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## **Report Name:** Cotton and Products Annual

**Country:** Brazil

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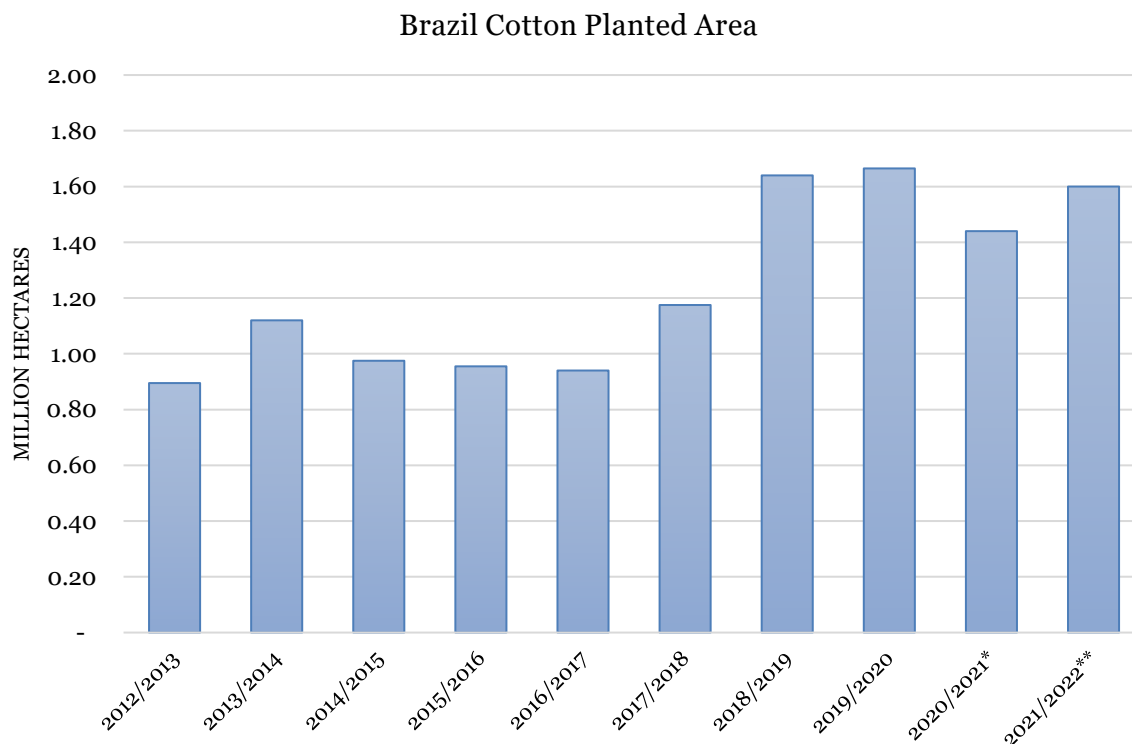
### **Report Highlights:**

For 2021/22, Post forecasts cotton planted area to rebound 11 percent compared to the current season, to 1.6 million hectares. The Post forecast for 2021/22 cotton production is 13.2 million bales, or 2.9 million metric tons (MMT), up from 11.6 million bales (2.5 MMT) in 2020/21. Next season, planted area and production should remain below the records set in 2019/20, because of a higher cost of production and very good margins for alternative crops: soybeans and corn. Nevertheless, on the back of ample supplies and a favorable exchange rate, Brazil's cotton exports will continue to set records. Post forecasts cotton exports for 2021/22 to increase slightly to 11.5 million bales (2.5 MMT), up from 11 million bales (2.4 MMT) in the current season. At the same time, Post anticipates that domestic consumption will remain tepid at 3.2 million bales for 2021/22 (697 thousand MT), up from 3 million bales (653 thousand MT) in the current marketing year.

### *Outlook 2021/22 Planted Area to Recover*

Post forecasts 2021/22 cotton planted area to rebound to 1.6 million hectares. The forecast represents an 11 percent expansion on the current season estimate of 1.44 million ha but is below the record planted area of 1.67 million ha in 2019/20. Post anticipates that next season, growers in Brazil will increase planted area based on global economic recovery and a rebound in cotton demand, as the world attempts to move past the novel coronavirus pandemic. The forecast for 2020/21 planted area expansion is also in line with trendline cotton sector growth in Brazil, last season notwithstanding.

Planted area estimates for Brazil highlight the sector's remarkable growth in the last decade, and, in the last five seasons. Going forward, Post believes that Brazil's cotton planted area will remain well above the 1.4 million ha mark seen the last four seasons.



Source: USDA/ FAS PSD, 2020/21\* and 2021/22\*\* Post estimate and forecast

Post believes that in the last several seasons planted area growth was driven by rising global cotton consumption, which, in turn, spurred global prices. Brazil's growers responded by putting into use ample arable land in key growing states and increasing equipment capacity to maximize returns. Looking forward to the 2021/22 season, Post expects that these same factors will lead to planted area rebound.

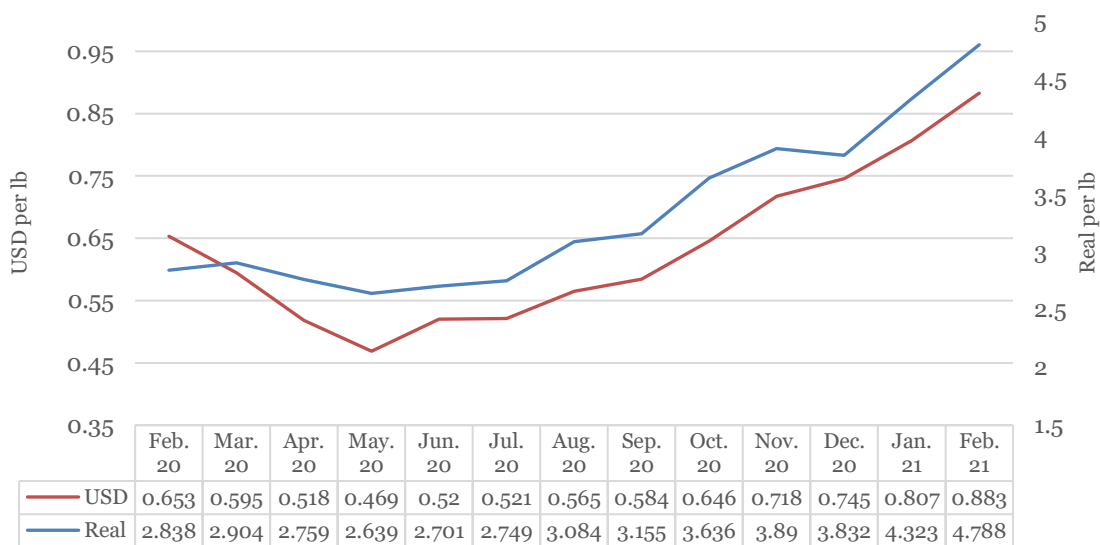
**Positive Global Market Outlook:** The market anticipates that global cotton demand will continue to rebound in 2021 and 2022. In 2020, on the account of the coronavirus pandemic, the cotton market saw disruptions to both supply and demand. Textile manufacturing suffered interruptions due to lockdowns with shuttered factories and impaired port operations. Meanwhile, demand dropped on the economic slowdown, as did consumer purchasing patterns due to stay-at-home orders. USDA estimates that over

the course of the 2019/20 season, global cotton consumption dropped by almost 15 percent. The outlook going forward is decidedly brighter; as cotton consumption is expected to rebound 15 percent in 2020/21 to 117.5 million bales (25.57 million metric tons (MMT)), and to grow four percent in 2021/22 to 122 million bales (26.56 MMT). With more than 80 percent of production shipped overseas, Brazil's cotton sector is mainly oriented toward the export market. As such, Post anticipates that Brazilian farmers are likely to expand planted area in response to global demand.

**Global Cotton Prices:** The novel coronavirus pandemic had a significant, negative impact on global cotton demand and in conjunction on global cotton prices. From February to April 2020, cotton futures on the New York Stock Exchange fell more than US \$0.20 to reach their lowest level in a decade at US \$.049 per pound – below estimated production costs for Brazilian growers, who need prices at or above the US \$0.60 per pound to make a profit. Global cotton prices have since registered a remarkable reversal, with the New York stock exchange pricing cotton at over US \$0.85 per pound in mid-March 2021. Global cotton prices are supported by limited production in the United States this season, stronger oil prices, as well as recovering global demand. Brazil's cotton prices are directly correlated with the global cotton prices in New York. That said, Brazilian farmers are cautiously eyeing the futures market, with ICE prices hovering around \$0.72-\$0.75 per pound for this time next year.

**Favorable Exchange Rate:** Due to pandemic-induced economic turmoil, the Brazilian currency, the real (BRL), shed more than 30 percent of its value in 2020. Most analysts currently forecast that the Brazilian real will remain weak in 2021 as Brazil's economy continues to be bogged down by the COVID-19 pandemic, slow vaccination campaign, and limited government resources. As of early March, the Central Bank survey indicates that on average, the market expects the BRL to trade at R\$ 5.15 to the USD in 2021, and at R\$ 5.13 to the USD in 2022. So far, the real is hitting well above year-end targets. As of March 25, the BRL stood at R\$5.66 to the USD, reflecting investors' concerns over prospects for economic recovery and reform.

Brazil's Cotton Prices in USD and Real



Source: CEPEA data, Post Brasilia chart

The steep devaluation of the real has had a positive impact on Brazilian commodity prices. For example, from February 2020 to February 2021, the University of Sao Paulo's Superior Agricultural School Research Center (CEPEA/ESALQ) cotton price indicator rose almost 70 percent when valued in Brazilian reals – to R\$4.79 per pound of cotton. In those same 12 months, prices in USDs climbed just over 35 percent – to \$0.88 per pound of cotton.

**Return to Optimal Equipment to Land Ratio:** Based on conversations with producers, Post believes that before the coronavirus pandemic, farmers were close to a point of maximizing economies of scale with existing equipment and arable land that is easily available. Numerous interlocutors have pointed out that rapid expansion seen from 2015 to 2020 was fueled by costly investment in equipment. In Post's view, producers will be eager to return to that optimal planted area balance that existed last season. However, further expansion is unlikely to be significant given the expense of acquiring new machinery – cotton pickers run upward of \$1 million. Post believes that another leap in cotton planted area will not occur for several years, as producers do not expect substantial expansion in consumption demand as well as strong commodity prices.

### ***Constraints for the Industry Remain***

**Financing:** Although most cotton growers are relatively well capitalized, many rely at least in part on outside money to finance their crop. In this environment of higher costs, this point is particularly salient. Some smaller farmers may face difficulty securing credit simply because the support allocated by the federal government via the annual farm bill (*Plano Safra*) has been depleted. The *Plano Safra* operates on a July 1 – June 31 fiscal year. At the beginning of February 2021, with still five months left to go in the existing season, 10 of the 19 rural credit lines from the National Bank for Economic and Social Development (BNDES) were closed due to the depletion of resources. Each line is available to farmers for certain types of activities. For example, the Modernization Program for the Agricultural Tractor and Implements Fleet (Moderfrota) made R\$ 6 billion available, but the resources only lasted the first four months. BNDES suspended requests for this financing line in November 2020, reopened again on January 4, and closed again three days later. According to BNDES, for the lines to be reopened, new contributions by the government are necessary. Given the fiscal crunch exerted by the pandemic, new resources are unlikely to come.

More trouble may be brewing for the 2021/2022 season, as there are already rumblings that the next *Plano Safra* will have far more limited resources as the government grapples with ballooning deficits and dwindling resources in the aftermath of the pandemic. The market is also pricing in expectations of higher interest rates. In early March, the Central Bank increased Brazil's benchmark interest rate (Selic) by 75 basis points; by mid-March a survey of 72 lenders and consulting firms conducted by the Brazilian newspaper *Valor*, showed that the median projection pointed to the Selic rate of 5 percent at the end of this year. The previous average estimate had been 4.5 percent. A higher Selic rate could further constrain lending.

**Profitability:** For the last several seasons, producers had to contend with the volatile cost of production. According to the Mato Grosso Institute of Agricultural Economics (IMEA), cotton variable production costs in 2021/22 are expected to rise by more than 23 percent for growers in the state. In financial outlays, the largest increase in costs is forecast for fertilizers and crop protection (herbicides, fungicides, and insecticides) – outlays are expected to rise by more than R\$ 200 per ha for each line-

item next season. Similarly, seed purchase costs will also rise. The cost increase is linked to the exchange rate since many of the above-mentioned farm inputs are imported.

For variable costs, the biggest increase is projected in post-harvest classification and processing, as well as equipment leasing. The sharp increase in cost is associated with rising prices of cottonseed. Many small and medium-size cotton growers often lease equipment for cotton planting and harvesting, and then turn over their crop for processing, i.e., separation of cotton lint and cottonseed, to third parties. These growers often use cottonseed as a form of payment for lease and processing services. Therefore, with cottonseed prices up, the impact of rising equipment leasing, and post-harvest costs is reduced.

**Estimated Production Costs for Cotton in Mato Grosso**  
(Brazilian real per ha)

	2020/21	2021/22	% Change
Variable Cost of Production	9,805.90	12,102.81	23.4%
<i>Variable Costs of Production (on Farm)</i>	<i>6877.48</i>	<i>7373.24</i>	
Seeds	712.51	752.77	5.7%
Fertilizers	2034.98	2258.92	11.0%
crop protection (herbicides, fungicides, insecticides)	3532.11	3745.89	6.1%
machinery operation	323.81	341.59	5.5%
Labor	220.34	220.34	0.0%
third-party services	53.73	53.73	0.0%
<i>Variable Costs of Production (ex Farm)</i>	<i>2928.42</i>	<i>4729.57</i>	
maintenance of machineries and installations	294.17	294.17	0.0%
taxes and tariffs	331.04	419.64	26.8%
interest rates	317.64	331.51	4.4%
post-production: classification, processing	1699.13	3354.2	97.4%
Transport	67.91	67.91	0.0%
lease costs	115.99	155.96	34.5%
other variable expenses	102.54	106.18	3.5%
Fixed Costs of Production	285.54	285.54	-
Depreciation	260.72	260.72	0.0%
other fixed costs	24.82	24.82	0.0%
Total Operating Costs (Variable, Fixed)	10,091.44	12,388.35	23%
Opportunity Cost	858.9	1075.56	25.2%
Total Cost	10,950.34	13,463.91	23.0%
*All costs cited in Brazilian Real for March 2021 and projected March 2022. The exchange rate used is R\$4.98to USD			

Source: IMEA

In this environment of high production costs, it is important to note that most growers in Brazil have the option to plant alternative crops. In the Center West of the country, where the key cotton-producing

state of Mato Grosso is located, many farmers plant two crops per year, with soybeans sown in September/ October, followed by a second, or *safrinha* crop of cotton or corn in January. In the northeast state of Bahia, growers typically plant just one crop - cotton or soybeans. Both soybean and corn prices have been hitting record highs and are projected to remain elevated. With a smaller upfront investment and currently high profit margins for soybeans and grains, Post anticipates that some growers will favor those commodities at the expense of cotton. These factors will constrain the cotton planted area rebound from hitting the record level seen in the 2019/20 harvest.

### ***Planted Area to Remain Concentrated***

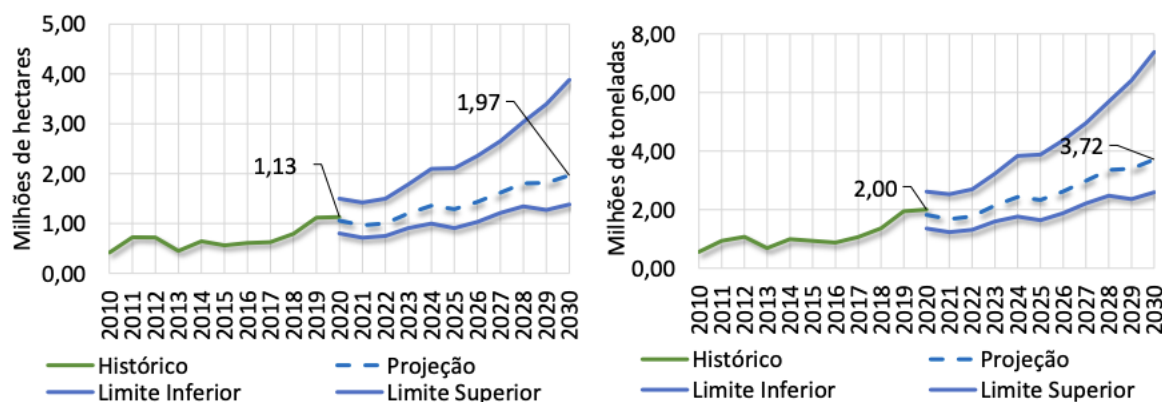
For the 2021/22 harvest, Post does not forecast major shifts in the main cotton-producing regions. Brazil’s Center-West state of Mato Grosso and the northeast state of Bahia account for 9 out of 10 hectares of all cotton area planted in Brazil (71 percent and 19 percent respectively).

Planted Area (thousand ha)	2016/2017	2020/21*	5 -yr total Δ in ha	5 -yr total Δ in %
Mato Grosso	627.8	1,014.4	386.6	62%
Bahia	201.6	266.0	64.4	32%
Center West (MS, GO)	54.8	51.7	-3.1	-6%
MATOPI (MA, TO, PI)	32.9	42.1	9.2	28%
Southeast (MG, SP)	18.4	35.8	17.4	95%
Rondonia	0.0	7.9	7.9	---
Brazil total	955.2	1,424.7	469.5	49%

Source: CONAB March 2021 bulletin, 2020/21\* represents CONAB area forecast

CONAB estimates that over the last five years, Brazil’s cumulative soybean planted area rose almost 50 percent. Yet, out of almost 470,000 cotton hectares added across Brazil, Mato Grosso accounted for 82 percent, or 387,000 ha, of the total new area. In the 2019/20 season, growers in Mato Grosso increased cotton planted area by over 300,000 ha – more than the total cotton area sown in all of Bahia. Next season, Post forecasts cotton area in Mato Grosso to increase by 100,000-150,000 ha, with growers converting *safrinha* hectares that were put into corn this season. Notably, the potential expansion of the cotton area in Mato Grosso is nearly limitless. Since cotton is mostly grown as a second crop, virtually any of the 10 million-plus hectares of soybean fields may be utilized to plant cotton. IMEA projects that in the next decade the cotton planted area in the state will likely increase by 75 percent to nearly 2 million ha, though the potential upper limit is much higher at 4 million ha.

## Cotton Planted Area and Production Forecast for Mato Grosso to 2030



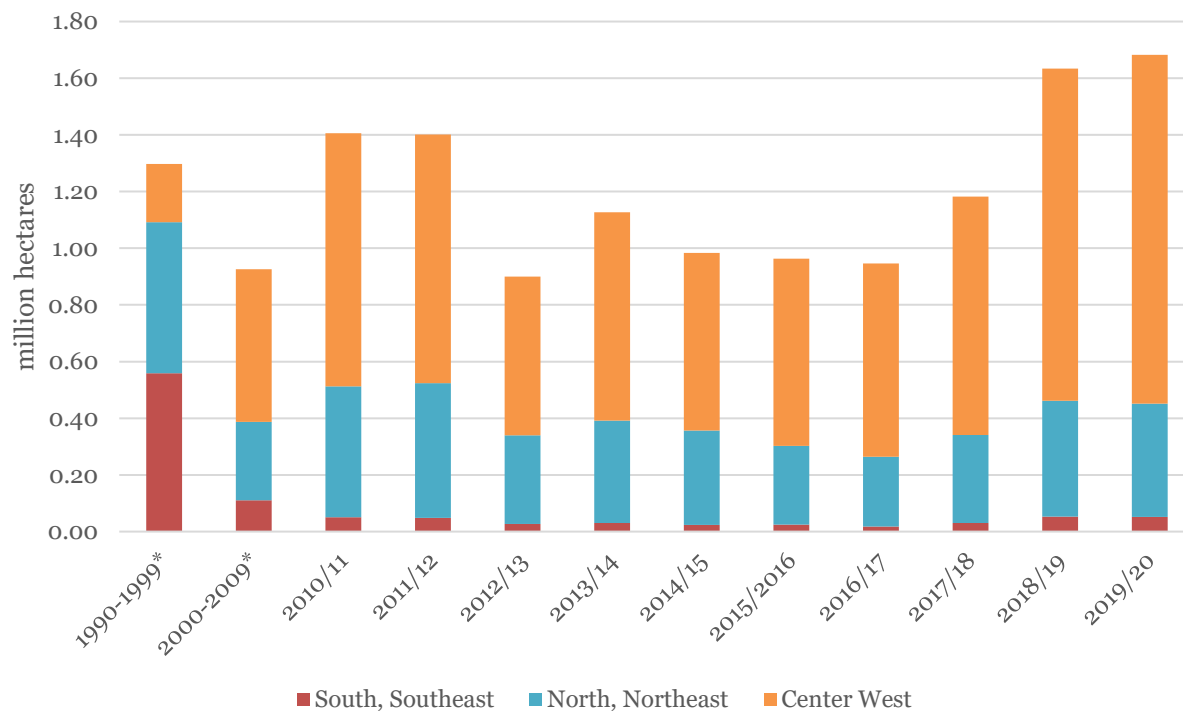
Source: IMEA; first graph is in million ha, second graph in million tons; the green line shows planted area and production to date, the blue lines show forecast window of expansion with the dotted line signifying the base case scenario.

In Bahia, planted area rose by a third in the last five seasons. Going forward, cotton planted area expansion in the state will be limited, however, by the fact that growers elect to grow either soybeans or cotton. Soybeans have long been the dominant crop planted in Brazil owing to their liquidity and profitability. As such, Post does not anticipate expansion to proceed in Bahia along the same lines as in Mato Grosso. For 2021/22, Post forecasts planted area in the state to rise by just 50-60 thousand ha at the expense of soybeans.

The remaining 10 percent of meaningful production is split nearly equally between the Center-West states of Mato Grosso do Sul and Goias, where planted area has been slowly declining; the northeast region of MATOPI (adjoining states of Maranhao, Piaui, and Tocantins), and the southeast states of Minas Gerais and Sao Paulo. In the latter region, the state of Minas Gerais is the primary cotton producer. Notably, agriculture, including cotton farming, has always had a large presence in Minas Gerais; thus, an increase in cotton area planted in this region is more reflective of a recent surge in cotton prices, which motivated producers to switch from other crops, rather than a true increase in crop cultivation. Post does not anticipate cotton farming to expand much beyond the current parameters in the southeast.

In recent years, the most significant growth in cotton cultivation has occurred in the Northeast MATOPI area and Brazil's north region. In the last three years, for example, production has taken off in Rondonia state. Yet, despite notable gains in percentage terms these regions are still far behind the two main producer states. For production to take off in the North and Northeast, Brazil would have to make significant improvements in export infrastructure. Currently, 95 percent of Brazil's cotton exports are shipped via the port of Santos, in Sao Paulo state. It would be more cost-effective to ship cotton produced in the northern part of the country from ports in the North and Northeast – the so-called Northern Arc (*Arco Norte*). However, these ports are not currently equipped to handle container ships.

### Brazil Cotton Production by Region (1990-2020)



Data Source: CONAB Historic Series, 1990-1999\* and 2000-2009\* reflect a 10-year average. Post Brasilia chart.

#### ***Outlook 2021/22: Production to Hit Close to Record Volumes***

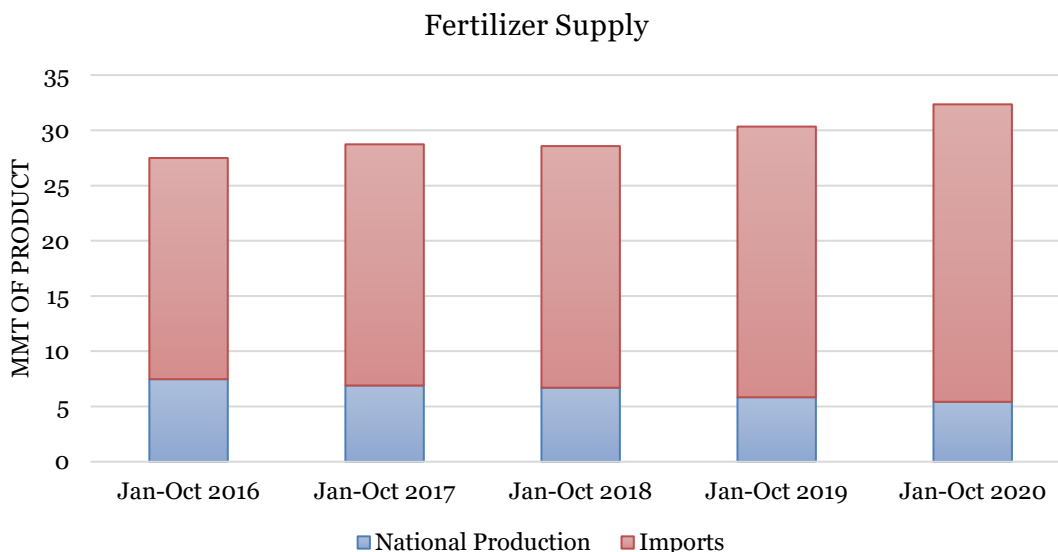
The Post forecast for 2021/22 cotton production is 13.23 million bales (2.88 MMT), a 14 percent increase from 2020/21 estimated production. The yield is forecast to rise in line with the 10-year average of three percent, to reach 1800 kilograms (kg) per ha as compared to the current season yield estimate of 1,745 kg/ ha. Post yield and production forecasts for 2021/22 are based on steady yield improvement due to adoption and investment in inputs, such as Genetically Engineered (GE) seeds and the use of chemicals and fertilizers.

**Technology:** Brazil is one of the global leaders in the planting of GE crops. Adoption for cotton stands at nearly 90 percent. According to Brazilian government data, the average yields for crops increased by 70 percent during the past 15 years, with continued use of biotechnology seeds being a major contributor to this yield growth. As of October 2020, Brazil’s National Technical Commission of Biosafety (CTNBio) had approved a total of 104 GE events for commercial cultivation, of which 22 are for cotton. Post has spoken with several sources in Mato Grosso and Bahia that indicate that new GE drought- and pest-resistant seed varieties have significantly improved yields, particularly in problematic seasons with less than favorable weather.

**Fertilizer Use:** Post forecasts that in 2021/2022, Brazil’s fertilizer demand will grow at least six percent, well above the average pace of two to three percent in recent years. Post interlocutors often note that Brazilian growers follow technological innovation and the newest soil and crop protection recommendations to maximize yields. The latest available data from the National Fertilizer Association



(ANDA) shows that for the first 10 months of 2020, the total fertilizer volume supplied to the Brazilian market increased by 10 percent. Fertilizer sales last year were aided by strong commodity prices, which led to higher margins for farmers. Post contacts note that despite the weak domestic currency, with profits from commodity sales, they are seeing the best purchasing power relative to fertilizers over the last five-six years. Post contacts also note that in response to higher commodity prices, many growers have already made fertilizer purchases for the 2021/22 crop. The forward purchasing of fertilizers is a good signal for another robust increase in demand in 2021.



Data Source: ANDA, Chart OAA Brasilia

Post expects that Brazil will remain heavily dependent on fertilizer imports. According to ANDA, in the first 10 months of 2020, Brazil’s fertilizer imports reached over 80 percent of the total supplied to the domestic market. National fertilizer production for the first 10 months of 2020 was down seven percent from the previous year. Meanwhile, fertilizer imports were up 10 percent year-on-year in that same time frame. Most of the product used in Brazil is imported, at a total value of around \$8 billion. The main exporters are Russia, Canada, China, and Morocco.

In early March, the secretary of Strategic Affairs for the presidency, Flavio Rocha convened several ministers, including Ministry of Agriculture and Livestock (MAPA) Minister Tereza Cristina, Science and Technology Minister, Marcos Pontes, and Mines and Energy Minister, Bento Albuquerque, in addition to MAPA research agency (Embrapa) representatives to draft a national fertilizer plan. Still in its initial phase, one of the possibilities of the plan involves the exploration of potash reserves in the Amazon and the change in the legislation on the exploitation of resources in indigenous lands. Post anticipates that if Brazil finds a way to bring down imports and decrease its dependence on imported fertilizers, cotton production should benefit significantly.

***Current Season Planted Area and Production to Dip***

Post lowered the estimate for 2020/21 cotton area planted to 1.44 million ha, from 1.5 million ha anticipated in the December 2020 update. The new planted area estimate represents a decrease of more

than 13 percent from last season. Lower area planted year-on-year reflects global cotton market conditions associated with the Covid-19 pandemic in 2020. Post interlocutors report that due to the pandemic, the market in Brazil saw stalled sales, re-negotiated, and/or canceled contracts. The initial 2020/21 area planted estimate was also reduced because of inclement weather, which constrained growers' ability to plant during the ideal time frame.

Post lowered the 2020/21 cotton production estimate by 500,000 bales to 11.56 million bales (2.52 MMT), a 16 percent decline from 2019/20 production. The yield is estimated at 1.745 kilograms (kg) per ha, down from 1,802 kg/ha posted in 2019/20. Notably, the current season yield is still the second highest on record. Last season, growers saw nearly ideal planting, growing, and harvest conditions leading to record-setting productivity. In the current season, many farmers were forced to plant outside of the ideal planting window, and they are likely to see reduced yields. The Post yield estimate will be revised further pending weather during crop development in the April-June timeframe.

	Planted Area (1000 ha)	Yield (kg/ha)	Production (MT)
<b>Total</b>	<b>1444</b>	<b>1.745</b>	<b>2520</b>
Mato Grosso	1005	1.741	1750
Bahia	270	1.889	510
Goias	30	1.633	49
Mato Grosso Do Sul	30	1.667	50
Minas Gerais	40	1.525	61
Maranhao	27	1.593	43
Piau	12	1.583	19
Others	30	1.267	38

Source: Post Brasilia

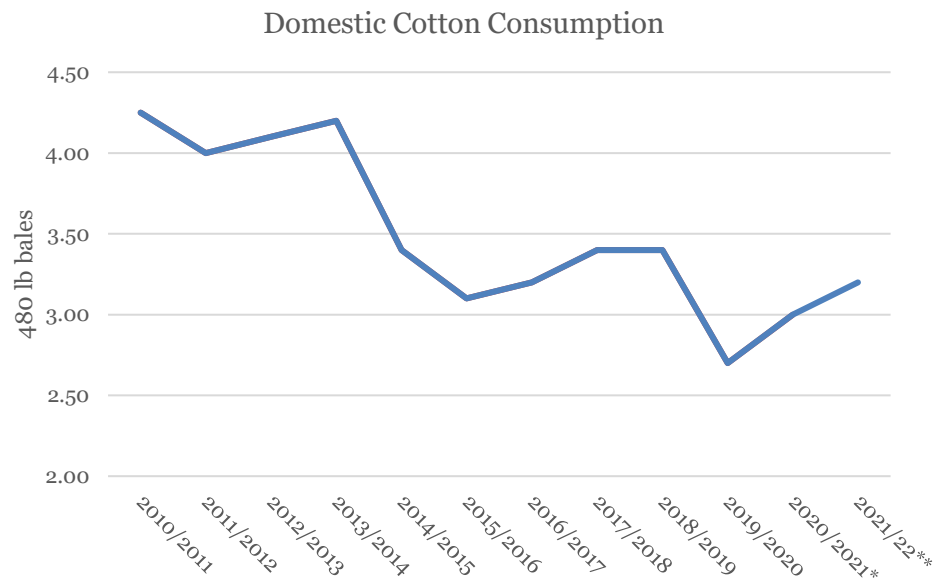
Looking at the state-by-state breakdown in 2020/21, producers in Mato Grosso planted just around one million ha, down more than 10 percent from last season. Most cotton production in Mato Grosso is a rain-fed second season (or safrinha) crop, sown in January-March after the harvest of first-season soybeans. This season, soybean planting was delayed by as much as six weeks in Mato Grosso due to insufficient soil moisture. As a result, some farmers simply missed out on the ideal planting window for cotton. With the major growing season extending until June, it is too early to assess yields in Mato Grosso. As of late March, weather had been cloudy and rainy in Brazil, proving ample moisture, however, the La Niña pattern may bring drier than normal weather in coming months, with subsequent adverse impact on yields.

As of mid-March, producers in Bahia had finished sowing all planned hectares for the 2020/21 season. In Bahia, producers plant mostly rain-fed, first-season cotton. Post estimates area planted in the state to decrease by about 14 percent to 270,000 ha. As is the case elsewhere in the country, cotton growers in Bahia reduced their cotton planted area on account of the pandemic as well as cost-benefit analysis of planting cotton versus soybeans. In addition, producers in the center north of the state had to eradicate some of their area planted to combat an infestation of the cotton boll weevil. Production this season is estimated at 2.33 million bales (510 thousand mt).

## CONSUMPTION

### *Consumption to Make Modest Gains*

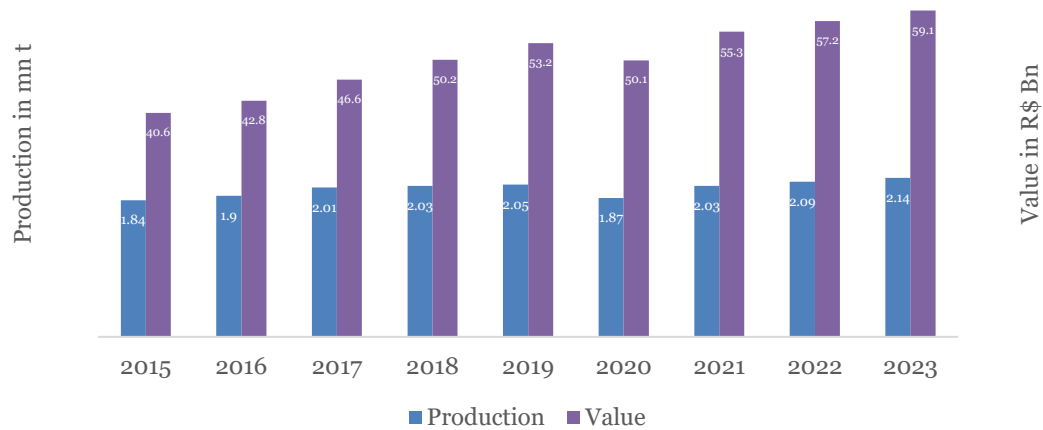
Post forecasts that Brazil's domestic cotton consumption will come in at 3.2 million bales for 2021/22 (697 thousand MT), as compared to the estimated 3 million bales (653 thousand MT) of domestic consumption for the current MY. The coming season's uptick in consumption will not be enough to make up ground to be on par with the consumption over the last several seasons when the Brazilian cotton processing industry purchased, on average, about 3.3 million bales (720 thousand MT). Domestic cotton consumption is expected to continue experiencing adverse effects from the novel coronavirus pandemic and slow economic recovery.



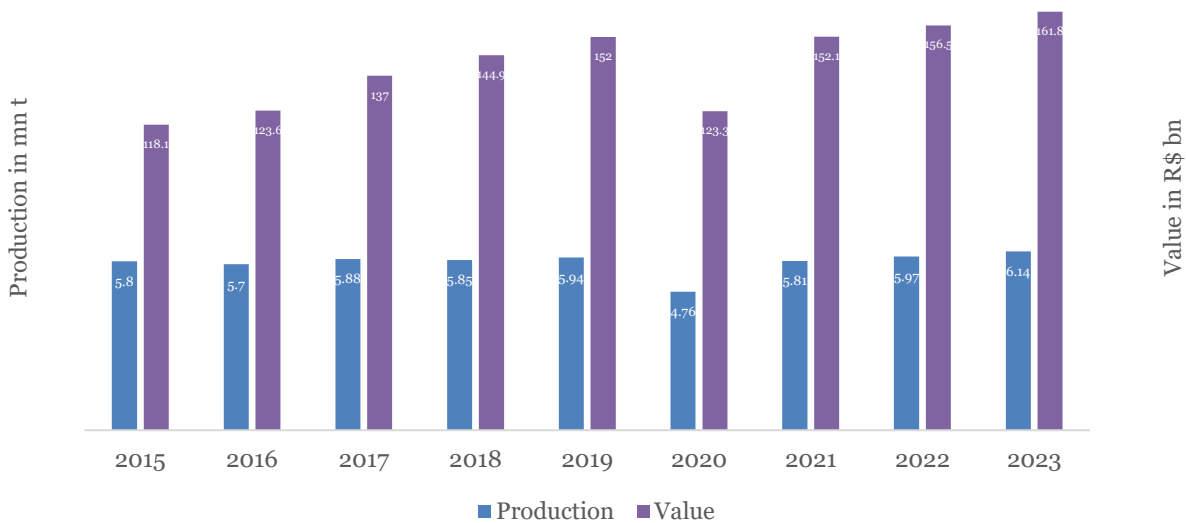
Source: USDA PSD, Chart OAA Brasilia. Note that 2020/21\* and 2021/22\*\* reflect Post estimate and forecast

For 2021, the Brazilian Textile Industry Association (ABIT) projects a recovery in domestic processing and manufacturing on the assumption of GDP growth of around four percent year-on-year. Based on the GDP projection, ABIT projects that textile production will grow to 2.03 million tons this year, an increase of 8.3 percent as compared to 2020; clothing production should rebound to reach 5.81 billion pieces, an increase of 23 percent year-on-year. Domestic sales are estimated to rise 10.5 percent for textiles and 25 percent for clothing.

### Textile Manufacturing in Brazil



### Clothing Production in Brazil



Data Source: ABIT

Although the numbers suggest impressive growth, ABIT notes that in 2021, the industry will be able to make up most – but not all - of 2020 lost production and sales. Post interlocutors indicate that nearly all factors powering Brazil’s domestic textile and clothing manufacturing would have to align perfectly for the sector to reach pre-pandemic levels in 2022. The textile and clothing sectors were among the worst hit by the pandemic in Brazil, stemming from both manufacturing disruptions and a hit to income and consumption patterns.

Post anticipates that domestic cotton consumption in 2020/21 and 2021/22 will face several 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 government projection is that GDP will grow 3.2 percent in 2021; this number has been revised down several times already and may well continue to be downgraded. In March 2021, with pandemic gathering strength, nearly all states implemented renewed lockdowns and restrictions on congregating in public. As a result, the market expects that unemployment will trend up, which combined with stay-at-home orders, will create a significant drag on consumer demand.

On the industry side, given that cotton prices are hitting record highs, this high cost of raw material drastically cuts into the mills' margins. This has a compounding effect on the industry, which is 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 has no choice but to pass on the costs to consumers, who in turn may cut back on purchases even more given the rising domestic prices.

It should be noted that recent approval by the Senate of Emergency Assistance (Auxílio Emergencial) of payments in 2021 should alleviate some of the pressure on consumer demand. However, the benefits were extended for just a few months and capped at US\$ 8.3 billion (R\$ 44 billion). According to the Tendencia Consultancy firm, the lower emergency assistance benefit approved for 2021 combined with economic uncertainties fueled by the pandemic will decrease Brazilian household incomes by approximately US\$ 29.6 billion this year. After an overall 5.2 percent increase in 2020, family income is estimated to contract 3.5 percent in 2021. Tendencias estimated that the household incomes of poor families could drop as much as 62 percent this year after a 221.7 percent increase in 2020, boosted by the 2020 emergency assistance payments.

## **TRADE**

### ***Exports to Continue Growing in 2021/22***

Post forecasts cotton exports for the 2021/22 MY (August 2021- July 2022) to increase slightly on the current year to 11.5 million bales (2.5 MMT), up from 11 million bales (2.4 MMT). The 4.5 percent export forecast increase is based on the expected pickup in the global economy, and subsequently global cotton demand, with the ongoing recovery from the coronavirus pandemic. As already outlined at the beginning of the report, global cotton demand is expected to grow around four percent in 2021/22.

There are, however, downside risks to the Post forecast. There are lingering uncertainties surrounding the pandemic trajectory – the possibility of future lockdowns and production disruptions either in Brazil or in major cotton-consuming markets – could also exert downward pressure on global demand. There is also some risk that if the U.S.-China trade deal holds, Beijing may source more cotton from the United States, and invariably that will come at the expense of Brazilian exports.

However, the base case expectation is that Asian markets will continue to be the primary destination for Brazil's cotton exports, with China playing outsized importance. In the last five seasons, while Brazil's total cotton exports doubled, shipments to China grew nearly five-fold. The only two export markets that saw more impressive growth in percentage terms were Bangladesh and India. Post contacts expect that exports to Brazil's top five markets will continue to grow faster than the overall export volume.

<b>Brazil Cotton Exports</b> (in 100,000 MT)			
	2015/16	2019/20	5-yr % Δ
China	10.1	57.7	473%
Vietnam	14.2	29.8	110%
Bangladesh	2.5	22.6	790%
Pakistan	7.8	22.0	184%
Turkey	12.2	20.1	64%
Indonesia	14.2	19.8	40%
Malaysia	8.3	8.9	8%
South Korea	12.4	4.4	-65%
India	0.5	3.2	598%
Thailand	4.7	2.3	-52%
<b>World Total</b>	<b>93.9</b>	<b>194.6</b>	<b>107%</b>

Data Source: SECEX

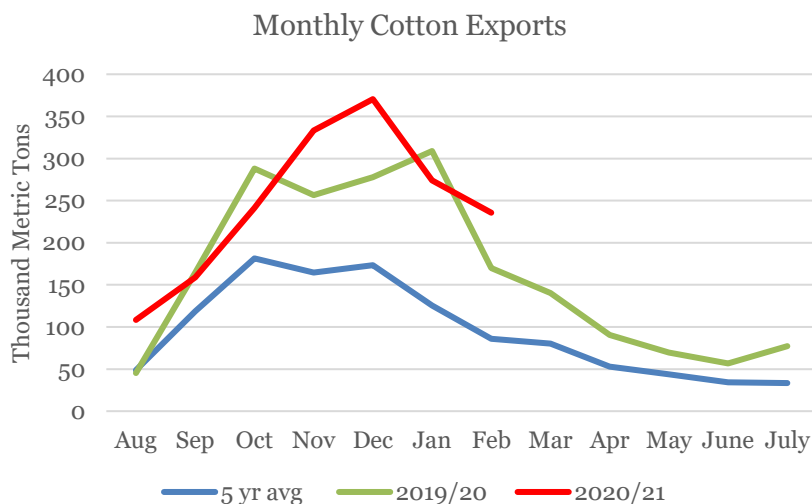
The Post expectation of growing exports to Asian markets takes into account the so-called Cotton Project that was launched in December 2020 by the Brazilian Association of Cotton Producers (ABRAPA), the National Association of Cotton Exporters (ANEA), and the Brazilian Export and Investment Promotion Agency (APEX-Brasil). The project aims to support Brazil's quest for the top spot in the world cotton export ranking by 2030. The project has identified nine markets in Asia - China, Bangladesh, Vietnam, Turkey, Pakistan, Indonesia, India, Thailand, and South Korea - as strategic buyers, representing 80 percent of all Brazilian cotton exports. The project is managed out of the ABRAPA office in Singapore. According to ABRAPA's Director of International Relations, Marcelo Duarte, the goal "is to consolidate a brand and to unify the narrative of the quality of Brazilian cotton."

In the last decade, ABRAPA has dedicated massive resources for the country to become the largest Better Cotton Initiative (BCI) producer in the world. In 2013, based on the Better Cotton Standard criteria, ABRAPA implemented its benchmarking process known as ABR (Algodão Brasileira Responsável / Responsible Brazilian Cotton) Standard. Farmers growing cotton in line with the ABR standard can sell their cotton as BCI. As of 2020, 75 percent of Brazil's cotton production is licensed by the BCI. Also, as of 2020, ABRAPA implemented a program to certify cotton ginning plants under the ABR-UBA program (Responsible Brazilian Cotton – Cotton Ginning Plant).

### ***Exports to Set Another Record in 2020/21***

Post revised up the 2020/21 MY (August 2020- July 2021) export estimate by one million bales to 11 million bales (2.4 MMT). Thus, Post estimates that exports will rise by 23 percent when compared to the 2019/20 export volume of 8.9 million bales (1.95 million metric tons). The estimated increase in exports is based on several factors.

The primary factor supporting the export forecast is the record-breaking export performance in the first seven months of the MY. From August 2020 through February 2021, Brazil exported 1.72 MMT of cotton, which is just 224,000 MT shy of the total exported in all of the 2019/20 MY. In addition, according to preliminary estimates from the Ministry of Economy, Foreign Trade Secretariat (SECEX), Brazil exported 104,400 MT in the first two weeks of March.



Data Source: SECEX, Chart: Post Brasilia

It bears mentioning that 2019/20 was a record-breaking export season for Brazil. Post anticipates that the pace of Brazilian cotton exports will remain above the five-year average because of the current weakness of the Brazilian currency. As already discussed in the first section of the report, the Brazilian real has lost over a third of its value since this time last year. As of March 2021, the market anticipates that the real will continue to trade at well above R\$ 5 to the USD, boosting the attractiveness of Brazilian exports, including cotton.

The Post estimate is further supported by the IMEA estimate that the state’s growers have already contracted over 96 percent of their 2019/20 production. The 2019/20 production comes online in late August-early September, with shipment therefore taking place during the 2020/21 (August 2020 – July 2021) MY. 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. And business as usual, for Brazil’s cotton industry, means setting a new export volume record year-on-year.

The one potential risk to the Post 2020/21 export estimate is infrastructure disruption. 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, with the novel coronavirus continuing to spread across the country, the possibility of contagion and a temporary shutdown of operations at the port of Santos is a persistent risk factor for Brazil’s cotton exports. (For more discussion on infrastructure see GAIN report: [Brazilian Agricultural Sector Thrives Despite COVID-19 Pandemic](#)).

## **Import Volumes Remain Low in 2021/22 and 2020/21**

Post forecasts cotton imports in 2021/22 to hit 15,000 bales (3,300 MT), continuing the recovery from very low levels registered in 2019/20 on the account of the pandemic. Post estimates cotton imports in 2020/21 to reach 10,000 bales (just over 2,000 MT), as compared to an estimated 5,000 bales (around 1,000 MT) imported in 2019/20. Last season, imports shrank by over 70 percent on the previous season, which can be attributed to the coronavirus pandemic that disrupted mill operations in Brazil. Although the current season volume is twice the amount that Brazil imported last season, it is well below the 20,000-40,000 bales that the country brought in in recent years.

The Post import forecast and estimates are based on a lackluster economy, as well as a weak Brazilian real, which discourages imports. In addition, Post contacts report that the Brazilian apparel industry is looking to switch to domestic sourcing as much as possible due to the risk posed by timelines for delivery. In an environment where factory and consumer behavior is subject to sudden lockdowns, Brazilian manufacturers prefer not to take on the added risk of placing orders with delivery windows out even several weeks into the future. The 2020/21 estimate is supported by import data for the first seven months of the marketing year, when Brazil imported about 4,500 bales.

## **STOCKS**

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)



**PSD in Bales**

Cotton	2019/2020		2020/2021		2021/2022	
Market Begin Year	Aug 2019		Aug 2020		Aug 2021	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1665	1665	1450	1444	0	1600
Area Harvested	1665	1665	1450	1444	0	1600
Beginning Stocks	12256	12256	14404	14404	0	11989
Production	13780	13780	11500	11575	0	13230
Imports	5	5	25	10	0	15
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	26041	26041	25929	25989	0	25234
Exports	8937	8937	10000	11000	0	11500
Use	2700	2700	3000	3000	0	3200
Loss	0	0	3	0	0	0
Total Dom. Cons.	2700	2700	3003	3000	0	3200
Ending Stocks	14404	14404	12926	11989	0	10534
Total Distribution	26041	26041	25929	25989	0	25234
Stock to Use %	123.78	123.78	99.43	85.64	0	71.66
Yield	1802	1802	1727	1745	0	1800
(1000 HA), (1000 480 lb. Bales), (PERCENT), (KG/HA)						

**PSD in Metric Tons**

Cotton	2019/20		2020/21		2021/22	
Market Begin Year	Aug 2019		Aug 2020		Aug 2021	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1665	1665	1450	1444	0	1600
Area Harvested	1665	1665	1450	1444	0	1600
Beginning Stocks	2668	2668	3136	3136	0	2610
Production	3000	3000	2504	2520	0	2880
Imports	1.09	1.09	5.44	2.18	0.00	3.27
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	5670	5670	5645	5658	0	5494
Exports	1946	1946	2177	2395	0	2504
Use	588	588	653	653	0	697
Loss	0	0	1	0	0	0
Total Dom. Cons.	588	588	654	653	0	697
Ending Stocks	3136	3136	2814	2610	0	2294
Total Distribution	5670	5670	5645	5658	0	5494
Stock to Use %	123.78	123.78	99.43	85.64	0.00	71.66
Yield	1802	1802	1727	1745	0	1800
(1000 HA), (1,000 tons), (PERCENT), (KG/HA)						

**Attachments:**

No Attachments