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Report Highlights:

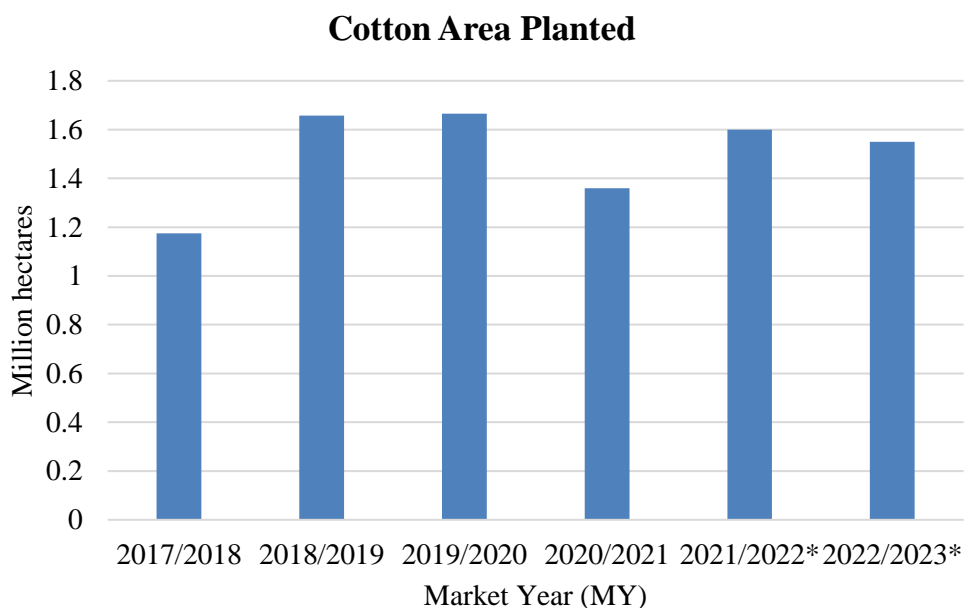
For 2022/23, Post forecasts cotton planted area to shrink 3 percent compared to the current season, to 1.55 million hectares. The Post forecast for 2022/23 cotton production is 12.6 million bales, or 2.74 million metric tons (MMT), down from 13 million bales (2.83 MMT) in 2020/21. Next season, planted area and production will likely remain below the records set in 2019/20 because of a higher cost of production, concerns about fertilizer supplies, and very good margins for alternative crops such as soybeans and corn. With ample supplies and a favorable exchange rate, Brazil's cotton exports should recover from the pandemic drop. Post forecasts cotton exports for 2022/23 to increase to 9.2 million bales (2 MMT), up from 8 million bales (1.74 MMT) in the current season. At the same time, Post anticipates that domestic consumption will remain tepid at 3.3 million bales for 2022/23 (718 thousand MT), up from 3.2 million bales (697 thousand MT) in the current marketing year.

Outlook: 2022/23 Planted Area to Shrink Slightly

FAS/Brasilia (Post) forecasts Brazil’s marketing year (MY) 2022/23 cotton planted area to shrink slightly, from 1.6 million hectares in 2021/22 to 1.55 million hectares, remaining above historical levels. The forecast represents an almost three percent reduction on the current season but is still well above the planted area just four years ago. Post anticipates that next season, some growers in Brazil will reduce planted area slightly based on fertilizer supply concerns resulting from the Russia-Ukraine war (for more information, see “Fertilizer Use” section, below, and GAIN Report [Brazil Agriculture Seeks Remedies for Potential Fertilizer Disruption](#)). Strong global prices and a weak exchange rate will motivate producers to plant cotton, especially because the sector is already set up with the necessary equipment to harvest up to 3 MMT of cotton, as evidenced by the 2019/20 season. Post anticipates that cotton area planted will be slightly lower than last season due to the rising cost of production, especially regarding inputs such as fertilizers, and the high profit margins and relative ease of planting alternative crops such as soybeans and corn.

Planted area estimates for Brazil highlight the sector’s remarkable growth in the last decade, especially in the last five seasons. Going forward, Post believes that Brazil’s cotton planted area will remain well above the five-year average.

Figure 1:



Source: FAS

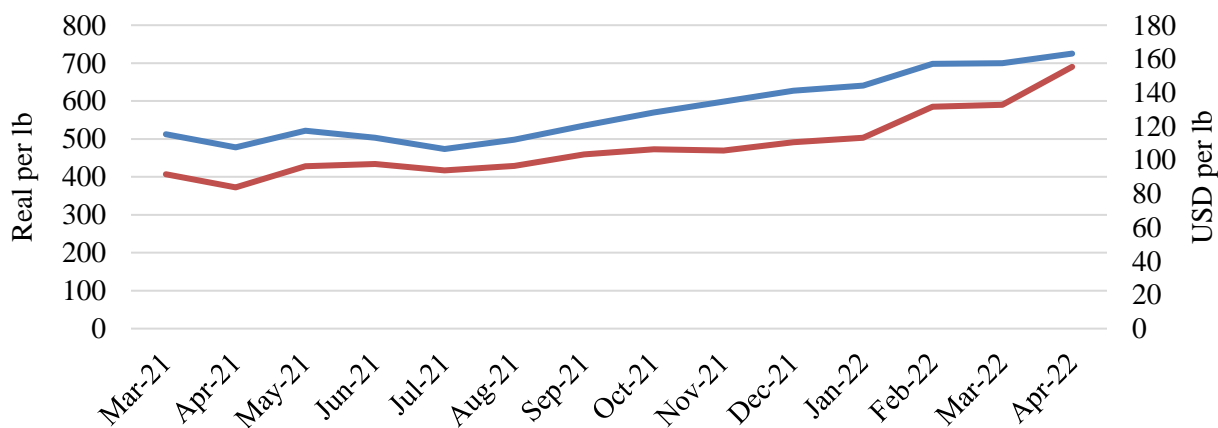
Post believes that prior to the COVID-19 pandemic, planted area growth was driven by rising global cotton consumption, which in turn spurred global prices. Brazil’s growers responded by putting into use ample arable land in key growing states and increasing equipment capacity to maximize returns. Post expects that these same factors will lead to planted area staying elevated for the 2022/23 season as demand for cotton rebounds gradually, following improving economic conditions overall as countries recover from the pandemic.

Positive Global Market Outlook: The market anticipates that global cotton demand will continue to rebound in 2022 and 2023. The cotton market saw severe disruptions to both supply and demand starting in 2020 and continuing into 2021, on account of the coronavirus pandemic. 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. The outlook going forward, with the uptake of vaccines and overall loosening of restrictions, is decidedly brighter. Global cotton consumption rebounded in 2020/21 to 122.01 million bales (26.56 MMT), up from 103.73 million bales (22.58 MMT) in 2019/21. It is expected in 2021/22 to reach 124.54 million bales (27.12 MMT). With about 70 percent of production shipped overseas in 2021/22, Brazil's cotton sector is mainly oriented toward the export market. Post anticipates that Brazilian farmers are likely to maintain the majority of planted area in response to global demand.

Global Cotton Prices: Global cotton prices rebounded over the past year after dropping during the pandemic. The novel coronavirus pandemic had a significant, negative impact on global cotton demand and subsequently on global cotton prices. In April 2020, cotton futures on the New York Mercantile Exchange reached 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, and US \$1.45 per pound by mid-April 2022, an almost 11-year high. Global cotton prices are supported by higher oil prices as well as recovering global demand. Brazil's cotton prices are directly correlated with the global cotton prices in New York.

Figure 2:

Brazil's Cotton Prices in USD and Real



	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
Real	513	478	522	503	474	498	535	570	599	627	641	698	700	725
USD	92	84	96	98	94	97	103	106	106	111	113	132	133	155

Source: CEPEA

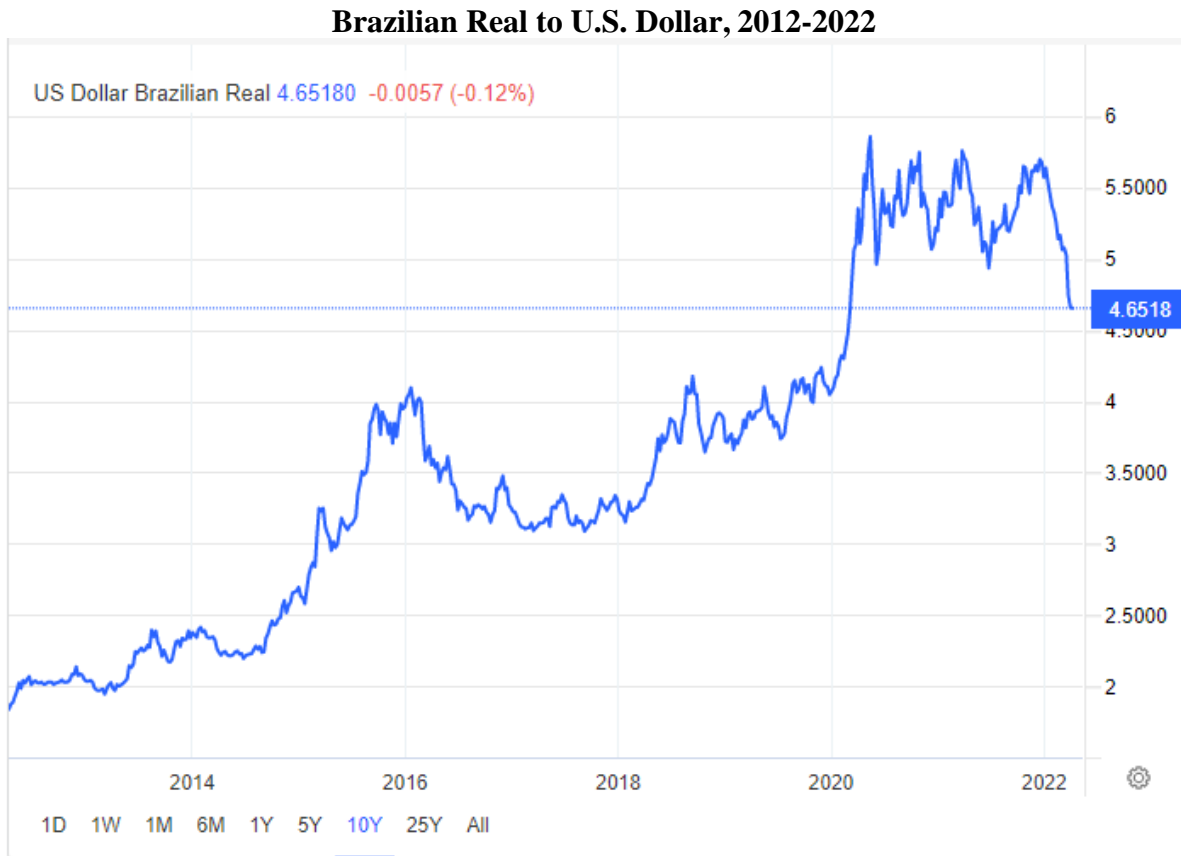
Figure 3:



Source: Trading Economics

Favorable Exchange Rate: Due to continued economic stagnation with the pandemic, the Brazilian currency, the real (BRL) lost over a third of its value in 2021. However, the BRL has gained back some value in early 2022. Most analysts currently forecast that the BRL will strengthen slightly, but continue to remain weak this year, as Brazil's economy continues to be bogged down by slow pandemic recovery, uncertainty around the election, and limited government resources. As of March 31, the BRL stood at R\$4.65 to the USD.

Figure 4:



Source: Trading Economics

The continued devaluation of the BRL had a positive impact on Brazilian commodity prices in CY 2021, though this trend may change in CY 2022. For example, from February 2021 to March 2022, the University of Sao Paulo's Superior Agricultural School Research Center (CEPEA/ESALQ) cotton price indicator rose about 36 percent when valued in BRL, to R\$7.00 (USD \$1.47) per pound of cotton. In that same period, prices in USD rose just over 44 percent, to \$1.33 per pound of cotton.

Utilization of Optimal Equipment to Land Ratio: Post contacts have pointed out that rapid area expansion seen from 2015 to 2020 was fueled by costly investment in equipment. Over the next few years, producers will be eager to return to the optimal planted area to equipment balance that existed before the pandemic. However, an immediate jump in further expansion is unlikely to be significant given the expense of acquiring new machinery – for example, new cotton pickers run upward of \$1 million. Therefore, post believes that another large leap in cotton planted area will not occur for several years.

Constraints for the Industry Remain, Especially Production Costs

Financing: Although most cotton growers are relatively well-capitalized, many rely, at least in part, on outside money to finance their crop. Looking to next season, some smaller farmers may face difficulty securing credit, simply because the support allocated by the federal government via the annual farm bill

(Plano Safra) is not looking promising. The *Plano Safra* operates on a July 1 – June 31 fiscal year (FY). Each rural credit line is available to farmers for certain types of activities. However, given the fiscal crunch exerted by the pandemic and overall inflation, new resources are unlikely to come in.

The upcoming election will likely further complicate financing for farmers. As of April 2, Brazil entered the so-called 'election mode', which is the period in which nothing can be done that characterizes intentional support for a specific sector. This political situation tends to reduce the pace of decisions made by the Legislative and Executive powers. Resources for FY 2022/23 will likely be focused on measures trying to contain inflation. According to Post interlocutors, this has already interfered with public policies aimed at agribusiness, such as the Plano Safra. It is believed that the FY 2022/23 Plano Safra will be also complicated for the producer due to cost increases, where some items have gone up more than 100 percent. At the same time, the resources offered by the government will not increase. Given this situation, many producers are now more concerned with the election than with other issues impacting the economy.

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/ha (USD\$ 40.65) 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 aforementioned 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. With cottonseed prices up, the impact of rising equipment leasing and post-harvest costs is reduced.

Figure 5:

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			

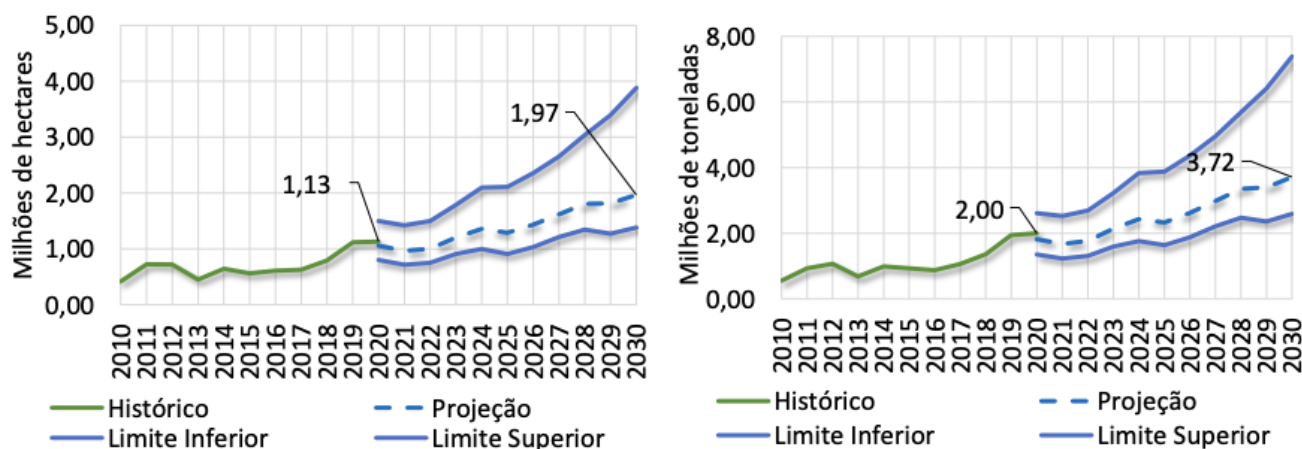
Source: IMEA

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, either cotton or soybeans. Both soybean and corn prices have been hitting record highs and are projected to remain high. 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 2022/23 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 90 percent of all cotton area planted in Brazil (71 percent and 19 percent respectively for each state). The Food and Agriculture Organization of the United Nations (FAO) and the Organization for Economic Cooperation and Development (OECD) estimate that in MY 2030/31, world cotton production will reach 28.4 MMT, and that Brazil will account for 12.5 percent of that figure.

Figure 6:
Cotton Planted Area and Production Forecast for Mato Grosso, 2010 to 2030



First graph is in Mha, second graph in MMT; 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.

Source: IMEA

In the 2021/22 season, growers in Mato Grosso increased cotton planted area by 155,000 ha, from 962,000 ha in 2020/21 to about 1.12 Mha. Potential expansion of the cotton area in Mato Grosso is depends on its competition with the other crops. 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. For the 2022/23 season, it seems probable that some growers will elect to grow *safrinha* soybeans or corn, instead of cotton, due to cotton’s higher production cost and input demands relative to the other crops.

In Bahia, excluding the pandemic dip in 2020/21, planted area has also been on the rise over the past five seasons. Going forward, cotton planted area expansion in the state will be limited by the fact that producers grow a single crop, choosing either soybeans or cotton. Soybeans have long been the dominant crop planted in Brazil owing to their liquidity and profitability. Post does not anticipate expansion to proceed in Bahia along the same lines as in Mato Grosso.

The remaining 10 percent of meaningful production is split nearly equally between the center-west states of Mato Grosso do Sul and Goiás, where planted area has been declining; the northeast region of MATOPI (adjoining states of Maranhão, Piauí, and Tocantins), and the southeast states of Minas Gerais and São Paulo. In the latter region, the state of Minas Gerais is the primary cotton producer. 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 northern region. Production has especially taken off in the state of Rondonia. Despite notable gains in percentage terms, these regions are still far behind the two main producer states in acreage. 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 São 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.

Outlook 2022/23: Production to Reduce Slightly on Fertilizer Supply Issues

The Post forecast for 2022/23 cotton production is 12.6 million bales (2.74 MMT), a 3 percent decrease from 2021/22 estimated production. The yield is forecast to remain the same as the current season, at 1,770 kg/ha. Post yield and production forecasts for 2022/23 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.

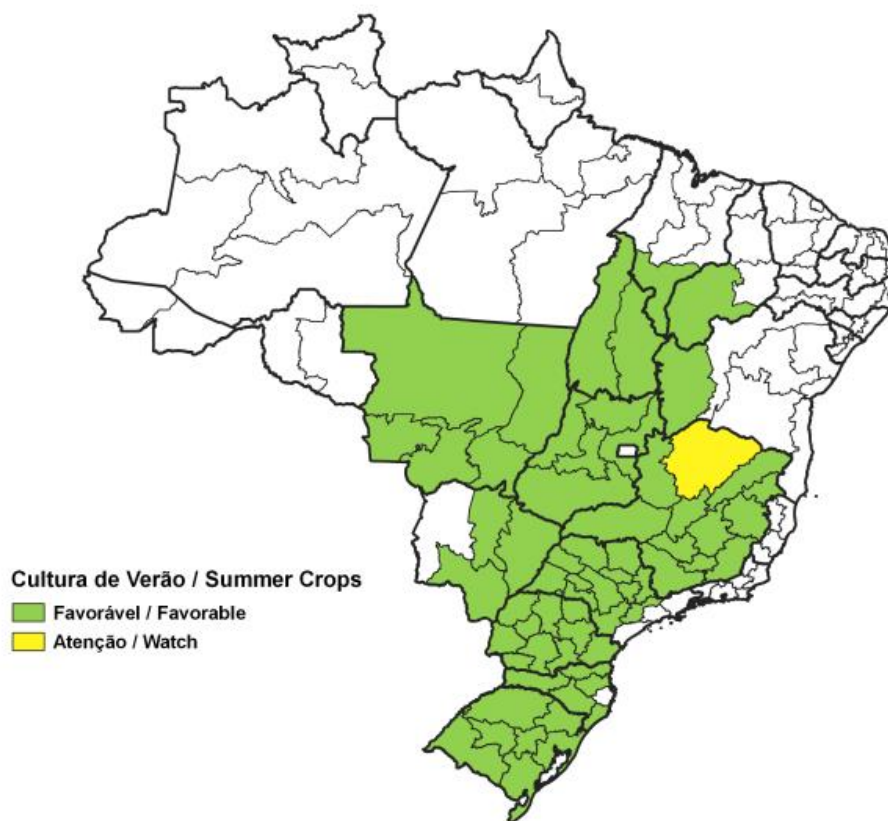
According to the Brazilian National Supply Company's (CONAB) March 2022 Bulletin, March 1 to 21 marks the end of summer and beginning of autumn. This time period is the transition from a hot and humid season to a drier one, typically with scarcer rains in the interior of Brazil. Weather maps showed that across the mid-west of Brazil, rains contributed to increasing soil water storage, promoting cotton development.

Mato Grosso: By April 2022, sowing was completed. First season crops were in the formation phase, while those of second harvest, for the most part, were in the flowering stage. Climatic conditions were favorable for crop development.

Bahia: By April 2022, sowing was completed in the Far West and Center-South of the state. Most crops were in vegetative development, and about 40 percent of the areas destined for cotton cultivation were in the formation stage. In the Far West, the climatic conditions were favorable. In the Center-South, the crops are in reasonable condition, but return of rains is necessary.

Figure 7:

Conditions of Summer Crops in the Main Producing Regions, March 2022



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 70 percent during the past 15 years, with continued use of GE seeds being a major contributor to this growth. Post has spoken with several sources in Mato Grosso and Bahia who 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: Brazil relies on imported inputs, including fertilizers, to support its growing cotton production sector. Cotton is very input-intensive, requiring more fertilizer per acre than other crops. According to the national fertilizer association, ANDA, Brazil imports 85 percent of its total fertilizer needs, at a total value of around \$8 billion. The main exporters are Russia, Canada, China, and Morocco.

Over the last several months there has been increasing concern not only about rising fertilizer prices, but also potential disruption to the global fertilizer trade. The disruption in global fertilizer supply is associated with a host of reasons: production bottlenecks owing to the COVID 19 pandemic, protectionist trade measures by important producers, as well as geopolitical tensions. The potential risk of fertilizer disruption to Brazil rose substantially with the Russian invasion of Ukraine in February

2022. Russia is a leading global supplier of fertilizers, and Brazil sources about a quarter of its fertilizers from Russia.

As a result, impacts will likely be felt in the agricultural sector in Brazil, including limiting the expansion of the cotton planted area in the 2022/23 season. With reduced critical nutrients such as potash, yields may also be impacted. Concern about the global crisis has led Post contacts to be less optimistic for the upcoming cotton crop. Just a few months ago, cotton expansion would have been projected to grow on-trend thanks to favorable economic conditions and prices. However, producers now must contend with a situation of limited resources, and cotton is significantly more expensive to produce. In the Center-West, cotton competes with soy and corn for the second crop. For soy and corn, it is estimated that top farmers could reduce fertilizers 15 percent, with just 5 percent reduction in yield. In a scenario with less fertilizer, but optimal weather, soy and corn yields could be normal.

For cotton, reducing fertilizer use would prove more difficult. Therefore, well-capitalized farmers who would like to take advantage of their investments will likely be very strategic in their planting. Producers have noted that the best fields, and the fertilizer supplies obtained, will be reserved for cotton in areas where it is most likely to have a successful harvest. Larger farmers are therefore likely to maintain, or only slightly reduce their area, while small and medium farmer may be more likely to switch to alternate crops next season.

In March 2022, the Government of Brazil (GoB) unveiled the National Fertilizer Strategy, designed to decrease the country's dependency on nitrogen, phosphorous, and potassium (NPK) imports. The Geological Survey of Brazil (SGB-CPRM) prepared several scenarios to reduce the national dependency on imports to 60 percent by 2050. The main thrust of the strategy is to attract private investment into the sector, attracting international and national investors to Brazil's domestic fertilizer market.

Recognizing that import needs will remain substantial even in the long term, the GoB has cultivated partnerships with key suppliers of fertilizers: Canada, China, Morocco, Russia, and Belarus among others. In early 2022, high-placed Brazilian officials visited Russia, Canada, and Iran, to strike deals to maintain fertilizer flows. However, risk remains about if, and when, the adequate volume of essential supplies will be delivered. For more information on the fertilizer situation in Brazil, see GAIN Report: [Brazil Agriculture Seeks Remedies for Potential Fertilizer Disruptions](#).

In early March, the Secretary of Strategic Affairs for the Presidency, Flavio Rocha, convened several ministers, including MAPA Minister Tereza Cristina, Science and Technology Minister, Marcos Pontes, and Mines and Energy Minister, Bento Albuquerque, in addition to 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 Increased

Post raised the estimate for 2021/22 cotton area planted to 1.6 Mha, from 1.52 Mha anticipated in the December 2021 update. The new planted area estimate represents an increase of more than 17 percent from last season. Higher area planted year-on-year reflects improving global cotton market conditions

since the onset of the COVID-19 pandemic in 2020. During the pandemic, the market in Brazil saw stalled sales, as well as re-negotiated and canceled contracts. The 2021/22 area planted estimate was also raised because of good weather until this point in the season, as well as on-time harvesting of soybeans, which improved growers' ability to plant during the ideal time frame.

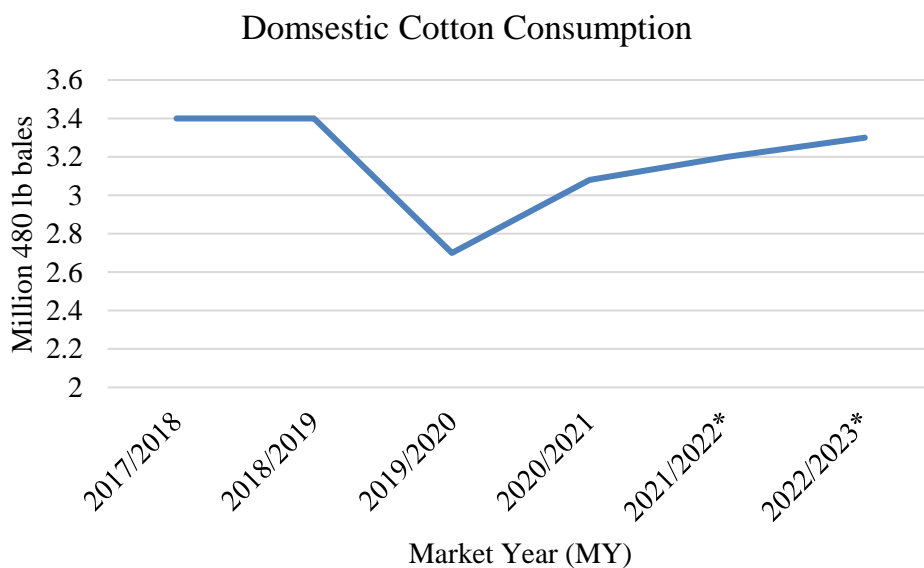
Post increased the 2021/22 cotton production estimate to 13 million bales (2.83 MMT), a 20 percent increase from 2020/21 production. The yield is estimated at 1.769 kilograms (kg) per ha, up from 1,732 kg/ha posted in 2019/20. Notably, the current season yield is still the second highest on record. This season, growers saw nearly ideal planting, growing, and weather conditions leading to high productivity. In the previous season, many farmers were forced to plant outside of the ideal planting window, and therefore saw reduced yields. The Post yield estimate may be revised further pending weather during crop development in the April-June timeframe.

CONSUMPTION

Consumption to Make Modest Gains

Post forecasts that Brazil's domestic cotton consumption will come in at 3.3 million bales for 2022/23 (720 thousand MT), as compared to the estimated 3.2 million bales (697 thousand MT) of domestic consumption for the current MY. The coming season's uptick in consumption will be similar to the last several seasons, when the Brazilian cotton processing industry purchased, on average, about 3.3 million bales (720,000 MT). Domestic cotton consumption is expected to continue recovering from adverse effects from the COVID-19 pandemic but will likely be negatively impacted by inflation.

Figure 8:



Source: USDA

Note: 2021/22* and 2022/23* reflect Post estimate and forecast

The first wave of impacts from the war in Ukraine reached the Brazilian economy with the rise in oil prices. The increase in fuel prices caused panic in the market, leading to projections for high inflation this year. Economists estimate that the IPCA (Extended National Consumer Price Index, a reference for Brazilian inflation) accumulated over the last 12 months could exceed 11 percent. With gasoline and diesel more expensive, other products are likely to be impacted, including those in the textile sector. The textile industry will also face possible price increases for raw materials in 2022.

The recently announced suspension of exports of fertilizers and inputs by Russia, which supplies about 20 percent of Brazil's demand, severely affects the sector. Cotton is among the four most fertilizer-dependent crops in Brazil. Therefore, some post contacts predict that further economic consequences of the war could be a rise in the prices of clothes, shoes, and other textile products.

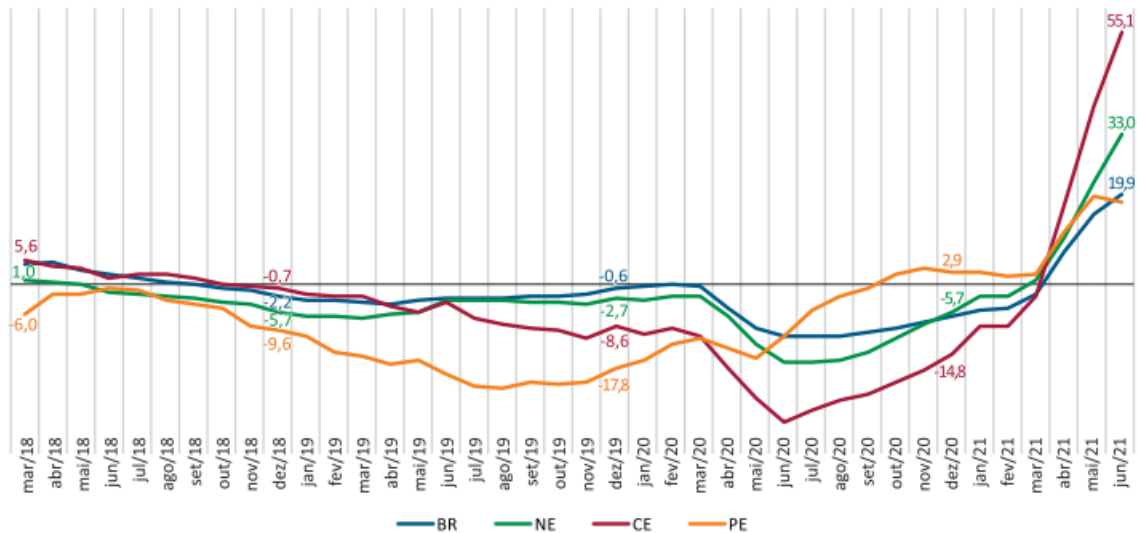
Even before the war between Russia and Ukraine broke out, the Brazilian Textile Industry Association (Abit) expected slow growth in production and sales in the sector, to continue this year below pre-pandemic levels. Abit's forecast is for a 1.2 percent increase in textile production, 10 percent points below the pace in 2021, and a one percent increase in sales in the domestic market. Domestic sales growth is expected to decline from 14.5 percent to a stagnant one percent. Thus, the sector will not yet recover from the 17 percent and 22.5 percent drop recorded in production and sales, respectively, in 2020, when the economy suffered the shock of the arrival of the pandemic.

Abit's projections are based on a scenario of low 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 will likely also affect the prices of polyester and other derived fibers.

The supply chain for cotton has been troubling the textile sector since last year, when the Brazilian cotton crop was 20 percent lower than that of 2019/20. At the time, with domestic consumption not yet normalized, there was no risk of shortages in the domestic industry. For the next crops, however, the situation is uncertain. The lack of fertilizers may impact the volume of the next few cotton crops and be reflected in higher production costs. In this situation, it seems probable that cost increases will need to be passed on (at least in part) to consumers.

Figure 9:

Monthly Growth Rate of Textile Production in Brazil by Region



BR: Brazil, NE: Northeast, CE: Ceara, PE: Pernambuco

Source: Brazil National Bank

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 costs are in foreign currency. The industry then 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.

TRADE

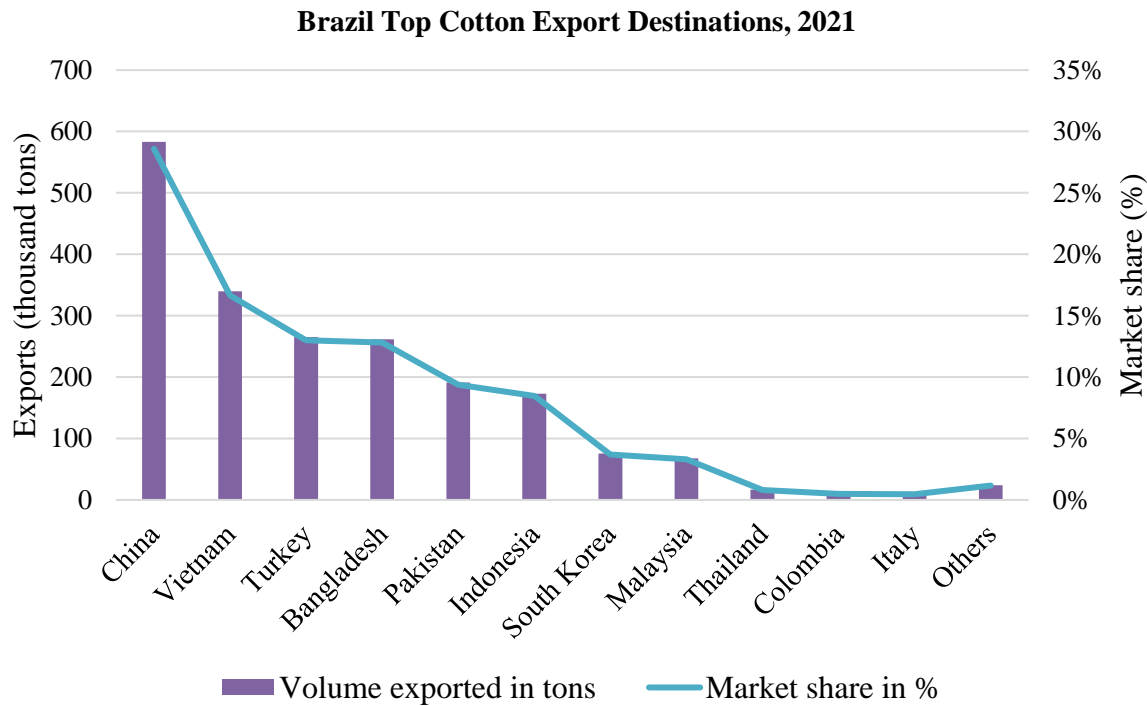
Exports Forecasts to Recover in 2022/23, but Face Challenges

Post forecasts cotton exports for 2022/23 (August 2022- July 2023) to rise to 9.2 million bales (2 MMT), up from 8 million bales (1.74 MMT). The 15 percent export forecast increase is based on the larger 2021/22 crop. However, a surge in exports will be constrained by slow economic recovery from the coronavirus pandemic and the Russia/Ukraine war. As already outlined at the beginning of the report, global cotton demand is still expected to grow around two percent in 2021/22.

The Post forecast considers potential challenges ahead in 2022 and 2023. For the 2022/23 season, the expectation is for a recovery in shipments, as global demand remains solid, and production is off to a good start with timely planting and good weather. However, there are lingering uncertainties surrounding the pandemic trajectory. The Brazilian cotton sector is apprehensive about the unfolding of the pandemic in China, the main cotton importer in the world, due to a possible risk to the country's logistics. China is the main destination for Brazilian cotton exports, importing about 30 percent, followed by Vietnam (17 percent), Turkey (13 percent), Pakistan and Bangladesh (11 percent each),

according to National Association of Cotton Exporters (ANEA). The possibility of future lockdowns and production disruptions, especially in major cotton-consuming markets such as China, could exert downward pressure on global demand. It is expected that going into the 2022/23 season, Asian markets will continue to be the primary destination for Brazil’s cotton exports, with China remaining the most significant importer.

Figure 10:



Source: Post Chart, Secex data

The Post expectation of growing exports to Asian markets considers 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.

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. These requirements are based on three pillars of sustainability (environmental, social, and economic) and range from the managerial aspects of agricultural enterprises to compliance with Brazilian Environmental and Labor legislation. Farmers growing cotton in line with

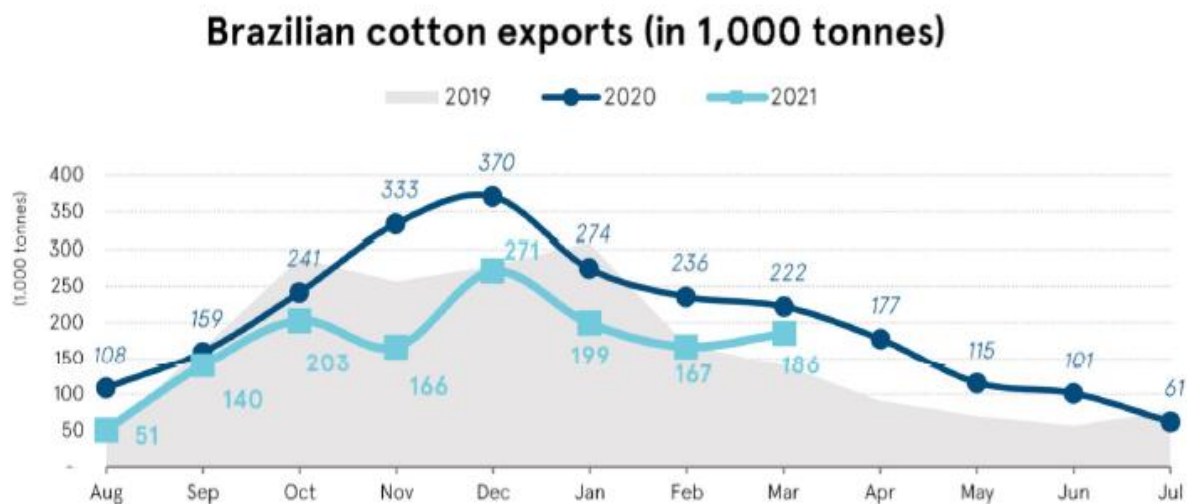
the ABR standard can sell their cotton as BCI. According to Abrapa, as of 2021, 85 percent of cotton area in Brazil is estimated to be reached by ABR. If confirmed, the number will be ten percent higher than last year.

Exports Estimated Lower in 2021/22

Post revised down the 2021/22 export estimate to 8 million bales (1.74 MMT). Thus, Post estimates that exports will decrease by about 30 percent when compared to the 2020/21 export volume of 11 million bales (2.39 MMT). The estimated decrease in exports is based on several factors.

Cotton exports from Brazil are expected to reach 8 million bales (1.74 million tons) in 2021/22, about 28 percent below the record seen in the previous season. This is primarily due to the smaller harvest, which lead to lower available supplies for shipment. The cotton for export comes from the 2020/21 crop of 10.8 million bales (2.36 million tons). In MY 2020/21, production was 3 million tons, so it was possible to export 2.414 million tons. Mato Grosso was responsible for 71.5 percent of Brazil’s total cotton exports in 2020/21, with 4.5 million bales (988,000 tons) shipped so far in 2021/22. This is 23.75 percent lower than the same period last year, also driven by the decrease in crop production, which limited the supply of cotton in the state. So far, over 80.51 percent of the total volume expected for this season has already been shipped.

Figure 11:



Source: Abrapa

Brazil exported 1.38 MMT of cotton from August to March 2022, totaling revenue of \$2.52 billion. From August 2021 to March 2022, China remained the main destination for Brazilian cotton exports (433,000 tons) and represents 31 percent of accumulated exports. The destinations China, Pakistan and Vietnam represent 71 percent of the accumulated drop in exports, so far. Despite the lower total volume exported, eight countries increased Brazilian cotton imports, including Italy and the Philippines.

The Brazilian cotton trade balance surplus was \$2.51 billion from August 2021 to March 2022, 16 percent lower than the same period in the 2020/21 season. The average price of cotton shipped was 18.6 percent higher, but the lower volume exported reduced total revenues.

Post anticipates that Brazilian cotton exports will remain competitive because of the current weakness of the Brazilian currency. As already discussed earlier in the report, the Brazilian real has lost over a third of its value since this time last year. As of March 2022, the market anticipates that the real will continue to trade at well above R\$4 to the USD. While lower than last year, it remains devalued, boosting the attractiveness of Brazilian exports, including cotton.

Import Volumes Remain Low in 2022/23 and 2021/22

Post forecasts cotton imports in 2022/23 to hit 30,000 bales (about 6,500 MT), continuing the recovery from very low levels registered in 2019/20 on account of the pandemic. Post estimates cotton imports in 2021/22 to reach 25,000 bales (about 5,400 MT), as compared to an estimated 5,000 bales (around 1,000 MT) imported in 2019/20. Last season, imports remained low due to continued complications from the coronavirus pandemic that disrupted mill operations in Brazil. The current season volume is slightly more than the amount that Brazil imported last season and represents a return to the 20,000-40,000 bales that the country imported in previous 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 to save costs. In an environment of high inflation and supply chain uncertainties with the Russia-Ukraine war and China 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 2021/22 estimate is supported by import data for the first seven months of the marketing year, when Brazil imported about 18,000 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 2021/22 runs from August 2021 to July 2022. 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 in Bales

Cotton Market Year Begins	2020/2021		2021/2022		2022/2023	
	Aug 2020		Aug 2021		Aug 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Brazil						
Area Planted (1000 HA)	0	0	0	0	0	0
Area Harvested (1000 HA)	1370	1360	1600	1600	0	1550
Beginning Stocks 1000 480 lb. Bales	14404	14404	11119	11126	0	12951
Production 1000 480 lb. Bales	10820	10820	13200	13000	0	12600
Imports 1000 480 lb. Bales	12	5	25	25	0	30
MY Imports from U.S. 1000 480 lb. Bales	0	0	0	0	0	0
Total Supply 1000 480 lb. Bales	25236	25229	24344	24151	0	25581
Exports 1000 480 lb. Bales	11014	11023	7900	8000	0	9200
Use 1000 480 lb. Bales	3100	3080	3200	3200	0	3300
Loss 1000 480 lb. Bales	3	0	0	0	0	0
Total Dom. Cons. 1000 480 lb. Bales	3103	3080	3200	3200	0	3300
Ending Stocks 1000 480 lb. Bales	11119	11126	13244	12951	0	13081
Total Distribution 1000 480 lb. Bales	25236	25229	24344	24151	0	25581
Stock to Use % (PERCENT)	78.78	78.89	119.32	115.63	0	104.65
Yield (KG/HA)	1720	1732	1796	1769	0	1770
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						

Production, Supply, and Distribution in Metric Tons

Cotton Market Year Begins Brazil	2020/2021		2021/2022		2022/2023	
	Aug 2020		Aug 2021		Aug 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	0	0	0	0	0	0
Area Harvested (1000 HA)	1370	1360	1600	1600	0	1550
Beginning Stocks 1000 480 lb. Bales	3136	3136	2421	2422	0	2820
Production 1000 480 lb. Bales	2356	2356	2874	2830	0	2743
Imports 1000 480 lb. Bales	3	1	5	5	0	7
MY Imports from U.S. 1000 480 lb. Bales	0	0	0	0	0	0
Total Supply 1000 480 lb. Bales	5494	5493	5300	5258	0	5570
Exports 1000 480 lb. Bales	2398	2400	1720	1742	0	2003
Use 1000 480 lb. Bales	675	671	697	697	0	718
Loss 1000 480 lb. Bales	1	0	0	0	0	0
Total Dom. Cons. 1000 480 lb. Bales	676	671	697	697	0	718
Ending Stocks 1000 480 lb. Bales	2421	2422	2884	2820	0	2848
Total Distribution 1000 480 lb. Bales	5494	5493	5300	5258	0	5570
Stock to Use % (PERCENT)	78.78	78.89	119.32	115.63	0	104.65
Yield (KG/HA)	1720	1732	1796	1769	0	1770
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						

Attachments:

No Attachments