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Prepared By: Evgenia Ustinova

Approved By: Oliver Flake

Report Highlights:

Post forecasts 2020/21 planted cotton area at 1.5 million hectares (ha), with production at 12.06 million bales (2.63 million metric tons – MMT), more than a 13 percent decline from the 2019/20 estimated production of 13.87 million bales (3.02 MMT). Cotton area is forecast to shrink because of dry weather delaying first-season soybean planting, very high priced alternative crops, and the changing dynamics of cotton prices and production costs. Post forecasts that Brazil's domestic cotton consumption will come in at 3 million bales for 2020/21 (653 thousand MT), as compared to the estimated 2.7 million bales (588 thousand MT) for the current MY. Post revised up the 2020/21 marketing year export forecast by one million bales to 10 million bales (2.18 MMT) - an increase of almost 12 percent on the current season export estimate of 8.9 million bales (1.95 million metric tons).

PRODUCTION

Post maintains the forecast for 2020/21 planted cotton area at 1.5 million hectares (ha), down almost 10 percent from 1.67 million ha cotton area planted in the current season. Despite the contraction, Brazil will not retreat from its top-tier cotton producer status as four out of five of the largest global producers are forecast to see planted area reduction, which reflects the global downturn in cotton demand.

USDA 2019/20 Estimate and 2020/21 Forecast for Top Cotton Producers							
		Area Harvested (million HA)			Production (million 480 lb. Bales)		
Rank	Country	2019/20	2020/21	% change	2019/20	2020/21	% change
1	India	13.30	13.40	0.8%	29.50	30.00	1.7%
2	China	3.45	3.25	-5.8%	27.25	27.50	0.9%
3	United States	4.70	3.64	-22.5%	19.91	17.09	-14.2%
4	Brazil	1.67	1.55	-6.9%	13.78	12.00	-12.9%
5	Pakistan	2.45	2.20	-10.2%	6.20	5.00	-19.4%

Source: USDA PSD, note that the Post estimate and forecast does not necessarily match exactly official USDA projections.

As of mid-November, cotton-producing regions in Brazil were still in the midst of the sanitary period – known as the *vazio sanitario*. The sanitary period spans several months between when the final harvest is picked and the next crop is sown, so as to mitigate the incidence of disease in the field and on the plants. The 2020/21 cotton season planting officially kicked off on November 20 in Bahia, Brazil’s second-largest cotton-producing state. Post believes that the state will see a reduction of more than 12 percent in planted area to 280 thousand ha as compared to the current season estimate of 320 thousand ha. In Mato Grosso, Brazil’s top producer state, accounting for more than two-thirds of total cotton area in the country, Post anticipates that area planted will fall by over 10 percent season-on-season, to 1.02 million ha. Producers in the center-west and southern areas of Mato Grosso state may begin planting cotton on November 30, and on December 14 in the north and west portions of the state.

There are several factors driving planted area contraction in Brazil. First, due to extremely hot weather and lack of rain in the months of September and October across Brazil, farmers had to wait until November for adequate soil moisture to allow for first-season soybean planting in Mato Grosso and other Center West states. Growers typically begin sowing first-season soybeans in September, with harvest kicking off in December. In Mato Grosso, the majority (about 87 percent) of cotton is second-season, or *safrinha*. Second season-cotton is planted immediately after the soybean harvest, with the ideal cotton planting window being between January 1 and February 15.

The Mato Grosso Institute of Agricultural Economics (IMEA) reports that by the end of October farmers in the state had sowed nearly 54 percent of their soybean crop – which equates to about five million ha. This first-crop soybean area planted is more than enough area to sow approximately 900 thousand ha of second-season cotton. However, if some of those soybeans were replanted, the harvest will not begin until the January-February timeframe. As such, producers will have very little time to plant cotton within the ideal time frame. If producers choose to sow cotton past February 15, they run a higher risk of moisture damage to crop yields and quality.

In addition, cotton area is forecast to shrink because of very high-priced alternative crops. Instead of safrinha cotton, growers in Mato Grosso have an option to plant second-season corn. While safrinha corn is similarly planted in January, the sowing window is longer by about six weeks. In Mato Grosso, IMEA expects the corn area to expand by five percent in the coming season, with planting on nearly 5.7 million ha, which would set a new record. Post sees the longer planting window and high corn prices as the primary factors leading to increased corn area. (For more discussion on corn, please see [Brazil Grain and Feed September 2020 Update](#)).

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 that 2019/20 was a banner year for soybeans and expected excellent profitability for the soybean crop in 2020/21, it would make sense for farmers to favor the soybean crop. Post forecasts the soybean area in Bahia to expand two to three percent at the expense of the cotton crop. (For more discussion on Brazil's soybean outlook [Brazil Oilseed September 2020 Update](#)).

First and Second Season Timeframes for Cotton in Mato Grosso and Bahia

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

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

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

Finally, the Post forecast for reduced cotton planted area also takes into consideration the changing dynamics of production costs and cotton prices. Producers typically plan out cotton area several months in advance of sowing in order to secure inputs for the season. In the second and third quarters of 2020, cotton prices were at historic low points on the back of a sharp drop in domestic and global textile manufacturing brought on by the novel coronavirus pandemic. (See [Brazil Cotton September 2020 Update](#) for Q2 and Q3 2020 price discussion). At the time, low prices were coupled with higher operating costs, further cutting into producers' projected margins.

Notably, since growers finalized sowing plans, cotton prices have seen a dramatic recovery. However, Post does not believe that this will lead to a substantial upward revision of the planted area because it is too late to adjust the sowing plan. In addition, while cotton may be profitable, it also carries a greater

degree of financial risk, due to the relatively high cost of production when compared to corn or soybeans.

The reduction in planted area will be buffeted by the major investments in cotton-growing capacity that large producers made over the last three to five years. Numerous interlocutors have pointed out to Post that producers have recently made major investments in equipment (planters, pickers, and ginning capacity) in order to maximize returns on the 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 low global prices.

Post maintains 2020/21 forecast for cotton production at 12.06 million bales (2.63 million metric tons – MMT), more than a 13 percent decline from the 2019/20 estimated production. The yield is forecast at 1.750 kilograms (kg) per hectare, below the 1.814 kg/ ha expected in the current season. Post yield and production forecasts for the 2020/21 season are based on the assumption of 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 higher operational cost outlook. Yields across Brazil for the 2019/20 season were excellent, in part due to planting during the ideal timeframe and favorable weather patterns. At this point, assuming late planting in Mato Grosso and average weather patterns, the yield is forecast to fall minimally.

Brazil’s 2019/20 Cotton Production a Record

The 2019/20 harvest was completed across the country in September. Post slightly revised down the estimated area harvested to 1.67 million ha. At the same time, Post revised up the 2019/20 production estimate to 13.87 million bales (3.02 MMT), based on the record yield of 1.814 kg per ha. Looking at the state-by-state breakdown, producers in Mato Grosso planted 1.14 million ha. Just as was the case in the previous season, growers planted the vast majority of safrinha cotton within the ideal timeframe – from January to February 15. Weather patterns were favorable throughout the growing and harvest season; Post estimates that Mato Grosso cotton production surpassed 9.6 million bales (2.1 MMT). Farmers in Bahia also benefitted from excellent weather, with area harvested estimated at 320 thousand ha and production hitting 2.83 million bales (615 thousand MT).

Area and Production Estimate by State for 2019/20

	Planted Area (1000 HA)	Percent of Total Area Planted	Production (MT)	Percent of Total Production
Total	1665	---	3020	---
Mato Grosso	1140	68%	2100	70%
Bahia	320	19%	615	20%
Goiás	42	3%	65	2%
Mato Grosso Do Sul	40	2%	60	2%
Minas Gerais	45	3%	65	2%
Maranhao	28	2%	45	1%

Piau	20	1%	30	1%
Others	30	2%	40	1%

Source: FAS Brasília Forecast

COST OF PRODUCTION AND PRICES

Cost of Production Expected to Rise, but Prices also Improve

The cotton cost of production is expected higher in the 2020/21 season. According to analysis by IMEA, the cost of cotton production in Mato Grosso has so far increased every month in 2020. As of the end of October, the effective operating cost for the 2020/21 crop was estimated at R\$ 9,572.40 per ha, an increase of 7.68 percent in relation to the 2019/20 harvest. The main increases were for inputs priced in dollars, such as fertilizers (up 21 percent).

Estimated Production Costs for Biotech Soybeans Varieties in Mato Grosso (BRL per ha)			
	2019/20	2020/21	Percent Change y-o-y
<i>Variable Costs of Production (on Farm)</i>	6346.07	6770.86	6.69%
seeds	791.92	700.07	-11.60%
fertilizers	1655.64	2004.69	21.08%
herbicides, fungicides, insecticides, other def.	3433.99	3468.08	0.99%
machinery operation	346.74	323.95	-6.57%
third party services	6.36	53.73	744.81%
labor	111.42	220.34	97.76%
<i>Variable Costs of Production (ex Farm)</i>	1253.45	1040.46	-16.99%
maintenance of machineries and installations	267.25	402.35	50.55%
insurance, taxes, misc fees	381.02	322.99	-15.23%
financing	605.18	315.12	-47.93%
<i>Post Production Costs</i>	1290.37	1761.08	36.48%
transportation, storage	212.81	67.92	-68.08%
cotton classification	1015.7	1481.59	45.87%
leasing		109.62	100.00%
other costs	61.86	101.95	64.81%
Effective Operating Cost	8889.89	9572.4	7.68%
depreciation	165.25	329.25	99.24%
other fixed costs	33.1	24.82	-25.02%
Total Operating costs	9,088.24	9,926.47	9.22%

Source: IMEA estimates from mid-November 2020

As previously mentioned, the profitability outlook for cotton producers in Brazil improved in the third quarter of 2020. As the year began, cotton futures performed relatively well and traded above 69 cents per pound. However, the novel coronavirus pandemic had a significant, negative impact on global cotton demand and in conjunction on global cotton prices. From February to April, cotton futures on the New York Stock Exchange fell more than 20 cents to 49 cents per pound. Yet, contrary to predictions from the spring and summer of 2020, global cotton prices have since climbed, reaching 70 cents per pound in October.

Brazil's cotton prices are directly correlated to the futures prices in New York. As a result of a steep devaluation of the real, domestic cotton prices in Brazil have seen a remarkable spike given the low demand and ample stocks. At the end of October, the University of Sao Paulo's Superior Agricultural School Research Center (CEPEA/ESALQ) indicator, with payment in 8 days, broke a nominal record, surpassing R\$ 4 per pound (about 72 cents per pound). This is a drastic increase from April and May when cotton cost around R \$ 2.80 per pound (about 51 cents per pound). With 80 percent of cotton already contracted, traders are focused on selling the remaining stock for export at the current spot price.



Source: Post Brasilia chart based on CEPEA data

In mid-November, Imea published an analysis taking into account both the rising production costs and higher cotton prices for the 2020/21 season, when compared to corn cost of production and prices for the same season. Imea forecasts the weighted average price for cotton at R\$ 101.06 per arroba and for corn at R\$ 30.96 per sack during the 2020/21 season. The analysis showed that at these prices growers in Mato Grosso can be expected to see greater profits from planting cotton, rather than corn. As the chart below shows, if cotton prices average around R\$ 101 per arroba, corn prices would have to rise above R\$ 37 per sack for farmers to see greater profits from planting corn.

Comparison of Cotton and Corn Profitability in Mato Grosso for 2020/21 Season

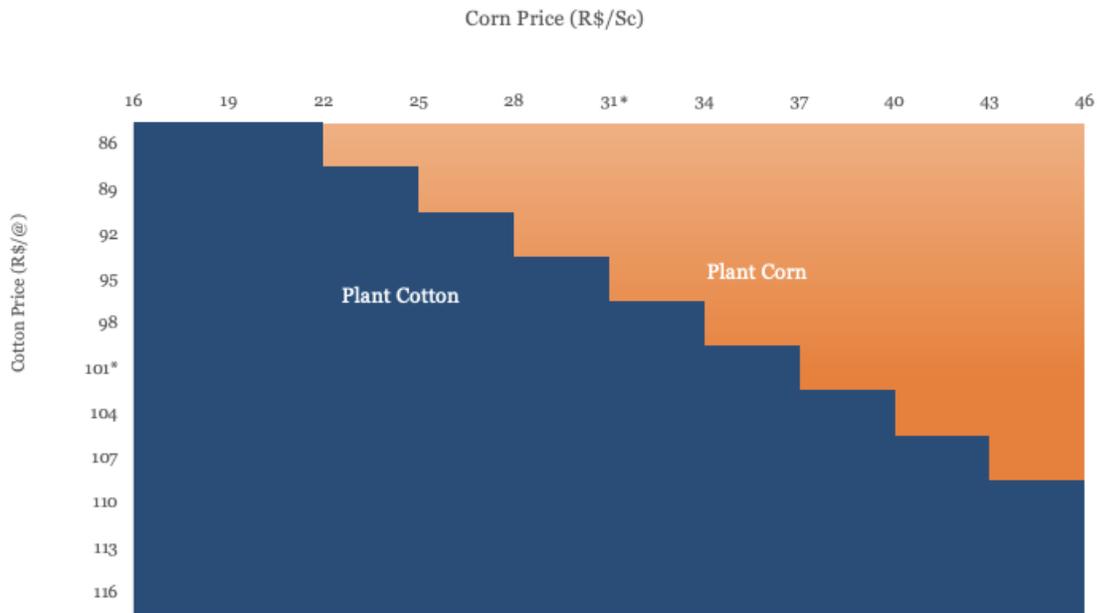
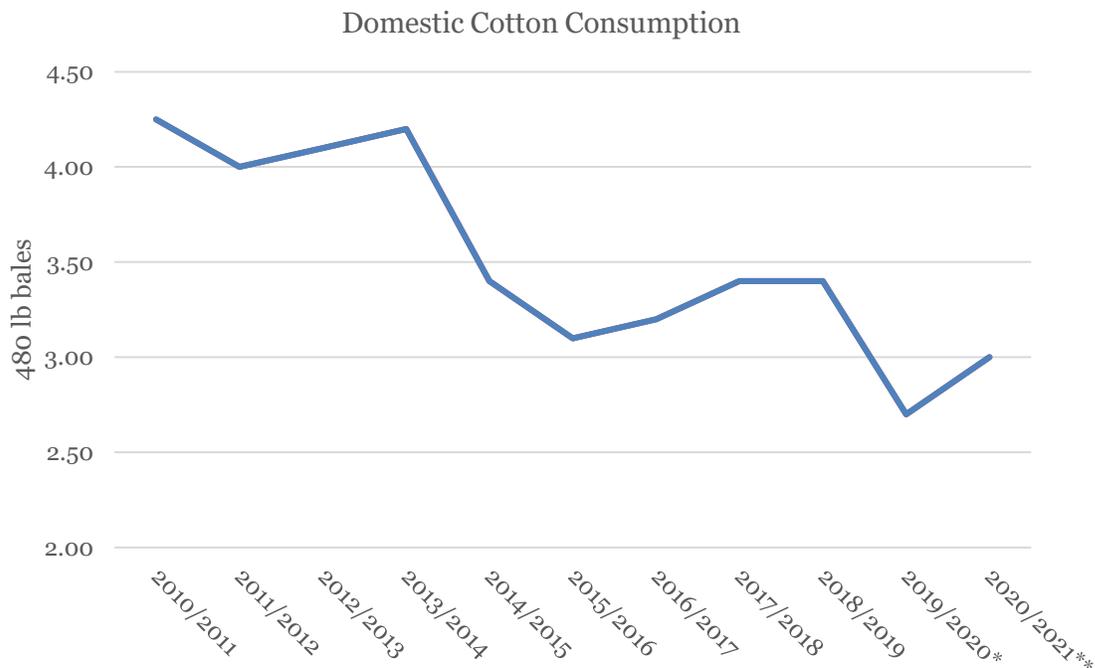


Chart Source: IMEA

CONSUMPTION

Post forecasts that Brazil's domestic cotton consumption will come in at 3 million bales for 2020/21 (653 thousand MT), as compared to the estimated 2.7 million bales (588 thousand MT) of domestic consumption for the current MY. The coming season's rebound in consumption will not be enough to make up ground to be on par with the consumption over the last several seasons when the Brazilian cotton processing industry purchased, on average, about 720 thousand MT. Both, the 2019/20 and the 2020/21 MY consumption is expected to be adversely affected by the pandemic of the new coronavirus.



Source: USDA PSD, Chart OAA Brasilia. Note that 2019/20* and 2020/21** reflect Post estimate and forecast

2020/21 Domestic Industry Outlook is Uncertain

For 2021, the Brazilian Textile Industry Association (ABIT) forecasts domestic processing and manufacturing recovery on the assumption of GDP making gains of around 3.42 percent. ABIT forecasts that textile production will 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. Overall, ABIT forecasts that in 2021, the industry will be able to make up most – but not all - of the current year’s lost production and sales.

However, domestic cotton consumption in 2020/21 faces a number of headwinds. First, is the relatively tepid outlook for the economy. Although the economy is clearly showing signs of recovery, that does not necessarily translate into strong growth. The current market projection for GDP growth of around 3.4 percent has been trending down, albeit slightly. In addition, the lingering impact of the lockdown on the economy and particularly on unemployment is expected to create a drag on consumer demand. Second, there is no indication that the government will extend the emergency aid payments to millions of Brazilians who are out of work past December 31, 2020. Finally, there is a risk that in the event of a second wave of the novel coronavirus there may be renewed lockdown, which would drag down demand as well as shutter spinning mills and textile and apparel factories.

2019/20: Domestic Consumption Takes a Hit from the Pandemic, Rising Cotton Costs

With the onset of the pandemic in March, Brazil saw nearly a complete shutdown of spinning mills and textile factories for 100 days. According to ABIT, the textile industry shrank 20 percent from January through October 2020, as compared to the same time last year. ABIT also estimates that the apparel industry shrank by 36 percent, and retail sales were down by 37.6 percent in the first 10 months of 2020,

as compared to this timeframe in 2019. The Official Gazette has included Brazil's apparel industry among the 40 most impacted by the pandemic.

Signs of recovery began to appear by the second quarter of 2020. As Brazil is in the Southern Hemisphere, the onset of winter (June-August) coincided with the easing of quarantine restrictions. The government's emergency aid program - commonly referred to as the Corona Voucher - infused temporary cash of about US\$120 per month for around 66 million Brazilians who lost their jobs or were already unemployed. The program initially began in April with funding for three months; it was later renewed through the end of 2020, but at half of the previous value. These three factors: winter climate, easing of the lockdown, and infusion of cash resulted in the return of consumer demand for household textiles and apparel. However, the domestic yarn, textile, and apparel industries are now facing new challenges.

The first challenge is the imbalance of supply and demand in the cotton mill sector. Since yarn mills were paralyzed for over three months, the stocks of yarn plummeted. Post interlocutors indicate that as of August, the domestic market began to feel the effects of the yarn shortage, with prices climbing nearly 40 percent. However, as mills re-started operations – intending to fulfill existing demand as well as to re-build stocks – they faced rising cotton prices. According to ABIT, raw cotton represents around 60 percent of spinning costs in Brazil.

Secondly, given that cotton prices nearly doubled from May to October, this drastically cut into mills' margins and translated into higher input prices for the textile and apparel industry. This had a compounding effect for the industry, which was already struggling with the BRL devaluation, as around 70 percent of the textile and apparel sector's operating cost is in foreign currency. The industry had no choice but to pass on the costs to consumers, who in turn may cut back on purchases given the rising domestic prices.

Finally, the industry is also facing bottlenecks created by the pandemic. Since most factories were shut down from March to June, when they re-started operations, clothing companies ended up placing their orders all at once. This created bottlenecks in the production chain. In addition, there was a change in consumer demand – with rising demand for casual clothing, and a corresponding drop in demand for business attire. As a result, the recovery in consumer purchases has been uneven, exerting further stress on the industry.

TRADE

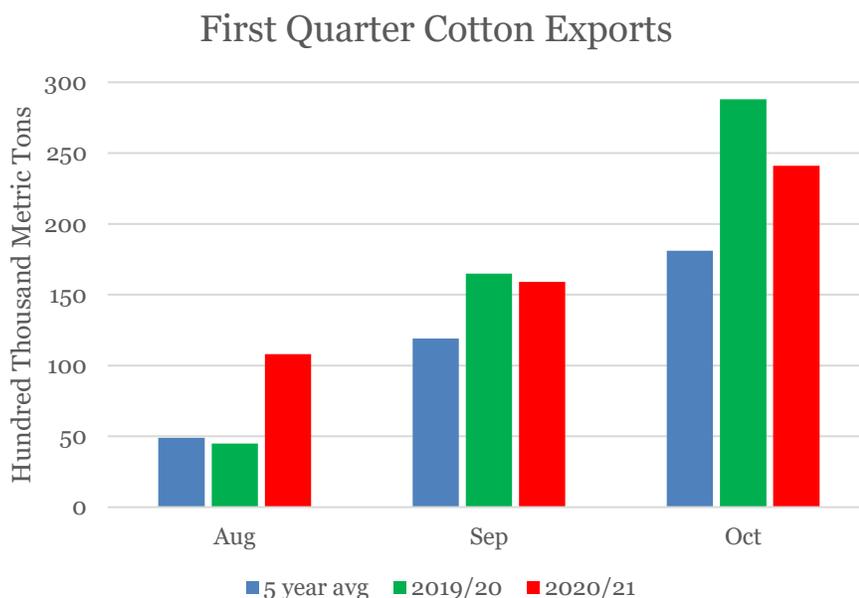
Exports to Set Another Record in 2020/21

Post revised up the 2020/21 MY (August 2020- July 2021) export forecast by one million bales to 10 million bales (2.18 MMT). Thus, Post forecasts exports to increase by almost 12 percent, when compared to the current season export estimate of 8.9 million bales (1.95 million metric tons). The export increase is based on several factors.

First, the Ministry of Agriculture National Supply Company (CONAB) estimates that Brazil has already contracted over 84 percent of 2019/20 production. The 2019/20 production comes online in late August-early September, with shipment taking place during the 2020/21 (August 2020 – July 2021) marketing

year (MY). As of the end of October, CONAB data indicates that pre-sold cotton contracts are at a similar level to the volume sold at this time last year (85 percent). Conab’s estimates are also confirmed by state-level data published by IMEA. By the end of October, producers in Mato Grosso had already contracted 84.6 percent of their 2019/20 harvest. The significant volume of contracts – that is on par with the pre-pandemic year – is important because it signals that Brazil is poised to continue doing business as usual when it comes to shipping cotton exports. Business as usual for Brazil’s cotton industry means setting a new export volume record each year.

Secondly, Brazilian cotton is forecast to have an edge over its competitors because of the domestic currency devaluation. The weakness of the Brazilian real -- this year’s worst performer among the major currencies – boosts the attractiveness of Brazilian exports. In early November, global cotton prices climbed to their highest level since 2018, while the Brazilian real slid to R\$5.70 per USD, driving a healthy increase in traders’ margins from overseas sales. The chart below shows that in the first quarter of the 2020/21 MY, cotton export volumes have been in line with what Brazil posted last season, and above the five-year average for those months.



Data Source: SECEX, Chart OAA Brasilia

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 is also competition from other top cotton producers, such as India which is poised for a strong harvest and is expected to ship significantly higher volumes in 2020/21 than in 2019/20 MY. The uncertainties surrounding the pandemic trajectory – the possibility of future lockdowns and production disruptions in major cotton-consuming markets – could also exert downward pressure on global demand.

Finally, there are also logistics risks to the Brazilian cotton supply. Brazil exports more than 95 percent of its cotton out of the port of Santos in Sao Paulo state, 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 of disruptions remains given the persistent incidence of the novel coronavirus across the country. (For more discussion on infrastructure see GAIN report: [Brazilian Agricultural Sector Thrives Despite COVID-19 Pandemic](#)).

Brazilian Exports Hit Record Volume in 2019/20

With the government's customs (SECEX) data available through October 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 global cotton demand shrinking on 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. Brazil's strong cotton export performance can be attributed to the same factors as outlined in the 2020/21 export forecast: strong forward contracting and the devalued local currency. For a more detailed discussion of the 2019/20 performance and trends see [Brazil Cotton September 2020 Update](#)).

Import Volumes Dip in 2019/20, with Recovery in 2020/21

Post forecasts cotton imports in 2020/21 to recover to 2,000 bales, as compared to an estimated 500 bales imported in 2019/20. The 2020/21 forecast is based on a return to trend line imports for Brazil. In 2019/20, imports shrank by over 70 percent on the previous season imports, which can be attributed to the coronavirus pandemic that disrupted mill operations in Brazil. In addition, due to the real devaluation of around 40 percent in 2020, cotton imports became significantly more expensive for Brazil.

It should be mentioned that USDA confirmed in late October that the United States sold 400 cotton bales to Brazil with delivery scheduled for the 2020/21 trade year, which runs from August from 2021 to July 2022. The following week, the president of ABIT, Fernando Pimentel tamped down any expectations that the industry would imminently lobby to eliminate import tariffs on cotton, following on earlier government decisions to zero out duties on rice, corn, and soybeans for imports coming outside of Mercosur trade block. Although domestic cotton prices have been rising, Pimentel pointed to ICE futures in New York as the culprit. As a result, Pimentel noted that eliminating tariffs would not have much impact on domestic cotton prices. Pimentel also noted that imports into Brazil tend to be a specialty type, for extra-long long cotton fiber that is not produced by farmers in-country.

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	1665	1665	1550	1500
Beginning Stocks	8657	8657	12256	12256	14404	14494
Production	13000	13000	13780	13870	12000	12055
Imports	17	17	5	5	25	20
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	21674	21674	26041	26131	26429	26569
Exports	6018	6018	8937	8937	10000	10000
Use	3400	3400	2700	2700	3000	3000
Loss	0	0	0	0	3	0
Total Dom. Cons.	3400	3400	2700	2700	3003	3000
Ending Stocks	12256	12256	14404	14494	13426	14169
Total Distribution	21674	21674	26041	26131	26429	26569
Stock to Use %	130.13	130.13	123.78	124.55	114.45	108.99
Yield	1726	1726	1802	1814	1686	1750

(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	1665	1665	1550	1500
Beginning Stocks	1885	1885	2668	2668	3136	3156
Production	2830	2830	3000	3020	2613	2625
Imports	3.70	3.70	1.09	1.09	5.44	4.35
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	4719	4719	5670	5689	5754	5785
Exports	1310	1310	1946	1946	2177	2177
Use	740	740	588	588	653	653
Loss	0	0	0	0	1	0
Total Dom. Cons.	740	740	588	588	654	653
Ending Stocks	2668	2668	3136	3156	2923	3085
Total Distribution	4719	4719	5670	5689	5754	5785
Stock to Use %	130.13	130.13	123.78	124.55	114.45	108.99
Yield	1726	1726	1802	1814	1686	1750
(1000 HA), (1,000 tons), (PERCENT), (KG/HA)						

Attachments:

No Attachments