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# THE WORLD AND UNITED STATES COTTON OUTLOOK

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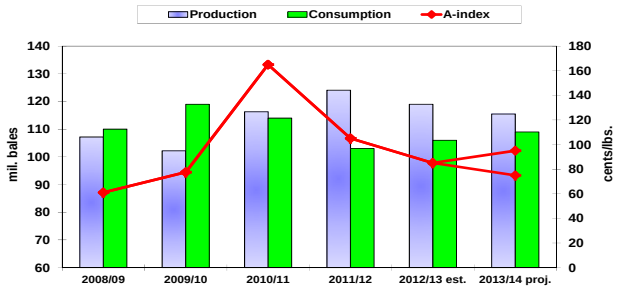
## Introduction

**World Production, Consumption, and Prices**
**2008/09 through 2013/14 projection**



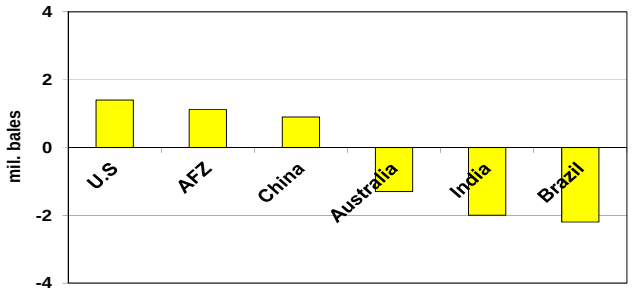

The U.S. Department of Agriculture's (USDA's) first world 2013/14 cotton projections anticipate that, despite lower production and higher consumption, world stocks will rise for the fourth consecutive season. Global cotton production fell and consumption recovered during the current season, 2012/13, but China added more than 12 million bales to ending stocks as a result of setting domestic price support well above world market-clearing levels. China's policies have driven world cotton market developments in 2012/13 and will continue to do so for the foreseeable future. Since China's leadership has not indicated that changes are being considered, USDA is basing this preliminary outlook on a continuation of the policies affecting support prices, import levels, and release of the state reserve as of mid-February 2013. Changes to these policies would likely change the outlook; in particular, a decision to lower support prices and/or release more reserve stocks would pressure world prices.

The U.S. crop is projected to fall sharply to about 14.0 million bales in 2013/14, accounting for most of the expected decline in world production, as producers shift area to corn and soybeans following the historic mid-western drought of summer 2012. Accordingly, U.S. cotton stocks, which are estimated to rise in 2012/13, are expected to tighten again in 2013/14.

## World Cotton Situation, 2012/13

World Cotton Production, 2012/13

**Estimated Changes in World Production, 2012/13 compared with 2011/12**




Global 2012/13 cotton production is estimated to decline 4 percent from the previous year to 119 million bales. The estimated crop decline is the result of reductions in the major southern hemisphere producing countries and India, partially offset by increases for the United States, the African Franc Zone countries, and China. World 2012/13 area harvested is estimated at 34.1 million hectares, down 4 percent from the preceding year, while the world average yield is about unchanged at 759 kg/hectare.

China is the world's largest cotton-producer, with an estimated 2012/13 crop of 34 million bales, up 3 percent from the preceding year. China's official cotton procurement policy offered a domestic support price equivalent to 20,400 RMB/ton of lint ($1.47/lb.) for the 2012 crop, 5 percent above the preceding year. However, planted area in the Yellow and Yangtze River provinces fell sharply, due mainly to labor shortages and the availability of more attractive cropping alternatives. The decline in production in the east was more than offset by increased production in the northwest Xinjiang Autonomous Region, which has more widespread mechanization, higher cotton yields, and fewer profitable alternatives. China's 2012/13 harvested area is estimated at about 5.3 million hectares, 2.3 percent below 2011/12, while yields are expected to rise 5 percent to 1,403 kilograms per hectare, due both to the regional redistribution of area and to favorable weather in Xinjiang.

India's 2012/13 production is estimated to decline 7 percent from the preceding year to 25.5 million bales, reflecting reductions in both harvested area and yield. Harvested area by the world's second largest producer is estimated at 11.7 million hectares, down 4 percent from a year earlier and the highest year-to-year percentage decline in a decade. An erratic monsoon affected the 2012 crop development by reducing yield prospects in a country where 75 percent of cotton production is rainfed. India's 2012/13 yield is estimated at 475 kg/hectare.

Pakistan is estimated to produce 9.6 million bales in 2012/13, down 9 percent from the previous year. Relatively poor pre-monsoon rains delayed planting and moisture was reduced from the abundant rains received in 2011. Pakistan's 2012/13 area harvested is estimated at 3.0 million hectares, unchanged from a year ago, while yield is estimated at 697 kg/hectare, down 9 percent from the previous year.

Brazil's 2012/13 production is estimated at 6.5 million bales, down 25 percent from the previous year, as sharply higher prices for soybeans and corn reduced cotton area from the record levels of 2010/11 and 2011/12. Brazil—the top producer in the southern hemisphere—is expected to harvest an area of 1.0 million hectares in 2012/13, down 29 percent from a year ago. Brazil's 2012/13 yield is estimated at 1,415 kg/hectare, up nearly 5 percent from the previous year.

Australia is estimated to produce 4.2 million bales in 2012/13, down 24 percent from the previous year. Dry planting conditions, weaker world cotton prices and a more profitable sorghum alternative explain the lower 2012/13 crop. Australia's 2012/13 harvested area is estimated at 445,000 hectares, down 23 percent from the previous year. Australia's yield is estimated at 2,055 kg/hectare, about unchanged from the preceding year.

The African Franc Zone (AFZ) is expected to produce 4.2 million bales in 2012/13, up 37 percent from the previous year and the largest year-to-year growth in over a decade. The AFZ's rising production reflects both a lagged area response to previously higher world cotton prices and higher yields due to favorable growing conditions. Also, some AFZ countries, such as Burkina and Mali, have increased their use of Bt cotton. The AFZ's 2012/13 harvested area is estimated at nearly 2.2 million hectares, an increase of 20 percent from the preceding year, while the average yield of 411 kg/hectare is estimated 14 percent higher.

2012/13 China Supply and Demand

**China Cotton Supply and Demand**
**2011/12 and 2012/13 est.**

| | Unit | 2011/12 | 2012/13 | Change (%) |
|---|---|---|---|---|
| **Beg. Stocks** | **mil bales** | **10.6** | **30.2** | **184.9** |
| **Production** | **"** | **33.1** | **34.0** | **2.7** |
| **Imports** | **"** | **24.5** | **14.0** | **-42.9** |
| **Total supply** | **"** | **68.2** | **78.2** | **14.7** |
| **Consumption** | **"** | **38.0** | **35.5** | **-6.6** |
| **Exports** | **"** | **0.1** | **0.1** | **0.0** |
| **Total use** | **"** | **38.1** | **35.6** | **-6.6** |
| **Ending stocks** | **"** | **30.2** | **42.6** | **41.1** |
| **Reserve stocks** | **"** | **20.2** | **33.8** | **67.3** |
| **Stocks-to-use** | **%** | **79.3** | **119.8** | **51.1** |
| **% of world stks** | **"** | **43.7** | **52.0** | **19.0** |

China is forecast to add 12.4 million bales to total ending stocks during 2012/13, despite sharply lower imports. As in 2011/12, domestic policies designed to support farmers continue to drive stock building. China's stocks on July 31, 2012 were an estimated 30 million bales, equivalent to about 80 percent of 2011/12 domestic consumption, the highest stocks-to-use since 2000/01. Roughly two-thirds of the 2012/13 beginning stocks were held by the state reserve, the vast majority having been purchased in 2011/12.

The announced 2012/13 support price of 20,400 RMB/ton ($1.47/lb.) apparently has been effective in supporting farm income and stabilizing production, which is currently estimated at 34 million bales, up 3 percent from the previous year. With nearly 85 percent of the total 2012 crop expected to be purchased by the state reserve, the support program continues to maintain internal prices substantially above world price levels. As a result, China's consumption is expected to fall nearly 7 percent, despite modest growth in world demand, as the textile industry substitutes cheaper man-made fiber and imported cotton yarn in finished goods. At an estimated 35.5 million bales, China's cotton consumption has fallen nearly 30 percent in three years from the 50 million bales realized in 2009/10.

With a large proportion of domestic supply isolated from the market due to the reserve policy, China's impact on the world market is transmitted mainly via imports. Import access during 2012/13 has been constrained as no sliding scale tariff rate quotas (TRQs) have been issued so far this season. This has limited imports to the following categories:

- unexpired TRQ licenses carried over from 2011/12;
- the WTO TRQ licenses of approximately 4.0 million bales, issued at the beginning of the calendar year;
- imports by the state reserve; or
- imports paying the 40-percent out-of-quota duty rate.

Imports are forecast at 14.0 million bales in 2012/13, despite quota restrictions and the smallest gap between consumption and production since 1998/99. China's mills have taken maximum advantage of the 1-percent duty WTO TRQ and the carryover sliding scale TRQ, as imports in these categories are priced significantly below domestically available cotton. Imports during August-December 2012 totaled 9.7 million bales, nearly 70 percent of the projected total. Imports through December included a significant quantity brought in under the 40-percent out-of-quota duty rate, reflecting a severe shortage of domestic cotton to meet mill requirements. In addition, foreign cotton purchased directly by the state reserve has also supported import volumes.

Imports for the balance of the 2012/13 season will depend upon both the government's policies regarding imports and the release of cotton from the state reserve. It seems unlikely that much discretionary sliding scale quota will be released before the end of the marketing year, since this would interfere with sales of government-owned stocks. The current reserve sale price is 19,000 RMB/ton ($1.37/lb.), 7 percent below the support price. At an A-index price above 86 cents per

pound, it will be more advantageous for China's mills to purchase reserve cotton than to pay an out-of-quota duty of 40 percent. The A-index has averaged just under 90 cents per pound during the first half of February.

China's 2012/13 ending stocks are forecast at a record 42.6 million bales, equivalent to 120 percent of offtake and accounting for just over half of world stocks.

## 2012/13 World Consumption, Trade, Ending Stocks, and Prices

**World Cotton Supply and Demand**
**2011/12 and 2012/13 est.**

| | Unit | 2011/12 | 2012/13 | Change (%) |
|---|---|---|---|---|
| **Beg. Stocks** | **mil bales** | **49.0** | **69.0** | **40.9** |
| **Production** | **"** | **124.1** | **119.0** | **-4.2** |
| **Imports** | **"** | **44.7** | **40.4** | **-9.5** |
| **Total supply** | **"** | **217.8** | **228.4** | **4.9** |
| **Consumption** | **"** | **103.1** | **106.2** | **3.1** |
| **Exports** | **"** | **46.0** | **40.4** | **-12.0** |
| **Total use** | **"** | **149.0** | **146.7** | **-1.6** |
| **Ending stocks** | **"** | **69.0** | **81.9** | **18.6** |
| **Stocks-to-consumption** | **%** | **67.0** | **77.1** | **15.1** |

World cotton consumption is expected to increase by 3 percent in 2012/13. Relatively good global economic growth has resulted in stronger textile demand while lower and less volatile cotton prices have supported a slight recovery in cotton's fiber share. The sharp decline in China's consumption is more than offset by a 9-percent increase in countries outside of China. Particularly strong consumption growth is expected in east and southeast Asia, supported by record exports of cotton yarn to China, notably from Pakistan, India, and Vietnam.

While world trade is forecast down 12 percent from last season's record level, the large fall in imports by China masks strong demand elsewhere. Imports in the rest of the world are forecast to increase by more than 30 percent. This growth in import demand is fueled by consumption growth in the non-producing Asian markets and smaller increases in major producer-importers, such as Pakistan and Turkey. Most of the decline in exports is being absorbed by a 60-percent decrease in India's shipments to 4.5 million bales. U.S. exports are forecast up on a larger crop, accounting for 31 percent of world trade. Exports from Brazil and Australia, while still at historically high levels on back-to-back record crops, are both down slightly.

The accumulation and distribution of world stocks is distorted by the developments in China. World stocks are forecast to increase by 12.9 million bales to 81.9 million bales, a record both in volume and as a percent of world use. But with more 13.5 million bales of growth projected for China and the United States combined, stocks in the rest of the world are forecast about even with last season.

The A-index has traded within an 11-cent range so far this season, which is the narrowest range for August-January since 2006/07. China's policies put a floor under world prices during the first half of the 2012/13 season. World prices were supported by the price at which the marginal (highest-duty cost) bale of imported cotton could be delivered to mills in China competitive with the available supplies of Chinese cotton. Given the restrictions on TRQs in late 2012, China's government effectively forced its mills to rely on the 40-percent out-of-quota duty category as the last-resort supply source. The break-even price at which mills could import cotton and pay the 40-percent duty, compared to the government's reserve sale price of 19,000 RMB/ton ($1.37/lb.), was equivalent to an A-index of about 86 cents per pound. World prices averaged 80-85 cents during August-December, but rose in January as global exportable supplies declined and competition for imported cotton from countries outside of China intensified.

## U.S. Cotton Situation, 2012/13

Area and Production

U.S. all-cotton production in 2012/13 is estimated at 17.0 million bales, 9 percent larger than last season's drought-reduced crop. Cotton planted acreage decreased in 2012 as prices declined from the record levels reached in 2011, but area was still the second highest since 2006. Severe drought conditions continued for much of the Southwest in 2012, keeping U.S. abandonment at an above-average rate of nearly 24 percent, compared with the historic high of 36 percent established in 2011. In 2012, the U.S. yield averaged 866 pounds per harvested acre, the second highest on record behind 2007's 879 pounds. Upland production is currently estimated at about 16.3 million bales—10 percent above 2011—with an average yield of 849 pounds per harvested acre, the second highest recorded. The ELS crop is estimated slightly lower at 760,000 bales, as smaller area more than offset a record yield of 1,540 pounds per harvested acre.

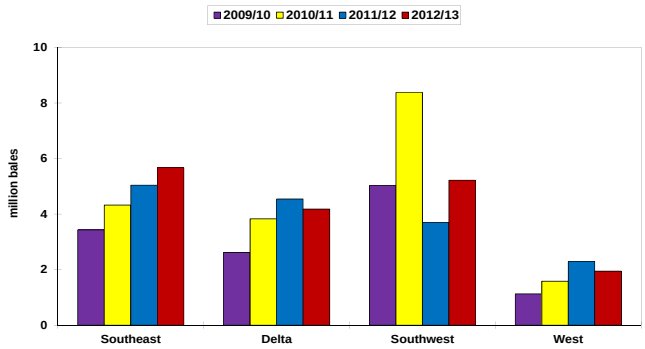
**U.S. Cotton Area, Abandonment, Yield, and Production**

| | | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|---|---|---|
| **Planted acres** | **mil. acres** | **9.5** | **9.2** | **11.0** | **14.7** | **12.3** |
| **Harvested acres** | **mil. acres** | **7.6** | **7.5** | **10.7** | **9.5** | **9.4** |
| **Abandonment rate** | **%** | **20.1** | **17.7** | **2.5** | **35.8** | **23.5** |
| **Yield/harvested acre** | **lbs./acre** | **813** | **777** | **812** | **790** | **866** |
| **Production** | **mil. bales** | **12.8** | **12.2** | **18.1** | **15.6** | **17.0** |

Compared with last season, 2012/13 upland cotton production was higher in the Southwest and Southeast regions and lower in the Delta and West regions. Production increased in the

Southwest as both harvested area and yield rose following the record drought of 2011. Although 2012 Southwest cotton plantings were 14 percent below 2011's 30-year high, the region still accounted for 57 percent of U.S. plantings—one of the largest in three decades. Southwest harvested area approached 4.1 million acres, near the 5-year average, despite a second year of above-average abandonment of 41percent. As a result, the Southwest upland crop reached 5.2 million bales in 2012/13, accounting for about one-third of the U.S. cotton crop.

**U.S. Cotton Regional Production**
**2009/10 to 2012/13**




For the Southeast, planted acreage declined in 2012/13 to 2.7 million acres, but was still the second highest since 2006. With low abandonment and a record yield of 996 pounds per harvested acre, the 2012 Southeast crop approached 5.7 million bales, the highest in nearly a century. For the Delta, planted area also decreased in 2012/13 to 2.0 million acres. However, despite average abandonment and a record yield of 1,011 pounds per harvested acre, the Delta crop declined 8 percent to 4.2 million bales in 2012/13.

In the West, 2012/13 upland area declined to 388,000 acres, but was the second highest in 5 years. With an above-average abandonment and a record yield of 1,517 pounds per harvested acre, upland production in the West decreased to 1.2 million bales, slightly above the 5-year average. The ELS crop remains concentrated in the West, with planted area in 2012/13 falling more than 20 percent to 238,000 acres; however, a record yield of 1,540 pounds per harvested acre kept ELS production at 760,000 bales in 2012/13, bringing total cotton production in the region to nearly 1.9 million bales.

**U.S. Cotton Supply and Demand**
**2011/12 and 2012/13 est.**

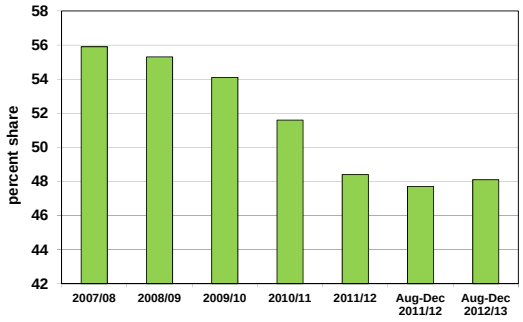
| | Unit | 2011/12 | 2012/13 | Change (%) |
|---|---|---|---|---|
| **Beg. Stocks** | **mil bales** | **2.6** | **3.4** | **28.8** |
| **Production** | **"** | **15.6** | **17.0** | **9.2** |
| **Imports** | **"** | **0.0** | **0.0** | **0.0** |
| **Total supply** | **"** | **18.2** | **20.4** | **12.0** |
| **Mill use** | **"** | **3.3** | **3.4** | **3.0** |
| **Exports** | **"** | **11.7** | **12.5** | **6.7** |
| **Total use** | **"** | **15.0** | **15.9** | **5.9** |
| **Ending stocks** | **"** | **3.4** | **4.5** | **34.3** |
| **Stocks-to-use** | **%** | **22.3** | **28.3** | **26.9** |
| **Farm price** | **cents/lb.** | **88.3** | **71.0** | **-19.6** |

Domestic Mill Use

Domestic cotton mill use for 2012/13 is forecast at 3.4 million bales, 3 percent above the 2011/12 estimate. While slightly higher this season, U.S. mill use is less than half that used just a decade ago and the current forecast is one of the lowest in over a century.

With the U.S. economy forecast to expand slowly in 2013, slow growth in U.S. cotton mill use also is expected during the second half of 2012/13. Cotton has lost share to manmade fibers over the last several seasons and—despite recently lower cotton prices—cotton's fiber share continues at historically low levels. U.S. textile import data for the first 5 months of 2012/13 confirms this, with cotton's share of U.S. textile imports near 48 percent, similar to last season but down from about 55 percent four years ago.

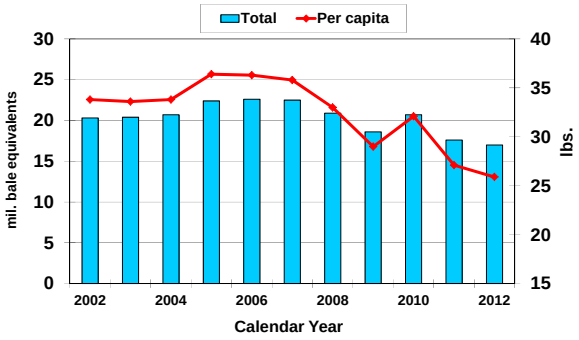
**Cotton's Share of U.S. Textile Imports,**
**2007/08 to Aug-Dec 2012/13**
**(raw fiber equivalent basis)**




As uncertainty about the global economy continues, consumer demand for cotton textile and apparel products remains lackluster. In calendar year 2011, cotton textile and apparel imports

reached 17.8 million bale-equivalents, the lowest in nine years. In 2012, preliminary data suggest a further import decline of approximately 4 percent to the lowest level since the early 2000s. Estimated U.S. household consumption of cotton, as measured by U.S. mill use plus net textile trade, is expected to decline to its lowest since 1996. In calendar 2012, U.S. domestic consumption of cotton decreased to an estimated 17.0 million bale-equivalents, compared with 17.6 million in 2011. Similarly, U.S. per capita cotton consumption decreased to an estimated 26 pounds in calendar 2012, the lowest since the early 1990s.

**U.S. Domestic Cotton Consumption:**
**Total and Per Capita**




2012/13 Exports, Ending Stocks, and Prices

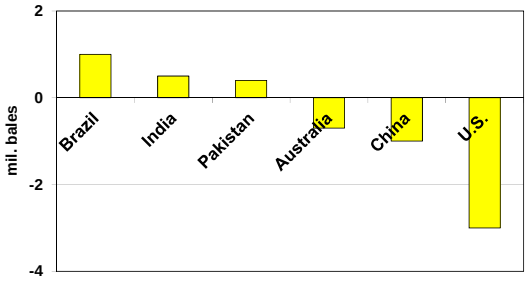
U.S exports for 2012/13 are forecast at 12.5 million bales, up 0.8 million from the previous year. The U.S. share of world exports increased to 31 percent, but remains below the historical average. Record or near record crops for other major exporters and the large decline in imports by China (the largest U.S. market) have constrained exports.

The forecast increase in exports is not expected to offset the larger U.S. crop and as a result U.S. stocks are forecast to increase more than one million bales to 4.5 million. The resulting 28.3-percent stocks-to-use ratio remains slightly below both the 5- and 10-year averages. The average price received by farmers is expected to fall nearly 20 percent from last year's record level to 71 cents per pound.

## World Cotton Outlook, 2013/14

World Cotton Production, 2013/14

**Projected Changes in World Production, 2013/14 compared with 2012/13**




Global 2013/14 cotton production is projected at 115.5 million bales, down 3 percent from the previous year. Relatively lower cotton market prices are expected to cause a shift in cultivated area from cotton to more profitable alternatives. Output is expected to contract in the United States, China, and Australia, which together account for 44 percent of world production, compared with a 46-percent share in the previous year. Brazil, India, and Pakistan are projected to increase production in 2013/14. World 2013/14 harvested area for cotton is projected to decline nearly 3 percent from a year earlier to about 33.0 million hectares, while world yields are expected to remain about even with 2012/13.

China, the world's top cotton grower, is projected to produce 33.0 million bales in 2013/14, down 3 percent (1.0 million bales) from a year ago. Despite the government's generous cotton price support program, cotton growers in eastern China face rising production costs, especially for labor, and are expected to shift production to less labor-intensive and more profitable alternatives. However, planted area in the high-yielding Xinjiang Autonomous Region continues to expand, raising the national yield and partially offsetting reductions in the eastern provinces. China's 2013/14 harvested area is projected at 5.0 million hectares, a 5-percent reduction from the previous year.

Australia's 2013/14 production is projected to decline 17 percent from a year ago, to 3.5 million bales due to a weaker market price for cotton and declining reservoir supplies for irrigation. Australia's 2013/14 area harvested is projected at 375,000 hectares, down 16 percent from a year earlier and the lowest in four years.

Brazil's 2013/14 crop is projected at 7.5 million bales, up 1.0 million from the previous year, as continued investment in cotton infrastructure and lower prices for competing crops support cotton production. The states of Mato Grosso and Bahia are expected to account for more than

75 percent of the 2013/14 crop. Brazil's 2013/14 harvested cotton area is projected at 1.15 million hectares, 15 percent above 2012/13, while the yield is projected to remain about the same.

India, the world's second largest cotton grower, is projected to produce 26.0 million bales in 2013/14, a 2-percent increase from the previous year. While planted area is expected to decline slightly, recovery in yields from 2012 is expected to support production.

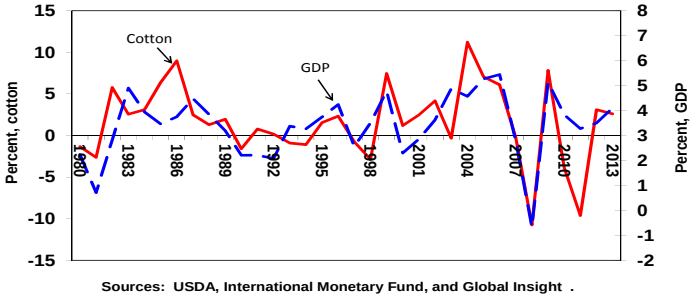
Pakistan's 2013/14 production is projected to increase 4 percent to 10.0 million bales. The projected increase in output is mainly due to a yield rebound. Pakistan's 2013/14 harvested area is projected at 3.0 million hectares, unchanged from the preceding year.

World and China Cotton Consumption, Trade, and Stocks, 2013/14

**World Cotton Supply and Demand**
**2012/13 est. and 2013/14 proj.**

| | Unit | 2012/13 | 2013/14 | Change (%) |
|---|---|---|---|---|
| Beg. Stocks | mil bales | 69.0 | 81.9 | 18.6 |
| Production | " | 119.0 | 115.5 | -2.9 |
| Imports | " | 40.4 | 36.0 | -11.0 |
| Total supply | " | 228.4 | 233.4 | 2.2 |
| Consumption | " | 106.2 | 109.0 | 2.6 |
| Exports | " | 40.4 | 36.0 | -11.0 |
| Total use | " | 146.7 | 145.0 | -1.1 |
| Ending stocks | " | 81.9 | 88.4 | 7.9 |
| Stocks-to-consumption | % | 77.1 | 81.1 | 5.2 |

**World Cotton Consumption and Economic Growth**



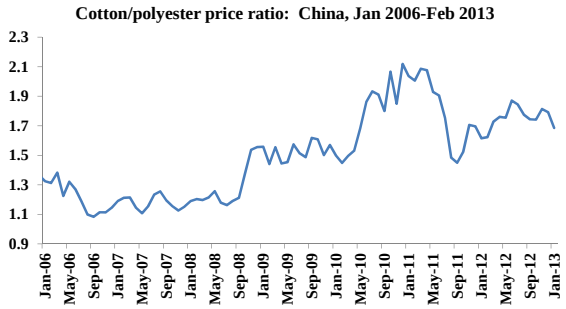

Sources: USDA, International Monetary Fund, and Global Insight .

World cotton consumption is projected to rise 2.6 percent to 109 million bales in 2013/14, stimulated by growth in world GDP, which is expected to accelerate slightly in calendar 2013

and again in 2014, according to the International Monetary Fund. The projected global consumption level is 12 percent below the peaks of 2006/07 and 2007/08, despite population and income growth, as cotton has regained only a fraction of the market share lost to synthetic fibers as a result of high prices of 2010/11 and 2011/12. Recent data on textile imports into the United States, historically the world's largest retail consumer of textiles, show only a marginal recovery for cotton's fiber share from a year-ago level, remaining well below recent years.

Although world cotton prices have declined, China's domestic price support policies have encouraged the use of polyester in preference to cotton by the world's largest yarn spinner. China's cotton consumption is projected to decline 4 percent in 2013/14, reflecting a cumulative loss of nearly one-third over the past four seasons. Offsetting the decline in China is a projected 6-percent increase for the rest of the world.

**China's Cotton Prices Continue High Relative to Polyester in 2012/13**




Sources: cncotton.com (polyester), chinacotton.org (cotton, CC328)

With China forecast to hold more than half of world cotton stocks at the beginning of 2013/14, the world cotton outlook is highly dependent upon China's government policies affecting the domestic support price, import quotas, and release of cotton from the state reserve. As of mid-February, China's government has given every indication that it intends to continue its support program for farmers; therefore, the estimates in this paper assume a continuation of domestic support and purchase at the 2012-crop price of 20,400 RMB/ton ($1.48/lb.). It is also assumed that officials in China desire to limit imports in favor of selling a portion of the domestic stocks accumulated in the national reserve. It is important to note that these suppositions about policy are highly tentative and are subject to sudden and significant revisions, should decision-makers in China decide to pursue alternative price objectives or program delivery mechanisms. Different policy assumptions would materially alter the world cotton market outlook.

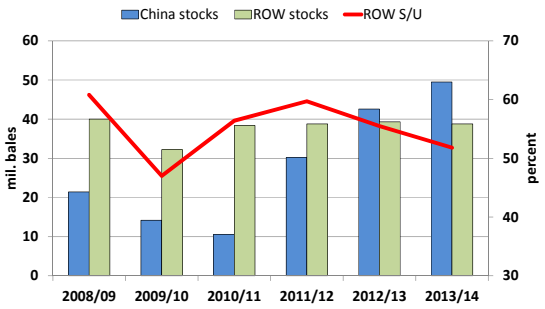
**China Cotton Supply and Demand**
**2012/13 est. and 2013/14 proj.**

| | Unit | 2012/13 | 2013/14 | Change (%) |
|---|---|---|---|---|
| **Beg. Stocks** | **mil bales** | **30.2** | **42.6** | **41.2** |
| **Production** | **"** | **34.0** | **33.0** | **-2.9** |
| **Imports** | **"** | **14.0** | **8.0** | **-42.9** |
| **Total supply** | **"** | **78.2** | **83.6** | **6.9** |
| **Consumption** | **"** | **35.5** | **34.0** | **-4.2** |
| **Exports** | **"** | **0.1** | **0.1** | **0.0** |
| **Total use** | **"** | **35.6** | **34.1** | **-4.2** |
| **Ending stocks** | **"** | **42.6** | **49.5** | **16.3** |
| **Reserve stocks** | **“** | **33.8** | **41.0** | **21.4** |
| **Stocks-to-use** | **%** | **119.8** | **145.4** | **21.4** |

China’s 2013/14 imports are projected at 8.0 million bales, 43 percent below the current estimate for 2012/13, and the lowest in 5 years. China’s imports in 2013/14 will be a function of the exportable supply available from the rest of the world and the type and amounts of quota that China’s government allocates to mills. The minimum China import level would be roughly 4.0 million bales that would fill the low-duty quota set by its WTO commitments. Imports of an additional 4.0 million bales would include sliding scale quota plus any imports by the China National Cotton Reserve Corporation (CNCRC). China’s mills could also import cotton under the 40-percent out-of-quota tariff, for which the break-even price relative to domestic supplies, if sold from the state reserve at 19,000 RMB/ton ($1.38/lb.), would be an A-index of about 88 cents. The sharp reduction in China’s projected imports for 2013/14 reflects: (1) an assumption that China’s policies will limit imports in order to facilitate release of reserves at the relatively high price of 19,000 RMB/ton; and (2) a reduction in exportable supplies from countries outside of China.

World cotton trade is projected to total 36 million bales in 2013/14, 11 percent below the current season’s level, mainly reflecting the lower China imports. Exports by the United States and Brazil are expected to decline due to reduced supplies available for export. World ending stocks are projected to rise 6.5 million bales to about 88.4 million, as global production exceeds consumption for the fourth consecutive season. However, China’s stocks are anticipated to rise by more than the increase in world stocks, due to continued accumulation of cotton in the state reserve, and the ending stocks-to-use ratio is projected at 145 percent. Stocks in countries outside of China would fall relative to 2012/13 and would decline as a percentage of offtake.

**China's Stocks, Stocks Outside China, and Stocks Outside China as % of Use**




A-Index Projection

These projections of world supply and demand, combined with the assumed China policies, indicate an A-index range of $.75-$.95 per pound. The underlying world economic growth, China's price support policies, and a modest tightening of world stocks outside of China are factors supporting prices. World cotton exports to China (assuming a 40-percent duty) will likely be competitive with the assumed China reserve release price at A-index levels in the mid-80's; this means that any surplus world supplies from countries outside of China probably could be sold there at prices similar to 2012/13. At the same time, however, sharply lower prices projected for feed grains and oilseeds, which compete with cotton for area, could have a price-depressing impact.

## U.S. Outlook for 2013/14

Area, Production, and Supply

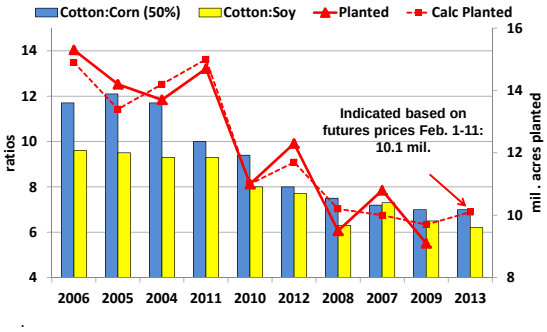
**U.S. Cotton Area, Yield, and Production:**
**2012/13 and 2013/14 proj.**

| | Unit | 2012/13 | 2013/14 | Change(%) |
|---|---|---|---|---|
| **Planted area** | **mil. acres** | **12.3** | **10.0** | **-18.8** |
| **Harvested area** | **"** | **9.4** | **8.4** | **-10.9** |
| **Abandonment rate** | **%** | **23.5** | **16.0** | **-31.9** |
| **Yield/harvested acre** | **lbs./acre** | **866** | **800** | **-7.6** |
| **Production** | **mil. bales** | **17.0** | **14.0** | **-17.7** |

The early USDA projection for 2013 U.S. cotton planted acreage is 10.0 million acres, a decrease of nearly 19 percent from last year, due mainly to lower cotton prices and relative net returns that favor shifts to alternative crops. The projection is roughly equal to the level indicated by statistical analysis, but above the results of the recent National Cotton Council

survey. The analysis quantifies the effects of relative crop prices and soil moisture conditions in the Southwest (where drought conditions generally favor cotton), based on U.S. area response for the 2002-2012 period. The main variables are ratios of cotton to corn and soybean prices (using averages of fall futures prices for the February-March period preceding planting each year) and an index of soil moisture on the Texas High Plains as of June 1. For 2013, soil moisture is projected to be below average but improved from the 2011 and 2012 drought years.

**All-Cotton Planted Acres Based on Relative Crop Prices, Texas Moisture Index, 2004-2013**




The National Cotton Council's (NCC's) survey forecast of 9.0 million acres was released on February 9, reflecting responses received from mid-December through mid-January, when December 2013 futures prices were 3-4 cents below their mid-February levels. Respondents to the NCC survey reported that the decreased cotton acreage in the Southeast and Delta will be replaced largely with corn and soybeans. The survey indicated that wheat acreage—along with corn and sorghum—is replacing cotton in the Southwest, while wheat and specialty crops increase at cotton's expense in the West. USDA's first survey of producer planting intentions—*Prospective Plantings*—will be conducted in early March and published on March 29, 2013.

Cotton plantings of 10.0 million acres are estimated to result in harvested acreage of 8.4 million acres. The projected U.S. harvested area is based on an abandonment rate of 16 percent, down from 2012's 23.5 percent but above the long-run average. National abandonment rates have been highly variable in recent years—ranging from 2.5 percent for the 2010 crop to a record of nearly 36 percent in 2011. Due to this variability, the 2013 abandonment is based on longer term, 10-year average abandonment rates by region.

With the Southwest expected to account for over half of U.S. cotton area again in 2013, crop conditions in this region will have a considerable impact on the U.S. crop. The NOAA early-February seasonal drought outlook indicates that persistent drought will continue through the end of April for the Southwest; in addition, below-average precipitation probabilities continue for the region at least through June. These conditions could exacerbate the drought situation and further impact both planted area and abandonment there.

USDA is forecasting a national average yield of 800 pounds per harvested acre, based on 3-year regional averages. U.S. 2013 crop production is projected at 14.0 million bales, nearly 18 percent below 2012 and, if realized, would be the lowest since 2009. With carry-in stocks at 4.5 million bales, total supply—18.5 million bales—would decrease 9 percent from 2012/13.

U.S. Disappearance, Ending Stocks, and Farm Price

**U.S. Cotton Supply and Demand**
**2012/13 est. and 2013/14 proj.**

| | Unit | 2012/13 | 2013/14 | Change(%) |
|---|---|---|---|---|
| **Beg. Stocks** | **mil bales** | **3.4** | **4.5** | **34.3** |
| **Production** | **"** | **17.0** | **14.0** | **-17.7** |
| **Imports** | **"** | **0.0** | **0.0** | **0.0** |
| **Total supply** | **"** | **20.4** | **18.5** | **-9.2** |
| **Mill use** | **"** | **3.4** | **3.5** | **2.9** |
| **Exports** | **"** | **12.5** | **11.3** | **-9.6** |
| **Total use** | **"** | **15.9** | **14.8** | **-6.9** |
| **Ending stocks** | **"** | **4.5** | **3.7** | **-17.8** |
| **Stocks-to-use** | **%** | **28.3** | **25.3** | **-10.6** |
| **Farm price** | **cents/lb.** | **71.0** | **73.0** | **2.8** |

U.S. domestic mill use is projected at 3.5 million bales, slightly above 2012/13. In recent years, U.S. cotton mill use has been sustained mostly by semi-processed textile and apparel exports—mainly to Mexico and the CBI countries—that are finished and shipped back to the U.S. market. High cotton prices, relative to manmade fiber prices, during the past year have resulted in fiber substitution at the mill. Cotton's fiber share is expected to improve slowly into 2013/14, thus providing a slight growth projection for cotton mill consumption.

U.S. cotton exports are projected at 11.3 million bales in 2013/14, a decrease of nearly 10 percent, as reduced supplies and a lower foreign import demand are projected. Although foreign import demand is expected to decline to its lowest in 3 seasons, the United States is projected to account for a global trade share similar to that in 2012/13. Projected ending stocks of 3.7 million bales would decrease for the first time in 3 seasons, constituting 25 percent of total disappearance, slightly above the 5-year average.

Lower U.S. stocks and tighter world "free" stocks are factors likely to support farm prices in 2013/14, as the ratio of world stocks-to-use outside of China is forecast to decline. At the same time, however, lower prices projected for the 2013 crops of corn and soybeans, resulting from a return to normal weather in the United States, will weigh on cotton prices. The 2013/14 marketing year average price received by U.S. cotton producers is projected at 73 cents per pound, slightly above the 2012/13 estimate. Supporting the higher price projection are December 2013 cotton futures which, as of early February, are above 80 cents per pound.