U.S. Cotton Market Outlook

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Cotton Outlook: Summary

• Old crop outlook neutral-modestly bearish, much improved over last several months

• New crop outlook has potential for somewhat better prices
  – But supply-influenced market implies volatile price pattern, typical of tight supply/weather market situation
  – Implies waiting for, and then acting on, future opportunities
## Cotton Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2018/19</th>
<th>2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Area Million Acres</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planted</td>
<td>12.72</td>
<td>14.10</td>
<td>13.74</td>
</tr>
<tr>
<td>Harvested</td>
<td>11.10</td>
<td>10.21</td>
<td>11.80</td>
</tr>
<tr>
<td><strong>Pounds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yield/Harvested Acre</td>
<td>905</td>
<td>864</td>
<td>817</td>
</tr>
<tr>
<td>Million 480 Pound Bales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Stocks</td>
<td>2.75</td>
<td>4.20</td>
<td>4.85</td>
</tr>
<tr>
<td>Production</td>
<td>20.92</td>
<td>18.37</td>
<td>20.10</td>
</tr>
<tr>
<td>Imports</td>
<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
</tr>
<tr>
<td>Supply, Total</td>
<td>23.68</td>
<td>22.57</td>
<td>24.96</td>
</tr>
<tr>
<td>Domestic Use</td>
<td>3.23</td>
<td>2.98</td>
<td>3.00</td>
</tr>
<tr>
<td>Exports, Total</td>
<td>16.28</td>
<td>14.76</td>
<td>16.50</td>
</tr>
<tr>
<td>Use, Total</td>
<td>19.50</td>
<td>17.74</td>
<td>19.50</td>
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<tr>
<td>Unaccounted</td>
<td>-0.03</td>
<td>-0.02</td>
<td>0.06</td>
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February 2020 WASDE

The cuts in projected U.S. production has lowered ending stocks from:
- 7.2M to 7.0M to 6.1M to 5.5M to this
Mixed Demand Indicators

- U.S. and World Economy
- U.S. Exports
- Speculative Money
- Emerging Foreign Issues
Cotton Consumption During Economic Recessions

Shaded bars represent periods of economic recession. Cotton consumption tends to drop during those periods due to fewer purchases of clothes, home furnishings, etc.

Source: USDA/ERS/WASDE
Cotton Demand: Influence of Slow Global Economic Growth

Real GDP Growth, 1980 - 2024

World Economic Outlook, October 2019

http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD
U.S. 2019/2020 Upland Cotton Net Export Sales and ICE Futures

January 3, 2019 – February 6, 2020

000 Running Bales

Cents/Lb.

Net Export Sales
ICE Futures

Texas A&M AgriLife Extension
Changing Hedge Fund Position
January 3, 2006 Through February 4, 2020

No. of Contracts

Cents/Lb.

Source: Commitment of Traders Supplemental Report (Futures and Options)
2020/21 Crop

- The outlook for the 2020 crop involves the same uncertain demand situation

- The difference with 2019 is that we might have a smaller ‘20 crop...
  - Same or lower ending stocks
  - A supply-influenced market still implies volatility, e.g., weather market effects and acreage reports
  - Implies timely and nimble selling/hedging
Ratio of Q1 Dec Corn/Dec Cotton Futures, vs. June Cotton Planted Acreage Report

Ratio (hypothetically, $7 corn/$0.70 cotton = 10)
Ratio of Q1 Dec Corn/Dec Cotton Futures, vs. June Cotton Planted Acreage Report

Ratio (e.g., $4.03/$0.62 = 6.5)
Ratio of Q1 Dec Corn/Dec Cotton Futures, vs. June Cotton Planted Acreage Report

Million Acres

Ratio (e.g., $4.05/$0.64 = 6.3)
Ratio of Q1 Dec Corn/Dec Cotton Futures, vs. June Cotton Planted Acreage Report
Acreage Survey: Cotton Acres Rein In Slightly for 2020

By Beck Barnes | January 6, 2020

As many have predicted, cotton acres across the United States will contract in the 2020 growing season – a reflection of a farm economy that is feeling stress from a number of directions. But that drawdown in planted acres may be less pronounced than many have imagined.

American cotton producers will plant **12,082,000 acres** of cotton – upland and ELS combined – in 2020 according to results from the annual Cotton Grower Acreage Survey. That number represents a roughly 12% decrease from the 13,720,000 acres they planted in 2019.
Ratio of Q1 Dec Corn/Dec Cotton Futures, vs. June Cotton Planted Acreage Report

Ratio of Q1 Dec Corn/Dec Cotton Futures, vs. June Cotton Planted Acreage Report

Million Acres

Ratio (e.g., $4.02/$0.72 = 5.5)
U.S. cotton producers intend to plant 13.0 million acres this spring, down 5.5 percent from 2019 (based on USDA’s February 2020 estimate), according to the National Cotton Council’s 39th Annual Early Season Planting Intentions Survey.

Upland cotton intentions are 12.8 million acres, down 5.6 percent from 2019, while extra-long staple (ELS) intentions of 224,000 acres represent a 2.7 percent decline. The survey results were announced today at the NCC’s 2020 Annual Meeting in New Orleans, Louisiana.
Ratio of Q1 Dec Corn/Dec Cotton Futures, vs. June Cotton Planted Acreage Report

Ratio of Q1 Dec Corn/Dec Cotton Futures, vs. June Cotton Planted Acreage Report

Ratio (e.g., $4.02/$0.72 = 5.5)
# Cotton Balance Sheet Projections

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For now, assume 15% abandonment and an average yield.

Combined with 5.4M bale carry-in gives a 18M bale crop and a 23+M bale supply. (S little smaller than NCC or USDA).

Similar to last year’s ending stocks (NCC and USDA similar).
The Seasonal Pattern of Dec Futures Prices Is Different in Tightening v. Stable Stocks Years. Which Path Will Dec’20 Take?

- December 2020
- Tightening Stocks Years (’89, ’90, ’93, ’94, ’02, ’03, ’08, ’09, ’13)
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“Cotton Spin” Column, Southwest Farm Press
http://southwestfarmpress.com/author/john-robinson

The Cotton Marketing Planner Newsletter
http://agrilife.org/cottonmarketing/

Twitter: @aggie_prof
Facebook: https://www.facebook.com/AgriLifeMasterMarketer