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Brazil

Cotton and Products Update

Area Planted to 2013/14 Cotton Forecast to Increase 25 Percent, as Imports and Exports Impacted by Currency Devaluation and Inflation

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Report Highlights:
Brazil’s 2013/14 cotton production is forecast at 7.2 million bales, a 24 percent increase, as area planted grows proportionally and new seed varieties promise better plant protection. Forward sales of 2013/14 cotton are half of what they normally are at this time of the year, as farmers wait for prices to top out. Imports are forecast at 180,000 bales, but may be more based on export performance. Exports are forecast at 2.1 million bales, less than half of last year’s export estimate. Growers hope to leverage the

exchange rate and high prices to export the maximum possible.

Post: Brasilia

Commodities: Cotton

Cotton Brazil	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	1,400	1,400	885	905	1,075	1,125
Beginning Stocks	7,906	7,906	7,993	7,993	5,618	5,590
Production	8,700	8,700	5,800	5,789	7,000	7,200
Imports	29	29	75	65	75	180
MY Imports from U.S.	0	0	0	43	0	100
Total Supply	16,635	16,635	13,868	13,847	12,693	12,970
Exports	4,792	4,792	4,300	4,307	2,600	2,100
Use	4,000	4,000	4,100	4,100	4,200	4,150
Loss	-150	-150	-150	-150	-150	-150
Total Dom. Cons.	3,850	3,850	3,950	3,950	4,050	4,000
Ending Stocks	7,993	7,993	5,618	5,590	6,043	6,870
Total Distribution	16,635	16,635	13,868	13,847	12,693	12,970
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

Profit Margins and New Seed Varieties Forecast to Increase 2013/14 Cotton Production by 25 Percent

Brazil's cotton production in 2013/14 is forecast to increase by 1.4 million bales, reaching 7.2 million bales. The forecast is revised upwards in contrast to the much lower 2012/13 cotton harvest, which was severely undercut by a 35 percent decrease in planted area, due principally to disengagement on the part of small-to-medium sized farmers. Since cotton is a high risk-reward crop, many farmers were initially attracted to cotton production with the hopes of higher profit margins. These farmers exited cotton production dismayed with the high capital costs, level of risk, and stringent management practices. The farmers who stayed in the game for 2012/13 were primarily the large cotton producers, albeit with reduced area. During the 2012/13 season, cotton farmers faced low prices (and hence lower relative profitability), drought for a second straight year in western Bahia, and were hit hard by the caterpillar *helicoverpa zea*, which crossed over from corn to invade soy and cotton fields. Despite the difficulties of the past season, the harvested area and production are forecast to increase by 25 percent. Behind this growth is a recent surge in prices predicated on the relative size of the global cotton supply. Area is forecast to increase in all cotton-producing states, and notably in both the first crop and the second crop in Mato Grosso. Mato Grosso is forecast to produce 55 percent of the country's cotton. New seed varieties bred specifically with resistance to pesticides that manage *helicoverpa zea* are expected to bring significant yield increases particularly to western Bahia (6-8 percent), which was the most impacted in 2012/13. Western Bahia is forecast to produce 35 percent of Brazil's cotton. In 2012, the

Government of Brazil (GOB) approved five new seed varieties of biotech cotton which should facilitate farm management practices for pest and weed pressures.

Rising Prices Make Producers Reticent Sellers: Only 14 Percent of 13/14 Harvest is Forward-Contracted

At this time in the cotton cycle during normal years, 30 percent of the cotton crop is forward- contracted. For 13/14, however, only 14 percent has been sold. The market is currently in a holding position as producers are waiting to see where escalating prices will apex before locking in contracts. In the meanwhile, the 12/13 cotton crop harvest continues, with approximately 70 percent of the harvest completed.

13/14 Cotton Imports Forecast at 180,000 Bales, Based on Fixed Consumption and Export Performance

Forecast at 180,000 bales, cotton imports will supplement national cotton production, filling whatever supply deficit cotton exports leave. Exports (please see below) will be driven by the global supply of cotton and the exchange rate. Based on export modeling, some analysts are forecasting 13/14 cotton imports as high as 920,000 bales, which would be the highest import level in 14 years. Another round of cotton import exemptions from the common external tariff (CET) is rumored. The GOB will not announce any such decision until the end of 2013. Many analysts believe that an exemption would apply to 230,000 bales and to the January-May period.

Cotton fiber use in 13/14 is forecast at 4.15 million bales, approximately the same—1 percent growth—as 12/13 cotton fiber use. Inflation has flat-lined cotton use forecasts. Inflation has also tempered the anticipation of more significant growth in cotton fiber use in 2013/14 predicated on the 2014 World Cup and trending consumer demand for more extensive and modern wardrobes. While modest gains in reducing inflation have been made in the last two months, the Brazilian Institute of Geography and Statistics (IBGE) has recorded inflation at roughly six percent every month in 2013 and the expectation is for inflation to continue. On a yearly basis, for instance, food prices have increased 11.4 percent. This across-the-board inflation has weakened consumer's domestic purchasing power and reduced disposable income available for apparel purchases, particularly in the lower and middle classes. Nevertheless, there are indications that the Brazilian upper and upper-middle classes continue to have a strong demand for purchasing new clothing items. Much of this consumption occurs from buying imported products domestically and from buying new clothing on overseas trips. Significant World Cup sales are expected in 2014, but these sales are expected to offset the minor slide in consumption instead of increasing consumption.

13/14 Cotton Exports Forecast at 2.1 Million Bales, Function of Global Supply and Devaluation of the Real

13/14 cotton exports are forecast at 2.1 million bales, an almost 50 percent decrease from 2012/13 exports. The exports diminished because the 2012/13 cotton production (2012/13 harvest=2013/14 exports) was 33 percent less than 2011/12 harvest and because current stocks are down. With a relative shortage of cotton in the global market, many traders anticipate increased cotton exports due to higher prices. The devaluation of the Brazilian real is also driving exports. Over the past two years, the real has fallen by 43 percent compared to the U.S. dollar, including 18.9 percent in the last six months. The next three months will be important for understanding the impact of Brazil's cotton exports on its domestic market.

It is noteworthy that currency devaluation may be a wild card for 2013/14 production as farmers spend more on imported inputs and face the risk of hedging contracts.