

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Brazil**

### **Cotton and Products Update**

#### **Limited Supply Constrains Brazil's 2013/14 Cotton Exports; 2013/14 Cotton Production with Favorable Outlook, as Helicoverpa Pest Hits Costs, Not Yields**

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**Report Highlights:**

The short 2012/13 cotton crop is constraining Brazil's 2013/14 cotton exports, estimated at 2.1 million bales. The 2013/14 cotton production area estimate is maintained at 1.1 million hectares. With superior seed technology and improved pesticide controls, producers and analysts are expecting robust yields but will also incur significantly higher production costs, due to the additional pesticide applications to combat the *Helicoverpa* corn earworm.

**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	900	900	1,100	1,100
Beginning Stocks	7,906	7,906	7,993	7,993	5,801	5,801
Production	8,700	8,700	6,000	6,000	7,400	7,200
Imports	29	29	65	65	75	150
MY Imports from U.S.	0	0	0	0	0	100
Total Supply	16,635	16,635	14,058	14,058	13,276	13,151
Exports	4,792	4,792	4,307	4,307	2,800	2,100
Use	4,000	4,000	4,100	4,100	4,200	4,100
Loss	-150	-150	-150	-150	-150	-150
Total Dom. Cons.	3,850	3,850	3,950	3,950	4,050	3,950
Ending Stocks	7,993	7,993	5,801	5,801	6,426	7,101
Total Distribution	16,635	16,635	14,058	14,058	13,276	13,151
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

**Production Area Estimated at 1.1 Million Hectares, with Fiber Production at 7.2 Million Bales; Production Costs Up, with Helicoverpa as a Significant Factor**

Brazil's 2013/2014 cotton area estimate is maintained at 1.1 million hectares, in line with USDA's official November estimate. All analysts are estimating a growth in area planted and subsequently in production, but estimates vary between 1.0 and 1.2 million hectares. Production is estimated at 7.2 million bales.

The first crop cotton will be planted in late November and December. The second crop cotton will be planted in January and early February. The Agriculture and Livestock Defense Authority of Mato Grosso (Indea-MT), the largest cotton-producing state, altered the planting window for 2013/14. For certain crops in the country, plant pest authorities establish laws that regulate planting windows and no-plant periods (*vazio sanitário*). Authorities choose periods of highest pest risk and dictate planting windows for farmers. Many capital financing programs require the producer to abide by the no-plant window regulations. Normally, the no-plant window for cotton in Mato Grosso starts September 15. However, based on historic pest incidence, this year's regulation pushed the beginning of the no-plant window back to October 1 with the end set on November 30. The result has been two-fold: (1) the 2012/13 harvest was slightly protracted (the cotton harvest concluded at the end of October), and (2) a small portion of the 2013/14 first crop cotton planting in Mato Grosso may also be delayed. While most farmers tend to plant first crop cotton from December 10 onwards, there are typically some producers that will try to plant earlier and time the market to lock in optimal prices.

2013/14 production is estimated at 7.2 million bales, 20 percent higher than 2012/13. Post is anticipating that the Helicoverpa corn earworm will not reduce yield, and thus yields are in line with

historic averages and increasing technology. The Helicoverpa corn earworm will impact production costs, though. Even without accounting for the impact of Helicoverpa, production costs in Mato Grosso are estimated to increase by 13 percent on average across the state. Seed costs, typically 4 to 5 percent of total production costs, are estimated to increase to 10 percent of total production costs for 2013/14. In addition to these year-on-year cost increases are the costs necessary for combating the corn earworm. The final number of pesticide applications to combat the corn earworm is unknown. Anecdotally, some farmers applied as many as 40 pesticide applications to cotton in Bahia last season. Farmers and analysts believe that production costs will increase by US\$200-300 per hectare due to these additional pesticide applications. In response, Mato Grosso has declared a state of emergency, an action which will facilitate the importation and use of novel, unregistered pesticides on a temporary basis. The corn earworm hits hardest during dry spells, so the March through July period will be key for observing the actual pest impact on the cotton crop.

### **Cotton Use Slightly Lowered to 4.1 Million Bales**

Cotton use is estimated to decrease marginally to 4.1 million bales, 2.5 percent lower than the USDA official November estimate. The textile industry has concerns about lower profit margins. Furthermore, consumers continue to have a preference for imported clothing products over domestically produced wear. Even with an expected depreciating exchange rate that makes imported products more expensive for Brazilian consumers, import continues to reduce domestically produced clothing.

### **Cotton Exports Slow, Estimated at 2.1 Million Bales**

2013/14 cotton exports slowed as the supply available for export is small due to short 2012/13 production levels. A case in point is Brazil's October export volume. In October 2013, Brazil exported 443,000 bales of cotton fiber, 51 percent less than it exported in October 2012. With current supplies and exports, Mato Grosso's January 2014 stocks are expected to be 43 percent less than stocks in January 2013. With 2013/14 cotton exports estimated at less than half the 2012/13 levels, some cotton exporters fear that Brazil will lose global cotton market share to competing exporters, like Australia, the United States, and India. The textile industry continues to prefer using domestic cotton, but traders are anticipating imports at 150,000 bales to supplement their 2013/14 needs on the coattails of the prior short harvest.

Over recent months, the exchange rate has varied more significantly than in the past, reaching rate highs unseen since 2010. Because of the depreciation of the Brazilian Real, Brazilian Real spot prices have incrementally crept up while U.S. dollar spot prices have varied and increased far less. The exchange rate will continue to be a significant factor that can help Brazilian cotton exports compete globally but can also increase the costs of many imported production inputs that farmers will need to factor into their balance sheets.