.92	125.87	122.35
<b>Yield</b>	1345	1345	1621	1621	1555	1558

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

USDA 2017/18 MY = August 2017 to July 2018189

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

### **PRODUCTION:**

#### **Producers to Increase Planted Area for 2017/18**

Post forecasts Brazil's total harvested area 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 a shift in some second crop corn area to cotton production as a result of low corn prices. 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 forecasts harvested area to reach 715,000 ha, a 14 percent increase compared to the last season, with about 15 percent of that area planted as a first crop and 85 percent of area as a second crop. In Western Bahia, post forecasts harvested area to increase to 250,000 ha, a 24 percent jump compared to the previous year. Other states are also forecast to increase area slightly, including Goais and Mato Grosso do Sul to about 30,000 ha each.

**Table 1. Production Forecast by State**

<b>State</b>	<b>Area (HA)</b>	<b>Yield (MT/HA)</b>	<b>Production (MT)</b>
Mato Grosso	715,000	1.600	1,144,000
Bahia	250,000	1.600	400,000
Mato Grosso Do Sul	30,000	1.600	48,000
Goiás	30,000	1.550	46,500
Other	55,000	1.500	82,500
<b>Brazil</b>	<b>1,080,000</b>	<b>1.570</b>	<b>1,721,250</b>

### **2016/17 Cotton Harvest Completed with Excellent Yield Results**

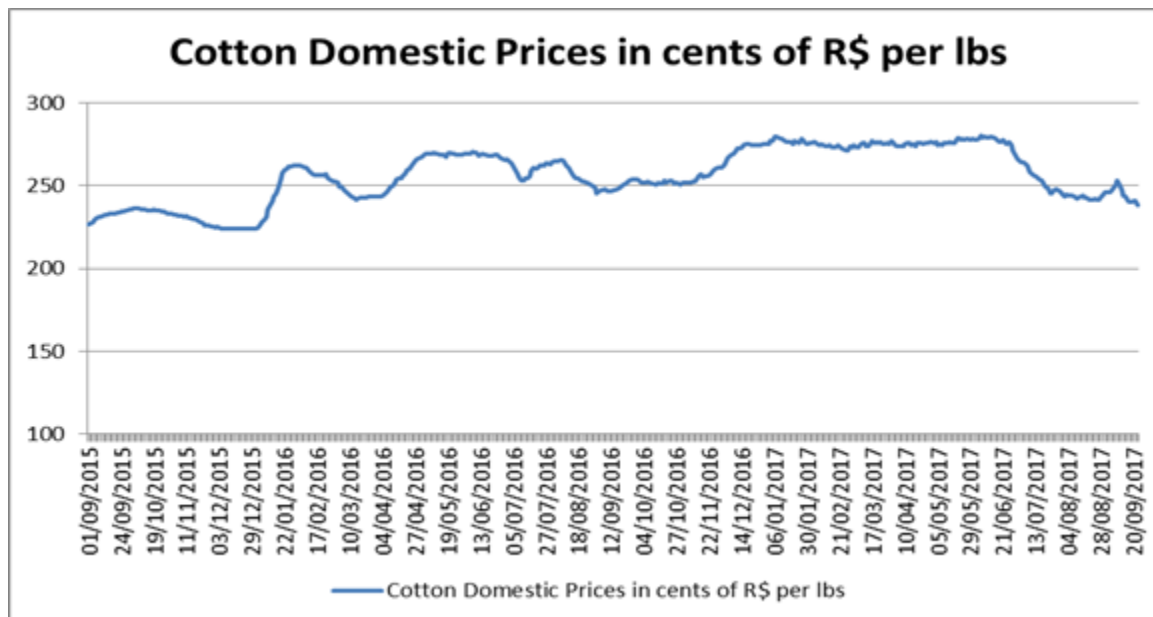
Post estimates 2016/17 harvested area to cotton at 940,000 hectares (ha), an area reduction of 1.6 percent compared to 2015/16. The reduction was due of high cost of production, combined with higher interest rates and difficulties accessing credit lines due to the country's economic crisis. Production for the 2016/17 is estimated at 7.0 million bales (1.52 million metric tons) due to excellent weather conditions and yields.

Mato Grosso, which finished its harvest in September, harvested about 627,000 ha, slightly higher than 2015/16. The state of Bahia harvested about 202,000 ha, a significant reduction compared to the 2015/16 season. Those two states combined planted area was 88 percent of Brazil's total area. The favorable weather in both of those states helped improve yields compared to last year, but it was most significant in Bahia, where yields jumped by 63 percent compared to the 2015/16 season, which was heavily impacted by a drought. In addition to the excellent weather conditions throughout the season, producers have been satisfied with the seed technologies currently available in the market. The only concern in the Brazilian crop for 2016/17 is potential problems with the quality due to late rains, especially for cotton from some areas in Mato Grosso.

### **Prices:**

With the majority of the 2016/17 domestic crop becoming available in the market, Brazilian domestic prices have come down recently. The slight appreciation of the Brazilian Real against the U.S. Dollar in the last six months also put downward pressure on domestic prices. Lastly, external factors, such as higher production and ending stocks in the United States, also put downward pressure on Brazilian cotton prices.

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



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

## **TRADE:**

### **2017/18 Export Outlook Looks Bright for Producers**

Post forecasts exports for MY 2017/18 (August 2017-July 2018) at 3.6 million bales or 775,000 mt as a result of higher exportable supplies and higher global demand. In addition, Brazil continues to invest on improving the quality of its products to meet international consumers demand. Since December 2016, the Brazilian Producers Association opened a reference lab in Brazil to help producers, ginners, traders, and spinning mills obtain reliable High Volume Instrument (HVI) results. The lab, which cost about \$3.1 million dollars, has two HVI testing machines capable to test samples from the whole country. This investment is a key component of the Brazilians to increase its product quality and improve its image as producers continue to focus on obtaining market share outside Brazil.

### **Brazilian Cotton Exports Dropped Significantly in MY 2016/17**

Post estimates cotton exports for MY 2016/17 (August 2016-July 2017) at 2.9 million bales, a 34 percent drop compared to 2015/16. The main reason for the drop was the lower exportable supplies as a result of a bad crop harvested on 2015/16. Indonesia, Turkey, Vietnam, and South Korea were again the top four destinations for Brazilian exports. However, Bangladesh became the fifth largest for Brazil, replacing China for the first time. Chinese imports of Brazilian cotton have come down in the last three years due to the high stocks China currently holds.

**Table 2. Export Statistics**

Brazil Export Statistics								
Commodity: Cotton, Group 55 (2012)								
Year Ending: July								
Partner Country	Unit	Quantity			% Share			% Change
		2015	2016	2017	2015	2016	2017	2017/2016
World	T	867,778	954,644	629,145	100.00	100.00	100.00	- 34.10
Indonesia	T	185,506	141,875	124,200	21.38	14.86	19.74	- 12.46
Turkey	T	71,157	122,217	87,335	8.20	12.80	13.88	- 28.54
Vietnam	T	99,381	142,136	82,600	11.45	14.89	13.13	- 41.89
Korea South	T	95,659	123,983	77,985	11.02	12.99	12.40	- 37.10
Bangladesh	T	18,692	25,387	53,365	2.15	2.66	8.48	110.21
China	T	181,181	106,403	47,487	20.88	11.15	7.55	- 55.37
Malaysia	T	44,289	82,612	36,184	5.10	8.65	5.75	- 56.20
Pakistan	T	41,519	77,556	34,578	4.78	8.12	5.50	- 55.42
Thailand	T	43,398	47,072	23,175	5.00	4.93	3.68	- 50.77
Japan	T	16,180	11,845	17,887	1.86	1.24	2.84	51.01

Source: Global Trade Atlas

### 2017/18 Imports to Come Down by 60 Percent

Due to the bumper crop forecast for the upcoming season, Brazil will heavily reduce its import needs for MY 2017/18 compared to the previous year. Post forecasts total imports between August 2017-July 2018 at 75,000 bales or 16,329 mt.

### Lower Supplies and Duty Free Imports Helped Import Surge in 2016/17

Due to the drought that heavily impacted the crop on MY 2015/16, Brazil had to source cotton from other producers, especially the United States. The lower domestic supplies, especially for mills in the northeastern part of the country, Brazil temporary lowered the import tariff to zero for up to 75,000 MT between February 2017 and July 31, 2017. Imports for MY 2016/17 increased by 88 percent compared to 2015/16, mainly benefiting U.S. exporters. Total imports for MY 2016/17 (August 2016-July 2017) reached 189,000 bales or 41,167 mt.

**Table 3. Import Statistics**

Brazil Import Statistics								
Commodity: Cotton, Group 55 (2012)								
Year Ending: July								
Partner Country	Unit	Quantity			% Share			% Change
		2015	2016	2017	2015	2016	2017	2017/2016
World	T	5,322	21,903	41,167	100.00	100.00	100.00	87.95
United States	T	136	17,488	38,622	2.55	79.84	93.82	120.85
Argentina	T	952	2,918	1,253	17.88	13.32	3.04	- 57.06
Egypt	T	850	1,005	604	15.98	4.59	1.47	- 39.91
Spain	T	270	376	221	5.08	1.72	0.54	- 41.16
Israel	T	206	91	178	3.87	0.42	0.43	95.10

Source: Global Trade Atlas

### **CONSUMPTION:**

#### **Improved Economic Outlook Promises Higher Domestic Consumption**

As Brazil begins its economic recovery, the sector is working hard to increase domestic cotton consumption. For MY 2017/18, post forecasts consumption at 3.2 million bales (700,000 MT), an increase of two percent compared to the previous marketing year. Post forecasts consumption for 2016/17 to increase to 3.05 million bales (664,000 MT).

The Cotton Producers Association in collaboration with the Brazilian Cotton Institute, and Bayer, also launched a marketing campaign last December during Sao Paulo's Fashion Week. The campaign "Sou Algodao" (I'm Cotton) uses fashion designers in Brazil to promote and increase cotton usage in the Brazilian textile sector. This campaign, inspired by the U.S. cotton sector promotional efforts that began in the 1980s, hopes to increase cotton consumption by one percent a year for the next 10 years.

### **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.