

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Brazil

Post:

Brasilia

Cotton and Products Update

Second Crop Cotton Area Expected to be Lower, Reducing Total Area for 2014/15

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Report Highlights:

Post forecasts 2014/15 area planted to cotton at one million hectares with cotton production reaching 6.9 million bales (1.5 million metric tons). The reduction in area is due to current low domestic and global prices, a major disincentive for farmers opting to plant cotton as a second crop after the soybean harvest. Post increased its export forecast for 2014/15 Marketing Year to 3.0 million bales based on an expected weaker Brazilian Real and the strong export pace since August.

Cotton Brazil	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Aug 2012		Market Year Begin: Aug 2013		Market Year Begin: Aug 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	
Area Harvested	900	900	1,120	1,120	1,000	1,000
Beginning Stocks	7,993	7,993	5,801	5,801	7,668	7,406
Production	6,000	6,000	8,000	7,800	7,000	6,900
Imports	65	65	147	155	75	50
MY Imports from U.S.	0	43	0	79	0	25
Total Supply	14,058	14,058	13,948	13,756	14,743	14,356
Exports	4,307	4,307	2,230	2,300	3,400	3,000
Use	4,100	4,100	4,200	4,200	4,100	3,900
Loss	-150	-150	-150	-150	-150	-150
Total Dom. Cons.	3,950	3,950	4,050	4,050	3,950	3,750
Ending Stocks	5,801	5,801	7,668	7,406	7,393	7,606
Total Distribution	14,058	14,058	13,948	13,756	14,743	14,356

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

USDA 2014/15 Marketing Year (MY) = August 2014 to July 2015

Second Crop (“Safrinha”) Cotton Expected to be Lower

Post forecasts 2014/15 area planted to cotton will drop to one million hectares, a drop of 11 percent compared to 2013/14, with cotton production reaching 6.9 million bales (1.5 million metric tons). The 2014/15 cotton production forecast is a 12 percent reduction in comparison to 2013/14. The main reason for the reduction in area is current low domestic and global prices, a major disincentive for farmers opting to plant cotton as a second crop after the 2014/15 soybean harvest.

The erratic rains in late September and through October, specifically in the biggest cotton producing state in Brazil, Mato Grosso, have delayed the planting progress of soybeans. These delays are expected to affect the planting window for cotton for the second crop. In Mato Grosso, responsible for 57 percent of the forecast production in Brazil, cotton planting starts in December as a first crop and in February as a second crop. However, due to the delayed planting progress of soybeans, this situation is expected to reduce the planting area of the second crop since farmers may opt to produce only a first crop because they will still have soybeans on the ground by February.

In Bahia, the second biggest cotton producing state in Brazil (29 percent of production), the relative low price environment as a result of lower demand by China and high global stocks are influencing farmers’

decision to plant less in 2014/15. This is particularly true for farmers who do not own machinery for cotton production.

Export Forecast Increased for 2014/15 MY

Post increased its export forecast for 2014/15 MY to 3.0 million bales, a 30 percent increase compared to post's 2013/14 estimate (Post revised its 2013/14 export estimate based on final trade data). The increase of the 2014/15 MY is based on an expected weaker Brazilian Real. In addition, Brazil's exports between August, September, and October have increased by 80, 81, and 55 percent, respectively, compared to the previous MY. The current relative low prices and the delays of the 2014/15 U.S. cotton crop entering the market have supported the strong pace of exports.

Domestic Cotton Consumption Lowered for 2014/15 MY

Post reduced its forecast for Brazil's domestic consumption for 2014/15 to 3.9 million bales due to higher inflationary pressures and decelerating growth in the local economy. In addition, Brazilian consumers' preferences are trending in favor of imported clothing continue to hurt the local textile industry. Lastly, the industry is having difficulties competing with textile industries from China and other Asian countries, which has resulted in lost market share.

Support Programs Utilized by the Government of Brazil (GOB) to Support Cotton Producers

Since September 25, the GOB authorized purchases of cotton from the 2013/14 and 2014/15 crops under the Equalization Premium Paid to the Producer Program (PEPRO). Since January 2014, domestic prices have dropped 25 percent as a result of higher global supplies. So far, Brazil's National Supply Company (CONAB) has agreed to pay the difference between the Official Reference Value (ORV) and the market prices for 905,000 metric tons or 4.2 million bales. The ORV is R\$54.90 per 15kg sack (US\$21.87 per 15kg sack) or R\$1.66 per pound. Under the program, administered by CONAB, the GOB pays a premium to the farmer or cooperative that sells its products at public auctions.

*Exchange Rate as of November 25 = R\$2.51/\$

Cotton Domestic Prices (Domestic Prices* in R\$ per lbs)				
	2012	2013	2014	2013/2014 % Change
January	R\$1.71	R\$1.75	R\$2.22	27%
February	R\$1.70	R\$1.84	R\$2.27	23%
March	R\$1.61	R\$2.05	R\$2.20	8%
April	R\$1.60	R\$2.09	R\$2.09	0%
May	R\$1.60	R\$1.97	R\$1.95	-1%
June	R\$1.51	R\$1.94	R\$1.92	-1%
July	R\$1.58	R\$2.12	R\$1.82	-14%
August	R\$1.62	R\$2.16	R\$1.69	-22%
September	R\$1.65	R\$2.13	R\$1.69	-21%
October	R\$1.55	R\$2.14	R\$1.66	-23%
November	R\$1.55	R\$2.09		
December	R\$1.58	R\$2.12		

Source: Center for Advanced Studies in Applied Economics (CEPEA). *Cotton grade 41-4, staple 30/32mm, 8-day term payment, no interstate commerce tax (ICMS). Includes freight for point of delivery Sao Paulo city.

