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Report Highlights:

For MY 2024/25, Post forecasts cotton area to grow 13 percent compared to the current season, to 1.87 million hectares. Post also forecasts cotton production at a record 15.4 million bales (3.3 million metric tons (MMT)) on the back of significant area increase. Better cotton prices and profitability, compared to corn, are factors contributing to area expansion. Yields are expected to reduce, however, by nearly nine percent compared to MY 2023/24, considering the potentially adverse effects of an El Niño year. Post forecasts MY 2024/25 exports at 10.5 million bales (2.3 MMT), five percent less than MY 2023/24's estimate at 11 million bales (2.4 MMT) due to higher global beginning stocks and expected increased competition with U.S. cotton. Post forecasts domestic consumption at 3.5 million bales (0.76 MMT), relatively stable from MY 2023/24's maintained estimate at 3.5 million bales (0.75MMT). Post forecasts MY 2024/25 ending stocks at 7.6 million bales (1.7 MMT) due to higher production and reduced exports.

INTRODUCTION

As mentioned in [Post's last Update](#) and in [October 2023's World Agricultural Production](#) report, USDA revised Brazil's historical cotton production estimates. Since October 2023, area, production and yields numbers dating back to marketing year (MY) 2000/01 shifted one year ahead.

USDA's estimates for Brazil's area and production now reflect the calendar year (CY) harvest for the first listed year of the split (e.g. 2024 for 2024/25) – instead of the previous method of using the next calendar year's harvest (in this case, 2025 for 2024/25). As such, MY 2024/25 area, production and yield estimates now refer to cotton recently sowed and that will enter the market in 2024. In Brazil, MY 2024/25 production estimates are often referred to as season 2023/24 (as harvesting will happen during 2024).

These changes aimed to better align with the timing of the cotton harvest and exports in Brazil, as well as to provide better estimates of Brazil's ending stocks. No changes were made to historical consumption or export estimates.

Table 1

Equivalence between USDA's revised MY timings for area, production, yield, consumption and trade, and Brazil's MY

PS&D Attributes	USDA's MY	is equivalent to Brazil's MY
Area, production, yield	2024/25 (Aug – Jul)	2023/24 (Aug – Jul)
	2023/24 (Aug – Jul)	2022/23 (Aug – Jul)
Consumption, trade	2024/25 (Aug – Jul)	2024/25(Aug – Jul)
	2023/23 (Aug – Jul)	2023/23 (Aug – Jul)

Source: Post Brasilia (Office of Agricultural Affairs – OAA).

AREA, PRODUCTION AND YIELD

MY 2024/25: Cotton area forecasted to expand to a record level due to an expected better profitability compared to corn

Post forecasts cotton MY 2024/25 production at 15.4 million bales (3.3 million metric tons (MMT)) due to a significant growth in cotton area across Brazil, forecasted at 1.87 million ha. This reflects a 13 percent area increase compared to the revised MY 2023/2024 estimate, at 1.66 million ha, and a three

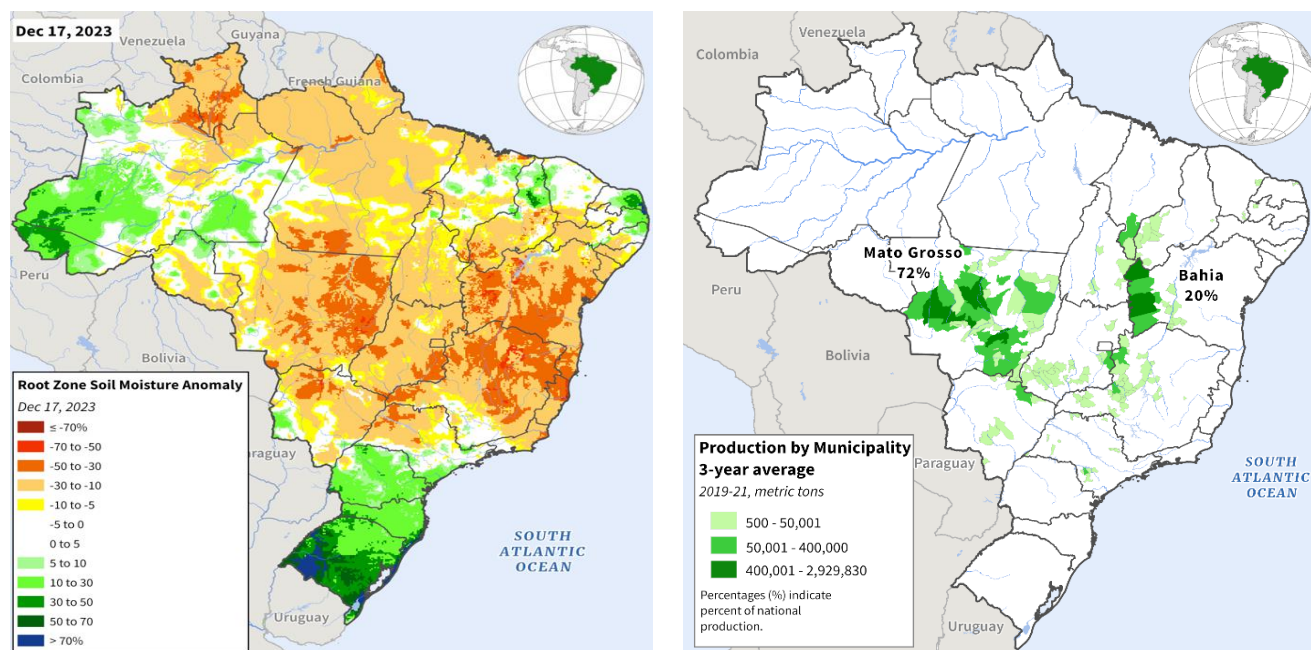
percent growth in cotton output in relation to last MY's reviewed estimate of 14.9 million bales (3.2 MMT).

MY 2024/25 area expansion is mostly explained by two factors. First, deteriorating corn prices and erratic weather facilitated cotton expansion in Mato Grosso, where it competes for area with second crop corn (known as *safrinha*). As covered in the Prices and Commercialization section below, corn prices have reduced far more than those of cotton, and production costs remained relatively high, edging corn producers to negative profitability margins.

Secondly, Center West (composed by Mato Grosso, Mato Grosso do Sul, Goiás, and Distrito Federal) was severely affected by heat waves and droughts from October to December 2023 (Figure 1). The high temperatures registered during this period reduced soil moisture levels, and delayed soybean sowing progress in several states. As this oilseed crop is by far the most predominant first crop option for Mato Grosso's producers due to its high liquidity, any change on its regular sowing calendar has knock on effects for both corn and cotton (see [Oilseeds and Products Annual](#) for more information regarding soybean in Brazil).

Figure 1

Brazil's Soil Moisture Root Zone Anomaly (Dec 17th, 2023) and Cotton Production Areas



Source: SMAP L4 Soil Moisture Data and IBGE. Chart elaborated by: USDA Foreign Agriculture Service's (FAS) International Production Assessment Division (IPAD).

In Mato Grosso, the period to start sowing soybeans was anticipated in 2023 and producers were allowed to start planting as early as 1st September (compared to the traditional mid-September kick off). However, in mid-November, an intense heat wave hit a vast part of the country and drove temperatures

up to over 40 degrees Celsius (over 104 degrees Fahrenheit) in certain areas throughout the state and its neighbors, Mato Grosso do Sul and Minas Gerais. This elevated evapotranspiration levels and reduced soil moisture, adversely affecting early sowed soybean fields with potentially lower productivity as their growing was shortened. With lower yield outlooks, Post contacts indicated some producers had abandoned some fields and planted cotton instead of *safrinha* corn, in expectations of better profitability.

Post contacts have also indicated that this record area increase should be largely driven by existing large cotton growers expanding their area, rather than new producers entering the market. That is mostly because cotton requires specific machinery, which creates a significant barrier of entry (for instance, cotton harvesting machinery is different from soybeans/corn harvesters, and an expansive investment).

Several reasons should disincentivize the entrance of new players in the cotton market in MY 2024/25: high basic interest rate (currently at 10.75 percent/year) which increases the costs of borrowing money to buy machinery; lower cotton prices compared to previous years – though better market conditions than other crops, such as corn; expected lower profitability in MY 2023/24 soybeans season, leaving producers with less available capital to expand installed capacity and expand to a new crop (as cotton); and higher labor costs, as entering the cotton market requires more specialized labor and additional training costs, so workers can operate new machineries.

Area is set to expand at different growth areas across cotton growing states

Mato Grosso: Post conducted a crop tour between January 29th and February 2nd across different agricultural producing regions in Mato Grosso, alongside the BR-163 highway (in municipalities as Nova Mutum, Nova Ubitatã, Sorriso, Sinop, and others). While the visit focused on the current soybean scenario, Post interacted with different local cotton stakeholders to gather intelligence and firsthand information.

In terms of area, the Mato-Grosso Institute of Agricultural Economics (IMEA) estimates a 13.6 percent increase in Mato Grosso's area compared to MY 2023/24 (from 1.2 million ha to 1.37 million ha). With two cotton crops per year, the state is traditionally responsible for over 70 percent of Brazil's total area and cotton production. First crop has usually a longer cycle and varies from 10 to 20 percent of Mato Grosso's total area. In MY 2024/25, first crop area, mostly centered in the state's Southeast region, registered a record increase, from 185.3 thousand ha to 264.1 thousand ha (43 percent growth). That was due to the problems induced by poor weather conditions affecting soybeans in the final quarter of 2023. Second cotton crop, largely located in Mato Grosso's West and Mid-North regions, has the largest area in the state, with IMEA forecasting 1.1 million ha for MY 2024/25 – 8.3 percent more than MY 2023/24. Worse prices for corn nudged producers to switch to cotton in expectations of better profits. MY 2024/25 production is forecasted by IMEA at 11.2 million bales (2.43 MMT) – four percent more than MY 2023/24's estimate at 10.7 million bales (2.34 MMT).

Most sowing happens from late December and late January in Mato Grosso. According to IMEA, all cotton fields were sowed in Mato Grosso by February 23rd with nearly 90 percent of areas planted within the ideal period. Due to the negative weather impacts on soybean fields, some producers preferred to switch to cotton after attempts of replanting soybean areas. In turn, this accelerated cotton sowing pace compared to the last season. By the end of January 2024, farmers had sowed 77 percent of cotton areas in the state – significantly more than 48 percent by the end of January 2023.

Post contacts reported that recent weather conditions in Mato Grosso have favored cotton development and that most fields display a satisfactory outlook. So far, plants are mostly in vegetative and flowering stages. As only up to 150 thousand ha are irrigated in the state (nearly 11 percent of cotton's area), the vast majority of cotton fields are rainfed and reliant on appropriate weather conditions to reach its potential. From a national perspective, the Brazilian Cotton Producers Association (ABRAPA) estimates that up to 92 percent of Brazil's cotton production takes place in rainfed properties. The remaining eight percent are allocated in irrigated areas, a portion five times lower than global average (45 percent).

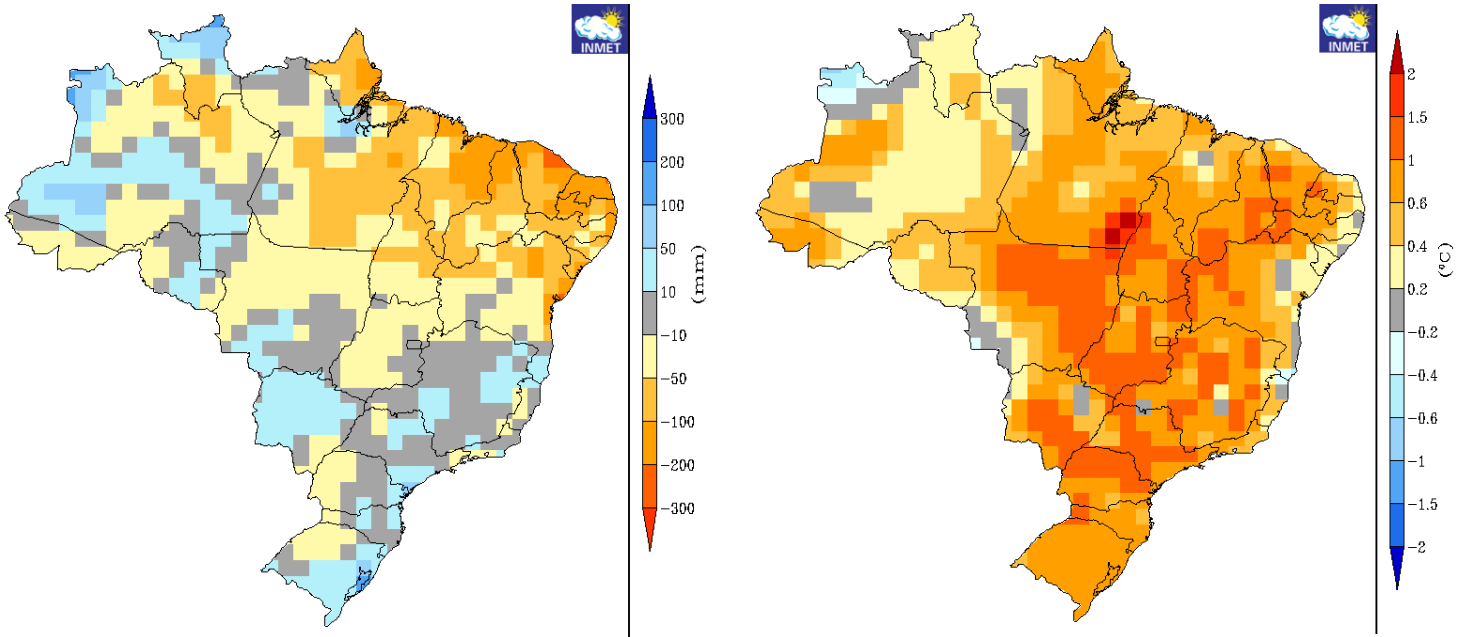
Market reports indicate a growing presence of boll weevil across different cotton fields in Mato Grosso due to an increased presence of weeds in soybean areas, which allowed the boll weevil population to grow more than in previous years. Post will monitor the development of weather conditions and pest control as both will be crucial to define the state's final yields.

Bahia: Cotton growers intensified sowing in late January to meet the regulatory deadline of February 10th, according to the Association of Cotton Producers of the State of Bahia (ABAPA). They estimate MY 2024/25 area at 344.4 thousand ha (9.3 percent more than last MY, at 312.6 thousand ha, due to satisfactory results in MY 2023/24), and production at nearly 3.04 million bales (661 thousand MT), based on average yields of 1,919 kg/ha. Part of this area increase expanded over corn fields. It is important to mention that Western Bahia, where cotton is grown, has a significant investment in irrigated fields (96.9 thousand ha), totaling over 28 percent of all cotton area in Bahia.

High temperatures and low rainfall levels impacted the start of cotton sowing and the early development of plants in Western Bahia, with an estimated 11.5 percent of replanting, according to ABAPA. To avoid weather-related risks, producers switched nearly 18 thousand ha rainfed areas to irrigation systems in order to sustain high yields, and maintain international competitiveness and market share, according to Brazil's National Supply Company (CONAB). Although rains in January enabled good conditions in rainfed areas, precipitation levels in the coming months are expected to be below historical average, which may impact final yields.

Figure 2

Rainfall anomaly forecast (left, in millimeters) and temperature anomaly forecast (right, in degrees Celsius)



Source: Brazil's National Institute of Meteorology (INMET), as of March 22th. Note: both forecasts refer to the quarter encompassing April, May and June 2024.

Despite area increase, yields should be lower to El Niño's weather legacy

Throughout all cotton areas planted in Brazil, weather patterns in the coming weeks will decisively influence national yields. Despite a 13 percent area increase, Post forecasts MY 2024/25 production to increase only by three percent due to lower yields – nine percent less compared to MY 2023/24 – due to suboptimal weather conditions. As covered in Post's last [Cotton and Products Update report](#), appropriate and timely rainfall, sunlight and temperature levels allowed Brazilian cotton growers to reap record MY 2023/24 volumes based on record yields.

However, stakeholders contacted by Post do not expect similarly ideal weather during an El Niño year, which could induce lower yields. IMEA estimates yields 8.6 percent lower across Mato Grosso, compared to the previous season. In Bahia, ABAPA's numbers point to a potential reduction of 5.5 percent in yields.

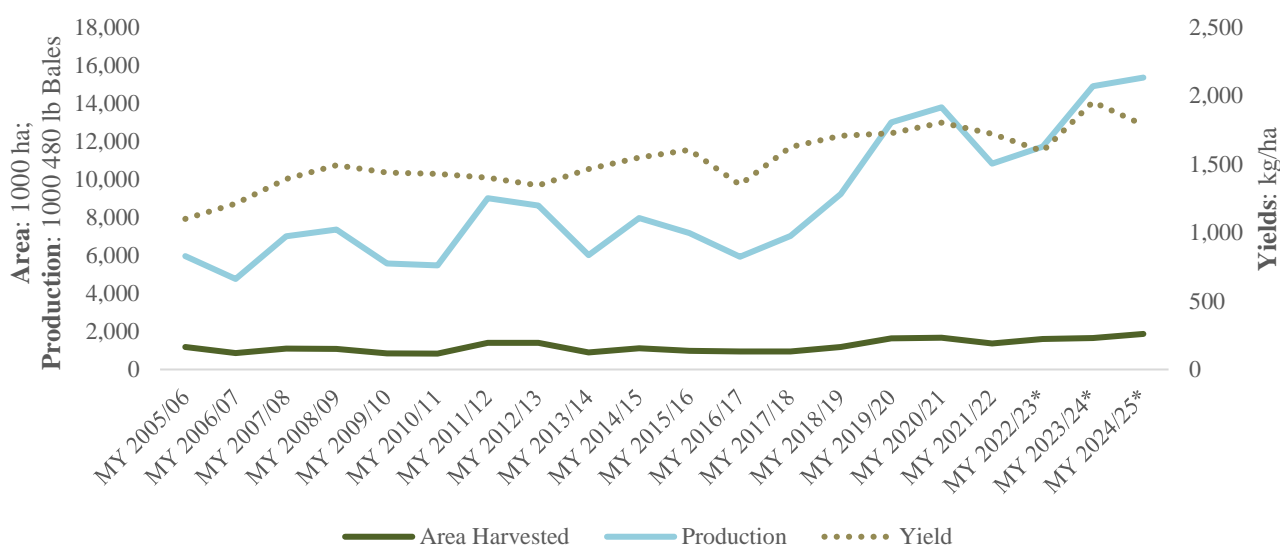
From the national perspective, projections from both public organizations and private agricultural companies emphasize this downward trend in Brazil's cotton yields, with numbers ranging from three to ten percent lower yields. In its recent March report, CONAB significantly adjusted up the country's area, production and yields estimates for MY 2024/25 (i.e. 2023/24 harvest, as explained in the

Introduction section): area nearly approached two million ha and production adjusted to a record 3.56 MMT. This reduced CONAB’s yield loss from eight percent to just four percent, due to allegedly better-than-expected weather.

Post will continue to monitor weather conditions across Mato Grosso and Bahia, the two largest cotton producing states, given cotton’s demanding attributes in terms of temperature, rainfalls and soil moisture. As of March 18th, 19 percent of all cotton fields were in vegetative development phase, while the remaining 45 percent and 36 percent were in flowering and boll development, respectively, [according to CONAB](#). For the latter two stages, ideal temperatures should range between 25 – 30 degrees Celsius (77 – 86 degrees Fahrenheit) as higher temperatures (e.g. above 38 degrees Celsius/100 degrees Fahrenheit)) would negatively impact yields, as reported by the Brazilian Ministry of Agriculture’s (MAPA) National Agricultural Climate Risk Zoning Program (ZARC, in Portuguese). Additionally, cotton plants’ water needs range from 700 millimeters (mm) to 1300 mm – depending on the region, soil characteristics and the variety. Nearly 50 to 60 percent of all water needs happen during flowering and boll development. It is important to mention that water stress between the first 60 to 100 days after plant emergence can reduce yields.

Figure 3

Evolution of Cotton Area, Production and Yield in Brazil (2005/06 – 2024/25)



Source: FAS. Chart elaborated by: Post Brasilia (Office of Agricultural Affairs – OAA). Note: Data for the latest three MY, marked with (*), considers Post’s estimates and forecasts.

For MY 2023/24 production numbers, Post revised up its estimate from 14.7 million bales (3.2 MMT) to 14.9 million bales (3.24 MMT), considering newly available production data, particularly in Mato Grosso.

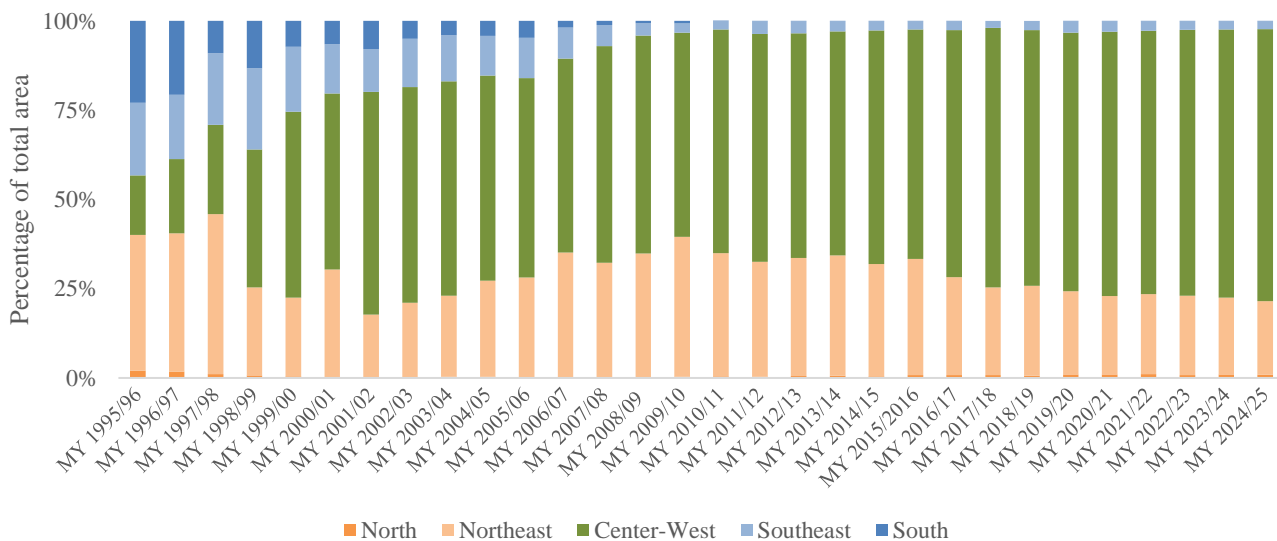
Cotton continues progression inland towards Brazil's country side

Over the last decades, Brazil has experienced a significant geographical shift cotton growing areas. According to CONAB's state-level numbers, Mato Grosso has accounted for nearly 70 percent of cotton areas in Brazil over the last five seasons, while Bahia has represented 19 percent. The remaining fields are distributed across Mato Grosso do Sul, Maranhão, Goiás, Minas Gerais (two percent each), São Paulo, Rondônia and Piauí (one percent each).

While Mato Grosso is by far the largest cotton grower state in Brazil, it has not always been the case. In the 1980's, Brazil also ranked amongst the main cotton producers worldwide. However, in mid-1990's, a boll weevil infestation across major fields in Northeastern states (where almost half of Brazil's cotton was then grown) pushed the sector to crisis. Area reduced by over 70 percent (from 2.6 million ha in MY 1988/89 to less than 660 thousand ha in MY 1997/98) and cotton output dropped by more almost two thirds in the same period – from 684 thousand MT to 306 thousand MT.

Figure 4

Evolution of Brazil's geographical distribution of cotton area (MY 1995/96 – MY 2024/25)



Source: [CONAB](#). Chart elaborated by: *Post Brasilia* (Office of Agricultural Affairs – OAA).

From this moment onwards, the Center-West region of Brazil started growing in relevance. In MY 1997/98, Mato Grosso, Mato Grosso do Sul, and Goiás, accounted for a quarter of Brazil's cotton area and 40 percent of production. Four seasons later, in early 2000's, they encompassed 62 percent of area, particularly due to massive area expansions in Mato Grosso, and three quarters of cotton output. Post contacts acknowledge that such incursion towards the Brazilian Cerrado biome – predominantly in the Center-West – was supported by efforts deployed by public and private institutions to adapt cotton varieties to this region's climatic and soil conditions. The cotton unit of the Brazilian Agricultural

Research Corporation (EMBRAPA Algodão, in Portuguese), established in 1975, played a crucial role in this endeavor by introducing new varieties in the 1990's. Alongside new farm management approaches adopted in Mato Grosso, typical of large-scale properties, these conditions allowed cotton cultivation to thrive in the state, enabling yield gains of nearly 40 percent in the past two decades.

While Mato Grosso is set to remain as Brazil's cotton powerhouse in the foreseeable future, Post contacts indicate that other states, such as Maranhão and Piauí, have been building capacity in cotton growing. Combined, these two Northeastern states would represent the third largest producer (in both area and production) in Brazil. While area is still limited, Maranhão and Piauí have achieved similar average yields as Mato Grosso. Significant investments in logistics and area expansion – possibly through pasture conversion in the medium term, with soybeans and other intermediate crops improving the quality of the soil in the first few seasons –, these states can increase their relative relevance in Brazil's cotton market.

CONSUMPTION

Domestic consumption to remain relatively steady in Brazil

Post forecasts MY 2024/25 consumption (i.e. from Aug 2024 – July 2025) at 3.3 million bales (762 thousand MT), a one percent increase compared to the previous MY's consumption, estimated at 3.45 million bales (751 thousand MT). For the past ten years, Brazil's domestic cotton consumption has remained structurally unaltered, ranging from 2.7 million bales – 3.4 million bales (approximately 600 – 740 thousand MT), depending on the country's overall economic performance, inflation and interest rates, and household financial capacities.

For 2024, the Brazilian Central Bank (BCB) project a mild economic growth of less than two percent in Brazil's Gross Domestic Product (GDP), which should persist in 2025. As the GDP grew by an estimated three percent in 2023, these projections may indicate a possible, although moderate, economic slowdown. It is noteworthy that cotton, as normal good, holds a close correlation with disposable income, meaning that higher levels of available money tend to lead to higher levels of consumption. In the cotton sector, increased demand for clothing (retail) also tend to allow a positive effect in increased domestic consumption of cotton, assuming stable prices for natural and synthetic fibers.

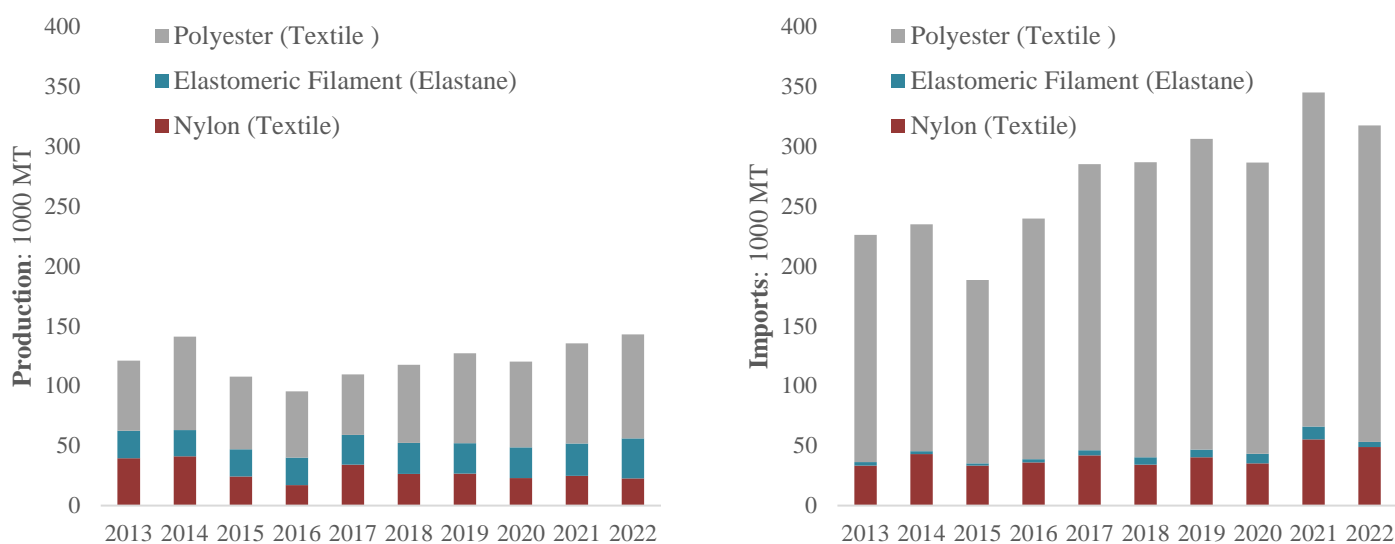
Brazil's textile industry is supplied by domestically produced cotton and is amongst the world's top ten largest cotton consumers, enabling a steady demand for part of Brazil's production. Post contacts point to two key challenges that should continue affecting domestic consumption. First, foreign e-commerce shopping platforms have been strengthening their competition with Brazilian producers in different clothing/fashion segments by offering low-cost products, mostly exported from Asia. This exacerbates the trade deficit experience by the wider textile industry (including goods produced out of cotton or synthetic fibers), which wrapped up 2022 with imports exceeding exports by approximately US\$ 1.97

billion, according to the Brazilian Textile and Apparel Industry Association (ABIT)/IEMI (a local market intelligence company).

Secondly, according to Post contacts, is the competition with synthetic fibers. When cotton prices increase, industries have an incentive to switch to synthetic fibers (given its lower costs), though they do not necessarily switch back to natural fibers when prices return to regular levels. According to the Brazilian Association of Artificial and Synthetic Fiber Producers (ABRAFAS), in 2022, when cotton prices spiked, Brazil’s supply of synthetic fibers (i.e. production and imports of textile-grade nylon, elastomeric filament, and polyester) reached 460 thousand MT, 13 percent more than in 2020, when international cotton prices were lower.

Figure 5

Brazil’s production (left) and imports (right) of synthetic fibers (2013 – 2022)



Source: [ABRAFAS](#). Chart elaborated by: Post Brasilia (Office of Agricultural Affairs – OAA).

According to ABRAPA, virtually all MY 2023/24 cotton (99.6 percent) has been High Volume Instrument (HVI) tested. They also estimate that nearly 82 percent of Brazil’s cotton production is Better Cotton (BCI) licensed. Post contacts report that the remaining cotton could be BCI certified, though producers might have not yet invested in the necessary certifications to obtain the license.

For the MY 2023/24 crop (i.e. cotton that entered the market in 2023), ABRAPA estimates that Brazil had 366 producers across 104 municipalities, mostly located in Mato Grosso and Bahia, were BCI certified (Figure 6). That is 10 percent more than the average of the previous five seasons (330 properties), and 80 percent more BCI licensed properties than in MY 2014/15 (203). As covered in the Policies section, Brazil’s cotton production meets environmental and social/labor certifications through ABRAPA’s Responsible Brazilian Cotton Program (ABR, in Portuguese).

Figure 6

Geographical distribution of BCI-licensed/certified cotton farms in Brazil (MY 2023/24)



Source: [ABRAPA](#). Chart elaborated by: Post Brasilia (Office of Agricultural Affairs – OAA).

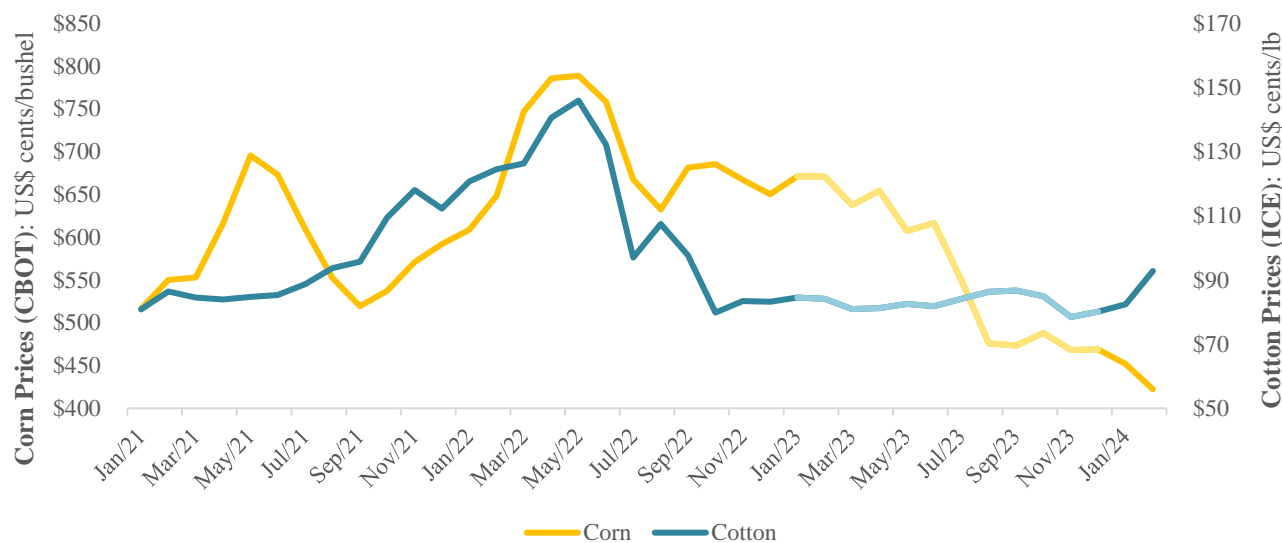
PRICES AND COMMERCIALIZATION

Despite a relative price devaluation, cotton is set to offer a better profitability than corn for safrinha producers

While the current cotton price levels are less attractive than in 2021 and 2022, it has devaluated significantly less than corn throughout 2023. This incentivizes producers, particularly in Mato Grosso, to plant cotton instead of corn. Looking at international prices, in New York’s ICE Futures, cotton was priced at an average of US\$80.08 cents/lb in December 2023, four percent less than in December 2022. In the same period, Chicago’s Board of Trade (CBOT) corn prices plunged by 28 percent, from US\$650.27 cents/bushel to US\$468.82 cents/bushel.

Figure 7

Evolution of international corn (CBOT) and cotton (ICE) prices (Jan 2021 – Feb 2024)



Source: Safras & Mercados, based on ICE and CBOT prices. Chart elaborated by: Post Brasilia (Office of Agricultural Affairs – OAA). Note: lines in lighter colors refer to prices from Jan/2023 to Dec/2023 in order to evidence the variation throughout 2023.

After a boom in international cotton prices between 2021 and 2022, which peaked in May 2022 at nearly US\$146 cents/lb, due to a more aggressive global demand, prices started to stabilize in 2023 around US\$80 cents/lb - US\$87cents/lb. Post contacts acknowledged that despite price reductions over the past months and high production costs, cotton still offers a better profitability than other crops, as corn.

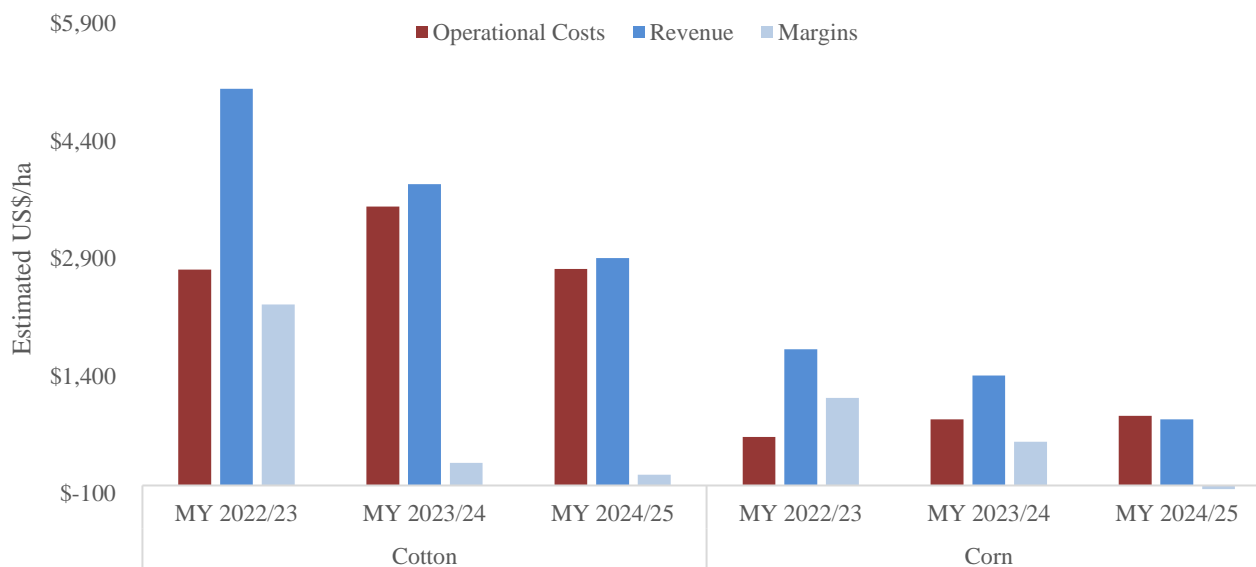
From a financial perspective, this helps to explain the area increase forecasted for MY 2024/25. With corn prices falling more sharply, Brazilian producers have had little incentive to expand corn area, and those who had the physical capacity (e.g. machinery), planted cotton instead. Post contacts reported that Brazilian producers have taken advantage of successive cotton crop losses in the United States in the recent seasons. As a result, should the U.S. cotton production bounce back in the next season, prices could decline further in 2024, considering the high global beginning stocks forecasted for next MY.

In terms of margins, MY 2024/25's cotton produced in Mato Grosso should be positive, though smaller compared to previous years, while corn profitability's could be negative in the state (Figure 8). According to IMEA data (i.e. costs of production, expected yields for average cotton and corn producers, and average prices received by farmers), cotton profitability in this MY could be much tighter: from nearly US\$290/ha in the last season to less than US\$140/ha in the current crop. Corn, on the other hand, could potentially have negative margins in this season, with variable costs exceeding revenues by US\$45/ha. Last year, corn profitability was estimated at over US\$550/ha. While many other elements shape the producers' actual profitability, this high-level estimate helps to evidence the scale of

losses in both crops' profits and explain why cotton area expanded even amidst falling prices. It is important to mention that these numbers may change should producers harvest better-than-anticipated yields and/or prices increase.

Figure 8

Evolution of estimated producers' profitability growing cotton or corn in Mato Grosso (MY 2022/23 – MY 2024/25)

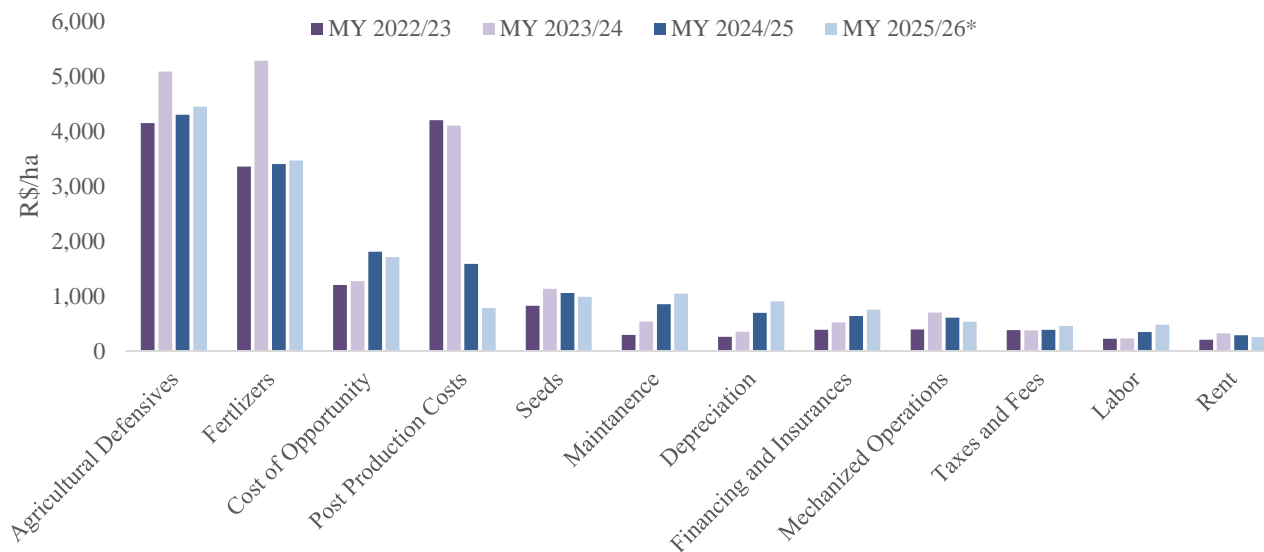


Source: Post Brasilia (Office of Agricultural Affairs – OAA), based on IMEA's public data of costs of production and commodities prices received by the producer. Note: to calculate revenues and margins, Post considered average prices received by producers in Mato Grosso in February 2024, February 2023 and February 2022 as periods of reference.

IMEA data also shows that the costs of production reduced for the current season (crop 2023/24, equivalent to USDA's MY 2024/25). Operational costs decreased by 26 percent, from R\$18,451/ha last season to R\$13,694/ha currently. As Figure 9 shows, significant reductions in the costs of fertilizers and post-production operations (ginning and classification), which dropped by 36 percent and 63 percent, respectively, contributed the most for lower costs in MY 2024/25. For the next season, IMEA forecasts production costs at similar levels as MY 2024/25, indicating that while costs to grow in Mato Grosso are high, they have plateaued back to regular levels after spiking in 2022.

Figure 9

Evolution of costs of production to grow cotton in Mato Grosso, by type of expense (MY 2022/23 – MY 2025/26)



Source: [IMEA](#). Chart elaborated by: Post Brasilia (Office of Agricultural Affairs – OAA). Note: (*) refers to an estimated cost of production, as of February 2024, for the next season (MY 2025/26).

Commercialization levels in Mato Grosso are below previous seasons, partially due to cotton’s falling prices and producers’ precaution regarding this season’s actual yields (Table 2). As of March 11th, according to IMEA, cotton commercialization in Mato Grosso for MY 2023/24 (which entered the market in 2023) reached 86.6 percent – 2.3 percentage points behind last season, in the same period, and 7.7 percentage points behind the average of the past five seasons. Forward contracts are also lower for MY 2025/26 expected production, currently at 8.3 percent. From a national perspective, ABRAPA estimates that 85 percent of Brazil’s MY 2023/24 cotton has been commercialized.

Table 2

Commercialization of cotton in Mato Grosso

	Current season	Same period in the previous season	Average (five seasons)
Season 2022/23 MY 2023/24	86.57	90.01	94.99
Season 2023/24 MY 2024/25	58.32	60.62	66.02

Season 2024/25	8.33	6.19	14.23
MY 2025/26			

Source: [IMEA](#). Table elaborated by: Post Brasilia (Office of Agricultural Affairs – OAA).

TRADE

MY 2024/25: Brazil's exports to remain high due to increased supply, though prices should decrease further

Post forecasts MY 2024/25 exports (i.e. from Aug 2024 to July 2025) at 10.5 million bales (2.3 MMT) due to three main factors: higher domestic supply resulting from another record production; weak local currency (Brazilian Real, R\$) exchange rate to U.S. Dollars; and relatively stable international demand. This forecast represents a five percent reduction in comparison to the MY 2023/24 export estimate, maintained at 11 million bales (2.4 MMT).

Despite the reasons mentioned above, two other drivers could limit Brazil's cotton export performance next MY. First, China's, the main buyer of Brazilian cotton, beginning stocks are forecasted to increase by eight percent, possibly reducing appetite for aggressive imports. Secondly, the possibility of the United States supplying more cotton to the international market after recent crop losses should reduce the competitive advantage that Brazil has currently enjoyed. As mentioned in the previous section, this scenario may (i) pressure international prices down, should global demand not grow proportionally to cotton supply, and/or (ii) increase ending stocks to a record level.

With nearly 70 percent of production shipped to international markets, Brazil's cotton sector is export-oriented. However, despite such international supply and demand context, the El Niño induced weather challenges affecting soybeans in Brazil's Center-West forced producers to double-down in the second crop in expectation to attenuate overall financial losses. Given the worse commercial outlook for corn and producers switching to cotton instead, the aggregated Brazilian supply will increase, potentially pushing prices down throughout 2024 onwards.

From a monetary perspective, a competitive exchange rate should continue to favor Brazil's commodities exports, including cotton. Since the outbreak of the Covid-19 pandemic, in March 2020, exchange rates have been fluctuating around R\$5 to US\$1 and show no indication of significant valorization in the short term.

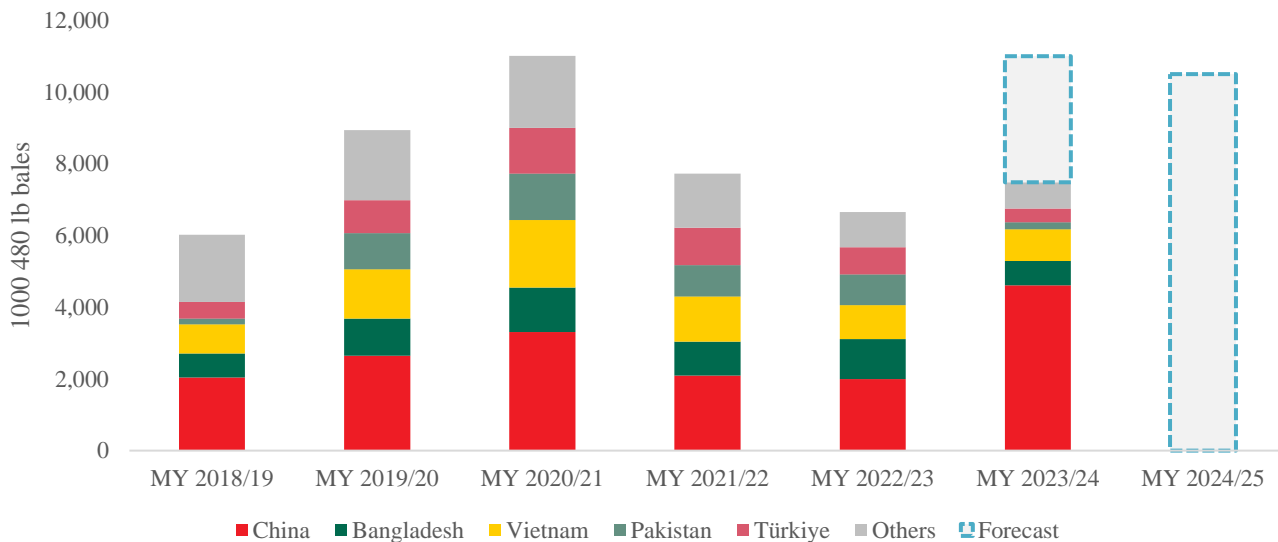
MY 2023/24: Brazil exceeds MY 2022/23 exports in just seven months in the current MY

So far in MY 2023/24 (August 2023 to February 2024, when the latest official data is available), Brazil already exported 7.5 million bales (1.6 MMT), shipping a cotton volume 12 percent higher in the first

seven months of the MY than in all MY 2022/23 (6.7 million bales / 1.5 MMT). China, Vietnam and Bangladesh have been the main destinations of Brazil’s exports since August 2023 (Figure 10).

Figure 10

Evolution of Brazil’s cotton exports by key trading partners (MY 2018/19 – MY 2023/24)



Source: Brazil’s Secretariat of International Trade (SECEX). Chart elaborated by: Post Brasilia (Office of Agricultural Affairs – OAA). Note: Forecasts refers to Post estimates.

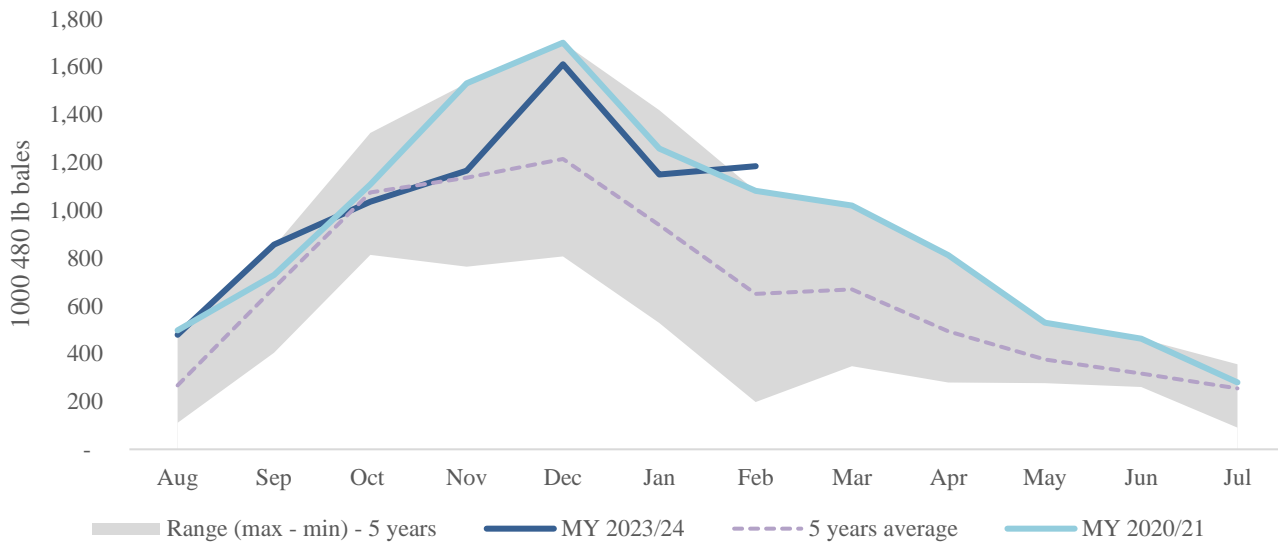
Post estimates MY 2023/24 exports at 11 million bales (2.4 MMT), making Brazil the world’s second largest cotton exporter, behind the United States. Monthly export volumes during the present MY are behaving similarly as in MY 2020/21, when Brazil also exported approximately 11 million bales. However, given different international circumstances, exports volumes in the final months of MY 2023/24 will determine whether the country will keep up with the same international performance as three seasons ago. In MY 2020/21, a few conditions boosted Brazil’s trade: a then record harvest; global international cotton consumption bouncing back expressively (124.2 million bales) after the Covid-19; and high prices, due to international demand (largely driven by China’s consumption) exceeding global supply.

Currently, as global consumption is estimated to be less aggressive than in MY 2020/21 (112.9 million bales estimated by the U.S. Department of Agriculture for MY 2023/24) and Brazil has even more cotton available, prices should be pressured and make cotton more competitive with synthetic fibers, which could help sustain high export levels this MY.

In February 2024, Brazil’s cotton exports reached a record volume at 1.2 million bales (261.6 thousand MT) – five times more than in the same month in MY 2022/23, and 82 percent more than the average of February exports of the past five seasons.

Figure 11

Comparison of Brazil's MY 2023/24 monthly cotton exports to the previous five MYs

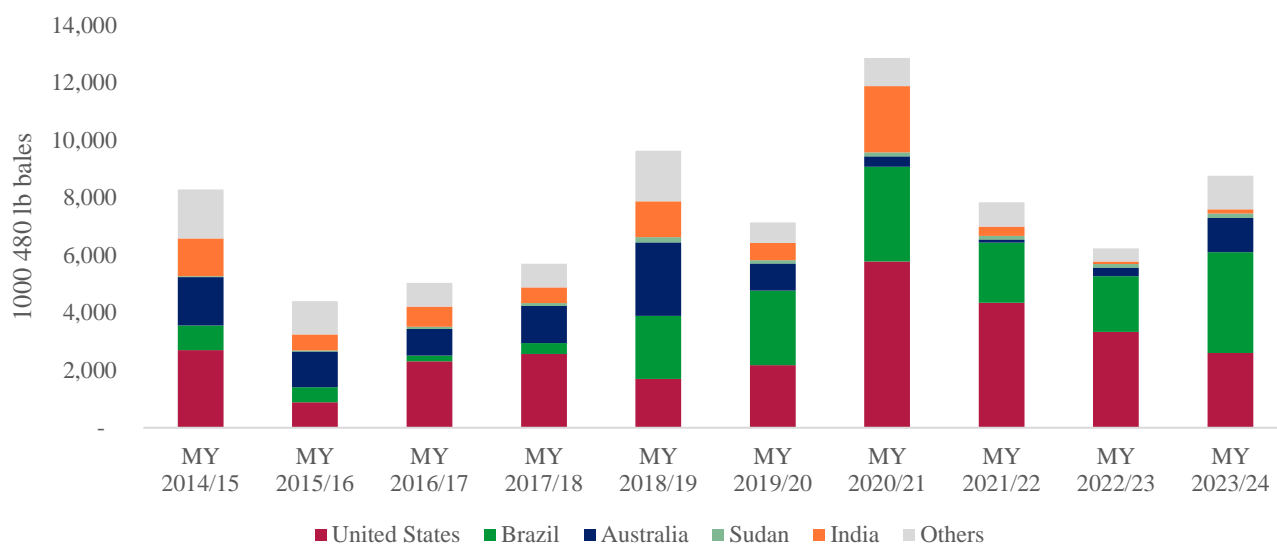


Source: Brazil's Secretariat of International Trade (SECEX). Chart elaborated by: Post Brasilia (Office of Agricultural Affairs – OAA).

With Brazil's increased export capacity, competition with U.S. producers will strengthen. As the largest global cotton importer, China meets most of its imported demand with both Brazilian and U.S. cotton. In MY 2014/15, Brazil exported only 832.2 thousand bales (181.2 thousand MT) to Chinese buyers, representing 21 percent of all of Brazil's exports in volume. Ten seasons later, in the current MY, this value surpasses 4.7 million bales (1 MMT) in the first seven months alone, accounting for over 60 percent of all exports. While both the United States and Brazil secured larger shares of China's cotton import market, at the expense of lower Australian and Indian export volumes, competition is likely to continue increasing as they are the two undisputed suppliers of China's cotton demand.

Figure 12

Evolution of China's cotton imports by selected suppliers (MY 2014/15 – MY 2023/24)



Source: Trade Data Monitor (TDM). Chart elaborated by: Post Brasilia (Office of Agricultural Affairs – OAA).

In addition to a growing concentration of exports to China, Brazil has also increased exports to other cotton net-importing markets such as Bangladesh and Pakistan. Combined, these two countries represented 29 percent of Brazil's exports, in volume, in MY 2022/23 – almost the same as China (30 percent). Over the last decade (from MY 2014/15 to MY 2022/23), the share of Brazil's exports going to each of these markets grew 14 and eight percentage points, respectively.

In terms of logistics, the Port of Santos, the largest in Latin America located in the state of São Paulo, is the main exporting route for approximately 97 percent of Brazil's cotton production as ports in the North Arc lack sufficient infrastructure capacity to operate container ships.

Cotton imports are virtually neglectable, as Post forecasts MY 2024/25 Brazil's purchases from international suppliers at five thousand bales – the same as revised MY 2023/24 estimate.

STOCKS

Post forecasts MY 2024/25 ending stocks at 7.6 million bales (1.65 MMT) due to expected record harvested volumes in the current season outgrowing forecasted demand, both domestic and exports. For the same reason, Post revised up its MY 2023/24 ending stocks to 6.2 million bales (1.4 MMT). Ending stocks can be revised accordingly in the next update depending on two factors: MY 2023/24 (Aug 2023 – Jul 2024) actual exported volume; and yield expectations for the MY 2024/25 harvest. That means that

ending stocks could be revised down if (i) Brazil manages to export more than 11 million bales in the current MY, (ii) international demand remains at high levels, and (iii) next MY brings a worse-than-anticipated yields.

POLICIES

Several public policies and private-led initiatives have been supporting Brazil's cotton performance recently and should continue to favor the country's product in international markets.

Cotton Brazil: Led by ABRAPA in partnership with Brazil's National Association of Cotton Exporters (ANEA) and the Brazilian Agency for the Promotion of Exports and Investments (Apex Brasil), Cotton Brazil focuses in promoting Brazilian cotton in international markets. Priority target markets include China, Bangladesh, Vietnam, Türkiye, Indonesia, Pakistan, and India. The program focusses in positioning the fiber's quality, sustainability and traceability characteristics as competitive advantages in international markets. In terms of trade promotion, ABRAPA has 12 international trade missions scheduled for 2024, so far.

Algodão Brasileiro Responsável (ABR, Responsible Brazilian Cotton Program): Operated in Brazil in partnership with Better Cotton (BCI), ABR is a voluntary certification protocol established in 2012 to progressively streamline sustainability standards across the cotton agricultural supply chain. It is centered in three key sustainability pillars – social, environmental, and economic –, in which producers are inspected against nearly 183 items, ranging from labor conditions and waste management to environmental conservation and efficient operations.

In MY 2023/24, over 2.55 MMT (11.7 million bales) were ABR-certified. This was equivalent to over 80 percent of Brazil's production, according to ABRAPA's numbers, which also estimates that ABR-certified properties harvested 4.6 percent better yields than the national average. This contributed to Brazil leading Better Cotton's rank, in 2022, in certified cotton production, being responsible for over a third of the world's Better Cotton-licensed output. ABR certification requires annual, individual farm-to-farm diligence verified by independent, internationally recognized third-party accreditors. Currently, ABR inspections are conducted by the Brazilian Association of Technical Standards (ABNT) and two private institutions (Genesis Certifications and QIMA).

SouABR: Consists in a pioneering large scale, farm-to-retail traceability initiative that allows end consumers to trace back data regarding the cotton used in their clothes and accessories.

State-level tax incentives:

Since 2003, the Government of the State of Minas Gerais offers tax breaks for local industries purchasing cotton produced in the state through Proalminas (Portuguese acronym for "Program of the State of Minas Gerais in Support of Cotton Crop"). In exchange of local tax reductions of up to 41.6 percent, the textile industry commits to (i) consume a government stipulated quota of Minas Gerais's

cotton, (ii) pay an additional 7.8 percent of market price to state producers, and (iii) quarterly deposit 1.5 percent of the tax benefit in a fund that will be used to improve the state's production through pest control, capacity building, enhanced agricultural management practices, etc. In MY 2023/24, the state registered the third highest yield in Brazil, at 2,025 kg/ha, according to ABRAPA.

Similarly, Bahia has an incentive scheme that offers state tax reduction of up to 50 percent of local cotton consumed in the state – called Proalba (Portuguese acronym for “Cotton Incentive Program in the Western Region of Bahia”) – in exchange of ten percent of the tax benefit being invested in fund dedicated to research and development, phytosanitary enhancements and market promotion activities. In Mato Grosso, the equivalent program is called Proalmt, offering reductions of up to 75 percent in state-level taxes in exchange of 15 percent of enjoyed benefit being directed to the state's Cotton Supporting Fund (FACUAL, in Portuguese).

Fertilizers

On November 29th, 2023, the National Fertilizer and Plant Nutrition Council (Confert, in Portuguese), linked to the Ministry of Development, Industry and Foreign Trade, published its new National Fertilizer Plan (PNF). With over 27 short, medium and long-term targets, PNF aims to enable the national fertilizer's industry to supply between 45 percent to 50 percent of domestic demand by 2050. Currently, Brazil is the fourth largest consumer of agricultural fertilizers, but imports nearly 87 percent of all its demand. While the Plan mostly focused on longer term initiatives (e.g. expanding installed capacity, fostering Research & Development (R&D), etc), easing the access to cheaper fertilizers can have a massive impact on Brazil's agricultural competitiveness. It can be particularly beneficial to reduce cotton's cost of production given its strong reliance of fertilizers for soil correction.

Additionally, the Federal Congress is analyzing a bill that would establish the National Program of the Development of Fertilizers Industry (Profert, in Portuguese). Once approved and in force, Profert should offer the companies benefited by the Program several tax exemptions in their investments to expand installed capacity (i.e. acquisition of new machinery, equipment, capital goods, etc).

Table 3*Production, Supply, and Distribution (PSD) in 480 lb. bales*

Cotton	2022/23		2023/24		2024/25
Market Begin Year	Aug 2022		Aug 2023		Aug 2024
Brazil	USDA	New Post	USDA	New Post	New Post
Area (1000 HA)	1,660	1,660	1,660	1,660	1,870
Beginning Stocks (1000 480lb Bales)	3,883	3,883	5,755	5,755	6,210
Production (1000 480lb Bales)	11,720	11,720	14,560	14,900	15,350
Imports (1000 480lb Bales)	8	8	10	5	5
Total Supply (1000 480lb Bales)	15,611	15,611	20,325	20,660	21,565
Exports (1000 480lb Bales)	6,656	6,656	11,200	11,000	10,500
Domestic Use (1000 480lb Bales)	3,200	3,200	3,300	3,450	3,500
Loss (1000 480lb Bales)	0	0	0	0	0
Domestic Use and Loss (1000 480lb Bales)	3,200	3,200	3,300	3,450	3,500
Ending Stocks (1000 480lb Bales)	5,755	5,755	5,825	6,210	7,565
Total Distribution (1000 480lb Bales)	15,611	15,611	20,325	20,660	21,565
Stocks to Use (PERCENT)	58.39	58.39	40.17	42.98	54.04
Yield (KG/HA)	1,595	1,595	1,910	1,954	1,787

Table 4*Production, Supply, and Distribution (PSD) in Metric Tons (MT)*

Cotton	2022/23		2023/24		2024/25
Market Begin Year	Aug 2022		Aug 2023		Aug 2024
Brazil	USDA	New Post	USDA	New Post	New Post
Area (1000 HA)	1,660	1,660	1,660	1,660	1,870
Beginning Stocks (1000 MT)	845	845	1,253	1,253	1,352
Production (1000 MT)	2,552	2,552	3,170	3,244	3,342
Imports (1000 MT)	2	2	2	1	1
Total Supply (1000 MT)	3,399	3,399	4,425	4,498	4,695
Exports (1000 MT)	1,449	1,449	2,439	2,395	2,286
Domestic Use (1000 MT)	697	697	718	751	762
Loss (1000 MT)	0	0	0	0	0
Domestic Use and Loss (1000 MT)	697	697	718	751	762
Ending Stocks (1000 MT)	1,253	1,253	1,268	1,352	1,647
Total Distribution (1000 MT)	3,399	3,399	4,425	4,498	4,695
Stocks to Use (PERCENT)	58.39	58.39	40.17	42.98	54.04
Yield (KG/HA)	1,595	1,595	1,910	1,954	1,787

Attachments:

No Attachments