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Prepared By: Evgenia Ustinova

Approved By: Oliver Flake

Report Highlights:

Post forecasts Brazil's 2019/20 marketing year (MY) cotton area to reach 1.65 million hectares (ha), an increase of about two percent on the current season's estimated area of 1.62 million ha. Post forecasts 2019/20 harvest at 12.67 million bales (2.76 million metric tons). Next season's expansion rates for cotton planted area and production are subdued as compared to explosive growth seen in Brazil's cotton sector in recent past. This forecast is based on the expectation of lower global prices and higher production costs. Exports are forecast to top 8.5 million bales, up from 6 million bales in the 2018/19 season. Domestic consumption is forecast at 3.6 million bales, which is a three percent increase compared to the current MY, and is forecast based a moderate economic growth outlook for 2020.

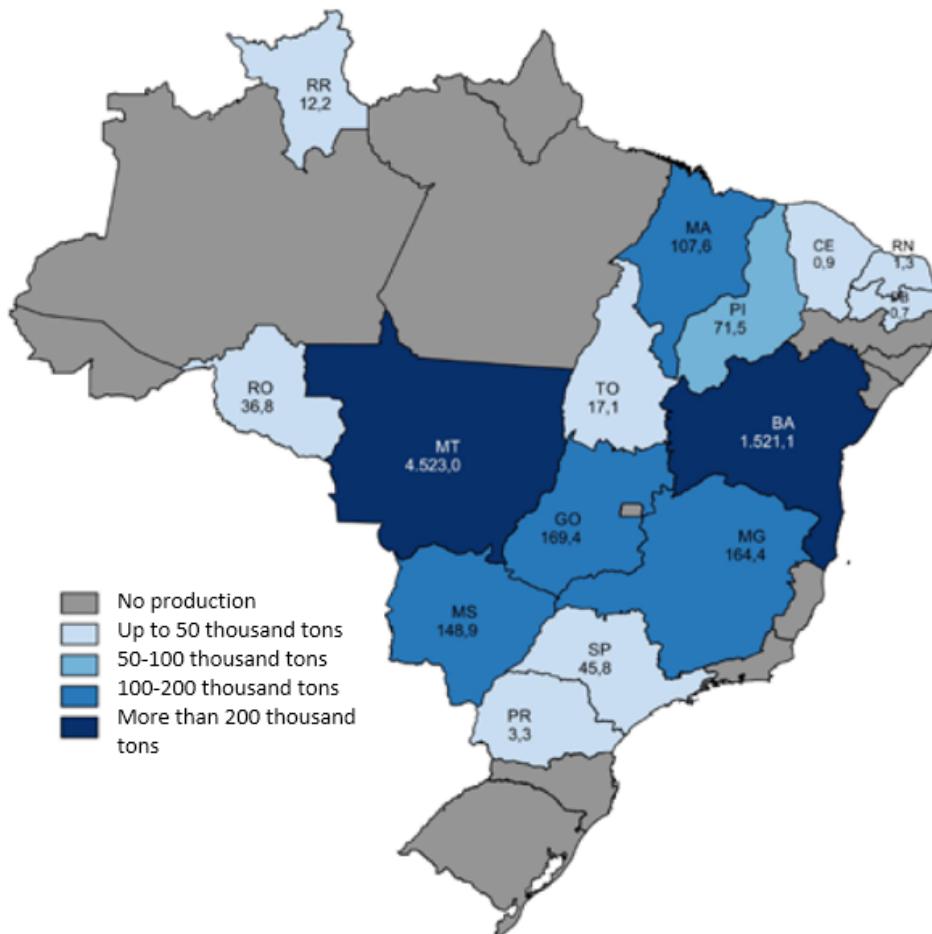
PRODUCTION

Planted Area and Production Forecast to Plateau

Post revised its forecast for Brazil's harvested area to 1.65 million hectares (ha) for the 2019/20 season, virtually unchanged as compared to the current season area of 1.62 million ha. Post believes that farmers have already determined their final sowing plan, though planting will not start until December - January.

Post forecasts 2019/20 production at 12.67 million bales (2.76 million metric tons), based on the expectation of normal weather patterns. Post forecasts 1.669 kg/ha yield for the coming harvest, slightly below the productivity projected for the 2018/19 season. The yield forecast is based on expectation of average weather patterns and assumes that the recently added cotton area has yet to reach its maximum output potential, a process which takes several years to be completed.

Cotton Producing States in Brazil



Source: CONAB, November 2019 report

*Note that the map shows cotton production including cottonseed

The above map is showing all of the cotton growing states in Brazil. The states of Mato Grosso (MT) and Bahia (BA) are the two powerhouse producers. There is some expansion happening in the northern states of Rondonia (RO), and the Northeastern states of Maranhao (MA) and Piaui (PI), though in the foreseeable future they are not expected to surpass one to two percent of Brazil's total cotton area planted. While the land is less expensive and labor more readily available in those regions of Brazil, producers there face other obstacles, ranging from less predictable rain patterns to long wait time - of five or more years - to see adequate yields on the land. Given the high cost of cotton production, the potential risk generally outweighs forecast returns.

In addition, currently, 95 percent of cotton grown in Brazil is rain irrigated. Interlocutors have indicated to Post that in order for production to move beyond Mato Grosso and Bahia in any meaningful way, the sector and / or the government would have to invest in irrigation, in order to alleviate the crop risk from unpredictable rain patterns. Given the overall sluggish economy, and the cost of irrigation systems, in the foreseeable future this investment is unlikely.

Planting for the 2019/20 season has yet to get underway. In the majority of the cotton producing states, farmers are subject to the so-called *vazio sanitario*, or sanitary period during which time they are not permitted to sow cottonseed. In Mato Grosso, the period is in effect from October 1 to November 30 in the southern and central parts of the state, and from October 15 to December 14 in northern and northwestern parts of the state. Producers are permitted to sow after the period ends and through February 28 of the next year. In Bahia, the *vazio sanitario* is in effect from October 1 to December 1 2019.

Area and Production Forecast by State for 2019/20

	Planted Area (1000 HA)	Percent of Total Area Planted	Production (MT)	Percent of Total Production
Total	1652	---	2758	---
Mato Grosso	1120	68%	1840	67%
Bahia	345	21%	610	22%
Goias	42	3%	66	2%
Mato Grosso Do Sul	33	2%	60	2%
Minas Gerais	41	2%	65	2%
Maranhao	28	2%	43	2%
Piaui	18	1%	30	1%
Others	25	2%	44	2%

Source: Post Brasília Forecast

Expansion Held Back by Tighter Margins

Compared to the breakneck speed of expansion recorded over the last several years in the Brazilian cotton sector, planted area and productivity in 2019/20 is forecast to record fairly insignificant gains of 1.85 and 0.88 percent respectively. The Post forecast is based on the expectation that production costs will increase, while global cotton prices will remain subdued resulting in overall lower revenues for producers. Post believes that in this scenario, anything above two to three percent in area expansion does not make sense.

According to the institute of Agricultural Economics of Mato Grosso (IMEA) October forecast, the operational cost of cotton production in the state will rise to R\$ 9,092.82 for the 2019/20 season, up from the estimated R\$ 8,592.71 for the 2018/19 season. This six percent increase in season-on-season expenses is linked to the rise of the dollar, which in turn led to rising import cost for fertilizers and pesticides. In addition, IMEA cites an increase in manual labor costs – which often times is paid in sacks of soybeans; incidentally, farmgate soybean prices have been rising in relation to the previous harvest. As a result of these higher forecast input costs, the breakeven price that the farmer must negotiate in order to cover his operational costs will also rise to R\$ 78.38 per arroba, from around R\$ 75 per arroba for the 2018/19 harvest.¹

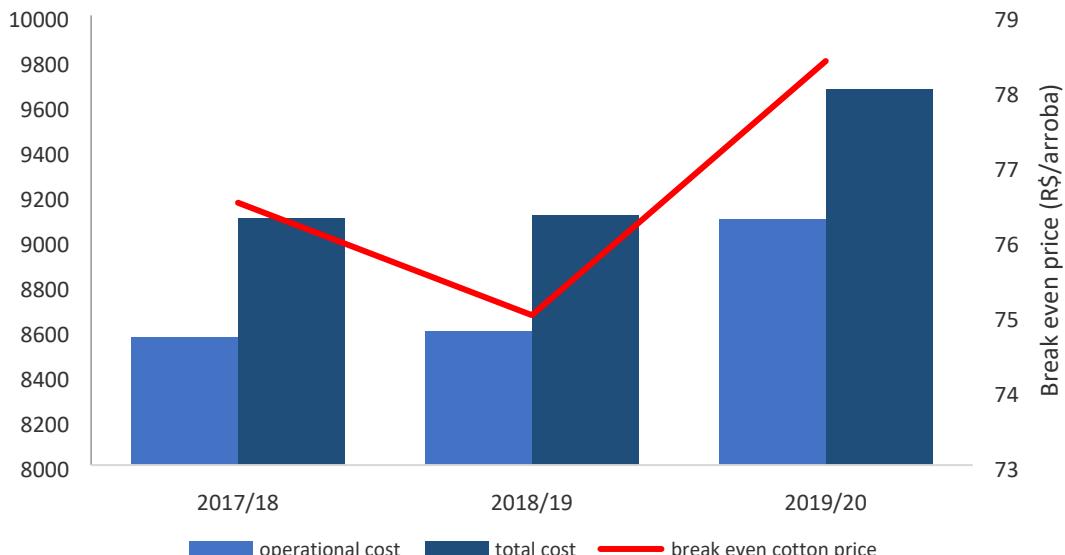
Cotton Cost of Production in MT for 2018/19 vs 2019/20			
	2018/19	2019/20	% Change
A. Variable Costs of Production			
<i>Variable Costs of Production (on Farm)</i>			
Fertilizers	1618.16	1688.43	4%
herbicides, fungicides, insecticides	2964.24	3147.94	6%
Seeds	807.07	786	-3%
machinery operation	355.09	349.84	-2%
Labor	90.77	105.42	14%
Other variable expenses	282.82	280.33	-1%
<i>Variable Costs of Production (ex Farm)</i>			
Transport	192.04	210.11	9%
Classification, Processing	861.32	1009.36	15%
Taxes and Tariffs	269.99	377.74	29%
Maintenance of machineries and installations	271.35	262.86	-3%
Admin Costs	94.19	91.66	-3%
Interest Rates	596.11	590.88	-1%
B. Fixed Costs of Production			
Depreciation	164.4	165.21	0%
Other fixed costs	25.16	27.04	7%
Total Operating Costs (A+B)	8,592.71	9,092.82	6%
C. Income Factors			
Expected returns on Capital	122.15	139.56	12%
Land	395.50	412.22	4%
Total Cost (A+B+C)	9,110.36	9,644.60	6%

*all costs cited in Brazilian Real for the month of October 2019 and projected October 2020

Source: IMEA

¹ Arroba is a Brazilian unit of cotton volume that equates to about 15 kilograms, or 33 pounds.

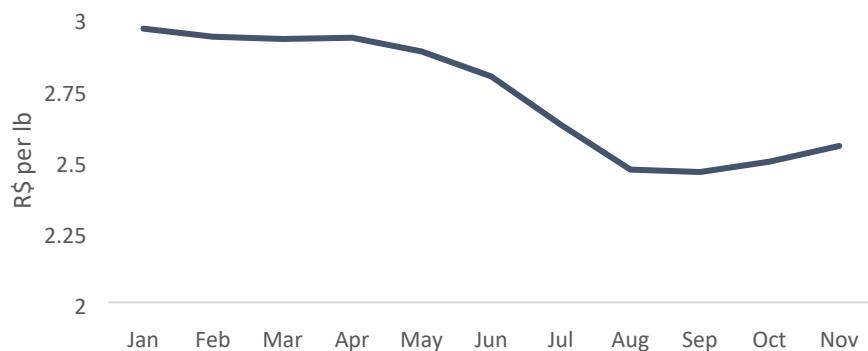
Cotton Cost of Production vs Break Even Price



Source: IMEA data, chart by FAS Brasilia

Domestic prices have continued to mirror the global cotton price trends, and as such remain far below the levels seen during the 2018/19 season. Since the beginning of the year, domestic cotton prices declined steadily to a low of R\$ 2.44 per pound (lb) in September 2019. Post believes that during that point of the year, the industry expectation was to see planted area decline by as much as ten percent. However, since then, prices have recovered modestly to an average of R\$ 2.49 /lb in October, and as much as R\$ 2.55 /lb by mid November. It is worth mentioning that Brazil's Ministry of Agriculture research arm (CONAB) has pointed to a slight uptick in cotton prices as the reason for their forecast of 1.8 percent area expansion for the 2019/20 season.

Domestic Cotton Prices



Source: Center for Advanced Studies in Applied Economics (CEPEA), chart by FAS Brasilia

* Cotton grade 41-4, staple 30/32mm, 8-day term payment, no interstate commerce tax. Includes freight for point of delivery to São Paulo city.

Current Cotton Harvest Surpasses Estimates

Post revised its estimate for 2018/19 harvested area to 1.62 million ha, up from the estimate of 1.6 million ha in the previous update. Post also revised the estimated yield up slightly to 1.685 kg/ha, from 1,679 projected in August. The resulting production is estimated at 12.54 million bales (2.73 million metric tons), up from last season's crop of 9.22 million bales (2 million metric tons).

In the Center-west cerrado region - the epicenter of cotton production in Brazil – producers sowed more than 1.15 million ha, most of that in the state of Mato Grosso (MT). Farmers in MT alone planted around 1.1 million ha, harvesting more than 8.4 million bales (1.8 million metric tons) for the season – almost equivalent of the total cotton volume produced in all of Brazil in the previous, 2017/18, season. Producers in the southern state of Bahia sowed more than 330 million ha, and harvested upwards of 2.75 million bales (0.6 million tons of cotton).

In percentage terms, the largest planted area increase season-on-season was recorded in the northern states of Brazil, with planted area more than doubling in the region. This occurred thanks to the initiation of cotton production in the state of Rondonia (RO), on the border of Mato Grosso. Producers planted 5.2 thousand ha in RO, resulting in production of more than 7 thousand metric tons. Planted area also more than doubled in the northeast state of Piaui to about 16 thousand ha, up from 7 thousand ha in the previous harvest, and production increasing to almost 25 thousand metric tons up from 12 thousand metric tons in that same timeframe.

TRADE

2019/20 Forecast Record Exports

Post maintains its export forecast of 8.5 million bales (1.85 million metric tons) for the 2019/2020 marketing year (MY, August 2019-July 2020) – a more than 40 percent increase year-on-year. In October, Brazil set a monthly export record, with more than 273 thousand tons shipped, a significant increase on the previous high of 215 thousand tons recorded last December. Post believes that November and December of this year are likely to see similarly high volumes. Some market analysts predict that Brazil may break through two million metric tons in exports this marketing year. This early in the season, final demand coming out of China is still a wildcard (see previous GAIN BR 1923 for expanded discussion). As such, Post may revise its export forecast in subsequent updates.

Importantly, previous GAIN reports pointed to the fact that there was significant concern in Brazil, that the Port of Santos, which is responsible for more than 90 percent of cotton shipped from the country, may not be able to handle a significant increase in cotton volumes. Over the last year, the industry has in fact, at times, faced bottlenecks and longer wait times to get product out due to lack of vessels. However, port officials in Santos have added several additional lines to ensure that product leaves the port on time. Interlocutors indicate that if Santos is able to ship more than 250 thousand tons on the monthly basis in October-December of this year, it should be able to handle such volumes for five to six months of the year. Therefore, Santos should be able to accommodate growth in exports for the next several years, at least.

In terms of cotton export destinations, China will remain the main buyer of Brazilian cotton, followed closely by other consumers in Asia.

2018/19 Exports Set a Record

Post revised slightly upward its estimate for cotton exports to six million bales (1.3 million metric tons) for the 2018/19 marketing year (MY, from August 2018 to July 2019.) With this marketing year in the books, Brazil has cemented its place as the second largest cotton exporter in the world.

CONSUMPTION

Domestic Industry Eyes Opportunities and Risks in Trade

Given the recent ballooning of domestic cotton production, and the relative weakness of the Real against the U.S. dollar (around R\$4 to the dollar), it is no surprise that Brazil's cotton imports have hit an all-time low of 13 thousand bales in 2018/19, and are forecast at just 15 thousand bales for 2019/20. Thus, the majority of consumed cotton in Brazil is sourced on the internal market.

For MY 2019/20, Post forecasts domestic consumption at 3.5 million bales (just over 760 thousand metric tons), an increase of just under three percent compared to the current season of 3.4 million bales (740 thousand metric tons). The domestic industry is held back by the sluggish economy, which is expected to increase less than one percent this calendar year, before picking up pace in 2020 of two to three percent growth. Subdued economic performance corresponds closely to the Brazilian consumer sentiment, the chief driver of demand for the domestic textile sector.

More than 90 percent of Brazil's the domestic industry's manufactured product – whether yarn, textiles, or consumer articles – is sold on the domestic market. According to the Brazilian Association of the Textile and Apparel Industry (ABIT), in 2018, domestic production totaled under R\$177 billion, or about \$48 billion dollars (with the average exchange rate of R\$ 3.65 to the USD). Meanwhile exports were just around \$2.6 billion, meaning that only about five percent of the product was exported last calendar year. Meanwhile, Brazilian consumers continue to demand a range of imported textile products, with total industry imports reaching over \$5.7 billion in 2018.

The textile sector sees increasing exports as a viable way to grow domestic manufacturing. Currently, the majority of Brazilian textile product exports are shipped to countries in Latin America. With a beneficial exchange rate vis-à-vis its neighbors, Brazilian exports increased in volume by 14 percent between 2014 and 2018, and by 7.8 percent just between 2017 and 2018. A potential boost to exports could come from free trade agreements (FTAs) with more developed markets, such as the EU-Mercosul FTA (once adopted). At the same time, the sector is wary of potential trade agreement with countries such as China, whose industry – in the environment of lower import tariffs – could potentially flood Brazil with readymade textile products. However, for the next year or two, Post does not foresee major changes to the Brazilian textile industry's orientation towards the domestic consumer market.

STOCKS

Clarification on Beginning/Ending Stock Estimates

Post is aware that Brazilian stock figures seemingly differ greatly with statistics furnished by other agencies, including, for example, Brazil's official data supplied by CONAB. Please note that all of the USDA official cotton estimates as well as those in this report are based on a standardized August-July MY that applies to all countries worldwide. As such, MY 2018/19 correlates with Northern Hemisphere countries, such as the United States and not with Southern Hemisphere countries such as Brazil. For Brazil, this means that a marketing year splits up production from exports and domestic consumption, which are recorded in the following marketing year. Hence, USDA's beginning/ending stock estimates capture Brazilian stocks mid-harvest on July 31 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.

Brazilian Cotton Production, Supply and Demand (in bales)

Cotton	2017/2018		2018/2019		2019/2020	
Market Begin Year	Aug 2017		Aug 2018		Aug 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	1175	1175	1620	1620	1500	1652
Beginning Stocks	6929	6929	8657	8657	11780	11800
Production	9220	9220	12520	12540	11600	12667
Imports	82	82	17	17	25	20
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	16231	16231	21194	21214	23405	24487
Exports	4174	4174	6014	6014	8600	8500
Use	3400	3400	3400	3400	3400	3600
Loss	0	0	0	0	0	0
Total Dom. Cons.	3400	3400	3400	3400	3400	3600
Ending Stocks	8657	8657	11780	11800	11405	12387
Total Distribution	16231	16231	21194	21214	23405	24487
Stock to Use %	114.3	114.3	125.13	125.35	95.04	102.37
Yield	1708	1708	1683	1685	1684	1669

Brazilian Cotton Production, Supply and Demand (in metric tons)

Cotton	2017/2018		2018/2019		2019/2020	
Market Begin Year	Aug 2017		Aug 2018		Aug 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	1175	1175	1620	1620	1500	1652
Beginning Stocks	1509	1509	1885	1885	2565	2569
Production	2007	2007	2726	2730	2526	2758
Imports	18	18	4	4	5	4
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	3534	3534	4614	4619	5096	5331
Exports	909	909	1309	1309	1872	1851
Use	740	740	740	740	740	784
Loss	0	0	0	0	0	0
Total Dom. Cons.	740	740	740	740	740	784
Ending Stocks	1885	1885	2565	2569	2483	2697
Total Distribution	107.15	109.15	110.15	112.15	113.15	115.15
Stock to Use %	114.3	114.3	125.13	125.35	95.04	102.37
Yield	1708	1708	1683	1685	1684	1669
(1000 HA), (1,000 tons), (PERCENT), (KG/HA)						

Attachments:

No Attachments