

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY  
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT  
POLICY

Required Report - public distribution

**Date:** 9/11/2014

**GAIN Report Number:** BR0944

## **Brazil**

**Post:**

Brasilia

## **Cotton and Products Update**

### **Area Planted for 2014/15 Cotton Forecast to Drop as Current Prices Reduce Incentives**

**Approved By:**

Robert Hoff

**Prepared By:**

Nicolas Rubio

#### **Report Highlights:**

Post forecasts Brazil's Marketing Year (MY) 2014/15 cotton area to drop by about 11 percent to one million hectares, compared to the previous MY. Current domestic prices are not attractive for farmers that would plant cotton as a second crop ("safrinha"). In September, the Brazilian Government approved R\$300 million (US\$134 million) to finance the Equalization Premium Paid to the Producers Program (PEPRO) to support cotton producers in the 2014/15 MY.

| 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                           |          |
| Area Harvested                              | 900                         | 900      | 1,120                       | 1,120    | 1,050                       | 1,000    |
| Beginning Stocks                            | 7,993                       | 7,993    | 5,801                       | 5,801    | 7,467                       | 7,376    |
| Production                                  | 6,000                       | 6,000    | 7,800                       | 7,800    | 7,300                       | 6,900    |
| Imports                                     | 65                          | 65       | 146                         | 125      | 75                          | 50       |
| MY Imports from U.S.                        | 0                           | 0        | 0                           | 68       | 0                           | 25       |
| Total Supply                                | 14,058                      | 14,058   | 13,747                      | 13,726   | 14,842                      | 14,326   |
| Exports                                     | 4,307                       | 4,307    | 2,230                       | 2,300    | 3,700                       | 2,200    |
| Use   | 4,100                       | 4,100    | 4,200                       | 4,200    | 4,000                       | 4,100    |
| Loss  | -150                        | -150     | -150                        | -150     | -150                        | -150     |
| Total Dom. Cons.                            | 3,950                       | 3,950    | 4,050                       | 4,050    | 3,850                       | 3,950    |
| Ending Stocks                               | 5,801                       | 5,801    | 7,467                       | 7,376    | 7,292                       | 8,176    |
| Total Distribution                          | 14,058                      | 14,058   | 13,747                      | 13,726   | 14,842                      | 14,326   |
| 1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA |                             |          |                             |          |                             |          |

#### USDA 2014/15 MY = August 2014 to July 2015

##### Current Low Domestic Prices Create a Disincentive to Plant Cotton in 2014/15

Post forecasts that 2014/15 area planted to cotton will drop to one million hectares, an area reduction of 11 percent compared to 2013/14. Current domestic prices, which are lower than the minimum target price set by the Ministry of Agriculture, Livestock, and Food Supply (MAPA), have created disincentives for farmers who have the option to plant cotton for the second crop (“safrinha”). Earlier in the year, due to attractive global prices and high global demand, many farmers were initially attracted to cotton production with the hope of higher profit margins. However, since cotton is a high risk-reward crop, the current domestic price situation affects farmers who would typically plant cotton after the 2014/15 soybean harvest. In this current price environment, farmers who do not own machinery for cotton production are expected to exit cotton production in 2014/15 and plant another crop to avoid the high capital costs, level of risk, and stringent management practices.

Post forecasts that Brazil’s 2014/15 cotton production will be lower than originally expected, at 6.9 million bales. The 2014/15 cotton production forecast is a 12 percent reduction in comparison to 2013/14, based on current low prices and lower expected import demand. With better seed genetics on the market, Post is forecasting a yield trend of 1.5 mt/ha, slightly higher than the average.

Mato Grosso and Bahia states are forecast to produce 55 and 35 percent, respectively, of Brazil’s cotton. New seed varieties bred specifically with a resistance to pesticides that manage *helicoverpa zea* brought significant yield increases particularly to western Bahia, which was most impacted in 2012/13 by the pest. In 2012, the Brazilian Government (GOB) approved five new seed varieties of biotech cotton which facilitated farm management practices for pest and weed pressures in 2013/14. It is

estimated that about 25 percent of the seeds that will be used in the state of Bahia are new biotech events.

### Payments Approved for Cotton Farmers in 2014/15 MY

In September, the GOB approved R\$300 million (US\$134 million) under the Equalization Premium Paid to the Producer Program (PEPRO) to support cotton producers in the 2014/15 MY. Since January 2014, domestic prices have dropped 22 percent as a result of higher global supplies. Under the program, the GOB pays a premium to the farmer or cooperative that sells its products at public auctions. The government pays the difference between the Official Reference Value (R\$54.90 or US\$24.50 per 15kg sack) and the market price.

\*Exchange Rate as of September 9 = R\$2.24/\$

**Cotton Domestic Prices**  
(Domestic Prices\* in cents of R\$ per lbs)

|                  | 2012     | 2013     | 2014     | 2013/2014<br>% Change |
|------------------|----------|----------|----------|-----------------------|
| <b>January</b>   | \$170.76 | \$175.01 | \$222.48 | 27%                   |
| <b>February</b>  | \$170.23 | \$184.47 | \$227.24 | 23%                   |
| <b>March</b>     | \$161.17 | \$204.98 | \$220.49 | 8%                    |
| <b>April</b>     | \$160.44 | \$209.49 | \$208.79 | 0%                    |
| <b>May</b>       | \$160.07 | \$197.08 | \$195.04 | -1%                   |
| <b>June</b>      | \$151.16 | \$193.74 | \$191.62 | -1%                   |
| <b>July</b>      | \$157.56 | \$211.80 | \$182.17 | -14%                  |
| <b>August</b>    | \$162.06 | \$216.38 | \$168.67 | -22%                  |
| <b>September</b> | \$165.19 | \$212.80 |          |                       |
| <b>October</b>   | \$155.21 | \$214.04 |          |                       |
| <b>November</b>  | \$155.49 | \$208.73 |          |                       |
| <b>December</b>  | \$158.44 | \$212.46 |          |                       |

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.

### Exports for 2014/15 to Decrease Due to Lower Import Demand

Post forecasts exports for 2014/15 MY at 2.2 million bales, a 4 percent drop compared to Post's 2013/14 estimate, as a result of lower global demand. China's total imports are estimated to be down nearly one-third from 2013/14 MY as a result of its higher stocks.

For 2013/14 MY, Post estimates exports slightly higher at 2.3 million bales based on final trade data. As of the end of July, just 66 percent of the 2013/14 MY crop was commercialized, a 2 percent drop compared to the previous MY. By the end of July, the top four export markets for Brazil: Indonesia, China, South Korea, and Vietnam, reduced imports by 24, 68, 33, and 29 percent, respectively. As a result, Brazil's relatively high beginning stocks for 2014/15 MY, combined with lower expected global demand, will continue to put downward pressure to domestic cotton prices.

Brazil Export Statistics  
Commodity: Cotton  
Year Ending: July

| Partner Country | Unit *        | Quantity  |           |           | % Share |        |        | % Change  |
|-----------------|---------------|-----------|-----------|-----------|---------|--------|--------|-----------|
|                 |               | 2012      | 2013      | 2014      | 2012    | 2013   | 2014   | 2014/2013 |
| World Total     | 480 lbs bales | 4,893,289 | 4,374,660 | 2,288,533 | 100.00  | 100.00 | 100.00 | - 47.69   |
| Indonesia       | 480 lbs bales | 655,131   | 697,280   | 530,185   | 13.39   | 15.94  | 23.17  | - 23.96   |
| China           | 480 lbs bales | 1,633,108 | 1,429,572 | 451,536   | 33.37   | 32.68  | 19.73  | - 68.41   |
| South Korea     | 480 lbs bales | 627,633   | 667,582   | 446,906   | 12.83   | 15.26  | 19.53  | - 33.06   |
| Vietnam         | 480 lbs bales | 206,994   | 252,464   | 179,731   | 4.23    | 5.77   | 7.85   | - 28.81   |
| Taiwan          | 480 lbs bales | 171,560   | 161,722   | 168,841   | 3.51    | 3.70   | 7.38   | 4.40      |

Source of Data: Brazilian Foreign Trade Secretariat

\*Conversion Rate: Metric Tons to 480 lbs bales -(4.59293)

### Cotton Consumption:

Brazil's domestic consumption for 2014/15 is forecast lower at 4.1 million bales due to higher inflationary pressures and decelerating growth in the local economy. For 2013/14, domestic consumption increased slightly to 4.2 million bales mainly due to demand from the 2014 World Cup soccer matches. Many in the industry initially anticipated a higher increase for 2013/14 domestic consumption driven in large part by the hotel sector. This sector expected a boost, with large investments being made in preparation for Brazil's hosting of the World Cup. While investments were made, this additional consumption merely offset a real decrease in national textile consumption. Brazilian consumer preferences are trending in favor of imported clothing products and the domestic industry has subsequently lost market share.

