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Report Highlights:

Post forecasts 2021/22 planted cotton area at 1.52 million hectares (ha), with production at 12.6 million bales (2.74 million metric tons – MMT), more than a 10 percent greater than the 2020/21 estimated production of 10.68 million bales (2.33 MMT). Cotton area is forecast to rise because of timely first-season soybean planting, high prices, and very good profitability compared to alternative crops. Post forecasts that Brazil's domestic cotton consumption will come in at 3.2 million bales for 2021/22 (697 thousand MT), as compared to the estimated 3.1 million bales (665 thousand MT) for the previous MY. Post revised down the 2021/22 marketing year export forecast to 8.5 million bales (1.85 MMT) on slower demand from China, which represents a decrease of over 20 percent on the current season export estimate of 11 million bales (2.4 million metric tons).

(2.4 million metric tons).

PRODUCTION

Post revised the forecast for 2021/22 planted cotton area upward to 1.52 million hectares (ha), up 10 percent from 1.36 million ha cotton area planted in the current season. With this increase, Brazil fortifies its top-tier cotton producer status, along with India, China, and the United States.

Figure 1

	Area Harvested (million HA)			**Production (million 480 lb. Bales)**		
Country	2020/21	2021/22	% change	2020/21	2021/22	% change
India	13,000	12,400	-4.6	28,000	28,000	0
China	3,250	3,100	-4.6	29,500	26,750	-9.3
United States	3,349	4,015	19.9	14,608	18,198	24.6
Brazil	1,370	1,520	11.7	10,820	13,200	21.9
Pakistan	2,200	2,000	-9.1	4,500	6,700	48.9

Source: USDA PSD, note that the Post estimate and forecast does not necessarily match exactly official USDA projections.

At the start of November, cotton-producing regions in Brazil were in the midst of the sanitary period, known as the *vazio sanitario*. The sanitary period spans several months between when the final harvest is picked and the next crop is sown to mitigate the incidence of disease in the field and on the plants. Starting the second week in November, planting of the new harvest began in two states: Sao Paulo (24 percent) and Parana (2 percent), with the total area planted at 0.13 percent. All of the 2021 crop has been harvested, with 89 percent commercialized, 81 percent ginned, and an estimated 23 percent exported, according to Brazilian cotton association Abrapa.

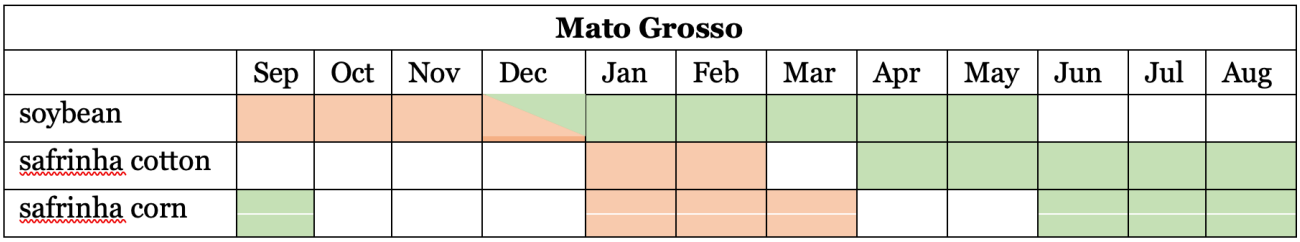
Post believes the planted area will increase in 2021/22, especially in the main producing states of Mato Grosso and Bahia. There are several factors driving an increase. First, due to moderate weather and adequate rain in the months of September and October across Brazil, farmers were able to begin first-season soybean planting on time in Mato Grosso and other Center West states. Growers typically begin sowing first-season soybeans in September, with harvest kicking off in December. In Mato Grosso, the majority (about 87 percent) of cotton is second-season, or *safrinha*. Second season-cotton is planted immediately after the soybean harvest, with the ideal cotton planting window being between January 1 and February 15. Since soy planting this year took place without delay, the second cotton crop will also be able to take place within the optimal window.

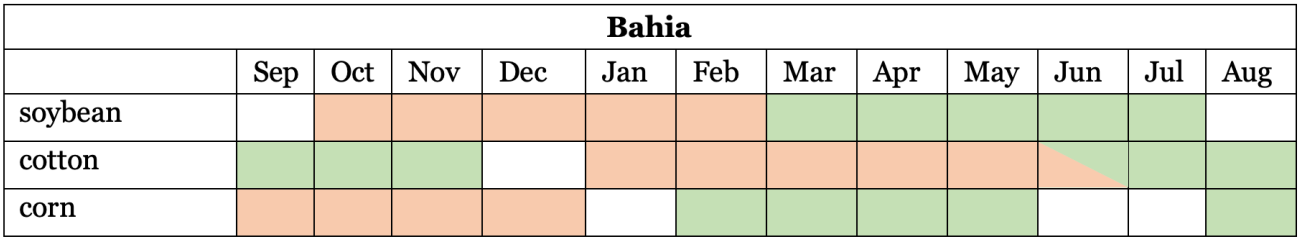
The Mato Grosso Institute of Agricultural Economics (Imea) reported that by the end of October, farmers had sowed about 83 percent of their soybean crop, compared to 54 percent last year. This first-crop soybean area planted is more than enough area to sow over 900 thousand ha of second-season cotton. Producers are eager to sow cotton before February 15, otherwise, they run a higher risk of moisture damage to crop yields and quality.

While cotton area is forecast to rise, it's expansion will be somewhat limited by second-season corn. In Mato Grosso, growers have an option to plant safrinha corn instead of cotton. While safrinha corn is similarly planted in January, the sowing window is longer by about six weeks. In Mato Grosso, Imea expects the corn area to expand by over 6 percent in the coming season, with planting on about 6.2 million ha, which would set a new record for the state. A longer planting window and high corn prices are primary factors leading to increased corn area. (For more discussion on corn, please see Brazil Grain and Feed September 2021 Update). However, in Mato Grosso, sources have reported that October closing prices for cotton resulted in a profitability for cotton of 57 percent, compared to 43 percent for soybeans and 39 percent for corn.

In the northeastern state of Bahia, Brazil's second-largest cotton producer, growers typically plant just one crop. The choice in Bahia is between cotton and soybeans. The previous season, 2020/21 was a great year for soybeans and continued profitability is expected 2021/22. However, contacts have indicated that cotton prices in the domestic market continue to rise, and will likely continue having profitability margins higher than those of soybeans and corn. (For more discussion on Brazil's soybean outlook, see Brazil Oilseed September 2021 Update).

Figure 2: First and Second Season Timeframes for Cotton in Mato Grosso and Bahia





Source: Post Brasilia: planting season, harvest season, planting/harvest season

The Post forecast for increased cotton planted area takes into consideration the changing dynamics of production costs and cotton prices. Producers typically plan out cotton area several months in advance of sowing in order to secure inputs for the season. In the second and third quarters of 2021, cotton prices were at historic highs as economies continue to recover from initial impacts of the novel coronavirus pandemic. (See Brazil Cotton August 2021 Update for further price discussion). While producers also

face higher operating costs, prices have risen 17 percent since the end of August, improving producers' projected margins.

The increase in planted area will also be encouraged by the major investments in cotton-growing capacity that large producers made over the last three to five years. Numerous interlocutors have pointed out that producers have made major investments in equipment (planters, pickers, and ginning capacity) in order to maximize returns on the available planting area. Given the expense of acquiring new machinery – cotton pickers run upward of $1 million – large producers are keen to continue to utilize their substantial investments, especially in an environment of high global prices.

Production, Yield Forecast to Improve in 2021/22

Post increased the 2021/22 forecast for cotton production to 12.6 million bales (2.74 MMT), more than a 15 percent increase from the 2020/21 estimated production. The yield is forecast to increase to 1.805 kilograms (kg) per hectare, above the 1.710 kg/ ha expected in the current season. Post yield and production forecasts for the 2021/22 season assume average weather and adequate use of inputs, such as genetically engineered (GE) seeds and the use of chemicals and fertilizers. Given the expense of planting and harvesting cotton, Post does not anticipate that growers will reduce input use despite the higher operational cost outlook. While there is concern about the shortage of inputs and fertilizers, a vast majority of cotton producers have already purchased their supplies. Therefore, post contacts have reported that the shortage is not likely to have an impact until the 2022/23 season.

Brazil's 2020/21 Cotton Production Lower

The 2020/21 harvest was completed across the country in September. Post slightly revised down the estimated area harvested to 1.36 million ha, based on latest industry estimates. At the same time, Post revised down the 2020/21 production estimate to 10.68 million bales (2.33 MMT), based on the lower yield of 1.710 kg per ha. Due to delays with soybean planting, growers in Mato Grosso planted the safrinha cotton outside of the ideal timeframe – which lasts only from January to February 15. Weather patterns were mixed throughout the growing and harvest season, with better crop conditions in Bahia. As a result, yields throughout Brazil for the 2020/21 season were mixed. Mato Grosso, the largest cotton producing state, had a yield reduction of about seven percent, with a large amount of crop planted outside the ideal planting window. However, the other cotton-producing states, especially Bahia, did quite well. At this point, with timely planting in Mato Grosso and average weather patterns, the yield is forecast to improve in 2021/22.

COST OF PRODUCTION AND PRICES

Cost of Production Expected to Rise, but Prices Continue to Improve

The cost of cotton production is expected to be higher in the 2021/22 season. According to analysis by IMEA, the cost of cotton production in Mato Grosso has so far risen continuously in 2021. As of the end of October, the effective operating cost for the 2021/22 crop was estimated at R$ 10,415.99 (US$ 1,880) per ha, an increase of 48 percent in relation to the 2020/21 harvest. The main cost increases were for inputs, such as fertilizers, and cotton classification.

Figure 3

Estimated Production Costs for Biotech Soybeans Varieties in Mato Grosso (BRL per ha)			
	2020/21	**2021/22**	**Percent Change y-o-y**
Variable Costs of Production	6,856.05	8,923.50	30.16%
seeds	693.10	817.96	18.01%
fertilizers	2,033.33	3,310.57	62.82%
herbicides, fungicides, insecticides, other def.	3,532.11	4,130.73	16.95%
machinery operation	323.45	386.38	19.46%
third party services	53.73	51.63	-3.91%
labor	220.34	226.22	2.67%
maintenance of machineries and installations	293.90	292.78	-0.38%
insurance, taxes, misc fees	331.04	382.60	15.58%
financing	316.91	382.30	20.63%
Post Production Costs	1,767.06	4,213.08	138.42%
transportation, storage	67.91	68.78	1.28%
cotton classification	1,699.13	4,144.28	143.91%
other costs	102.41	111.40	8.78%
Effective Operating Cost	9,783.25	14,508.47	48.30%
depreciation	260.34	260.45	0.04%
Total Operating Costs	10,068.41	14,794.83	46.94%

Source: IMEA estimates from mid-November 2021

The profitability outlook for cotton producers in Brazil has been improving throughout 2021. In 2020, the novel coronavirus pandemic had a significant, negative impact on global cotton demand and in conjunction on global cotton prices. However, prices recovered steadily in 2021. Rebounding from a low in spring 2020, global cotton prices have since more than doubled. Weather problems in the United States and India, along with the lower supply in the 2020/2021 Brazilian crop and the recovery in world demand, contributed to a scenario of very high prices on the New York Stock Exchange.

Brazil's cotton prices are directly correlated to the futures prices in New York. As a result of the real's continued devaluation, domestic cotton prices in Brazil have seen a remarkable spike. Despite the increase in domestic prices, the CEPEA index price dipped below the ICE Futures New York price in October 2021. At the end of October, the University of Sao Paulo's Superior Agricultural School Research Center (CEPEA/ESALQ) indicator surpassed 100 cents per pound, while New York reached 120 cents per pound. Both represent a drastic increase in prices from April and May of 2020, when cotton cost about 45 cents per pound. With 80 percent of cotton already contracted, traders are focused on selling the remaining stock for export at the current spot price.

Figure 4

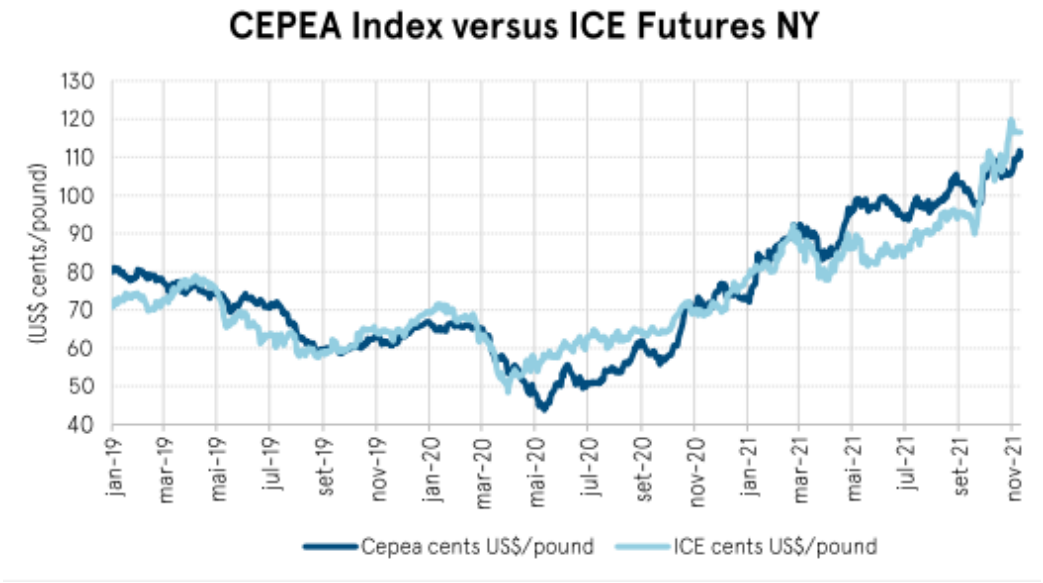


Chart Source: Abrapa

According to analysis from Imea, at these prices, growers in Mato Grosso can be expected to see greater profits from planting cotton, rather than corn. As the chart below shows, if cotton prices average around R$ 101 per arroba, corn prices would have to rise above R$ 37 per sack for farmers to see greater profits from planting corn.

Figure 5

Comparison of Cotton and Corn Profitability in Mato Grosso

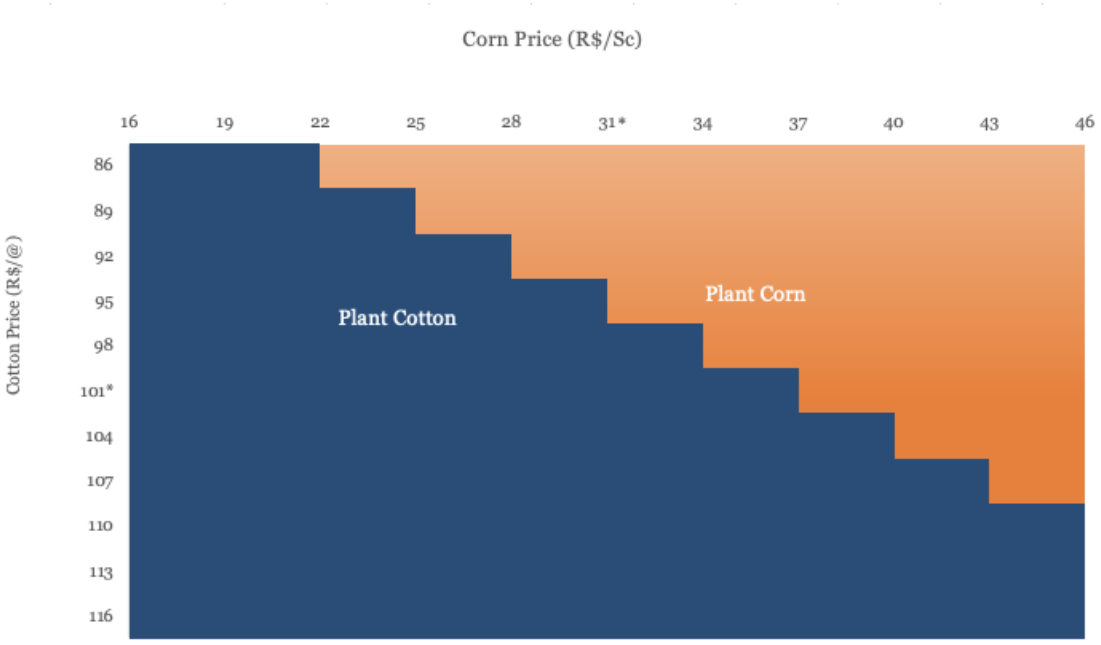


Chart Source: IMEA

CONSUMPTION

Post forecasts that Brazil's domestic cotton consumption will come in at 3.2 million bales for 2021/22 (697 thousand tons), as compared to the estimated 3.1 million bales (665 thousand tons) of domestic consumption for the current MY. The 2021/22 MY consumption is expected to be moderately increased compared to the previous season, due to gradual economic recovery since the onset of the coronavirus pandemic, and corresponding increased demand for textile products. However, cotton consumption continues to compete with synthetic fibers. Ten years ago, cotton represented 57 percent of the total fibers used by the national textile industry. Today, it represents 46 percent. In response, the Brazilian cotton sector has developed public campaigns to promote Brazilian cotton to consumers.

2021/22 Domestic Industry Outlook is Uncertain

For 2022, the Brazilian Textile Industry Association (ABIT) forecasts modest domestic processing and manufacturing recovery on the assumption of GDP making gains over 4 percent. However, domestic cotton consumption in 2021/22 faces a number of challenges. First, there is a relatively tepid outlook for the economy. Although the economy is clearly showing signs of post-pandemic recovery, that does not necessarily translate into strong growth for the textile processing sector. Inflation continues to rise, recently projected at 10.15 percent. In addition, the lingering impact of the lockdown on the economy and particularly on unemployment is expected to continue having impacts on consumer demand.

2020/21: Domestic Consumption Recovering from the Pandemic, but Faces Rising Costs

While there have been improvements in the Brazilian textile industry since the steep drop in 2020, the industry still faces bottlenecks created by the pandemic. Since most factories were shut down from March to June of last year, when they re-started operations, clothing companies ended up placing their orders all at once. This created bottlenecks in the production chain. In addition, there was a change in consumer demand – with rising demand for casual clothing, and a corresponding drop in demand for business attire. As a result, the recovery in consumer purchases has been uneven, exerting further stress on the industry.

TRADE

Exports Projected to Decrease in 2021/22

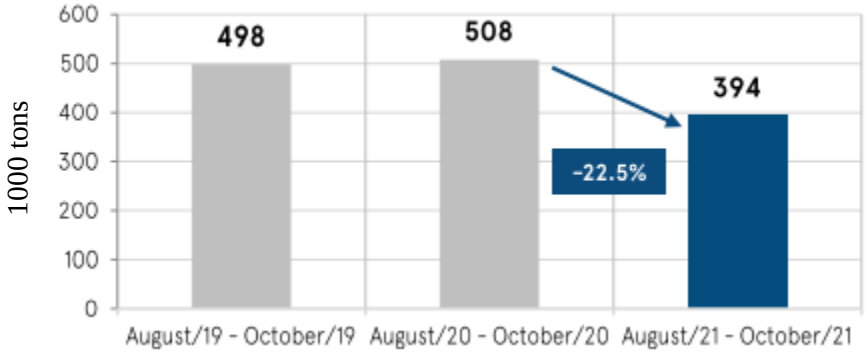
Post revised down the 2021/22 MY (August 2021- July 2022) export forecast to 8.5 million bales (1.85 MMT). Thus, Post forecasts exports to decrease by 22.8 percent, when compared to the current season's record export estimate of 11 million bales (2.4 MMT). Brazil's cotton exports have had a slower start than the last market year, mostly due to reduced purchases from China. For the first three months of the 2021/2022 MY, Brazil cotton exports were 22.5 percent lower than 2020/21. In the past month, China was the main buyer of Brazilian cotton, comprising 42 percent of their exports.

According to sources, on the buyer side, many industries are working with cotton already contracted and/or in stock from the current MY. For those that need to replenish supplies, they are now paying top

price. Cotton prices continue to rise in Brazil, reaching new heights in November. The Ministry of Agriculture National Supply Company (CONAB) estimates that Brazil has already contracted over 89 percent of 2021/22 production. The 2021/22 production becomes available in late August and early September 2022, with shipments taking place during the 2022/23 (August 2022 – July 2023) marketing year.

Figure 6

Brazil Cotton Exports by Market Year



Source: Abrapa

Finally, the Brazilian cotton supply faces various logistical challenges. Brazil exports more than 95 percent of its cotton out of the port of Santos in Sao Paulo state, with that alone exposing it to potentially huge risks. Although Brazilian ports have operated normally (even above their average pace) during the pandemic so far, future risk of disruptions remains given the persistent incidence of the novel coronavirus across the country. (For more discussion on infrastructure see GAIN report: Brazilian Agricultural Sector Thrives Despite COVID-19 Pandemic).

Brazilian Exports Hit a Record in 2020/21

With the government's customs (SECEX) data available through October 2021, Post maintains its export estimate at 11 million bales (2.39 million metric tons) for the 2020/2021 marketing year (MY, August 2020-July 2021), a new record. With global cotton demand growing on account of economic improvements after the onset of the coronavirus pandemic, Brazil's shipments were higher mostly due to strong demand from China. The amount shipped in 2020/21 was 25 percent higher than the previous MY. For a more detailed discussion of the 2020/21 performance and trends see Brazil Cotton September 2020 Update).

Figure 7

Monthly Brazil Cotton Exports

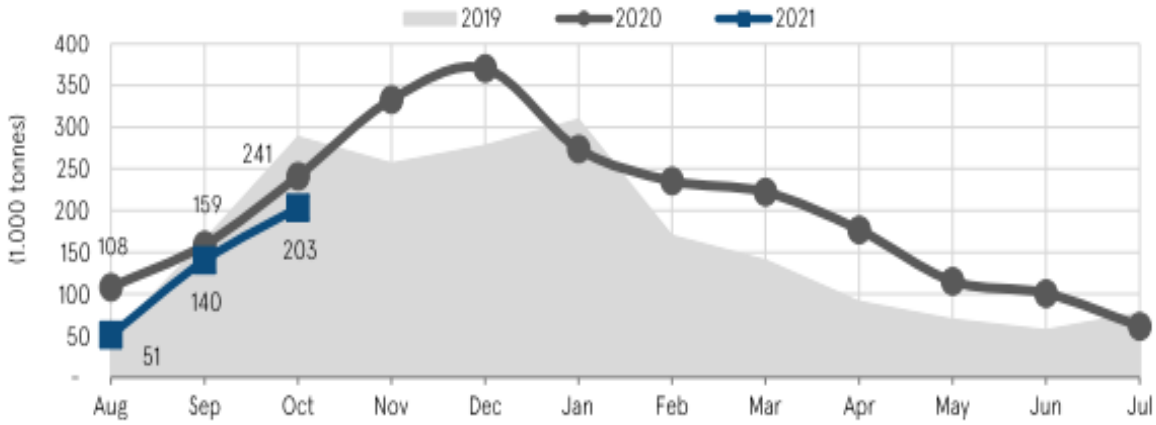


Chart Source: Abrapa/Comex

Import Volumes 2020/21, 2021/22

Post forecasts cotton imports in 2021/22 to remain steady at 12,000 bales (2,600 tons), as compared to an estimated 10,000 bales (2,200 tons) imported in 2020/21. The 2021/22 forecast is based on a return to trend line imports for Brazil. In 2020/21, imports shrank by about 50 percent from the previous season's imports, which can be attributed to the coronavirus pandemic that disrupted mill operations in Brazil. In addition, due to the *real* devaluation of around 40 percent in 2021, cotton imports became significantly more expensive for Brazil.

STOCKS

Post is aware that Brazilian stock figures seemingly differ greatly with statistics furnished by other agencies, including, for example, Brazil's official data supplied by the Ministry of Agriculture National Supply Company, CONAB. Please note that all of the USDA official cotton estimates as well as those in this report are based on a standardized August-July MY that applies to all countries worldwide. For example, USDA's MY 2020/21 runs from August 2020 to July 2021. Hence, USDA's beginning/ending stock estimates capture Brazilian stocks mid-harvest on July 31 when they are nearly at their peak. This timing issue accounts for the relatively high stock levels and low volatility in stocks-to-use typically reported by USDA and this report for Brazil. (Please see GAIN report on: Explanation of Brazilian Cotton Stock Estimates for a detailed explanation)

Production, Supply, and Distribution (PSD) in Bales

Cotton	2019/2020		2020/2021		2021/2022	
Market Year Begins	**Aug-19**		**Aug-20**		**Aug-21**	
Brazil	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Planted	1665	1620	1370	1360	1500	1520
Area Harvested	1665	1620	1370	1360	1600	1520
Beginning Stocks	12256	12256	14404	12581	11119	9194
Production	13780	12500	10820	10680	13200	12600
Imports	5	25	12	10	25	12
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	26041	24781	25166	23271	23674	21806
Exports	8937	8800	11014	11023	8100	8500
Use	2700	3400	3100	3054	3200	3200
Loss	0	0	3	0	0	0
Total Domestic Consumption	2700	3400	3103	3054	3200	3200
Ending Stocks	14404	12101	11119	9194	13044	10106
Total Distribution	26041	24301	25236	23271	24344	21806
Stock to Use %	124	99	79	65	115	86
Yield	1802	1680	1720	1710	1796	1805
(1000 HA), (1000 480 lb. Bales), (PERCENT), (KG/HA)						

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

Cotton	2019/2020		2020/2021		2021/2022	
Market Year Begins	Aug-19		Aug-20		Aug-21	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1665	1620	1370	1360	1500	1520
Area Harvested	1665	1620	1370	1360	1600	1520
Beginning Stocks	2668	2668	3136	2739	2421	2002
Production	3000	2722	2356	2325	2874	2743
Imports	1	5	3	2	5	3
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	5670	5395	5479	5067	5154	4748
Exports	1946	1916	2398	2400	1764	1851
Use	588	740	675	665	697	697
Loss	0	0	1	0	0	0
Total Domestic Consumption	588	740	676	665	697	697
Ending Stocks	3136	2635	2421	2002	2840	2200
Total Distribution	5670	5291	5494	5067	5300	4748
Stock to Use %	124	99	79	65	115	86
Yield	1802	1680	1720	1710	1796	1805
(1000 HA), (1000 tons), (PERCENT), (KG/HA)						

Attachments:

No Attachments

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