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Agricultural Outlook Forum
U.S. Department of Agriculture
Arlington, Virginia

Presented: February 19-20, 2015

The World and U.S Cotton Outlook for 2015/16

Carol Skelly

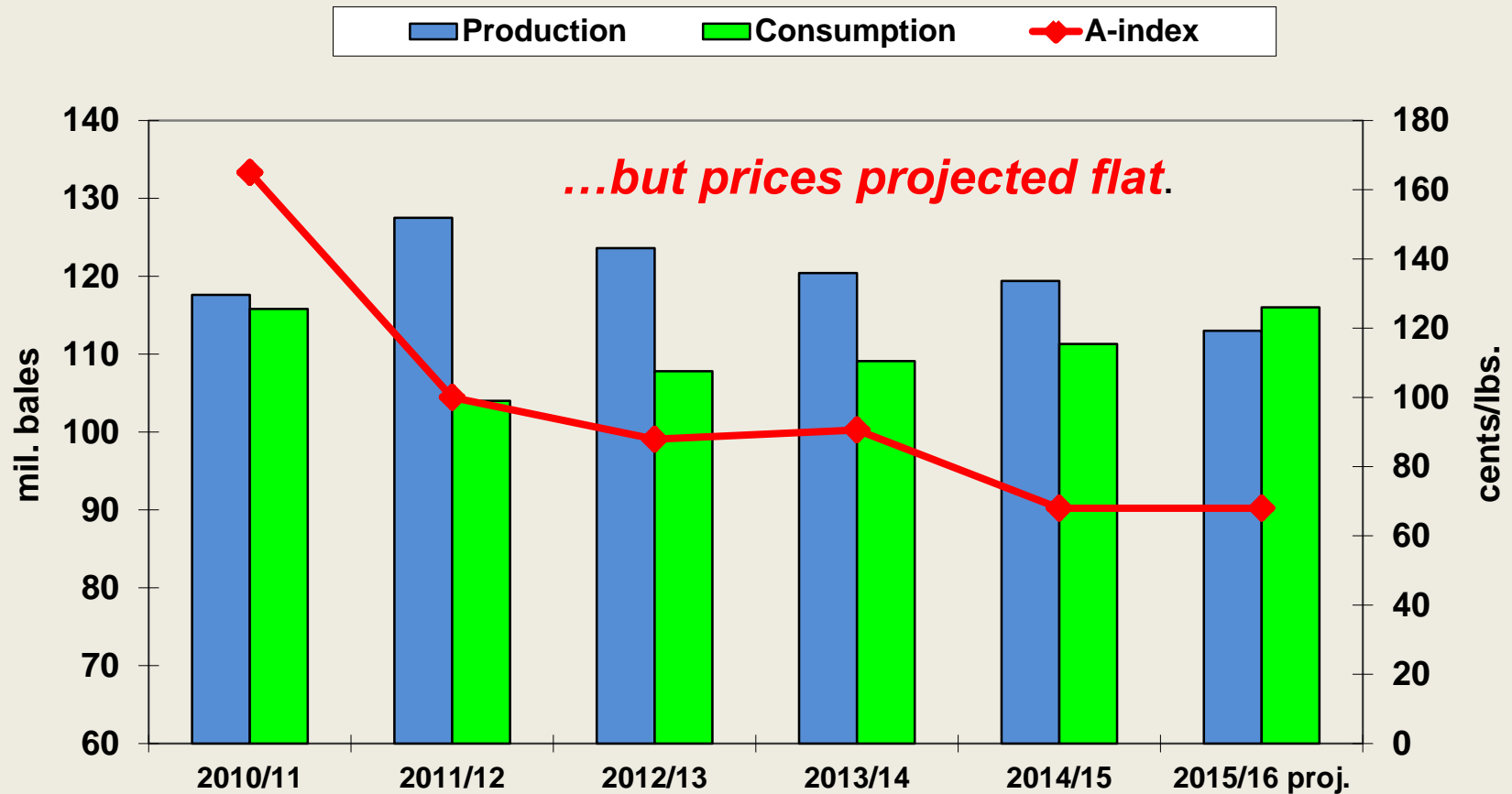
The World and U.S. Cotton Outlook for 2015/16

USDA

Interagency Cotton Estimates Committee

February 20, 2015

2015/16 World Consumption to Exceed Production for the First Time in 6 Years...

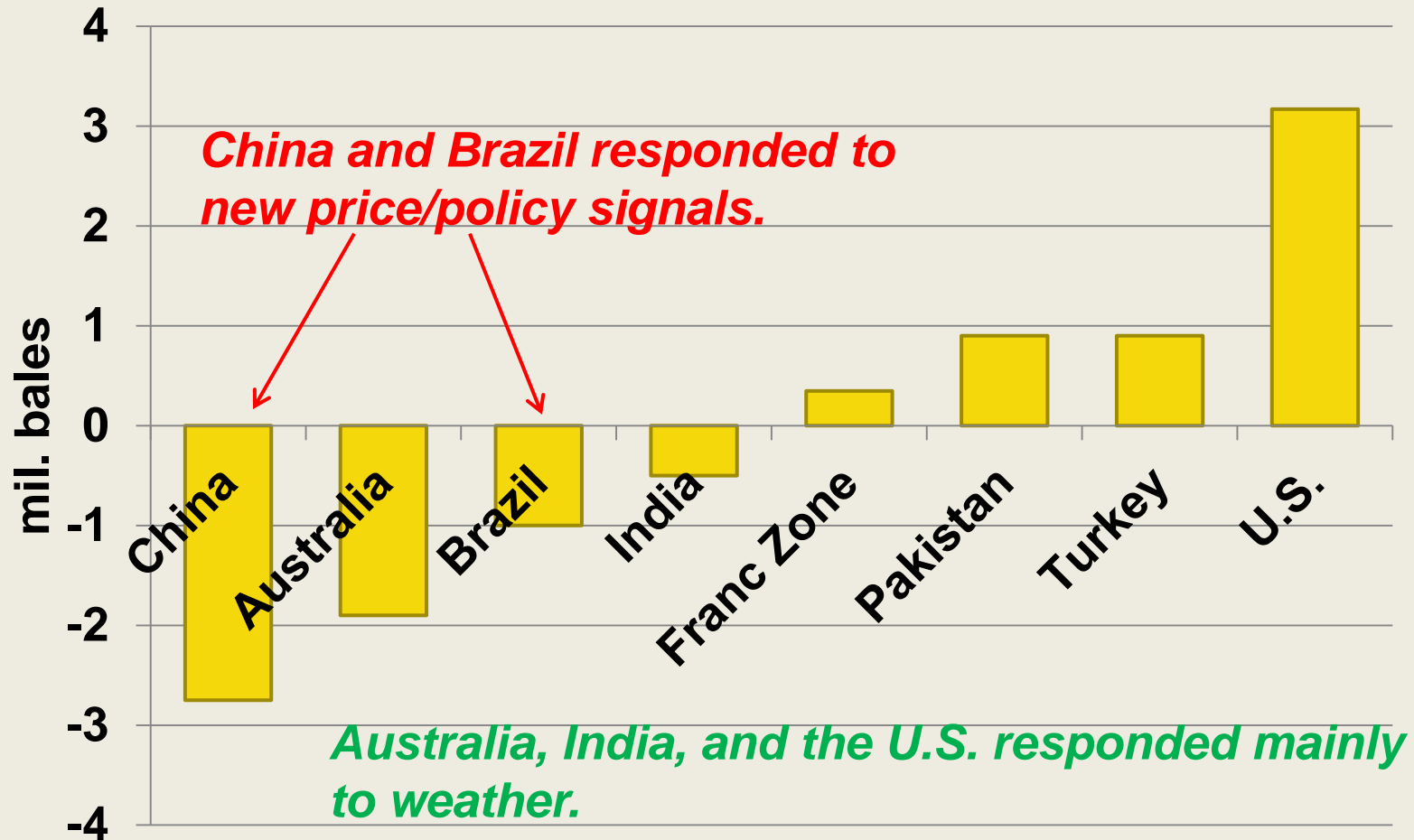


Stocks Adjustment is the Primary Issue

- **China's stocks rose to an estimated 63 million bales at the end of 2013/14 (= almost 2 years' consumption).**
- **China announced new policies in early 2014, attempting to reverse the process of stock accumulation.**
- **The global outlook can best be understood as the process by which supply and demand readjust to work off surplus stocks.**
- **Have to understand both the response mechanisms and the barriers to response.**

World and China Situation, 2014/15

Marginal Decrease in World Production, 2014/15



China's Policies Still Unfolding

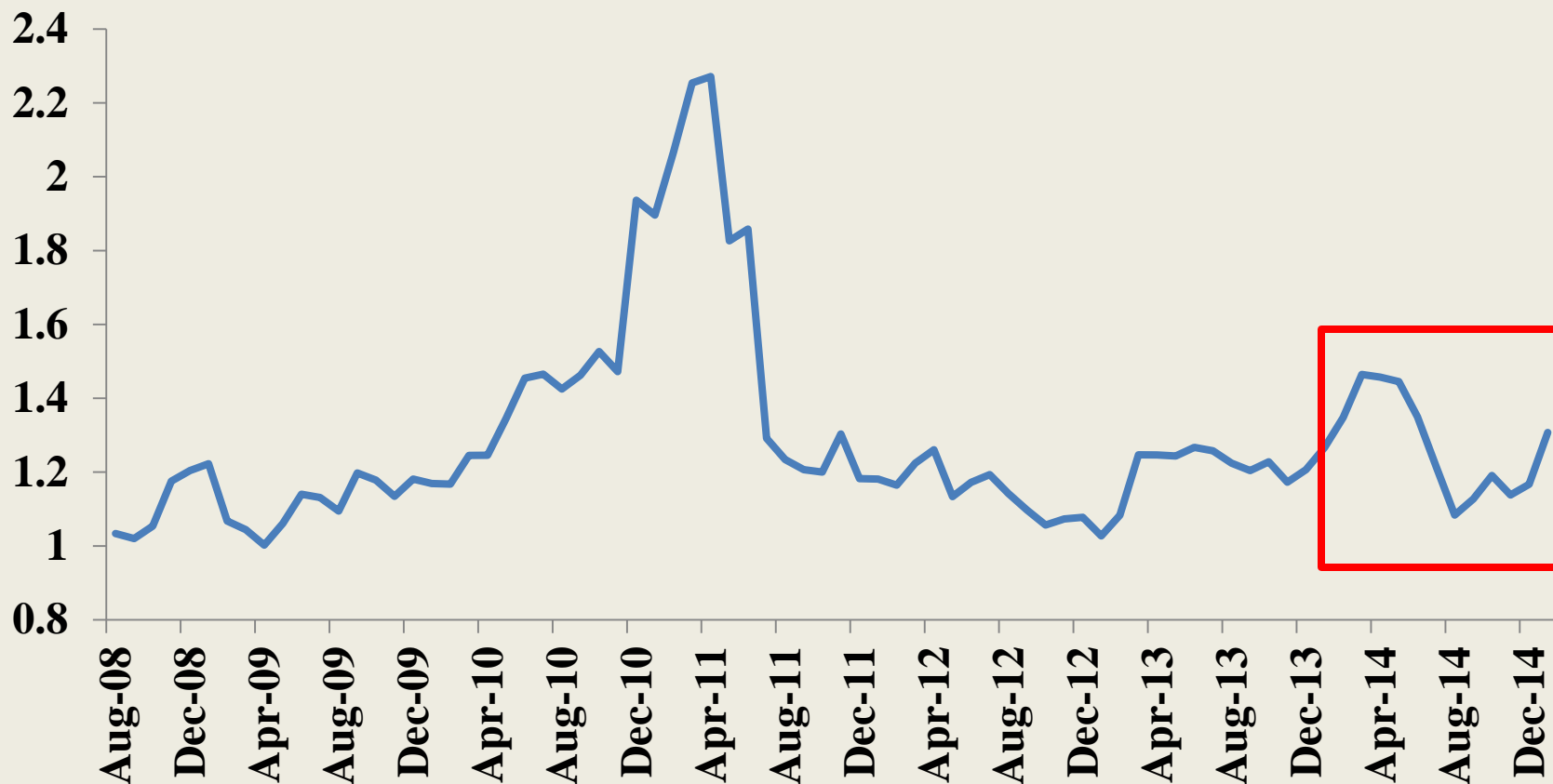
- **New income-support system favors Xinjiang; some details still unclear about what producers will actually receive.**
- **Severe import restrictions are assumed, based on strong statements by officials – imports reduced by about half.**
- **Reserve sales policy unclear.**
- **USDA anticipates that China will try to maintain internal prices between 13,000-14,000 RMB/ton (\$0.94-\$1.02/lb.)- premium of China to world prices will decline.**

2014/15 World Consumption Expected to Grow 2 Percent

- **Slightly above long-run average despite sharply lower prices.**
- **Macroeconomic estimates favorable, but...**
- **Polyester prices have fallen nearly as much as cotton prices.**

World Cotton Prices Relative to Polyester Stable, Despite Lower Cotton Prices

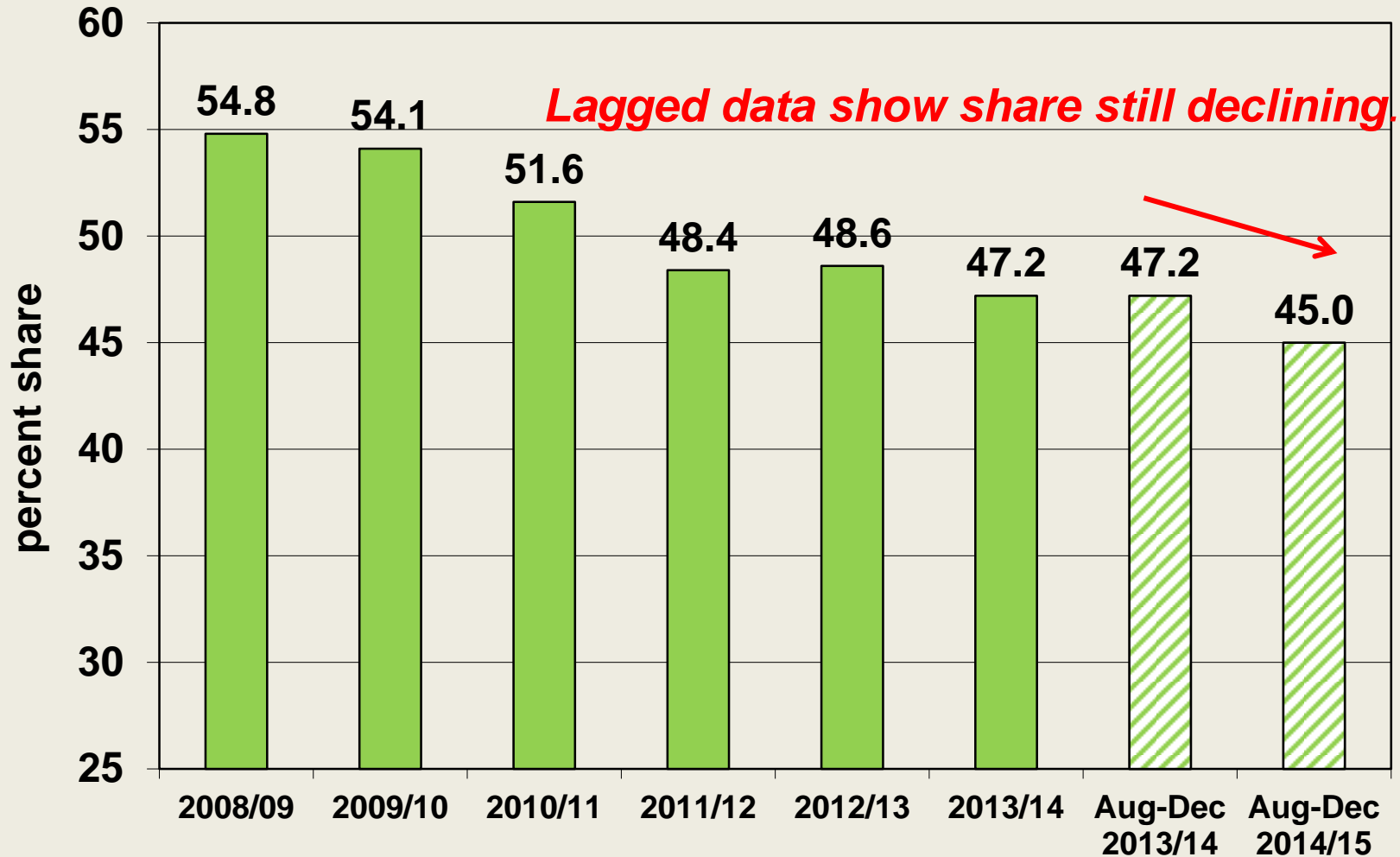
Cotton/polyester price ratio: Aug. 2008-Jan. 2015



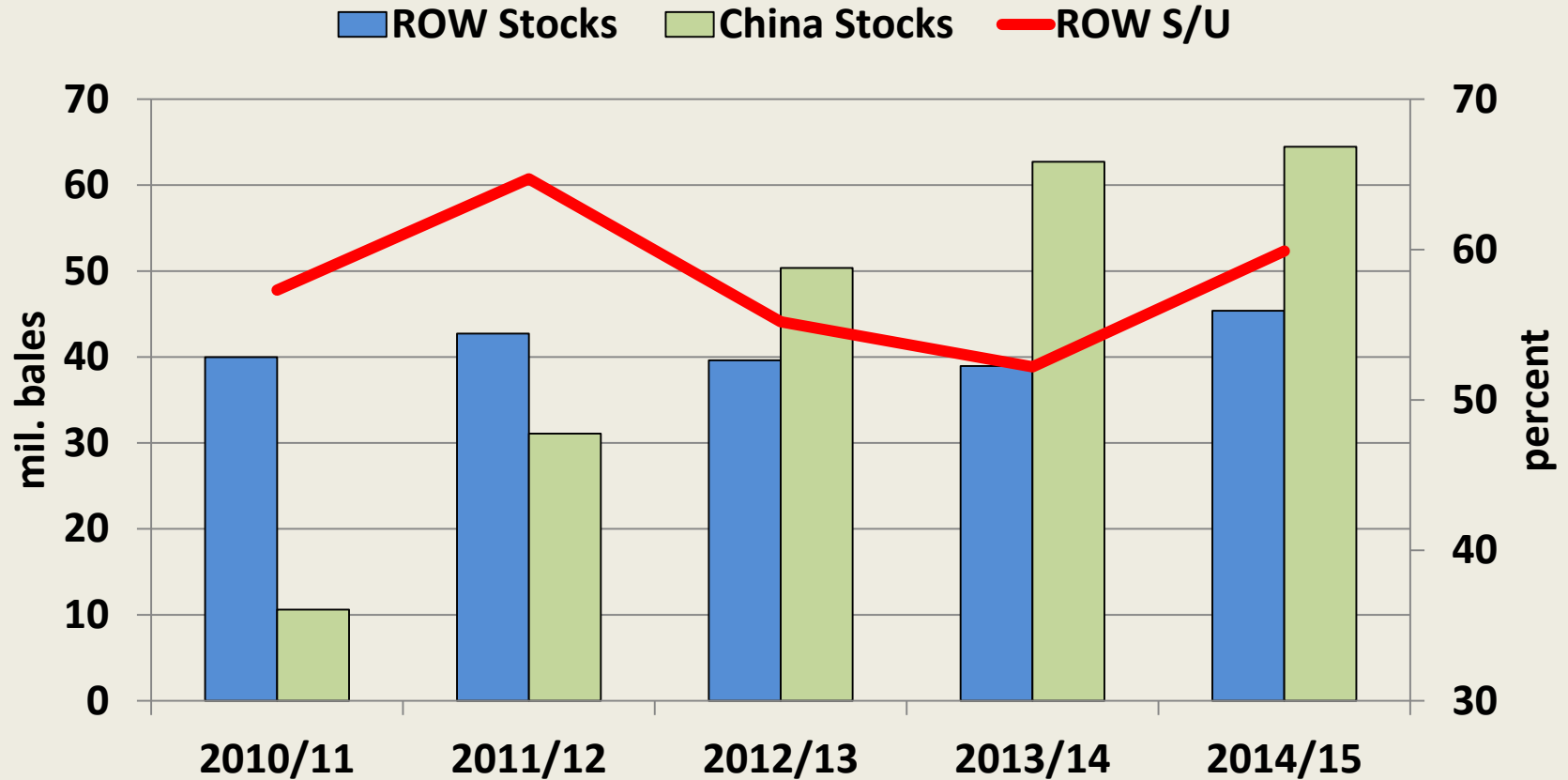
Sources: cncotton.com (polyester), Cotlook Ltd. (cotton, A Index)

Cotton's Fiber Share Has Not Recovered,

(U.S. textile imports, raw fiber equivalent basis)



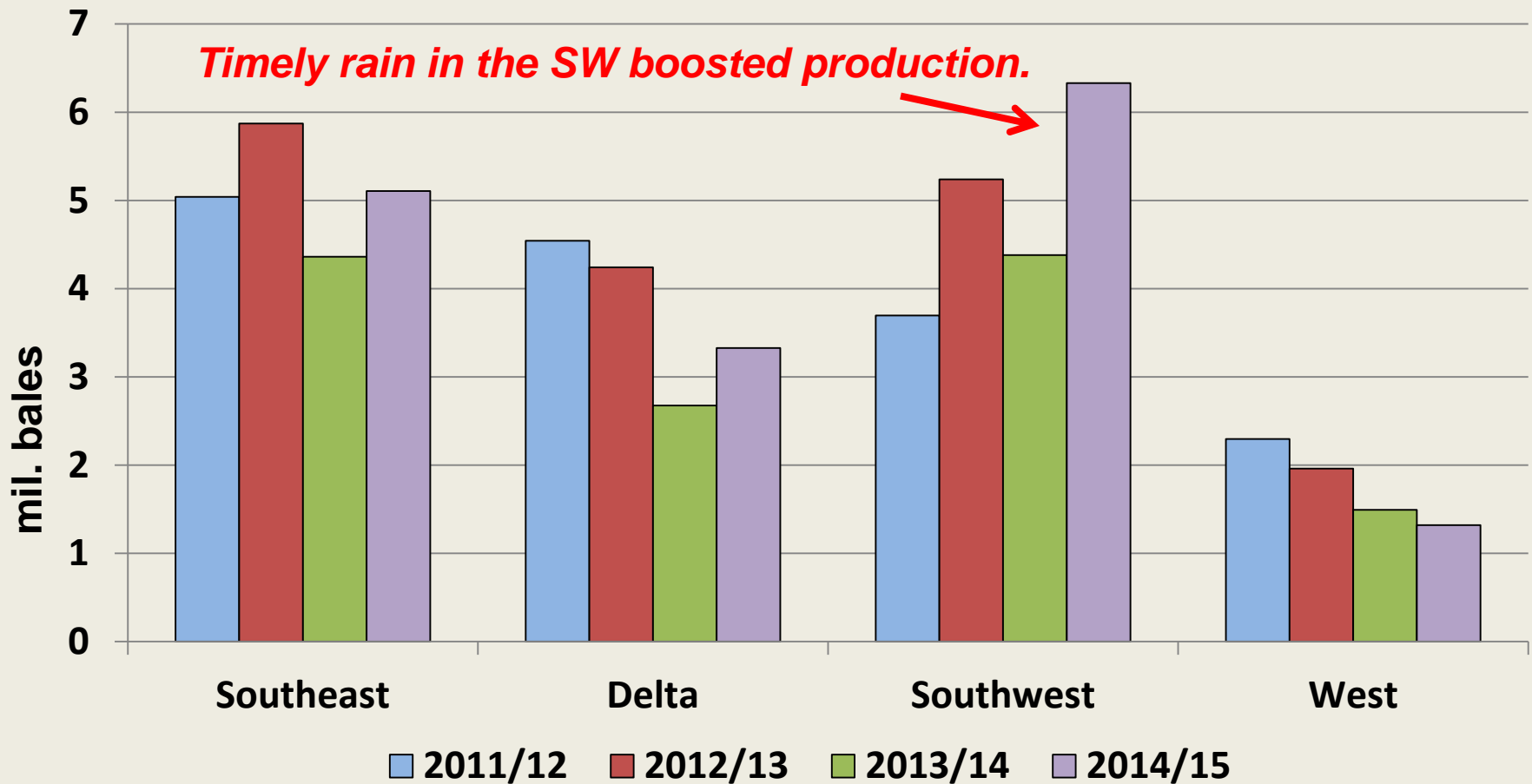
Large Production & China Import Restrictions Force Stocks into Rest-of-World



India's stocks estimated to rise nearly 3.5 mil. bales.

U.S. Situation, 2014/15

U.S. Added 3.2 Million Bales of Production in 2014/15



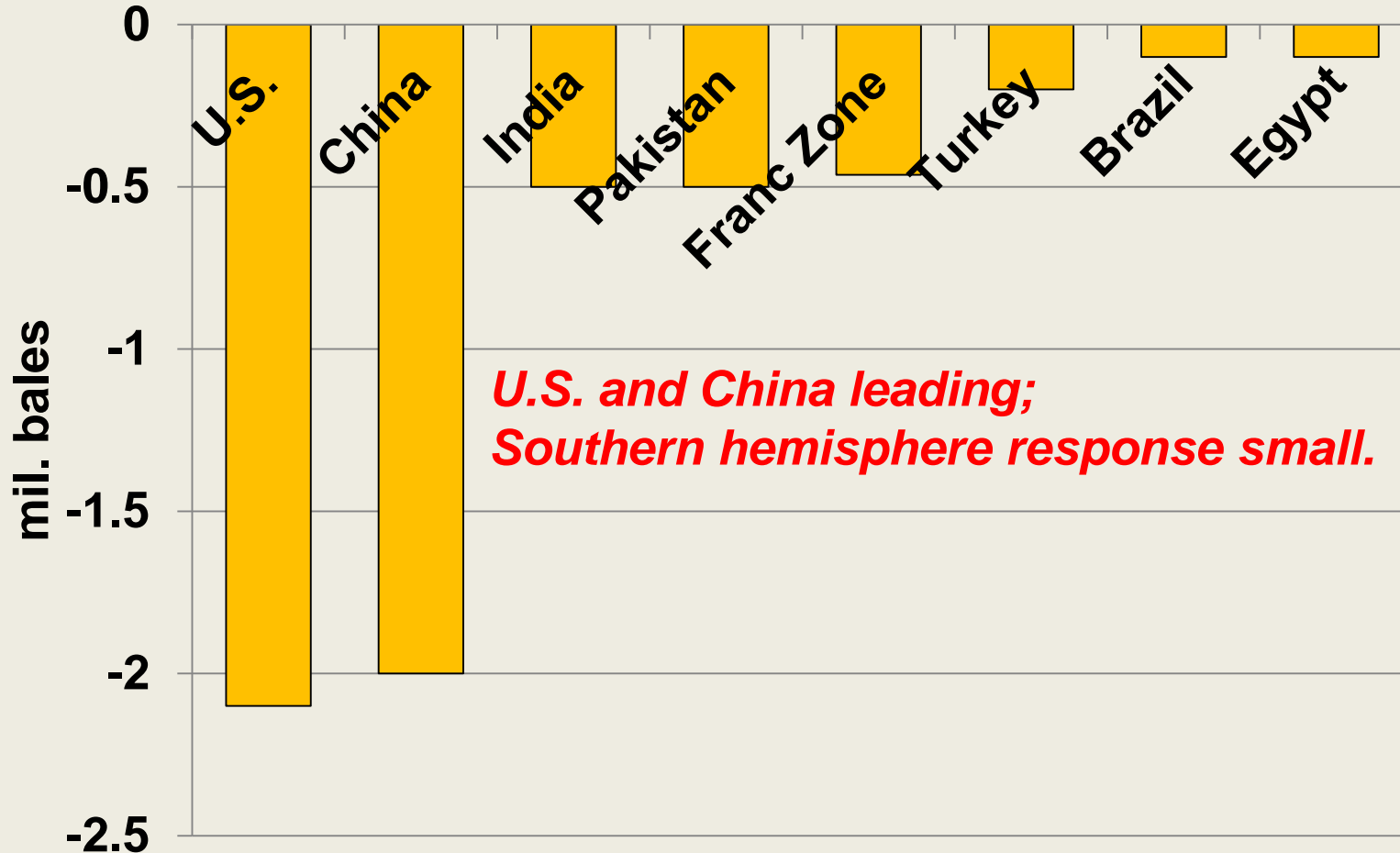
U.S. Cotton Supply & Demand, 2014/15

| | Unit | 2013/14 | 2014/15 | Change (%) |
|----------------------|-----------|--------------------|---------------------|-------------------|
| Beg. Stocks | mil bales | 3.8 | 2.5 | -35.5 |
| Production | " | 12.9 | 16.1 | 24.6 |
| Imports | " | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> |
| Total supply | " | 16.7 | 18.5 | 10.9 |
| Mill use | " | 3.6 | 3.7 | 2.8 |
| Exports | " | <u>10.5</u> | <u>10.7*</u> | <u>1.6</u> |
| Total demand | " | 14.1 | 14.4 | 1.9 |
| Ending stocks | " | 2.5 | 4.2 | 71.4 |
| Stocks-to-use | % | 17.4 | 29.3 | 68.4 |
| Farm price | cents/lb. | 77.9 | 61.0 | -21.7 |

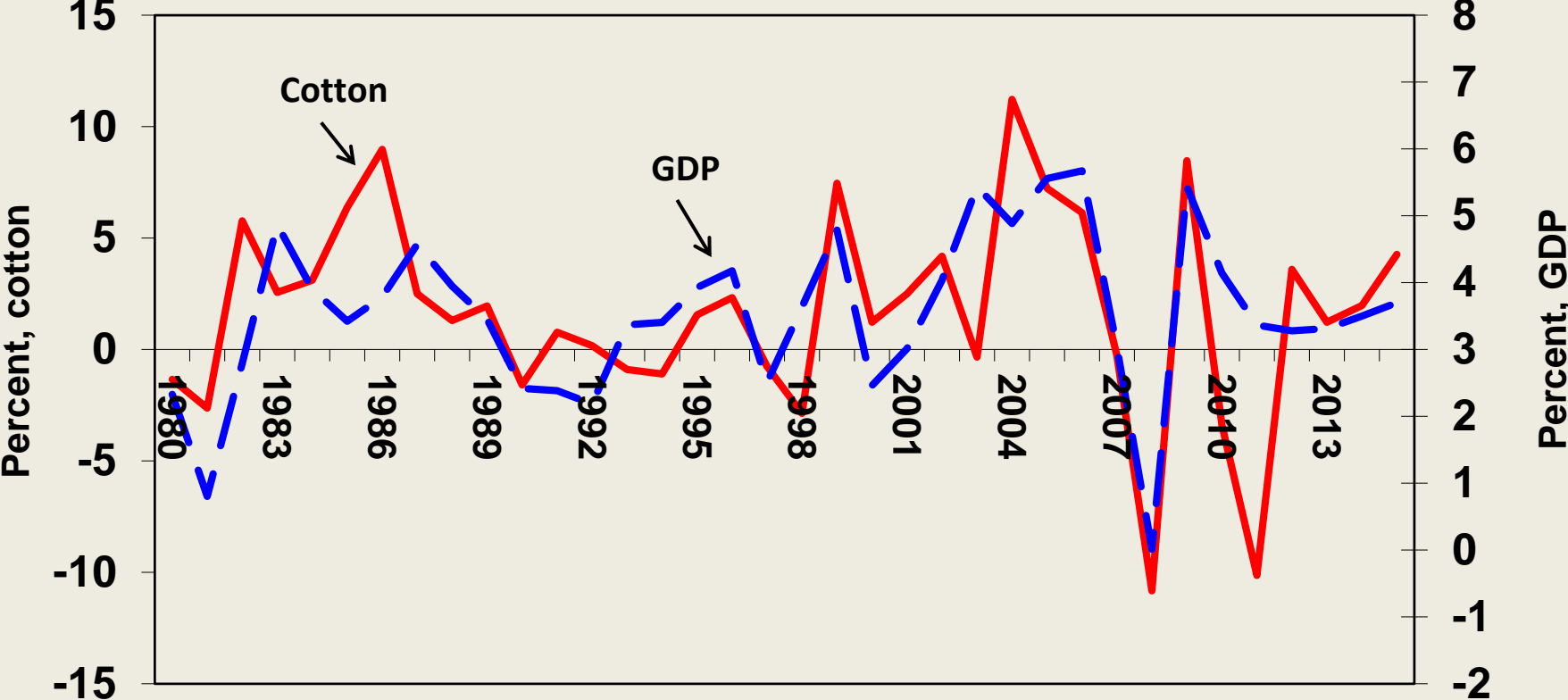
*** U.S. share of world trade rising from 26 to 31 percent.**

World and China Outlook, 2015/16

Global Production Projected Down 6.4 mil. bales



World Cotton Consumption to Rise 4 %, *on GDP Growth and Lagged Response to Low Prices*

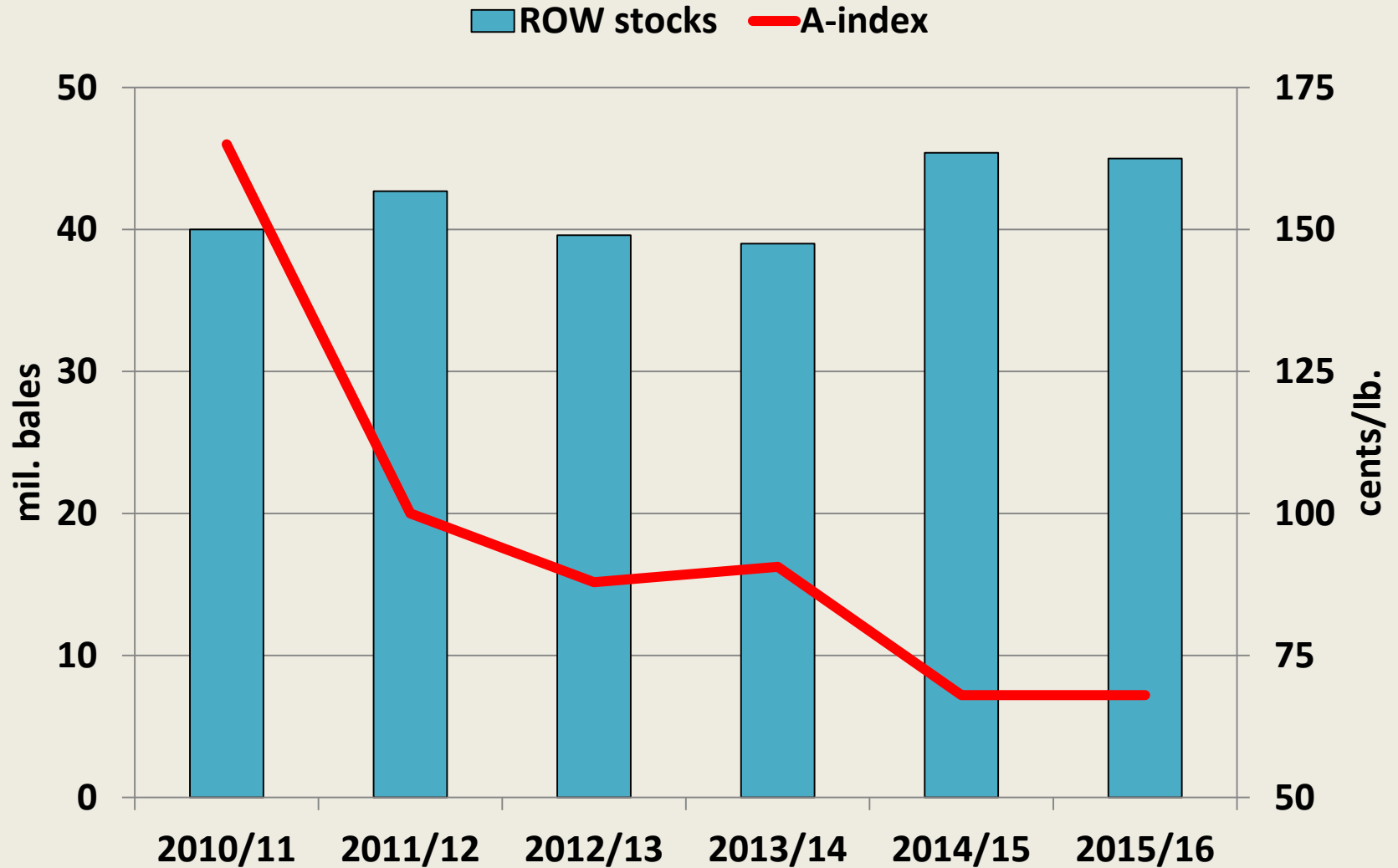


Sources: USDA and International Monetary Fund.

Path of World Cotton Consumption Unclear

- **Are macro projections too optimistic?**
- **Will polyester prices rise or fall?**
- **Will the relative stability of cotton prices benefit consumption?**
- **Will recent increases in spinning capacity outside China provide a boost?**
- **Are there underlying permanent changes in fiber use/preference by manufacturers and consumers?**

Stocks Outside China and A-Index



U.S. Outlook, 2015/16

Factors Affecting U.S. Area and Production

- Planted area expected to fall 12 percent to 9.7 million acres (NCC survey 9.4), due mainly to lower prices.**
- Prices of alternative crops also falling – may cause cotton to retain some area.**
- However, government program safety net no longer provides counter-cyclical price protection.**
- Currently projecting historical average abandonment of about 13 percent.**

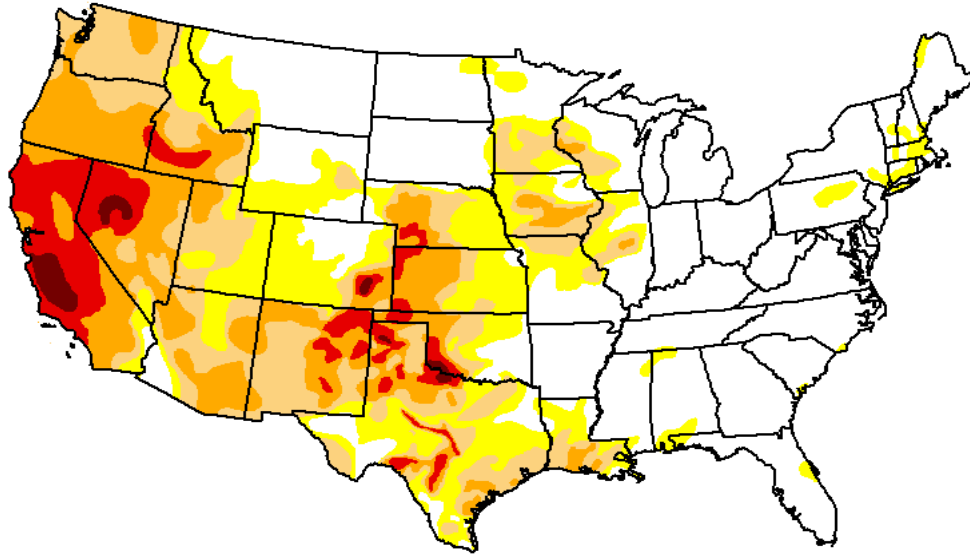
U.S. Cotton Area, Yield, and Production

(Abandonment key; range of 3%-36% since 2010)

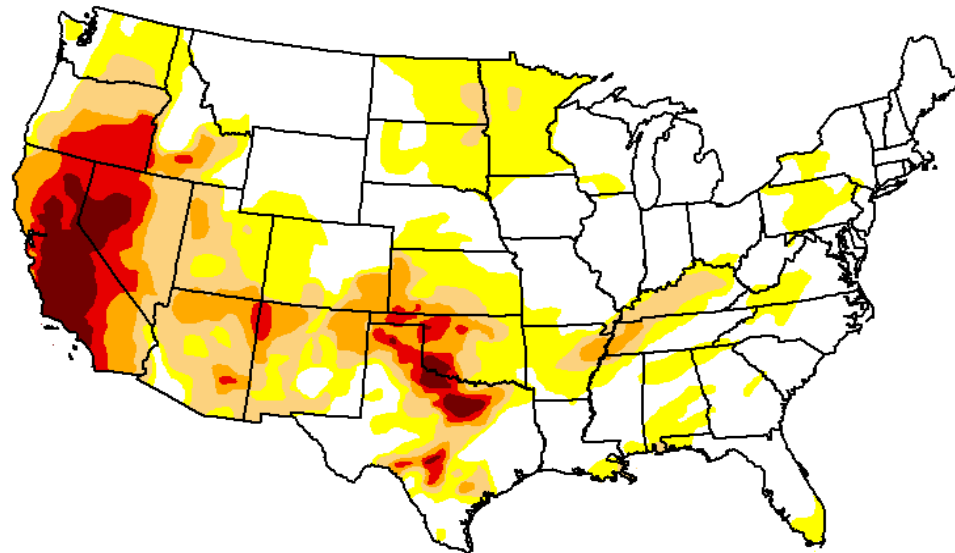
| | <u>Unit</u> | <u>2014/15</u> | <u>2015/16</u> | <u>Change(%)</u> |
|-----------------------------|-------------|----------------|----------------|------------------|
| Planted area | mil. acres | 11.0 | 9.7 | -11.8 |
| Harvested area | " | 9.7 | 8.4 | -13.4 |
| Abandonment rate | % | 12.1 | 13.4 | 10.7 |
| Yield/harvested acre | lbs./acre | 795 | 800 | 0.6 |
| Production | mil. bales | 16.1 | 14.0 | -13.0 |

Drought Persists in Texas High Plains; Worsens in California

February 11, 2014



February 10, 2015



U.S. Cotton Supply & Demand, 2015/16

| | Unit | 2014/15 | 2015/16 | Change (%) |
|---------------|-----------|-------------|-------------|-------------|
| Beg. Stocks | mil bales | 2.5 | 4.2 | 71.4 |
| Production | " | 16.1 | 14.0 | -12.9 |
| Imports | " | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> |
| Total supply | " | 18.5 | 18.2 | -1.8 |
| Mill use | " | 3.7 | 3.8 | 2.7 |
| Exports | " | <u>10.7</u> | <u>10.2</u> | <u>-4.7</u> |
| Total demand | " | 14.4 | 14.0 | -2.8 |
| Ending stocks | " | 4.2 | 4.3 | 2.4 |
| Stocks-to-use | % | 29.3 | 30.8 | 5.1 |
| Farm price | cents/lb. | 61.0 | 60.0 | -1.6 |

Key Variables that Could Change the Outlook

- **A more aggressive program of stocks disposal by China.**
- **Greater world area response to low prices than currently anticipated.**
- **Weather and growing conditions.**
- **Macroeconomic growth.**
- **Changes in polyester prices in either direction.**