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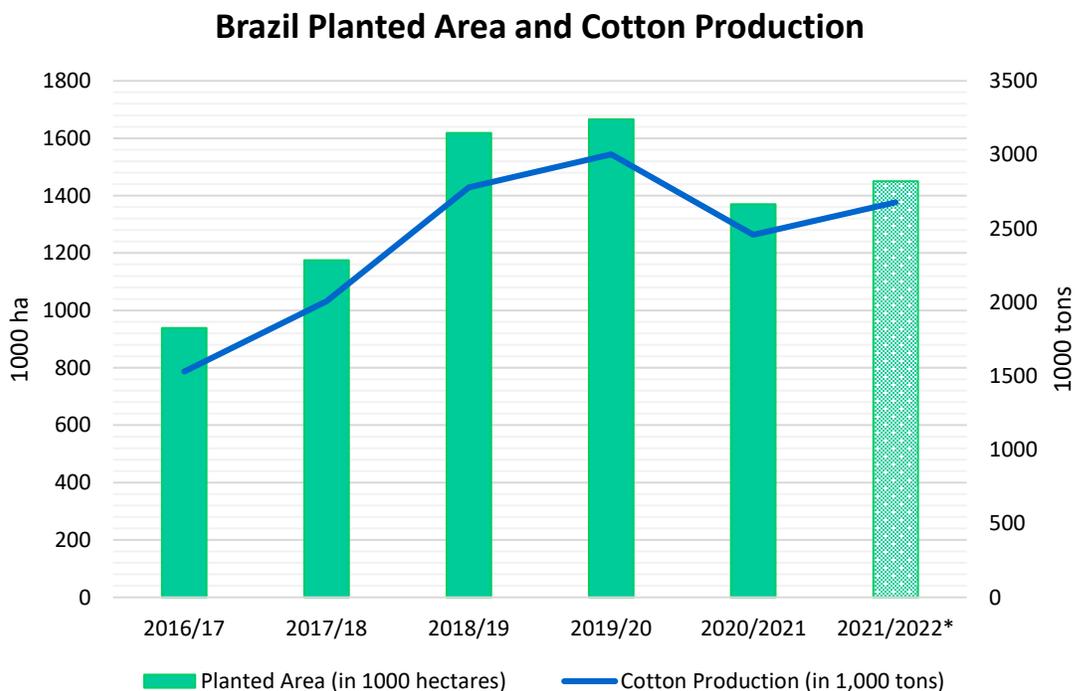
Report Highlights:

Post forecasts 2021/22 cotton area planted at 1.45 million hectares (ha), an increase from the current harvest, but lower than the previous forecast. Post's forecast is mostly based on challenges with profitability of the crop and slower economic and trade recovery from the pandemic. In addition, cotton faces increasing competition with soy and corn. While producers are benefit from high cotton prices, production costs are also rising, tightening profit margins. The Post forecast for 2021/22 cotton production is 12.3 million bales. For the 2020/21 season, Post estimates area harvested at 1.37 million ha, and production at 11.3 million bales, with output lower than initially envisioned due to unfavorable weather. While domestic consumption is expected to decrease slightly, exports are forecast be stronger than ever. Post forecasts 2021/22 MY exports at 11.1 million bales, up from the current season export estimate of 11 million bales. Exports continue to be encouraged by weak domestic currency.

PRODUCTION

Planted area to remain stable in 2021/22, but with greater production on record yields

Post revised its April forecast for 2021/22 cotton area planted to 1.45 million hectares (ha), an increase of just 5 percent from the 1.37 million ha cotton area harvested in the current season. Area is expected to stabilize after rapid expansion over the last several years; growers planted less than one million ha as recently as six seasons ago. Now, producers are attempting to reach equilibrium through the planted area, as they weigh the benefits of growing cotton with other competitive commodities. At the same time, from conversations with the industry, it is clear to Post that Brazilian producers are optimistic about the crop's prospects and are eager to continue growing the country's status as a top tier cotton producer.



Source: Post Brasilia based on Abrapa data

Post's forecast for the cotton planted area is also 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. The drop in the 2020/21 planted area was due to lower prices at the start of the pandemic, when factories closed, and trade was reduced. This global slowdown lasted until 2021 when world economies began to show signs of recovery. However, at that point, Brazilian producers had already decided to replace some cotton areas with soy, or corn in the following harvest, a seemingly safer choice as prices for those commodities remained high with less intensive cultivation costs. While cotton prices are high, the cost of production is also increasing, causing profit margins to shrink.

The Post forecast also considers that most large cotton growers in Brazil have profitable alternative crops. In Mato Grosso, Brazil's primary cotton producing state with 70 percent of production- 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 from January to February, with harvest beginning in June.

In the northeastern state of Bahia, Brazil's second-largest cotton producer, growers typically plant just one crop. In Bahia, farmers choose primarily between cotton and soybeans. While cotton has a greater revenue than soy, Bahian producers must also take into account that cotton has over double the cost of production. Given the continuation of favorable soybean prices, lower costs of production, and expected high profitability for the crop in 2021/22, there is a strong incentive for farmers to favor the soybean crop with regard to expanding planted area. (For more discussion on Brazil's soybean outlook see [Brazil Oilseeds June 2021 Update](#)).

Despite only a small increase in planted area, larger growers will continue to reap the rewards of major on-farm investments that have been made in recent years. Producers report having made a variety of substantial investments in equipment (planters, pickers, and ginning capacity) in order to maximize returns on available planting area. New equipment is expensive and specialized. Cotton pickers can cost around \$1 million, and can only be used to pick cotton, while soy and corn machinery is more versatile. In addition, post-harvest, cotton is processed through HVI (High Volume Instruments), expensive and time-intensive testing machines used to measure and grade fiber properties including length, uniformity, fineness, strength, and color. Consequentially, large, well-capitalized producers are eager to take advantage of their substantial investments, especially with favorable prices. As such, there may be planted area reduction in some areas, but mostly from medium and smaller producers who tend to lease equipment required for cotton production.

The Post forecast for 2021/22 cotton production is 12.3 million bales (2.68 million metric tons – MMT), more than a 10 percent increase from the 2020/21 estimated production. The yield is forecast at 1,847 kilograms (kg) per hectare, an increase from the 1,794 kg/ ha expected in the current season and a new record for Brazil. Post yield and production forecasts for 2021/22 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 continues to be more concentrated among the larger, more capitalized growers, yields are likely to slightly improve.

Brazil's 2020/21 Cotton Production Lower than Expected

Post estimates area harvested at 1.37 million hectares (ha) for the 2020/21 season, a 15 percent decrease from last season's area of 1.65 million ha. Post estimates 2020/21 production at 11.3 million bales (2.46 MMT), based on a 1,794 kg/ha yield. The yield estimate is based on stable weather patterns, significant technology improvements, and production increasingly focused on the larger, more capitalized producers. Harvest began in July and will be nearly complete by the end of September.

The production picture varies by state. In Mato Grosso, producers planted about 1.12 million hectares. In this state, growers planted the vast majority of the cotton after soy, which was outside the ideal planting window this season. This year, rains fell outside the ideal planting window of January to February, and the Mato Grosso crop did not perform as well as expected. Due to weather impacts, Post estimates that Mato Grosso's yield this season will be reduced slightly. Assuming conditions hold, Mato Grosso's cotton production will likely reach nearly 9 million bales (1.95 MMT).

In Bahia, cotton and soy are planted at the same time. Therefore, cotton competes with soy for area, but not rain or planting window, and productivity is generally higher. Post estimates area planted at 270 thousand hectares, down from the previous year. While the area was reduced, the crop in Bahia was planted sooner and despite some uneven distribution of rain, the crop performed well. Past harvest have been excellent in Bahia, and this trend is likely to continue. Production this season is estimated at 2.3 million bales (500 thousand mt) with yields expected as high as 1,890 kg/ha. The harvest began in July and will be completed by September 20, as mandated by state law. As of August, 76 percent of the Bahia cotton crop was already harvested.

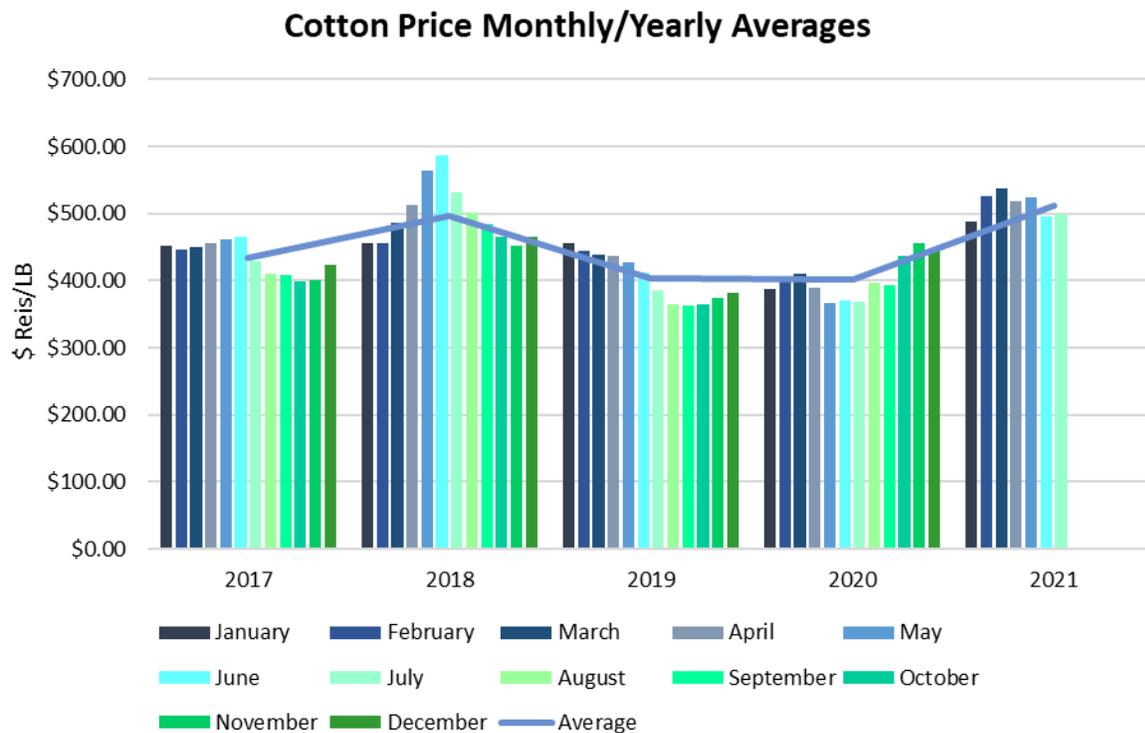
Brazilian Cotton Harvest						
PRODUCTION (1.000 tons)	2016/17	2017/18	2018/19	2019/20	2020/21	Var %
SEED COTTON	3,828	5,013	6,945	7,373	6,010	-18%
LINT (COTTON)	1,530	2,006	2,779	3,002	2,457	-18%
YIELD (kg/ha)	2016/17	2017/18	2018/19	2019/20	2020/21	Var %
SEED COTTON	4,076	4,267	4,292	4,427	4,388	-1%
LINT (COTTON)	1,629	1,708	1,717	1,802	1,793	-1%

Source: Abrapa

PRODUCTION COST AND PRICES

Cost of Production Continues to Rise, but Prices Remain Favorable

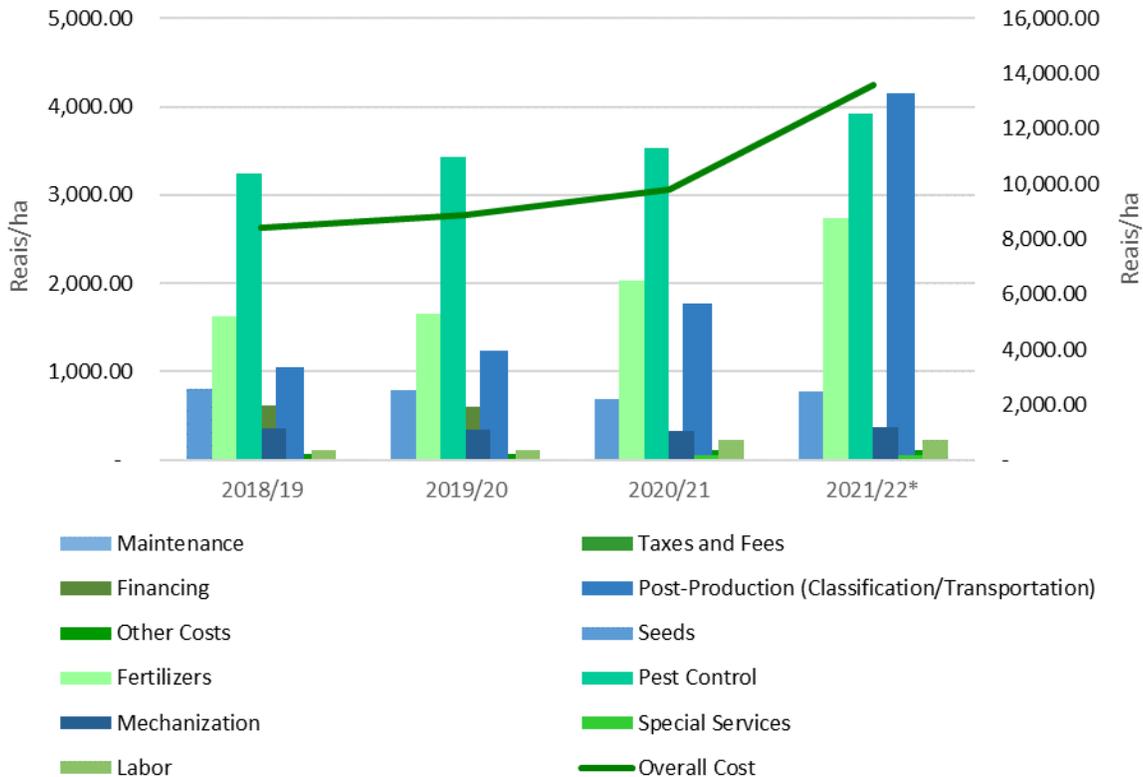
As noted previously, Post’s contacts indicate that producers are looking at tight profit margins in the cotton market in the next year. The Mato Grosso Institute of Agricultural Economy (IMEA) forecasts a nearly 40 percent increase in operating costs for the 2021/22 cotton season in the state, mostly due to higher costs for inputs and post-production classification and processing. For example, the cost of classification and processing is forecast to more than double. In addition, the price of fertilizers is expected to jump over 30 percent, and the cost of pesticides is forecast to rise nearly 15 percent. This trend is in part driven by the weak Brazilian currency, the Real. Interlocutors have also told Post, that prices of fertilizers and pesticides continue to rise month by month due to strong demand in this season and shopping in preparation for the next harvest.



Source: FAS Brasilia chart based on CEPEA data

Consequentially, IMEA calculates that for 2021/22 operating costs will rise to R\$13,595 / ha, as opposed to R\$9,783 for 2020/21. Meanwhile, as the costs of production continue to rise dramatically, the break-even point for producers is also increasing. Facing narrowing profit margins, producers are optimistic that prices will remain stable and justify the high expense of planting cotton.

Rising Cotton Production Costs in Mato Grosso (R\$/ha)



Source: Post Brasilia based on IMEA data

Global cotton prices have continued to climb in 2021. Values for the December NY/ICE futures contract held between 88 and 90 cents per pound (lb) for much of July. In early August, futures resumed their climb and have reached over 93 cents/lb. Over the past month, the A Index breached 100 cents/lb for the first time since June 2018—just before the first round of U.S.-China tariff increases went into effect. The impact of these events is being reflected 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 increase to 95 cents/lb in 2020/2021, 10 cents higher than during the banner year 2018/2019. Brazilian cotton prices have been buoyed by the devaluation of the Real, along with the increase in global prices. Overall, the cotton prices in the domestic currency increased over 25 percent, from R\$379/lb in 19/20 to R\$476/lb in 2020/2021.

Post anticipates that in the 2021/22 marketing year, Brazilian cotton prices continue to track global cotton prices, but will also be impacted by the U.S.-China trade relations and export volumes. The Phase One deal is scheduled to expire at the end of December, and there is a lack of certainty in the market on how trade patterns will evolve after that. Chinese demand and further tightening of U.S. stocks in 2021/22 may be another factor associated with the uptrend in global cotton prices over the past year.

Brazilian cotton prices will also be impacted by the ongoing pandemic. The spread of the Delta variant has already led several importers of Brazilian cotton (for example, Vietnam) to introduce protective measures and close factories. Globally, there is an outlook for strong global GDP growth which would indicate increasing mill demand. However, if more pandemic-related restrictions are implemented, demand from Brazil's trading partners may slow.

CONSUMPTION

Domestic Consumption Decreases Slightly, Continuing Downward Trend

Post forecasts Brazil's domestic cotton consumption at 2.9 million bales for 2021/22 (631 thousand MT), as compared to the estimated 3 million bales (665 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 on 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.

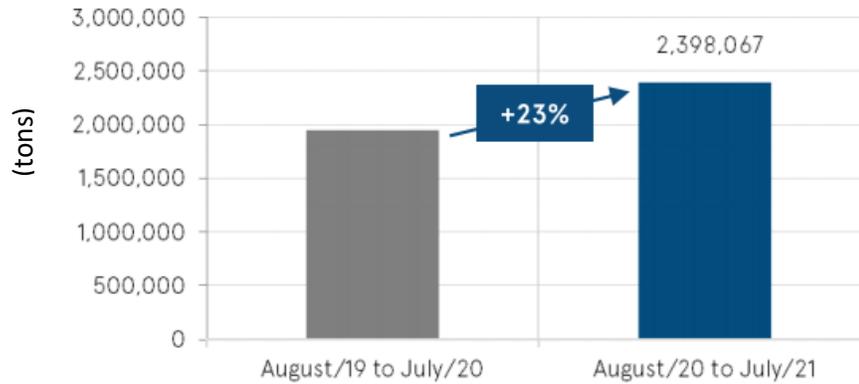
Brazil's Textile Association (ABIT) data shows a steady decline in cotton consumption over the last decade, in favor of synthetic fibers. With lower prices, the consumption of synthetic fibers continues to increase and compete with cotton. In addition, as the economy slowly begins to pick back up in 2021, with an improvement in vaccination rates and lessening health-related restrictions, there will be strong external demand, motivating exports over domestic consumption.

TRADE

Exports Hit Record, Forecast to Continue Increasing in 2021/2022

Post forecasts 2021/22 MY (August 2021- July 2022) exports at 11.1 million bales (2.43 MMT), an increase from the current season export estimate of 11.04 million bales. The rise in exports is based on the expected continued recovery in the global economy from the coronavirus pandemic. The volume shipped in 2020/2021 is over 20 percent higher than in the previous season, 2019/2020. A new record was also set in revenues for Brazil cotton. In the 2020/21 season, Brazil producers had earnings of US \$3.7 billion, the country's best performance with regard to cotton revenue and trade balance.

Total Volume of Cotton Exported (tons)



Total Volume of Cotton Exported

Source: ABRAPA

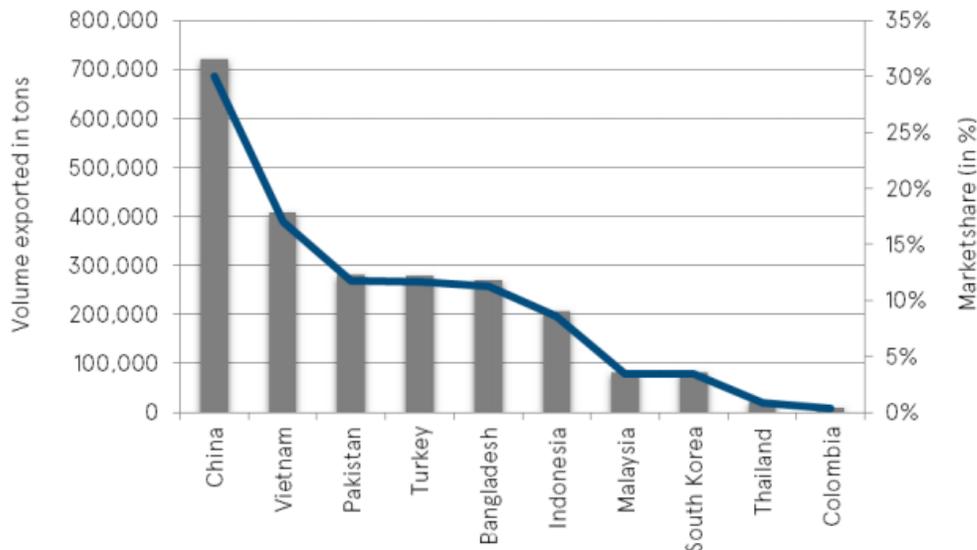
Amid slowly, but steadily rebounding economies and global demand for cotton increasing, Brazil is well-positioned to take advantage. By mid-August, almost half of the Brazilian cotton crop was harvested, 11 percent ginned, and over 80 percent already sold by farmers to be shipped in the 2021/22 marketing year. In addition, as previously mentioned, Brazilian cotton will continue to benefit from the weak domestic currency in 2022.

That said, Post trade forecast will be subject to global trade dynamics, and specifically the trade relationship between the United States and China will also play a role in Brazil's exports. If the trade tensions between the United States and China re-emerge, Brazilian agricultural commodity producers will likely benefit across the board, including cotton producers. However, if the United States and China work out a sequel to the Phase One trade deal, Brazil exports would likely be negatively impacted.

Brazil Exports Again Hit Record Volume in 2020/21

With the government's customs (SECEX) data available through July 2021, Post estimates exports at 10.98 million bales (2.39 MMT) for the 2020/2021 marketing year (MY, August 2020-July 2021). As global cotton demand increases in line with recovery from the pandemic, Brazil once again shipped a record volume of cotton, an increase of 20 percent on last season's shipments. And in fact, the current season's new record is made more dramatic compared to just six years ago; in 2016/17 Brazil's exports were just above 600 thousand MT, about a quarter of the current MY volume. In addition, as has been discussed in the price section of this report, the continuation of a strong dollar and weak Real – trading at R\$ 5.31 to the USD in mid-August- is expected to boost sales for whatever remains to be contracted.

Brazilian Cotton Top Export Destinations - Aug/20 to July/21



Brazil's Top 10 Cotton Export Destinations

Source: ABRAPA

In the last several seasons, China has emerged as the main buyer of Brazilian cotton exports – consistently accounting for approximately 30 percent of total sales. This pattern has held despite the market volatility associated with the pandemic. In fact, in 2020/21, Brazil exported over 700 thousand MT to the Chinese market, an increase of about 20 percent on last season. In 2020/21 MY, China once again also imported almost double the volume of Brazil's next biggest buyer, Vietnam.

STOCKS

Post forecasts 2021/2022 stocks at 7.64 million bales (1.66 million MT), a decrease from the estimate of 9.32 million bales (2.03 million MT) for 2020/2021, as producers increase exports. Post is aware that Brazilian stock figures seemingly differ greatly from 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 2020/21 runs from August 2020 to July 2021. 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)

Production, Supply, and Distribution (PSD) in Bales

Cotton	2019/2020		2020/2021		2021/2022	
Market Year Begins	Aug-19		Aug-20		Aug-21	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1665	1620	1370	1370	1500	1450
Area Harvested	1665	1620	1370	1370	1500	1450
Beginning Stocks	12256	12256	14404	12101	11149	9323
Production	13780	12500	10750	11290	12500	12300
Imports	5	25	12	10	25	12
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	26041	24781	25166	23401	23674	21635
Exports	8937	8800	11014	11024	8200	11100
Use	2700	3400	3000	3054	3100	2900
Loss	0	0	3	0	0	0
Total Domestic Consumption	2700	3400	3003	3054	3100	2900
Ending Stocks	14404	12101	11149	9323	12374	7635
Total Distribution	26041	24301	25166	23401	23674	21635
Stock to Use %	124	99	80	66	110	55
Yield	1802	1680	1708	1794	1814	1847
(1000 HA), (1000 480 lb. Bales), (PERCENT), (KG/HA)						

Production, Supply, and Distribution (PSD) in Metric Tons

Cotton	2019/2020		2020/2021		2021/2022	
Market Year Begins	Aug-19		Aug-20		Aug-21	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1665	1620	1370	1370	1500	1450
Area Harvested	1665	1620	1370	1370	1500	1450
Beginning Stocks	2668	2668	3136	2635	2427	2030
Production	3000	2722	2341	2458	2722	2678
Imports	1	5	3	2	5	3
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	5670	5395	5479	5095	5154	4710
Exports	1946	1916	2398	2400	1785	2417
Use	588	740	653	665	675	631
Loss	0	0	1	0	0	0
Total Domestic Consumption	588	740	654	665	675	631
Ending Stocks	3136	2635	2427	2030	2694	1662
Total Distribution	5670	5291	5479	5095	5154	4710
Stock to Use %	124	99	80	66	110	55
Yield	1802	1680	1708	1794	1814	1847
(1000 HA), (1000 tons), (PERCENT), (KG/HA)						

Attachments:

No Attachments