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Date: 4/3/2018
GAIN Report Number: BR1808

Brazil

Cotton and Products Annual

Cotton Area to Expand Supported by Higher Exports

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Report Highlights:

Post forecasts cotton planted area for 2018/19 to increase to 1.2 million hectares, the highest level since 2012, based on higher prices and domestic demand. Production for 2018/19 is forecast at 9 million bales (1.95 million metric tons). Post forecasts cotton exports to increase to 4.6 million bales (1 million metric tons) for the Marketing Year (MY) 2018/19 as a result of higher exportable supplies. Brazil will continue to depend on exports and its improvements on quality will continue to attract overseas buyers. For MY 2018/19, post forecasts total consumption to increase to 3.45 million bales (751,000 MT) as a result of an expected economic recovery.

COTTON PRODUCTION

2018/19 Outlook:

Post forecasts Brazil's 2018/19 cotton area to increase to 1.2 million hectares (ha), 5 percent higher than the 2017/18 season. The increase is based on a recovery of domestic prices, higher margins versus other commodities (i.e. corn), and a recovery of the domestic economy. Production is forecast to increase to 9 million bales (1.95 million metric tons), 3.4 percent higher compared to the current season.

Post forecasts Mato Grosso (MT), the biggest cotton producing state in Brazil, to have about 67 percent of total area, or 800,000 ha, mostly planted as a second crop starting in January 2019. The growing importance of cotton as a second crop in Mato Grosso is due to higher profitability, technology improvements especially in seed varieties, and better control of pests and diseases.

The state of Bahia, the second most important cotton producing state, is forecast to plant 275,000 ha. The increase in both Mato Grosso and Bahia will be mostly driven by higher demand and better prices.

2017/18 Progress:

Post estimates 2017/18 harvested area at 1.14 million ha, an area increase of 2.1 percent compared to 2016/17. Cotton production is forecast at 8.7 million bales (1.89 million metric tons). The increase in area is due to higher domestic prices, export demand, and an economic recovery in Brazil.

In Mato Grosso, with about 85 percent of the crop was planted as a second crop, planting started in January 2018. Post estimates area in Mato Grosso at 750,000 ha. Bahia, second largest producing state in Brazil, reached 270,000 ha mainly incentivized by the higher prices. Overall, yields nationally are forecast to reach the highest on record because of excellent performance by new seed technologies and favorable weather.

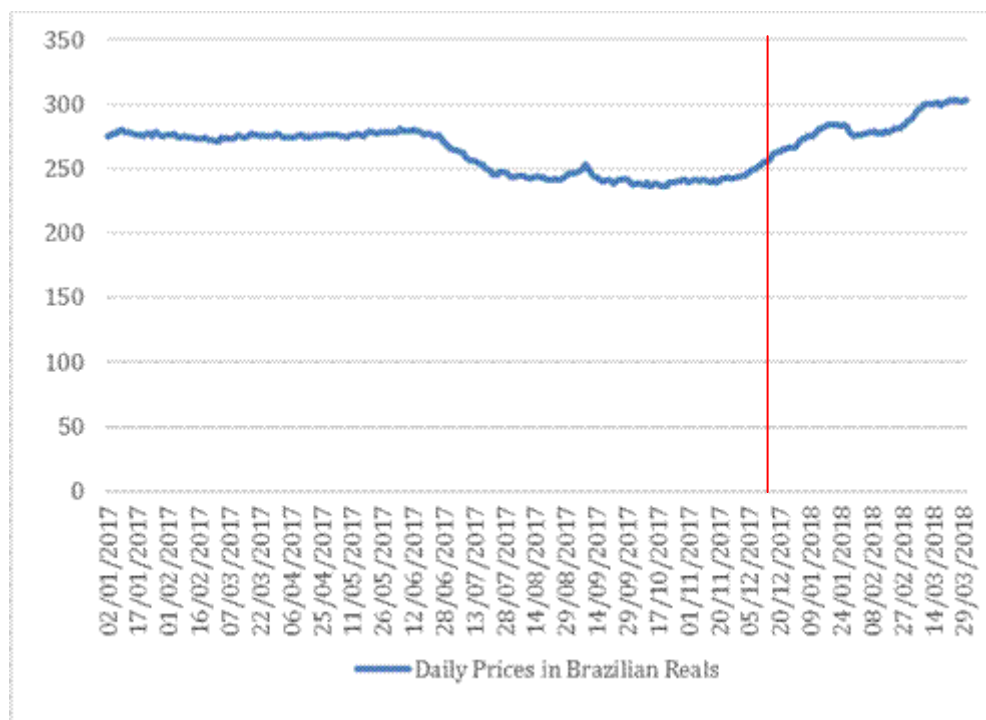
Table 1. Production Statistics by State (2017/18)

State	Area (HA)	Yield (MT/HA)	Production (MT)	
Mato Grosso	750,000	1.65	1,237,500	
Bahia	270,000	1.60	437,400	
Mato Grosso Do Sul	30,000	1.80	54,000	
Goiás	34,000	1.60	54,400	
Other	56,000	1.63	91,280	
Brazil	1,140,000	1.66		

PRICES

Since the beginning of 2018, domestic prices have gone up significantly. In Mato Grosso, prices have increased by 12 percent since the beginning of the year. In March 2018, it hit the highest level in seven years. In Bahia, prices are up almost 20 percent since January 2018. This increase is a result of various factors influencing the domestic market: 1) The economic recovery and 2) higher expected global demand. Nationally, cotton domestic prices hit its highest levels since January 2017, an increase of 10 percent.

Table 2: Cotton Domestic Prices in cents of R\$ per lbs (2017-2018)



Source: Center for Advanced Studies in Applied Economics (CEPEA)
 * Cotton grade 41-4, staple 30/32mm, 8-day term payment, no interstate commerce tax.
 Includes freight for point of delivery Sao Paulo city.

CONSUMPTION

2018/19 Outlook:

For Marketing Year (MY) 2018/19, post forecasts total consumption to increase to 3.45 million bales (751,000 MT). The increase is a result of the continuing economic recovery and higher consumer confidence.

In addition, the Brazilian Cotton Producers Association (ABRAPA) continues to invest in improving the quality and image of Brazilian cotton to support higher domestic and international demand. This year, ABRAPA is launching the Standard Brazil HVI Program, which will focus on quality, standardizing cotton’s instrumental classification, and computerizing access to classification data. The program uses its new national reference lab in Brasilia to verify HVI test results in the 14 different labs around the country. The lab uses the latest technologies and is currently being prepared to obtain the ICA-Bremen

certification.

2017/18 Progress:

Post forecasts total consumption for 2017/18 MY at 3.35 million bales (729,000 MT), about 10 percent higher compared to the previous season. The Brazilian economic recovery and the increase of oil prices, which directly impacts production of synthetic products, are supporting the higher domestic cotton demand.

After a severe Brazilian economic decline in 2014, the government has implemented macroeconomic adjustments that helped support the recovery. In 2018, Brazil's economy is expected to grow by 3 percent. In addition, according to industry sources, the consumption of textile products is expected to increase between four to five percent in 2018.

In 2017, the textile sector had about US\$ 45 billion dollars in revenues compared to US\$ 39.3 billion dollars. The increase was a direct result of the economic improvement last year. The textile and apparel industry is distributed throughout the country. The Southeastern region of Brazil is the largest textile production area and employs about 50 percent of the employees in the different areas of the production chain. The Southern region is the second biggest production area and employs about 30 percent of the sector's work force.

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

2018/19 Export Outlook:

Post forecasts cotton exports for the MY 2018/19 to increase to 4.6 million bales (1 million MT). The export forecast is higher compared to the previous MY as a result of stronger global demand and economic global growth. Brazil will continue to depend on exports and its improvements in quality will continue to attract overseas buyers.

2017/18 Export Progress:

For MY 2017/18, post forecasts cotton exports at 4.4 million bales (958,000 MT). The higher exports are mainly due to the strong purchases by Indonesia, Vietnam, Bangladesh, and Turkey. Exports in this current MY are forecast to be 57 percent higher than the previous season mainly due to higher exportable supplies. Between August 2017 and February 2018, exports already reached 812,126 metric tons.

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

Brazil Export Statistics								
Commodity: Cotton								
Year Ending: July								
Partner Country	Unit	Quantity			% Share			% Change 2016/2017
		2014/15	2015/16	2016/17	2015	2016	2017	
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

*MY 2016/17 (August 2016-July 2017)
Source: Global Trade Atlas

2018/19 Import Outlook:

For MY 2018/19, post forecasts imports to drop to 4,000 bales (900 MT). The decrease is due to higher

exportable supplies and higher cotton quality.

2017/18 Import Progress:

For MY 2017/18, post forecasts imports at 6,000 bales (1,300 MT). The lower imports compared to the previous year is due to the recovery in cotton production in Brazil after the weather problems in the 2016/17 season. Between August 2017 and February 2018, Brazil imported 1,050 metric tons so far, mainly from the United States.

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

Brazil Import Statistics Commodity: Cotton Year Ending: July								
Partner Country	Unit	Quantity			% Share			% Change 2016/2017
		2014/15	2015/16	2016/17	2015	2016	2017	
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
Paraguay	T	169	0	149	3.18	0.00	0.36	0.00

*MY 2016/17 (August 2016-July 2017)
Source: Global Trade Atlas

Production, Supply and Demand Statistics:

Cotton	2016/2017		2017/2018		2018/2019	
Market Begin Year	Aug 2016		Aug 2017		Aug 2018	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	940	940	1120	1140	0	1200
Beginning Stocks	6259	6259	7609	7509	0	8465
Production	7000	7000	8000	8700	0	9000
Imports	189	189	100	6	0	4
Total Supply	13448	13448	15709	16215	0	17469
Exports	2789	2889	4200	4400	0	4600
Use	3200	3200	3400	3500	0	3600
Loss	-150	-150	-150	-150	0	-150
Total Dom. Cons.	3050	3050	3250	3350	0	3450
Ending Stocks	7609	7509	8259	8465	0	9419
Total Distribution	13448	13448	15709	16215	0	17469
Stock to Use %	127.05	123.32	108.67	107.15	0	114.87
Yield	1621	1621	1555	1662	0	1633
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						