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Report Highlights:

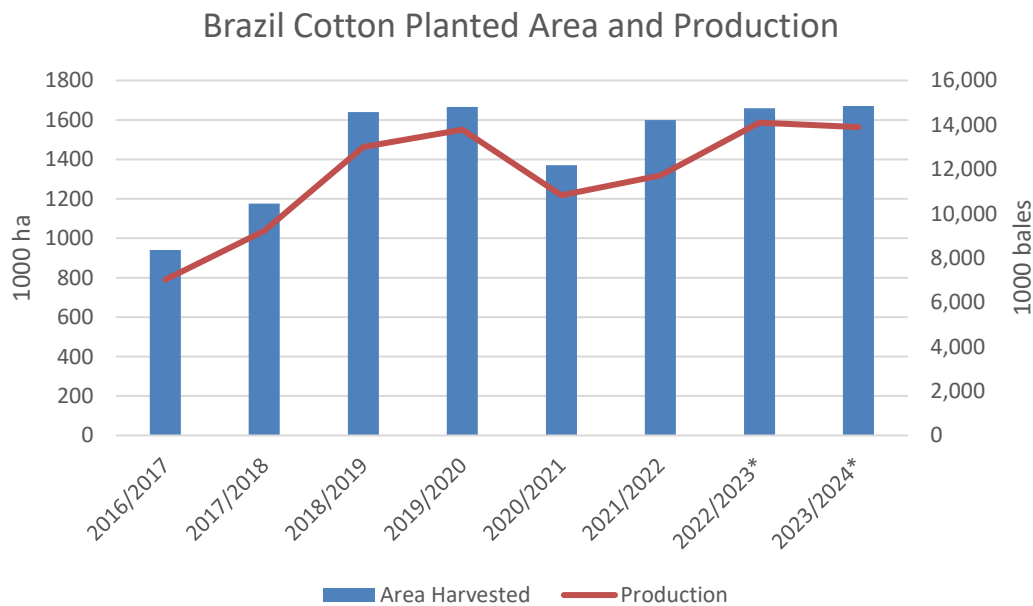
Post increased the forecast for 2023/24 cotton area planted to 1.67 million hectares (ha), an increase of just under one percent from the 1.66 million ha cotton area estimate for 2022/23. Post's forecast is based on expectations that despite challenges such as tight margins, Brazilian producers are optimistic about the crop's prospects compared to corn. Production for 2023/24 is forecast at 13.9 million bales (3.03 million metric tons, MMT), based on consistent yields. This would represent a decrease from the current season production, which is estimated at a record 14.1 million bales (3.07 MMT), where output was higher than anticipated due to favorable weather. Domestic consumption is expected to remain constant, while exports are expected to increase. Post forecasts 2023/24 MY exports at 8.5 million bales, up from the current season export estimate of 6.656 million bales. Exports continue to be encouraged by weak currency and tight ties with Brazil's main trading partner, China.

PRODUCTION

Planted area forecast to increase slightly in 2023/24

Post revised its May forecast for 2023/24 cotton area planted to 1.67 million hectares (ha), an increase of just under one percent from the 1.66 million ha cotton area harvested estimated in the current season. Cotton area in Brazil has remained relatively stable, with gradual year-on-year increases, after rapid expansion over the past decade. Ten years ago, Brazil planted less than one million ha of cotton. Now, producers are attempting to reach equilibrium through the planted area, as they weigh the benefits of growing cotton with other competitive commodities, as well as tight profit margins and high cost of production. At the same time, from conversations with the industry, Brazilian producers are optimistic about the crop's prospects and are eager to continue growing the country's status as a top tier cotton producer, inching up to the United States.

Figure 1



Source: FAS Brazil (* signifies estimate/forecast)

Post anticipates that next season, most producers will increase cotton area, though some will increase cotton planting slightly due to favorable conditions compared to competing crops. For 2023/24, Post forecasts cotton production to 13.9 million bales (3.03 million metric tons – MMT), which represents a slight 1.4 percent dip from the 2022/23 estimated production of 14.1 million bales (3.07 MMT). Regarding 2022/23, the estimate was raised from the previous report due to higher than anticipated productivity. Post contacts reported excellent conditions for the cotton crop. The rains came at a critical time, positively impacting the quality of the crop.

For 2023/24, producers are optimistic that the cotton crop will remain strong, though normal weather fluctuations mean it may not be as productive as the 2022/23 crop. The yield is forecast at 1,812 kilograms (kg) per hectare, a slight decrease from the record 1,849 kg/ ha expected in the current season. Post yield and production forecasts for 2023/24 are based on expectations of average weather and adequate use of inputs, such as Genetically Engineered (GE) seeds and the use of chemicals and fertilizers. Moreover, Post forecasts that because cotton production continues to be more concentrated among the larger, more capitalized growers, yields are likely to remain elevated.

In addition, Post contacts report that despite volatile commodity market prices, overall planting intentions should remain positive. This is because inputs such as fertilizers have already been purchased at a high cost, therefore, producers are going to plant to make use of these supplies. Producers continue to be motivated to plant cotton. Notably, the sector is already set up with the necessary equipment to harvest 3 MMT of cotton, as evidenced by the 2019/20 season. Post contacts, especially the largest agricultural enterprises, continue to invest in new purchases of costly equipment designed specifically for harvesting and processing cotton.

The Post forecast also considers that most large cotton growers in Brazil have profitable alternative crops. In Mato Grosso, Brazil's primary cotton producing state with 70 percent of production, the majority of cotton is grown as a second-season (or *safrinha*) crop. Farmers typically plant early maturing soybean varieties in September-October, with harvest beginning in January. As soybeans are picked from the fields, the cotton goes into the ground for a harvest that will start in April. However, growers may choose to plant second-season corn, instead of cotton. Safrinha corn is similarly planted from January to February, with harvest beginning in June. The choice between corn or cotton is generally an economic one, depending on which crop fares better for the cost/benefit ratio. While cotton is more expensive to produce, it receives higher prices. As corn prices have been dropping, leading to negative margins, producers who are able will likely choose to plant cotton instead. Almost all of the expected expansion of cotton area takes place in Mato Grosso, where there is also opportunity to plant crops on recuperated degraded pasture areas.

In the northeastern state of Bahia, Brazil's second-largest cotton producer, growers typically plant just one crop. In Bahia, farmers choose primarily between cotton and soybeans. While cotton has a greater revenue than soy, Bahian producers must also take into account that cotton has over double the cost of production. Given the continuation of favorable soybean prices, lower costs of production, and expected high profitability for the crop in 2022/23, there is a strong incentive for farmers to favor the soybean crop with regard to expanding planted area. Therefore, cotton area in Bahia is expected to remain stable, though productivity in this region tends to be greater.

Despite only a small increase in planted area, larger growers will continue to reap the rewards of major on-farm investments. Producers report making a variety of substantial investments in equipment (planters, pickers, and ginning capacity) in order to maximize returns on available planting area. New

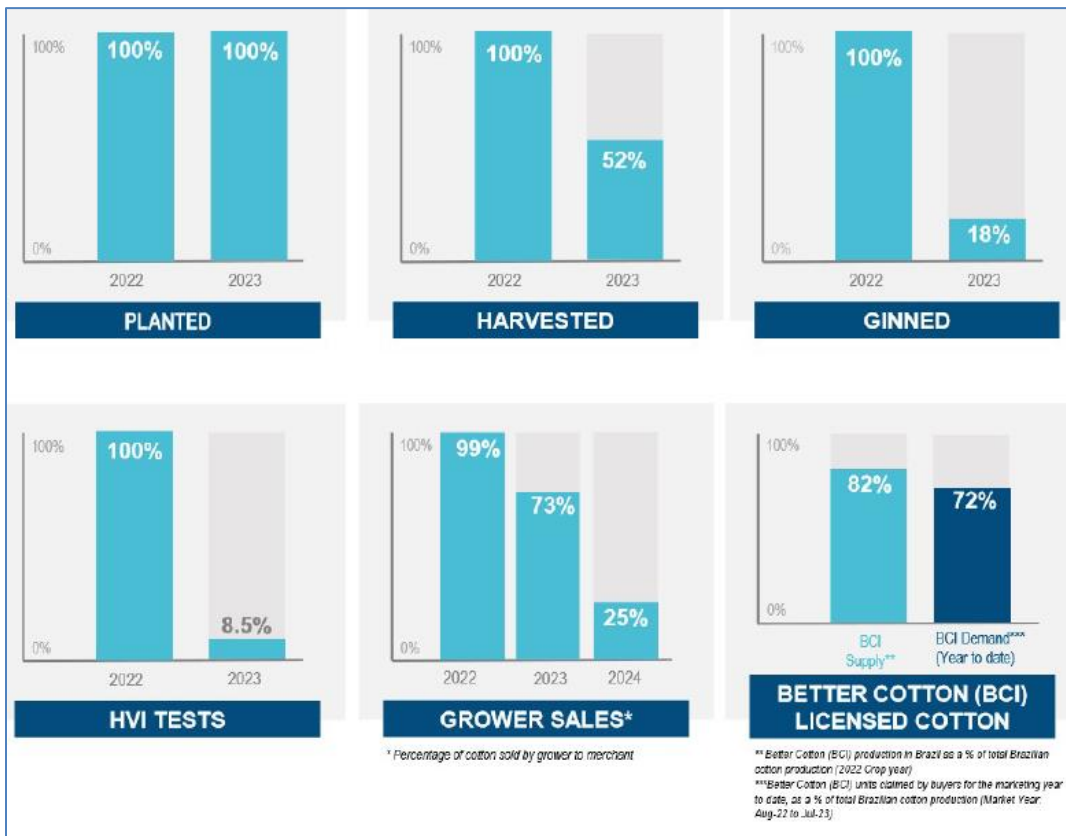
equipment is expensive and specialized. Cotton pickers can cost around \$1 million, and can only be used to pick cotton, while soy and corn machinery is more versatile. In addition, post-harvest, cotton is processed through HVI (High Volume Instruments), expensive and time-intensive testing machines used to measure and grade fiber properties including length, uniformity, fineness, strength, and color. Consequentially, large, well-capitalized producers are eager to take advantage of their substantial investments. As such, there may be planted area reduction in some areas, but mostly from medium and smaller producers who tend to lease equipment required for cotton production. Some of these producers may even choose to maintain cotton area, and borrow equipment from neighboring farms.

Investments are also being made in research and technology. For example, research conducted in partnership with the Brazilian Enterprise for Agricultural Research (EMBRAPA) and Mato Grosso Cotton Institute (IMAMT) found that the adoption of precision agriculture technologies reduces production costs and increases the productivity of cotton.

Brazil's 2022/23 Cotton Production Estimated a Record

Post estimates area harvested at 1.66 million hectares (ha) for the 2022/23 season, an increase from the 2021/22 of 1.63 million ha. Post estimates 2022/23 production at a record 14.1 million bales (3.07 MMT), based on an impressive 1,849 kg/ha yield. The yield estimate represents an 18 percent increase from the previous season and is based on exceptional weather positively impacting the crop. Harvest began in July and is currently underway. According to the National Supply Company of Brazil, Conab, 78.4 percent of the total area has been harvested as of August 26th. Last year, which was a smaller crop, 93.8 percent of cotton had been harvested by this time. See below Abrapa chart for more detail on the status of Brazil's cotton crops.

Figure 2



Source: Abrapa

The production picture varies by state and sub-region. In Mato Grosso, despite some isolated rains, there are no records of damage to the quality of the cotton. Harvest is progressing at an adequate pace, with emphasis on the maintenance of high productivity and yield. In addition, producers are focused on managing pests and weevil control.

In the far west of Bahia, the harvest has produced crops with good productivity and fiber quality. However, the situation is slightly different in the center-south region of the state, where harvested crops have shown productivity rates slightly below expectations.

In the state of Goiás, the situation is different. In irrigated areas, the harvest has progressed well, but rainfall in the south has caused occasional delays in certain areas. In Mato Grosso do Sul, recent rains interrupted, albeit temporarily, the harvest. Fortunately, the quality of the cotton remained intact.

In southern Maranhão, the crop is still being harvested, similar productivity to the previous crop. In contrast, in Piauí, the harvest has already been completed. In Minas Gerais, the harvest is advancing at good levels. Finally, in the state of São Paulo, the harvest is in its final phase. The Riolândia region is one of the few that still has crops pending harvest.

PRODUCTION COST AND PRICES

Production costs expected to reduce, providing relief to farmers

Post's industry contacts and official economic data point to another tight-margin crop for cotton farmers this season. However, the situation is not expected to be as severe as last year, when costs surged due to disruptions caused by the onset of the war in Ukraine.

Cost of inputs such as fertilizers and pesticides have stabilized, bringing some relief to growers, as cotton is a highly demanding crop. According to a study from the Mato Grosso Institute of Agricultural Economics (Imea), projections point to a decrease of 16.19 percent in the total cost of cotton for next season compared to 2022/23. The total production cost of cotton in Mato Grosso for the 2022/23 crop was R\$20,101.61 (about USD \$4000) per hectare, up 25.22 percent compared to the 2021/22 crop. For the 2023/24 season, estimates in July 2023 were BRL 16,846.93 (about USD \$3500) per hectare.

As reported by Imea, this decrease is due to a 37.6 percent reduction in the cost of fertilizers, and 13.9 percent reduction in the cost in pesticides. The Profitability in the Rural Environment project in Mato Grosso analyzed the cotton break-even point. For producers to be able to cover effective operating cost (EOC) in the 2023/24 harvest, a yield of 104.72 arrobas (about 1,560 kg or 3,455 pounds) is required per hectare. This is a reduction of 10.03 arrobas (150 kg, or 330 pounds) per hectare compared to the 2022/23 harvest.

According to the report by researchers at Cepea (Center for Advanced Studies in Applied Economics), cotton values remain firm in Brazil, despite advances in the harvest and processing of the new record crop. Cepea notes that the support comes from high values on the international market, and from the strength of the dollar against the Real. Sellers are capitalizing on fulfilling forward contracts, while buyers with immediate needs will have to raise the value of their offers.

In the international market, price variations of cotton are related to the price of oil which has been on an upward trend since April, and to the negative adjustments in world ticket stocks, in view of greater consumption and lower global supply. According to Trading Economics, cotton futures have been stable, around 87-90 cents per pound, amid global supply concerns. The largest producers of cotton are China and India, followed by United States, Pakistan, Brazil, Australia and Uzbekistan. The United States is the world's largest exporter. While Brazil is expecting a record crop, cotton production in the United States and China is under pressure due to drought and other unfavorable weather conditions. Facing narrow profit margins, Brazilian producers are optimistic that in the coming year, prices will once again go up and justify the high expense of planting cotton.

Figure 4



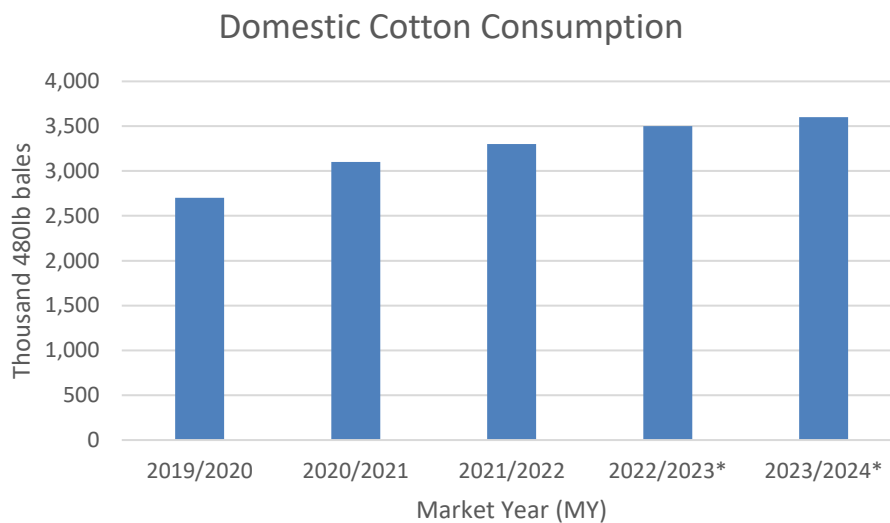
Source: Trading Economics

CONSUMPTION

Domestic Consumption to Increase Slightly, but Hampered by Inflation

Post maintains the forecast for Brazil's domestic cotton consumption at 3.6 million bales for 2023/24 (783 thousand MT), as compared to the estimated 3.5 million bales (762 thousand MT) of domestic consumption for the current MY. The Post forecast and estimate are based on trends in domestic consumption, and the economic situation described above. The coming season's slight uptick in consumption will be similar to the last several seasons. Domestic cotton consumption is expected to continue recovering from adverse effects from the COVID-19 pandemic but will likely be negatively impacted by inflation. Internal market has been slow for the last five years and worsened during the pandemic. In addition, Post contacts report that as the local market runs with Real and not dollar, they are more focused on the export market.

Figure 5



Source: USDA

Note: * reflects Post estimate and forecast

Brazil's Textile Association (ABIT) data shows a steady decline in cotton consumption over the last decade, in favor of synthetic fibers. With lower prices, the consumption of synthetic fibers continues to increase and compete with cotton. Current day fabrics are dominated by synthetic fibers, which represent 70 percent of material, and cotton the remaining 30 percent.

Projections also consider slow economic growth, with consumption hampered by persistent inflation and slower job creation. Escalating economic tensions spill over into the textile sector with rising raw material prices, rising production costs and weakening consumption. In addition to compromising the cotton supply chain, the rise in oil prices will likely also affect the prices of polyester and other derived fibers.

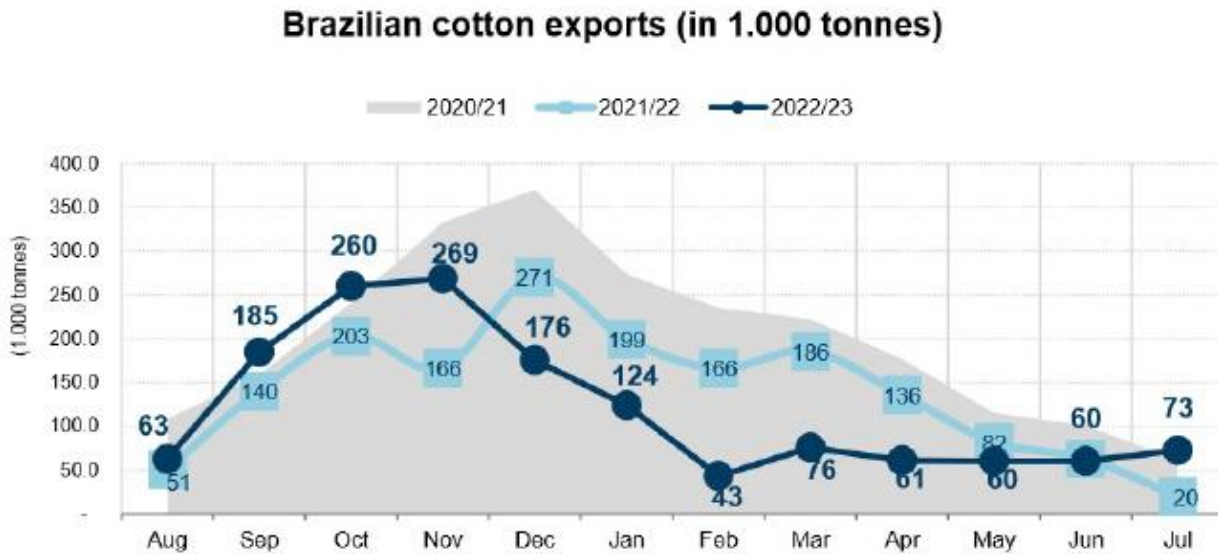
TRADE

Exports Slowed in 2022/23, but Expected to Rebound in 2023/24

Post forecasts 2023/24 MY (August 2022- July 2023) exports at 8.5 million bales (1.85 MMT), a 21 percent increase from the current season export estimate of 6.656 million bales (1.52 MMT). The rise in exports is based on the estimated record crop and a favorable price situation, as well as expectations for

a smaller U.S. crop. However, a surge in exports will be constrained by inflation and economic uncertainty. In light of these challenges, Brazil has been actively engaged in pursuing markets, conducting foreign trade missions and expanding its footprint in cotton trade. In addition, with the U.S. dollar strong, Brazilian cotton will continue to benefit with export competitiveness from the weak domestic currency.

Figure 6



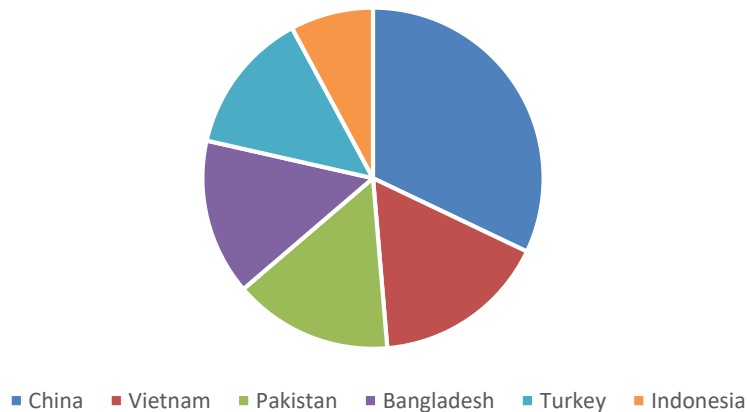
Source: Abrapa

In July 2023 exports were 269 percent greater than in July 2022. The main destination for Brazilian cotton that month was China, followed by Turkey, Bangladesh, and Vietnam. Despite the challenges outlined above, Post contacts report expectations for sales to increase in 2023/24, with China remaining as the top buyer.

Brazilian cotton is primed to benefit from the country’s tightening ties with China. On August 22, the Minister of Agriculture and Livestock (MAPA), Carlos Fávaro, announced the official certification of Brazilian cotton by Chinatex, a Chinese state-owned company focused on the textile industry. This certification guarantees the veracity of reports from cotton analysis laboratories, regarding international quality standards. The director of the state-owned company pointed out that Chinatex, which is the main buyer of cotton in China, wants to promote Brazilian cotton in the Chinese market. In the last five years, Chinatex has purchased 400 thousand tons of cotton from Brazil. According to the Brazilian Agribusiness Foreign Trade Statistics System (AgroStat), Brazil exported US\$ 3.68 billion in agribusiness products to China in 2022.

Figure 7

Top Cotton Export Destinations in Calendar Year
2022



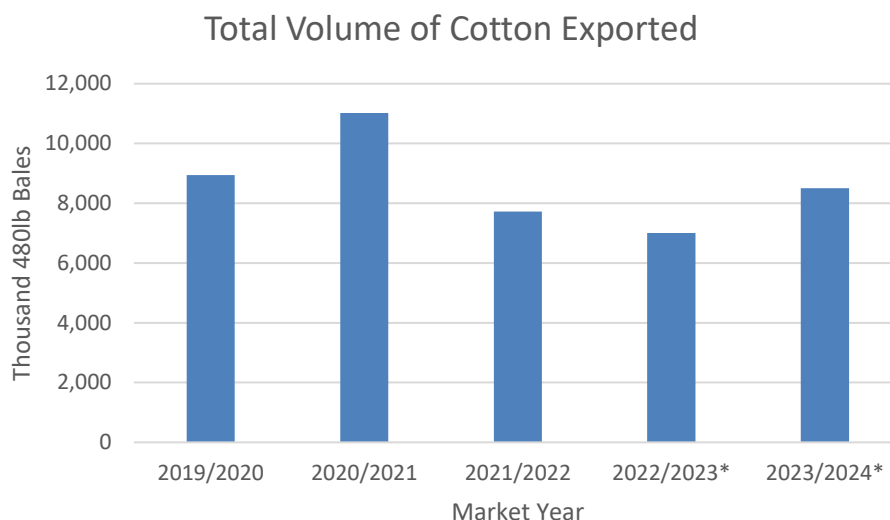
Source: TDM/Secex Data, FAS Brazil Chart

Brazil Exports Lower than Expected in 2022/23

Post estimates exports at 6.656 million bales (1.52 MMT) for the 2022/2023 marketing year (MY, August 2022-July 2023). This represents a 9.4 percent decrease from the previous season, primarily due to slow purchases from China from February to May 2023, and reduced purchases from other importers such as Bangladesh and Indonesia compared to previous seasons.

Despite the current season's low performance, exports remain well above the levels of the past decade. In 2016/17, for example, Brazil's exports were just above 600 thousand MT, about a third of the current MY volume. In addition, as has been discussed in the price section of this report, the continuation of a strong dollar and weak Real – trading at R\$ 4.89 to the USD at the end of August- is expected to support sales.

Figure 8



Source: FAS Brazil chart

Note: * indicates Post estimate/forecast

STOCKS

Post forecasts 2023/2024 stocks at 17.1 million bales (3.73 million MT), an increase from the estimate of 15.3 million bales (3.33 million MT) for 2022/2023, due to the expected record production. 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 2022/23 runs from August 2022 to July 2023. Hence, USDA's beginning/ending stock estimates capture Brazilian stocks mid-harvest on July 31 when they are nearly at their peak. This timing issue accounts for the relatively high stock levels and low volatility in stocks-to-use typically reported by USDA and this report for Brazil. (Please see GAIN report on [Explanation of Brazilian Cotton Stock Estimates](#) for a detailed explanation)

Production, Supply, and Distribution (PSD) in Bales

Cotton	2021/2022		2022/2023		2023/2024	
Market Year Begins	Aug 2021		Aug 2022		Aug 2023	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested (1000 HA)	1600	1630	1660	1660	1630	1670
Beginning Stocks 1000 480 lb. Bales	11119	11119	11836	11721	15888	15336
Production 1000 480 lb. Bales	11720	11710	13900	14100	13250	13900
Imports 1000 480 lb. Bales	24	15	8	15	20	15
Total Supply 1000 480 lb. Bales	22863	22844	25744	25836	29158	29251
Exports 1000 480 lb. Bales	7727	7730	6656	7000	11250	8500
Domestic Use 1000 480 lb. Bales	3300	3400	3200	3500	3300	3600
Loss 1000 480 lb. Bales	0	0	0	0	0	0
Domestic Use and Loss 1000 480 lb. Bales	3300	3400	3200	3500	3300	3600
Ending Stocks 1000 480 lb. Bales	11836	11721	15888	15336	14608	17151
Total Distribution 1000 480 lb. Bales	22863	22851	25744	25836	29158	29251
Stock to Use % (PERCENT)	107.34	105.31	161.2	146.06	100.4	141.74
Yield (KG/HA)	1595	1564	1823	1849	1770	1812
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						

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

Cotton	2021/2022		2022/2023		2023/2024	
	Aug-21		Aug-22		Aug-23	
Market Year Begins	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Brazil						
Area Harvested (1000 HA)	1600	1630	1660	1660	1630	1670
Beginning Stocks 1000 Tons	2421	2421	2577	2552	3459	3339
Production 1000 Tons	2552	2550	3026	3070	2885	3026
Imports 1000 Tons	5	3	2	3	4	3
Total Supply 1000 Tons	4978	4974	5605	5625	6348	6369
Exports 1000 Tons	1682	1683	1449	1524	2449	1851
Domestic Use 1000 Tons	718	740	697	762	718	784
Loss 1000 Tons	0	0	0	0	0	0
Domestic Use and Loss 1000 Tons	718	740	697	762	718	784
Ending Stocks 1000 Tons	2577	2552	3459	3339	3180	3734
Total Distribution 1000 Tons	4978	4975	5605	5625	6348	6369
Stock to Use % (PERCENT)	107.34	105.31	161.2	146.06	100.4	141.74
Yield (KG/HA)	1595	1564	1823	1849	1770	1812
(1000 HA) ,1000 Metric Tons ,(PERCENT) ,(KG/HA)						

Attachments:

No Attachments