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Global Agricultural Information Network

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Brazil

Post: Brasilia

Cotton and Products Update

Area Planted for 2015/16 Forecast to Drop to the Lowest in Three Years

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Report Highlights:

Post forecasts Brazil's Marketing Year (MY) 2015/16 cotton area to drop to 900,000 hectares, an eight percent drop compared to the previous year. The planted area is expected to be the lowest in three years as a result of high cost of production, the high cost to borrow money, and the lower share of subsidized loans for cotton production from the Brazilian government as a result of economic adjustments.

Cotton	2013/2014		2014/2015		2015/2016	
Market Begin Year	Aug 2013		Aug 2014		May 2016	
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	975	975	975	900
Beginning Stocks	5801	5801	7668	7668	7032	7357
Production	8000	8000	7000	6900	7000	6400
Imports	147	147	24	24	100	50
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	13948	13948	14692	14592	14132	13807
Exports	2230	2230	3910	3985	3800	4000
Use	4200	4200	3900	3400	3750	3300
Loss	-150	-150	-150	-150	-150	-150
Total Dom. Cons.	4050	4050	3750	3250	3600	3150
Ending Stocks	7668	7668	7032	7357	6732	6657
Total Distribution	13948	13948	14692	14592	14132	13807

(1000 HA) ,1000 480 lb. Bales

USDA 2015/16 MY = August 2015 to July 2016

Dollar Exchange Rate = R\$3.70 per U.S. Dollar

Higher Costs of Production Lowering Incentives to Plant Cotton in 2015/16

Post forecasts that 2015/16 area planted to cotton will drop to 900,000 hectares (ha), an area reduction of eight percent compared to 2014/15. The planted area is expected to be the lowest in three years as a result of higher costs of production, the high cost to borrow money, and the lower share of subsidized loans for cotton production from the Brazilian government as a result of economic adjustments. 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).

Mato Grosso, the largest cotton growing state in Brazil, is forecast to have a planted area of 575 ha, slightly higher than last year. The main reason for the slight increase in area in Mato Grosso is due to the increase (forecasted) of soybean area for 2015/16, which will lead to additional land for a cotton rotation as a second crop (safrinha). It is forecast that 75 percent of the cotton in Mato Grosso will be planted as a second crop.

For Bahia, the second largest cotton producing state in Brazil, the story is different. Bahia is forecast

to have a reduction of at least 10 percent in area compared to last year. Cost of production is expected to also be higher compared to last year. In addition, high transportation costs make the purchase of inputs in this area more expensive and make cotton from this area less competitive.

It seems that these two states have made their decisions for next year, but we could always see changes as we get closer to the planting season later in the year. However, the incentive to plant cotton is low as a result of low global prices, high cost of production, the high cost to borrow money, and the lower share of subsidized loans for cotton from the government as a result of the economic adjustments. Lastly, the weaker real, which has depreciated about 40 percent since the beginning of the year, and is expected to depreciate more, is pushing producers make decisions now to lock a better exchange rate to buy inputs, which is mostly imported.

2014/15 Harvest at Over 90 Percent Completed

For the 2014/15 crop, post estimates a harvested area of 975 ha with national yields at 1.54 MT/ha. Production is estimated at 6.9 million bales (1.5 million MT). Mato Grosso harvested an estimated area of 564,000 ha and Bahia harvested an estimated area of 280,000 ha. Cost of production in Mato Grosso was estimated at about R\$6,300/ha (US\$1,702) and in Bahia it was estimated at about R\$7,000/ha (US\$ 1,891). A third of these costs alone were to control pests.

The “War” Against the Bicudo (boll weevil)

At the 10th National Cotton Congress in Brazil on September 1-4, the National Cotton Producers Association (ABRAPA) launched a campaign to combat the boll weevil (*Anthonomus grandis*), the pest that affects all cotton producing states in Brazil. One of the main proposals by ABRAPA is bring resources together from producers, technicians, government, scientific community, and pesticide industries to carry out a national campaign to confront the pest. The industry is already working with the Brazilian Agricultural Research Corporation (EMBRAPA) in creating a research platform dedicated to the development of transgenic cotton events focusing on resistance to boll weevil.

According to ABRAPA, this pest is the biggest obstacle currently facing the sector. According to ABRAPA’s calculations, cotton farmers lose about R\$ 1.7 billion a year (US\$ 460 million) due to damages caused by the pest.

Weak Brazilian Real Making Cotton More Competitive for 2015/16

Post forecasts cotton exports for 2015/16 at 4 million bales as a result of the weak domestic currency, which is making Brazilian cotton more competitive. The ongoing economic challenges in Brazil are heavily impacting the value of the Brazilian Real (Real). On September 9, 2015, the Real reached its lowest value since 2002 at 3.90 Reals per US\$. Since January 2015, the Real lost over 40 percent of its value. The expectation is that the value of the Real will depreciate even further. Despite the low global cotton prices, high export parity continues to favor the short position in the cotton market. Domestic future prices and lower domestic demand are also supporting post’s forecast of higher cotton exports.

Post estimates exports for 2014/15 MY at 3.9 million bales (868,000 MT) based on final trade data (August 2014-July 2015). By the end of the Marketing Year 2014/15, the top four export markets for

Brazi were: Indonesia, China, Vietnam, and South Korea. Brazil's top markets as indicated below (except for South Korea) increased imports substantially compared to the previous year.

Brazil Export Statistics
Commodity: Cotton
Year Ending: July

Partner Country	Unit	Quantity			% Share			% Change
		2013	2014	2015	2013	2014	2015	2015/2014
World	T	952,477	498,273	867,778	100.00	100.00	100.00	74.16
Indonesia	T	151,816	115,435	185,506	15.94	23.17	21.38	60.70
China	T	311,255	98,311	181,181	32.68	19.73	20.88	84.30
Vietnam	T	54,968	39,132	99,381	5.77	7.85	11.45	153.96
Korea South	T	145,350	97,303	95,659	15.26	19.53	11.02	- 1.69
Turkey	T	50,712	19,325	71,157	5.32	3.88	8.20	268.21
Malaysia	T	33,090	23,498	44,289	3.47	4.72	5.10	88.48
Thailand	T	40,403	26,049	43,398	4.24	5.23	5.00	66.60

Cotton Consumption:

According to the latest industry data, the Brazilian textile industry is struggling and has recorded a deficit on contracts. In addition, the unfavorable Brazilian economic scenario, which is expected to extend to 2016, is making it unlikely that the 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) and 3.4 million bales (750,000 MT) for 2014/15. The economics in Brazil, especially the higher inflation affecting consumers and the increase in energy prices are truly affecting domestic demand. In addition, competition from synthetic fibers due to lower oil prices is making domestic cotton less competitive.

The industry continues to be concerned with the fact that market share for cotton fiber keeps going down. As a result, the industry launched a marketing campaign to promote cotton productions. In addition, the industry is pushing to continue to increase the Brazilian Responsible Cotton certification program (ABR). The ABR program is an initiative of ABRAPA and the ten state producers associations to unify the certification protocol in cotton production in Brazil. The program started

during the 2013/14 harvest. The APR is based on principles related to the three basic pillars of sustainability: environmental, social and economic. Today, over 70 percent of the cotton production in Brazil is ABR certified.