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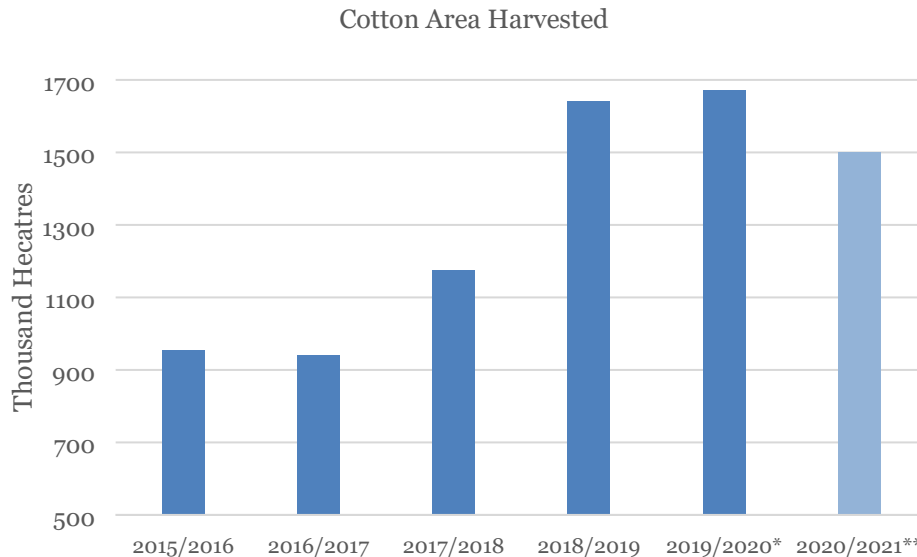
Report Highlights:

Post forecasts 2020/21 cotton area planted at 1.5 million hectares (ha), down 10 percent from the current harvest. Post's forecast is mostly based on the tepid outlook for global consumption, and consequently low prices. In addition, the majority of cotton growers in Brazil have profitable alternative crops, such as soybeans or corn. The Post forecast for 2020/21 cotton production is 12.1 million bales. For the 2019/20 season, Post estimates area harvested at 1.69 million ha, and production at 13.4 million bales, with output higher than initially envisioned due to favorable weather. While domestic consumption is expected to plummet amid the hard-hitting coronavirus pandemic, exports will remain strong. Post forecasts 2020/21 MY exports at 9 million bales, nearly level when compared to the current season export estimate of 8.9 million bales. Exports are buffered by weak domestic currency, making Brazilian commodities more competitive internationally.

PRODUCTION

Planted Area to Shrink in 2020/21, But Production to Remain Robust

Post revised its April forecast for 2020/21 cotton area planted to 1.5 million hectares (ha), down 10 percent from 1.7 million ha cotton area harvested in the current season. The expected contraction comes on the heels of rapid expansion over the last several years; growers planted less than one million ha as recently as five seasons ago. For now, factors driving planted area contraction are mostly short to medium term, and do not signal a retreat by Brazil from its top tier cotton producer status.



Source: Post Brasilia Chart based on USDA PSD data; 2019/20* – Post estimate, 2020/21** Post forecast

Post's forecast for cotton planted area is mostly based on the tepid outlook for global consumption, as economies around the world attempt to recover from the far-reaching impacts of the coronavirus pandemic. Cotton prices are forecast to remain low, and producers may struggle to make a profit.

The Post forecast is also based on the fact that the majority of cotton growers in Brazil have profitable alternative crops. In Mato Grosso - Brazil's largest cotton-producing state - the majority of cotton is grown as a second-season (or *safrinha*) crop. Farmers typically plant early maturing soybean varieties in September-October, with harvest beginning in January. As soybeans are picked from the fields, the cotton goes into the ground for a harvest that will start in April. However, growers may choose to plant second-season corn, instead of cotton. Safrinha corn is similarly planted in January, with harvest beginning in June.

In the northeastern state of Bahia, Brazil's second-largest cotton producer, growers typically plant just one crop. The choice in Bahia is between cotton and soybeans. Given the banner year soybeans have had, and the expected excellent profitability for the soybean crop in 2020/21, there is a strong incentive for farmers to favor the soybean crop. (For more discussion on Brazil's soybean outlook see [Brazil Oilseeds June 2020 Update](#)).

Mato Grosso												
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
soybean												
safrinha cotton												
safrinha corn												

Bahia												
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
soybean												
cotton												
corn												

Source: Post Brasilia: ■ planting season, ■ harvest season, ▨ planting/harvest season

The reduction in planted area will be buffered by the major investments in capacity that large growers made over the last three to five years. Numerous interlocutors have pointed out that producers have recently made significant investments in equipment (planters, pickers, and ginning capacity) in order to maximize returns on available planting area. Given the expense of acquiring new machinery – cotton pickers run upward of \$1 million – large producers are keen to continue to utilize their substantial investments, even in an environment of lower global prices. As such, planted area reduction should mostly come from medium and smaller producers who normally lease equipment required for cotton production.

The Post forecast for 2020/21 cotton production is 12.1 million bales (2.63 million metric tons – MMT), more than a 10 percent decline from the 2019/20 estimated production. The yield is forecast at 1,733 kilograms (kg) per hectare, slightly above the 1,730 kg/ha expected in the current season. Post yield and production forecasts for 2020/21 are based on average weather and adequate use of inputs, such as Genetically Engineered (GE) seeds and the use of chemicals and fertilizers. Given the expense of planting and harvesting cotton, Post does not anticipate that growers will reduce input use despite the less favorable profitability outlook. Moreover, Post forecasts that because cotton production will be more concentrated on the largest growers, yields are likely to slightly improve.

Brazil's 2019/20 Cotton Production a Record

Post estimates area harvested at 1.69 million hectares (ha) for the 2019/20 season, a slight increase on last season's area of 1.64 million ha. Post estimates 2019/20 production at 13.43 million bales (2.92 MMT), based on a 1.730 kg/ha yield. The yield estimate is based on favorable weather patterns through August and assumes this pattern holds. Harvest began in July and will be mostly complete in September.

Looking at the state-by-state breakdown, in 2019/20, producers in Mato Grosso planted almost 1.17 million hectares. Just as was the case in the previous season, growers planted the vast majority of the safrinha cotton within the ideal timeframe – from January to February 15. Weather patterns have been

favorable and Post estimates that the state's yield this season will surpass last year's productivity. If conditions hold, Mato Grosso cotton production will likely reach close to 9.3 million bales (2.02 MMT).

In Bahia, Post estimates area planted to decrease by about five percent to 315 thousand ha, down from 331 thousand ha the previous season. Production this season is estimated at over 2.62 million bales (570 thousand mt) with yields expected to be very good. The so-called veronika, or Indian summer, in December, did not bring the typical problems associated with dryness and the cotton crop did not see any damage. Since that time, Bahia saw good rain distribution and thus Post expects excellent yields. The harvest began in July and should wrap up in September.

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	1678	---	2907	---
Mato Grosso	1165	69%	2020	69%
Bahia	315	19%	570	20%
Goiias	40	2%	65	2%
Mato Grosso Do Sul	32	2%	57	2%
Minas Gerais	38	2%	65	2%
Maranhao	28	2%	48	2%
Piau	20	1%	32	1%
Others	40	2%	50	2%

Source: FAS Brasília Forecasts

PRODUCTION COST AND PRICES

Cost of Production Expect to Rise, Prices to Remain Under Pressure

As noted above, Post interlocutors indicate that producers are looking at the negative outlook for the cotton market in the next year. For example, the Mato Grosso Institute of Agricultural Economy (IMEA) forecasts a seven percent increase in operating costs for the 2020/21 cotton season in the state, mostly due to higher variable cost for inputs and non-recurring expenses. For example, the price of fertilizers is expected to jump nearly 20 percent; this change is driven by the weak Brazilian currency, the real. IMEA calculates that for 2020/21 operating costs will rise to R\$9,690 / ha, as opposed to R\$9,088 for 2019/20. Meanwhile, as the costs of production are going up, cotton prices are expected to remain depressed.

Estimated Production Costs for Biotech Soybeans Varieties in Mato Grosso (Real per ha)			
	2019/20	2020/21	Percent Change y-o-y
<i>Variable Costs of Production (on Farm)</i>	6332.57	6578.29	4%
fertilizers	1656.42	1955.11	18%
herbicides, fungicides, insecticides	3153.85	2947.42	-7%
seeds	791.92	692.41	-13%
machinery operation	346.74	331.18	-4%
labor	104.28	232.87	123%
other variable expenses	279.36	419.3	50%
<i>Variable Costs of Production (ex Farm)</i>	2,563.5	2,519.15	-2%
transportation, storage	212.82	70.52	-67%
cotton classification	1015.71	1,432.05	41%
Insurance, taxes, misc fees	1,069.68	714.12	-33%
Maintenance of machineries and installations	265.29	302.46	14%
<i>Fixed Costs of Production</i>	192.16	592.93	209%
Depreciation	165.25	326.68	98%
Other fixed costs	26.91	266.25	889%
Total Operating costs	9,088.23	9,690.37	7%

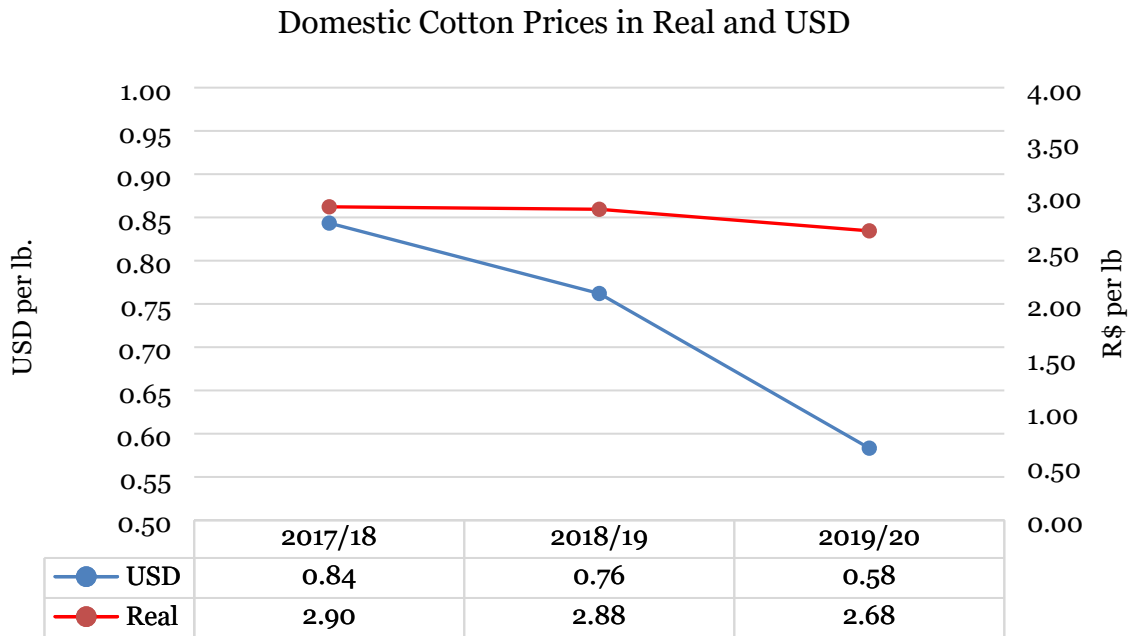
Source: IMEA

Global cotton prices have been under pressure since the second half of 2018 due in part to large stocks worldwide and lower consumption. Downward pressure on cotton prices was compounded by market concerns over uncertainty stemming from the U.S.- China trade dispute. Cotton prices saw another negative shock in the first quarter of 2020 with the coronavirus pandemic spreading around the globe, grinding factory production to a halt, interrupting operations along the supply chain, and impeding trade flows with reduced operations at ports.

The impact of these events has been reflected in the cotton price index in New York and mirrored in Brazilian cotton prices. According to the price index from the University of Sao Paulo's Superior Agricultural School Research Center (CEPEA/ESALQ), Brazil's cotton prices in U.S. dollars (USD) saw almost a 10 percent drop to 76 U.S. cents/pound (lb) in 2018/19, from a banner 2017/18 marketing

year, when the average price was over 84 US cents /lb. The USD denominated cotton price plummeted a further 24 percent to an average of 58 U.S. cents /lb in the current marketing year (Aug 2019-July 2020).

The exceptional devaluation of the domestic currency helped to offset, in large part, the decline in the international cotton prices, with commodity prices in Brazilian reais during the first half of 2020 only five percent lower than in the same period last year, as opposed to double-digit decline for dollar-denominated prices. Overall, the prices in the domestic currency, decreased less than eight percent in the two marketing seasons from R\$2.9 in 2017/18, to R\$2.68 in 2019/20.



Source: FAS Brasilia chart based on CEPEA data

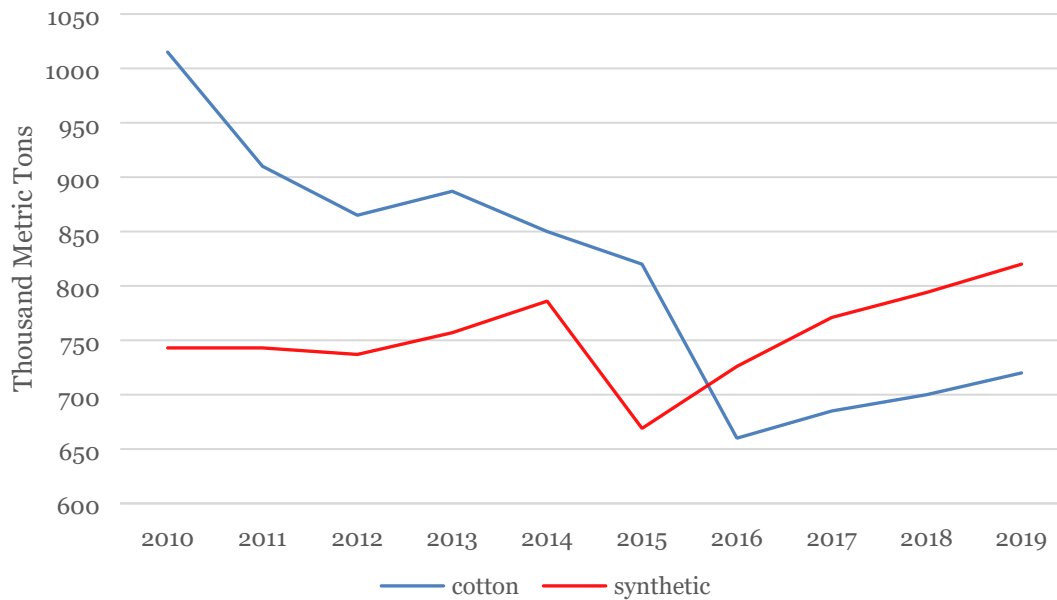
CONSUMPTION

Domestic Consumption Plummets Amid Pandemic

Post forecasts Brazil’s domestic cotton consumption at 3 million bales for 2020/21 (653 thousand metric tons (mt), as compared to the estimated 2.67 million bales (580 thousand MT) of domestic consumption for the current MY. The Post forecast and estimate are based on two factors – long term trends in domestic consumption, and the impact of the pandemic on Brazil and the sector.

The long-term trend is declining internal cotton demand, registering on average a three percent annual drop in the last five years, and a two percent average annual decrease over the last ten years. Brazil’s Textile Association (ABIT) data shows a steady decline in cotton consumption over the last decade, in favor of synthetic fibers. Cumulative domestic cotton consumption is down almost 30 percent to 720 thousand mt in 2019, from just over one MMT in 2010. Meanwhile, the consumption of synthetic fibers is up to 820 thousand MT from 743 thousand mt in the same time frame.

Cotton vs Synthetic Fiber Consumption in Brazil



Source: FAS Brasilia chart based on ABIT data

ABIT notes that Brazil's textile industry has struggled with rising costs, difficult logistics, and consumer preferences, which have been shifting in favor of imported items. For 2019, ABIT's data indicates that domestic textile production grew just 0.3 percent; meanwhile, imports rose 3.8 percent, while exports grew 1.5 percent.

With the arrival of the pandemic, the bottom dropped out of textile production in the first half of 2020. According to ABIT, the domestic textile and clothing industry suffered a 22 percent reduction in production in the first half of 2020, compared to 2019. Imports dropped 23.75 percent and exports, 8.44 percent. In the first six months of the year, almost 71 thousand jobs were lost, compared to the positive balance of hiring of 12.4 thousand workers in the same period last year. For 2020, ABIT estimates an accumulated drop of 19.5 percent in production, corresponding to a 19 percent loss in domestic sales.

For 2021, ABIT forecasts a recovery in line with the market consensus of GDP making gains of around 3.5 percent. As a result, textile production is forecast to grow just above eight percent, while sales will rise 6.8 percent. Imports are forecast to increase by 5.2 percent and exports by 6.3 percent.

TRADE

Exports to Remain Level in 2020/21

Post forecasts 2020/21 MY (August 2020- July 2021) exports at 9 million bales (1.96 MMT), nearly level when compared to the current season export estimate of 8.9 million bales. The slight uptick is based on the expected beginning of a recovery in the global economy from the initial wave of the coronavirus pandemic.

Brazil is well-positioned to take advantage of increased global demand for cotton. Brazilian producers report that about 80 percent of their 2019/20 record crop has been commercialized for sale in the 2020/21 marketing season and Brazilian cotton will benefit from the exceptionally weak domestic currency. The weakness of the Brazilian real -- this year's worst performer among the major currencies -- boosts the attractiveness of Brazilian exports. Additional sales may materialize if global prices spike. In the event that trade tensions between the United States and China re-emerge, Brazilian agricultural commodity producers will likely benefit across the board, including cotton.

There are, however, downside risks to the Post forecast. If the U.S.-China trade deal holds, Beijing is likely to source more cotton from the United States, and invariably that will come at the expense of Brazilian exports. There are also logistical risks to the Brazilian cotton supply.

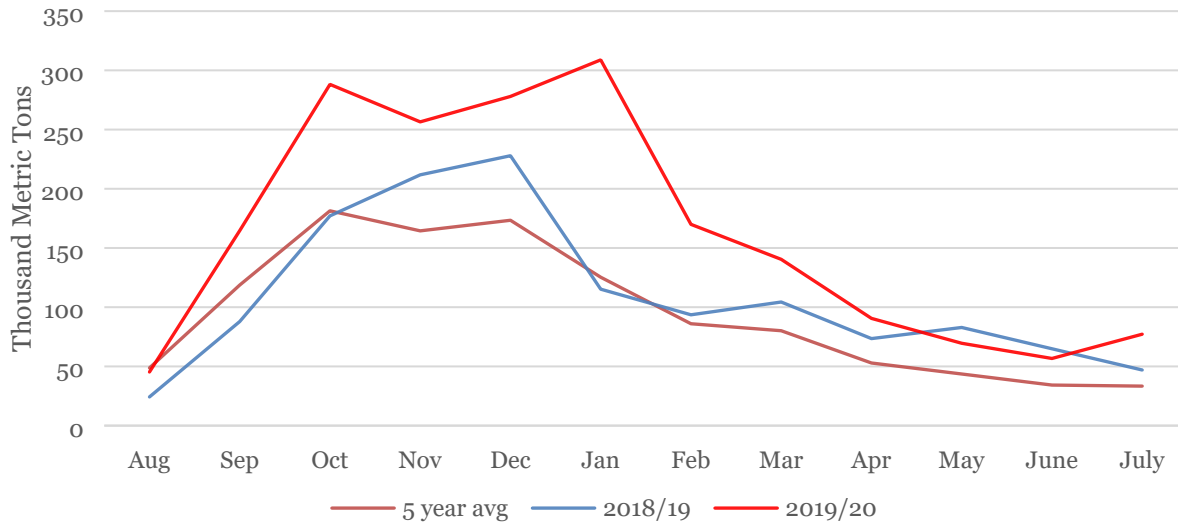
The first logistical risk stems from the potential disruption of ginning capacity due to the spread of the coronavirus pandemic to the interior parts of the country. Much of Brazil's ginning is done near production sites. Mato Grosso, Brazil's largest cotton-producing state, recently reported a spike in coronavirus cases, which potentially means a shortage of labor. The second risk comes from disruption, for any reason, of operations at the Port of Santos. Brazil exports more than 95 percent of its cotton out of Santos, with that alone exposing it to potentially huge risks. Although Brazilian ports have operated normally (even above their average pace) during the pandemic so far, future risk remains. (For more discussion on infrastructure see GAIN report: [Brazilian Agricultural Sector Thrives Despite COVID-19 Pandemic](#))

Brazil Exports Hit Record Volume in 2019/20

With the government's customs (SECEX) data available through July 2020, Post maintains its export estimate at 8.9 million bales (1.95 million metric tons) for the 2019/2020 marketing year (MY, August 2019-July 2020). Despite the global cotton demand shrinking on the account of the coronavirus pandemic, Brazil managed to ship a record volume this season, an increase of more than 50 percent on last season's shipments. And in fact, the current season's triumph is a culmination of the march to the top over the last several seasons; in 2016/17 Brazil's exports were just above 600 thousand metric tons, less than one-third of the current MY.

Brazilian exports remained initially strong during the onset of the pandemic. In January, Brazil shipped a record of 308 thousand metric tons (1.4 million bales). Although February-April exports declined to under 200 thousand metric tons, each month was still a record-setter relative to the same time period in previous years. While Brazil's export volumes have dropped significantly since May, the decline is typical for this time of year when the new season harvest comes on-line. Nevertheless, Post interlocutors do note that at least some of the sales slump may be attributed to the falling global demand due to COVID-19.

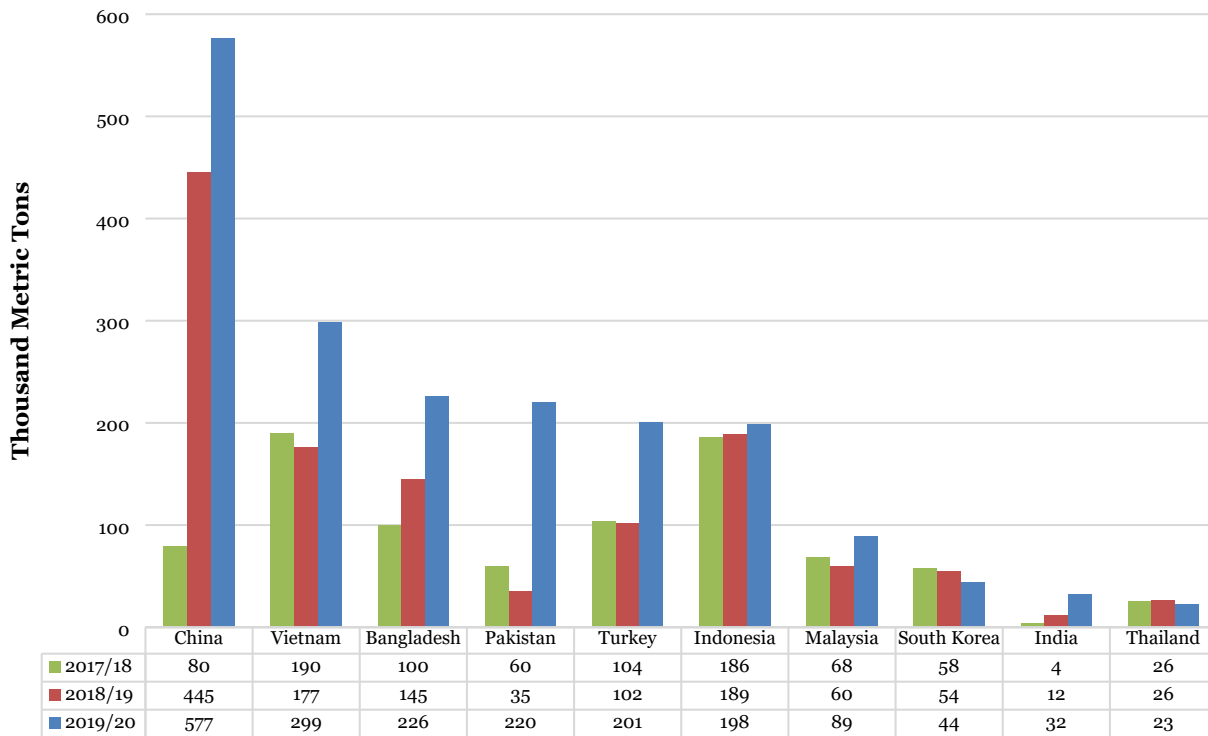
Brazil's Cotton Exports by Month



Source: Post Brasilia chart based on SECEX data

In addition, as has been discussed in the price section of this report, an exceptionally weak Real – trading at R\$ 5.12 to the USD in mid-March as compared to R\$ 3.9 to the USD the same time last year - is expected to boost sales for whatever remains to be contracted.

Brazil's Top 10 Cotton Export Destinations



Source: Post Brasilia chart based on SECEX data

In the last several seasons, China has emerged as the main buyer of Brazilian cotton exports – accounting for approximately 30 percent of total sales. This pattern has been held despite the market volatility associated with the pandemic. In fact, in 2019/20, Brazil exported almost 580 thousand metric tons to the Chinese market, an increase of about 30 percent on last season. In the 2019/20 MY, China also imported almost double the volume of Brazil’s next biggest buyer, Vietnam.

STOCKS

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. For example, USDA’s MY 2019/20 runs from August 2019 to July 2020. 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. (Please see GAIN report on: [Explanation of Brazilian Cotton Stock Estimates](#) for a detailed explanation)

PSD in Bales

Cotton	2018/2019		2019/2020		2020/2021	
Market Begin Year	Aug 2018		Aug 2019		Aug 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	1640	1640	1670	1690	1550	1520
Beginning Stocks	8657	8657	12256	12256	13924	14069
Production	13000	13000	13400	13425	12000	12100
Imports	17	17	5	25	25	0
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	21674	21674	25661	25706	25949	26169
Exports	6018	6018	8937	8937	9000	9000
Use	3400	3400	2800	2700	3100	3000
Loss	0	0	0	0	0	0
Total Dom. Cons.	3400	3400	2800	2700	3100	3000
Ending Stocks	12256	12256	13924	14069	13849	14169
Total Distribution	21674	21674	25661	25706	25949	26169
Stock to Use %	130.13	130.13	118.63	120.9	114.45	118.08
Yield	1726	1726	1747	1730	1686	1733

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

PSD in Metric Tons

Cotton	2018/2019		2019/2020		2020/2021	
Market Begin Year	Aug 2018		Aug 2019		Aug 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	1640	1640	1670	1690	1550	1520
Beginning Stocks	1885	1885	2668	2668	3032	3063
Production	2830	2830	2918	2923	2613	2634
Imports	4	4	1	5	5	0
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	4719	4719	5587	5597	5650	5698
Exports	1310	1310	1946	1946	1960	1960
Use	740	740	610	588	675	653
Loss	0	0	0	0	0	0
Total Dom. Cons.	740	740	610	588	675	653
Ending Stocks	2668	2668	3032	3063	3015	3085
Total Distribution	4719	4719	5587	5597	5650	5698
Stock to Use %	130.13	130.13	118.63	120.90	114.45	118.08
Yield	1726	1726	1747	1730	1686	1733
(1000 HA), (1,000 tons), (PERCENT), (KG/HA)						

Attachments:

No Attachments