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SAO PAULO BRAZIL

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AMERICAN CONSULATE GENERAL

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SAO PAULO BRAZIL

POST ROUTING: QUARTERLY COTTON REPORT

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Summary

The 1968-69 cotton crop is forecast at 730,000 metric tons, an increase of 23 percent from our latest estimates of the 1967-68 crop. The North Brazil crop is slightly smaller than our earlier estimates, whereas the forecasted increase in South Brazil production more than offsets the drop in the former.

Our estimates of the 1967-68 crop stand unchanged at 595,000 tons, with practically all the South Brazil crop classified.

Cotton exports during January-November 15, 1968 totalled 219,154 tons, a 27 percent increase over the same period in 1967.

Supply and Distribution

Due to the large South Brazil crop last season, the supply situation is very favorable which is further indicated by recent weakenings in São Paulo spot prices. The economy in general is vigorous and mill activity appears very firm. The supply situation should remain favorable for South Brazil this season. In addition to adequate stocks for local needs, the São Paulo trade estimates that there exist at least 20,000 metric tons of cotton available from last season's crop for export which has not yet been sold.

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Table I - BRAZIL: Lint Cotton Supply and Distribution, Estimates for Marketing Years 1966-67, 1967-68 and Forecast 1968-69

	Marketing Year 1/		
	Final 1966-67	Estimate 1967-68	Forecast 1968-69
	1000 metric tons		
Supply			
Beginning stocks, Aug. 1	129 2/	83	224
Production			
North Brazil	175	175	180
South Brazil	270	420	550
Imports	0	0	0
Total Supply	574	678	954
Distribution			
Domestic consumption	270	271	289
Exports	221	183	320
Ending stocks, July 31	83	224	345
Total Distribution	574	678	954

1/ Year beginning August 1.
2/ Not adjusted to reflect eventual changes due to reporting exports on calendar year basis in previous reports.

Source: CACEX, trade and office estimates.

Production - 1968-69 Crop

According to the trade, the North Brazil crop is not quite as large as earlier expectations. This crop is always difficult to estimate and one generally only gets a good idea of its size once ginning is well under way and most of the deliveries of seed cotton to gins are known. There have been no special problems with the crop, although quality appears not to be so good as last season.

The trade now estimates the crop at 180,000 metric tons of lint, with production in major states as follows:

State	Production metric tons
Ceará	70,000
Rio Grande do Norte	26,000
Paraíba	28,500
Pernambuco	22,500

From the above, the crop appears practically unchanged from last season which supports most observers theories that the North Brazilian cotton situation is stagnating.

The countrywide situation is improving thanks to the very dynamic south, particularly Paraná State. Planting of the new cotton crop in Paraná and São Paulo is virtually completed, with reports of very little replanting necessary in spite of the prolonged dry spell which unexpectedly continued until the latter part of November. Near final reports of seed sales in both states indicate a whopping increase in plantings which is being confirmed by trade and other unofficial reports.

Based on all available reports, we forecast the 1968-69 South Brazil crop at 550,000 metric tons of lint cotton, broken down by state as follows:

State	Forecast 1968-69 Area 1000 ha.	Forecast 1968-69 Production 1000 m.t.
Paraná	590	260
São Paulo	535	241
Minas Gerais	125	26
Mato Grosso	40	12
Goiás and others	50	11
Total	1,340	550

Yields in South Brazil improved markedly during the past two seasons, and if they are sustained this season our current forecast may be on the low side. The area planted in Paraná shown above is that estimated by INDUSFIBRA, the very active industry sponsored organization which is partly responsible for the expansion of cotton growing in that state. Seed sales in São Paulo reported through December 9, 1968 totalled 635,000 bags of 30 kilos, or 22 percent more than last year's total. The lack of moisture was responsible for some planting delays, but according to most observers had little effect on the crop's development.

Classification

As of November 26, 1968, the São Paulo Cotton Exchange classed 247,849 metric tons of cotton from the 1967-68 crop. According to the trade 154,000 tons were classed in Paraná. Once again we point out that both states receive cotton from other states so that classification results cannot be considered as the production in the state where the cotton is classified.

Cotton classification in North Brazil continues under a somewhat weak system where nearly anybody can be qualified as a classer. The states have their own official certificates, but most of the classing is done at the gins, rather than at a central classing point. The certificates issued by the classer are usually accepted as official without further inspection. It appears that Ceará is interested in improving its system. Officials from Ceará are studying the São Paulo regulations and have sent a man to attend the current session of the São Paulo Cotton Exchange's school for training classers.

Minimum Prices

On December 5, 1968 the new minimum prices for Northeast Brazil were announced but, as of the writing of this report the decree making them official has not been published. The minimum price for seed cotton was set at NCr$7.50 compared to last season's NCr$6.12 per 15 kilos, type 3, 34-36 mm. An average price for lint cotton was announced at NCr$21.67 for 15 kilos.

Minimum Export Prices

On September 27, 1968 CACEX, the Bank of Brazil's foreign department, issued minimum export prices for North Brazil growths. These prices are shown in Table II. Based on various trade reports, we understand that exporters are regularly making sales below these established minimum prices. We have observed a similar situation this past year for castor oil, where we understand CACEX continues its review of export prices usually acting when the price seems way out of line, but permitting exports to be made below the established minimum. We presume cotton is being treated similarly.

The minimum export prices for South Brazil announced in June (see Rio de Janeiro AGR-138 dated June 12, 1968) continue in effect. Unless world market prices firm a little, we expect a downward adjustment in these prices before the end of January 1969, as already some exporters are also having to sell at prices below the minimum.

Table II - Brazil: Minimum Export Prices for North Brazil Cotton

Fiber Type	Seridó 40/42mm	Seridó 38/40mm	Seridó 36/38mm	Seridó 34/36mm	Seridó 32/34mm	Seridó 30/32mm	Mata
	-----	-----	-----	US cents per pound	-----	-----	-----
2	31.4	30.4	29.4	27.4	26.0	25.7	24.4
3	30.4	29.4	28.4	26.4	25.0	24.7	23.4
4	29.4	28.4	27.4	25.7	24.5	24.2	22.9
5	27.9	26.9	25.9	24.3	23.1	22.8	21.5
6	25.4	24.4	23.4	21.8	20.6	20.3	19.0
7	22.9	21.9	20.9	19.5	18.1	17.8	16.5
8	20.4	19.4	18.4	17.0	15.6	15.3	14.0
9	19.9	18.9	17.9	16.5	15.1	14.8	13.5

Flexible Exchange Policy

The new exchange policy announced in late August 1968 appears to have been put into effect as there have been three mini-devaluations averaging about 1.6 percent each since then. In the past some of the larger firms marketing cotton obtained working capital from abroad for financing their operations repaying their loans towards the end of the season. As these loans are in hard currency there was a risk of a devaluation. Under the new system a firm will be able to calculate approximately what the exchange rate will be at the end of the loan period and thus can determine more accurately which is more profitable - to borrow money locally or from abroad. In the case of cotton, we believe that most firms will rely less on financing from abroad than in the past. If this is so, then we can expect heavy pressures on the local capital markets during the marketing of this season's anticipated large South Brazil cotton crop.

We see some benefit to the textile industry from the new policy as fluctuations in the spot price after a devaluation will be much smaller than in the past. On the other hand it will not give exporters an incentive to hold cotton as in the past when they could expect a big devaluation as the recent average devaluations are below the costs of financing and other holding charges. One of the reasons behind the flexible exchange rate was to eliminate exchange speculation, and we believe this will affect some cotton exporters, mostly located in North Brazil, who sometimes exported at below cost during the early part of the season counting on an offsetting windfall with a devaluation.

Export Situation

According to preliminary official statistics, cotton exports during January-November 15, 1968, totalled 219,164 metric tons valued at \$115.4 million. Export volume is up 27 percent compared with the same period in 1967. A year ago we forecasted 1968 exports at 240,000 tons, a figure we now think will be exceeded by about 10,000 tons.

On October 15, 1968, the Brazilian Merchant Marine Commission published a resolution requiring exporters to obtain authorization from the Commission for shipments of cotton in non-Brazilian registered ships. Immediately after the resolution became effective a few shippers ran into difficulties in complying, but apparently there was hardly any disruption in cotton shipments. The São Paulo trade states that this authorization is no longer necessary.

Outlook

The short term outlook for cotton in South Brazil appears excellent as noted by the expansion in this year's plantings. If yields are high and prices satisfactory this year we can expect even more production in 1969-70. Cotton was probably the most profitable of the important cash crops last season, and as South Brazilian farmers did not have many apparent profitable alternatives, where possible they were quick to move into more cotton. If on the other hand, as some observers already fear, prices are not satisfactory then the expansion noted during the past two seasons could come to a temporary halt. In addition, one must always keep in mind that climatical conditions make or break the Brazilian crop, as all the cotton is rain grown.

There is no indication that the North Brazilian cotton situation will change significantly in the near future. One factor which will eventually play an important role in this area is fertilizer, the use of which today is practically unheard of.

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Agricultural Officer

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