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United States Department of Agriculture

USDA's
93rd
Annual

Agricultural Outlook Forum

A New Horizon: The Future of Agriculture

February 23-24, 2017 • Crystal Gateway Marriott Hotel, Arlington, Virginia

Presentation from the USDA Agricultural Outlook Forum 2017

United States Department of Agriculture
93rd Annual Agricultural Outlook Forum
“A New Horizon: The Future of Agriculture”

February 23-24, 2017
Arlington, Virginia

The World and U.S. Cotton Outlook for 2017/18

Interagency Commodity Estimates Committee

Presented by
Lyman Stone

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Agricultural Outlook Forum
February 24, 2017

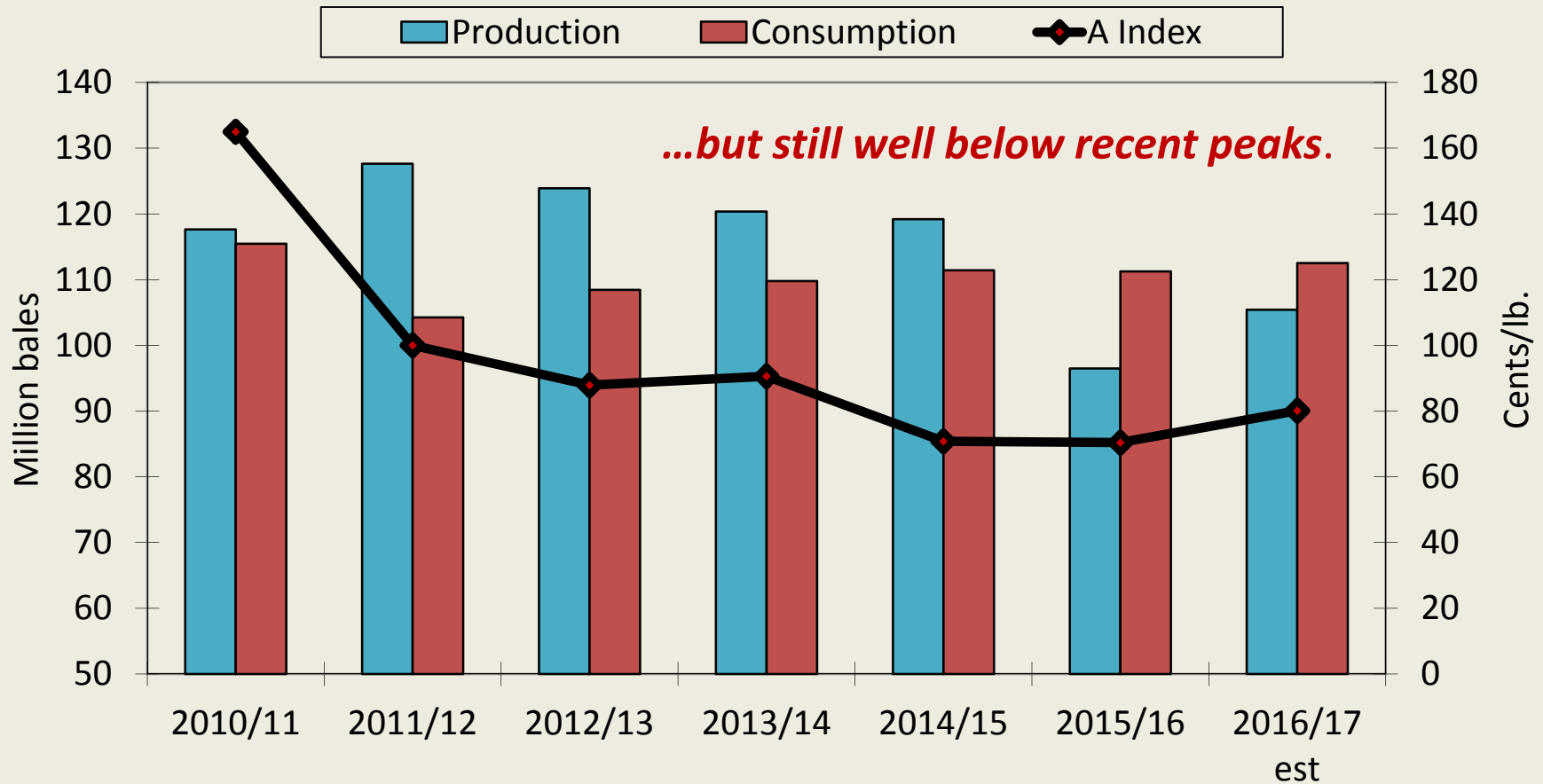
USDA 2017/18 Cotton Outlook

- 2016/17 Current year review:
 - Production has grown globally and in the U.S.
 - Consumption has grown in China, Vietnam, Bangladesh, elsewhere
 - Consumption remains above production
 - Global stocks are tightening, *especially* within China
 - Prices have risen
- 2017/18 Upcoming year outlook:
 - Production is forecast up again from 2016/17
 - Consumption is forecast up again, remains above production
 - Global stocks will continue to tighten, led by China
 - Prices are expected to fall

2016/17

Current World Cotton Situation

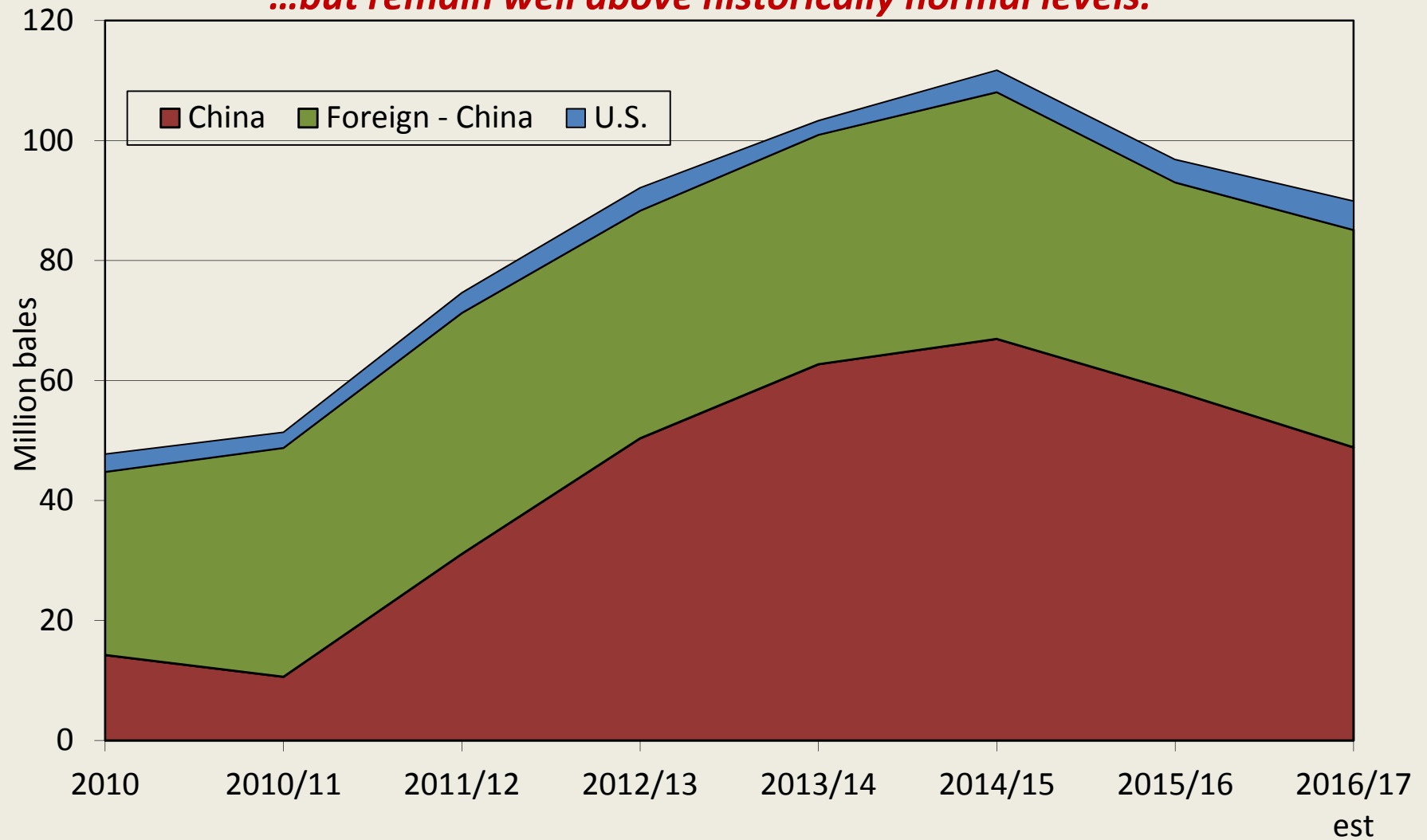
World Cotton Consumption Exceeds Production For a Second Year ... and Prices Begin to Rise



Sources: USDA, Interagency Commodity Estimates Committee and Cotlook.

Global Cotton Stocks Decline From Record...

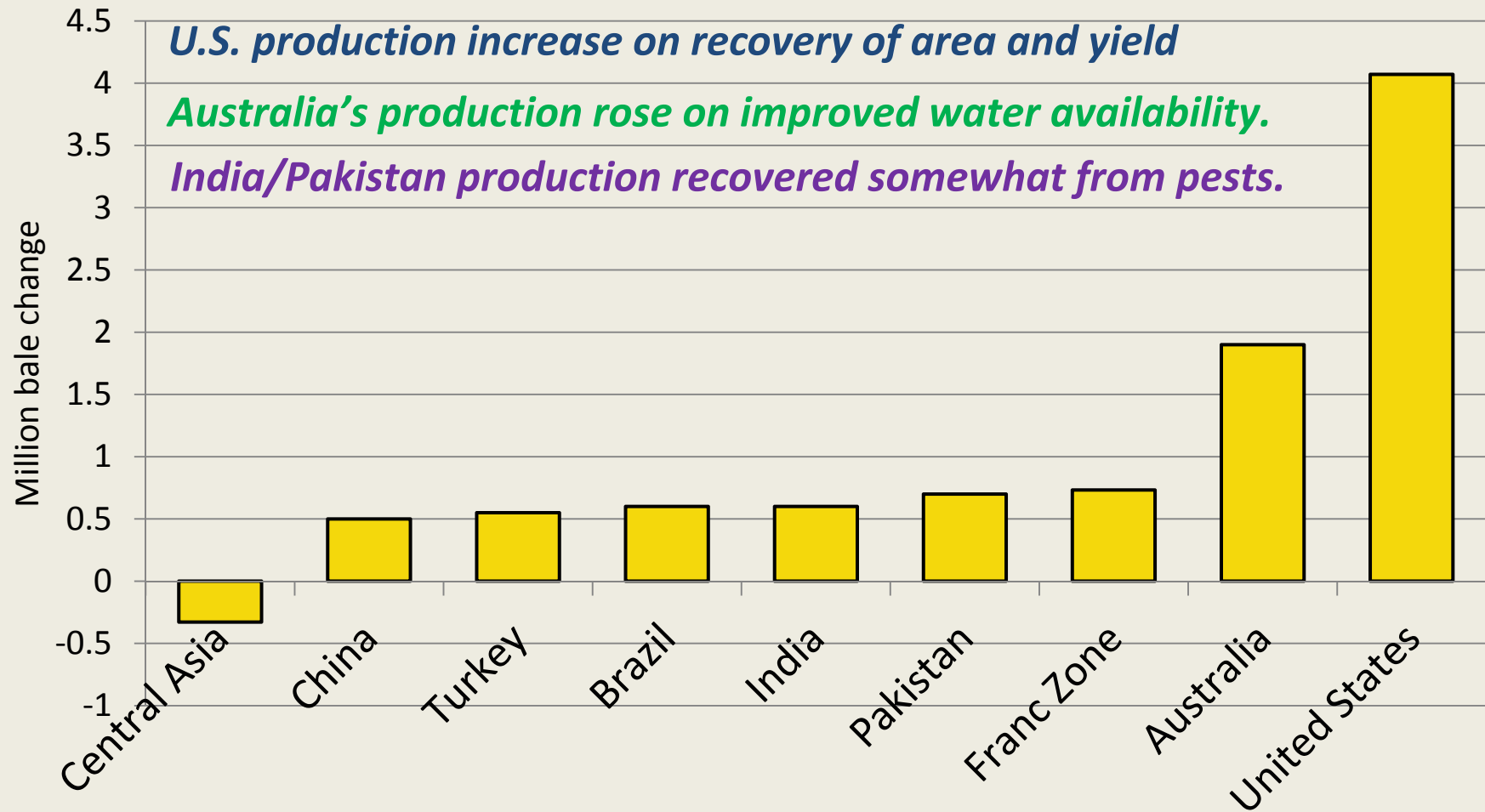
...but remain well above historically normal levels.



Source: USDA, Interagency Commodity Estimates Committee.

Global Production Rose in 2016/17

Improved weather conditions helped boost production



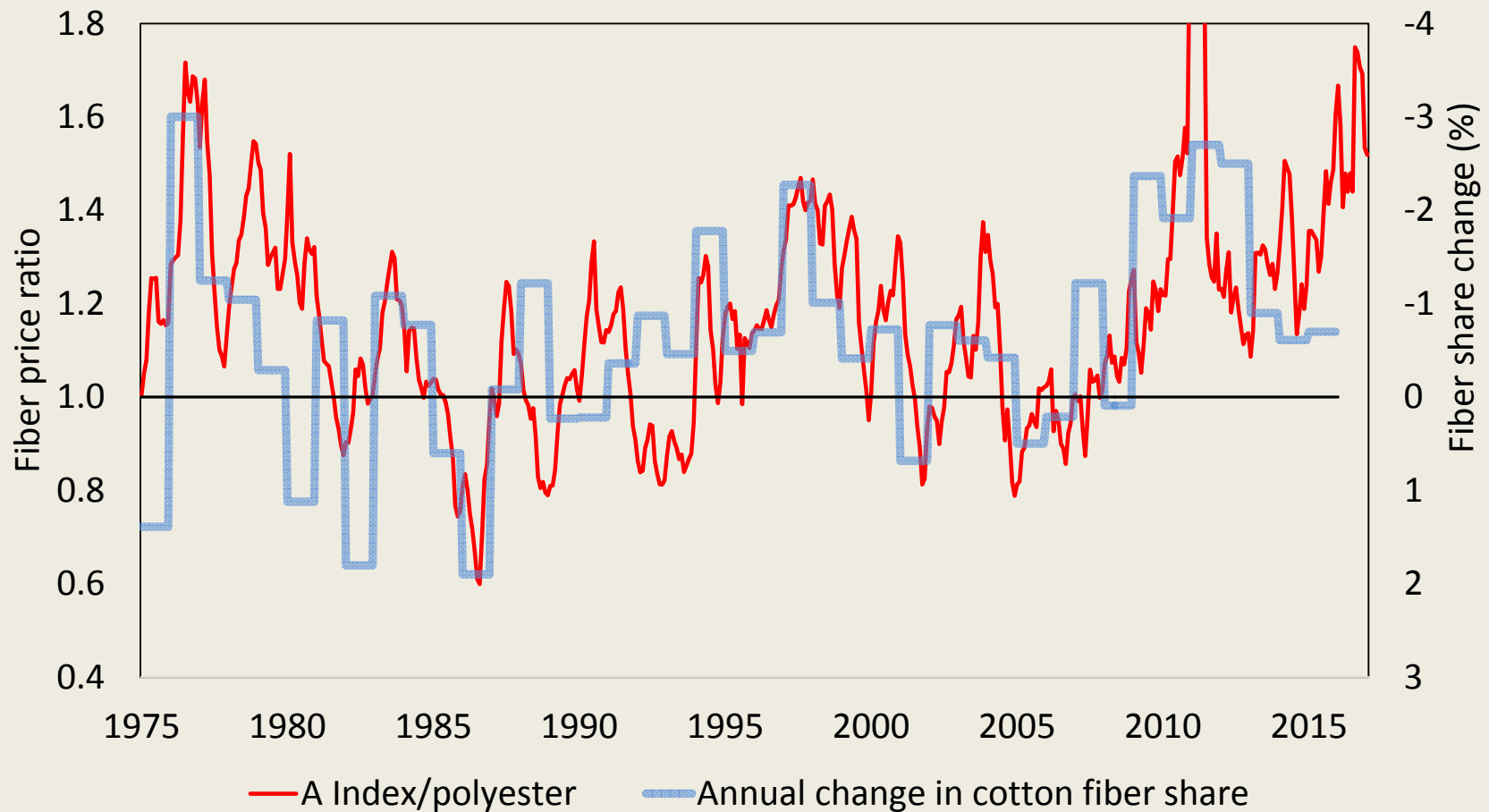
Source: USDA, Interagency Commodity Estimates Committee.

World Consumption Increase Expected in 2016/17

Cotton consumption estimated at 112.5 million bales.

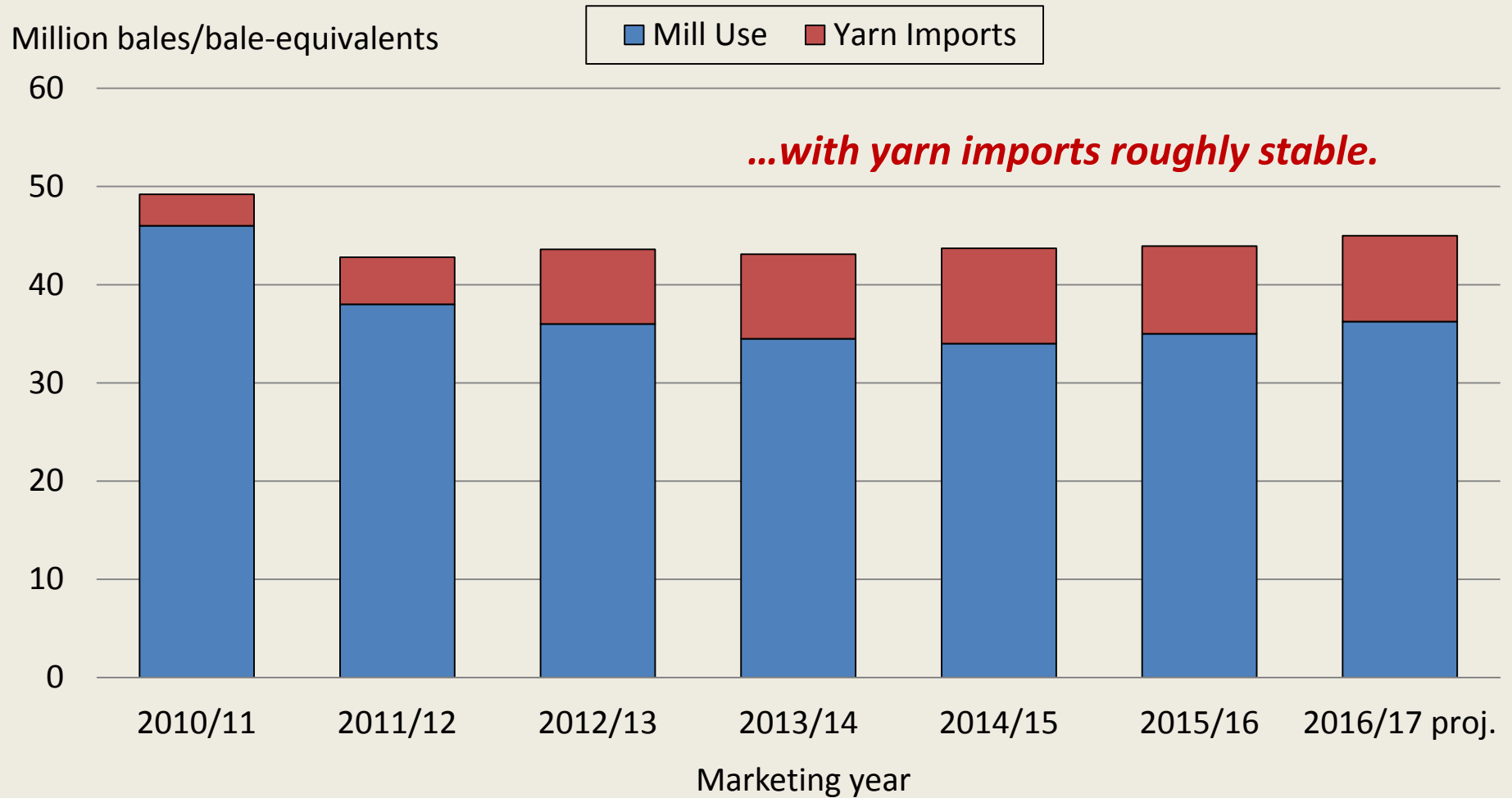
- Consumption has begun recovering even as prices seem high.
 - Strong growth in Bangladesh (10%), Vietnam (16%)
 - Recovery of growth in China after several years of declines
 - Consumption declines in India, partly from demonetization
- Retail growth constrained by continued consumer uncertainty.
- Cotton prices have risen substantially more than polyester prices recently, which constrains continued expansion of use.

Relative Price of Cotton Continues to Rise



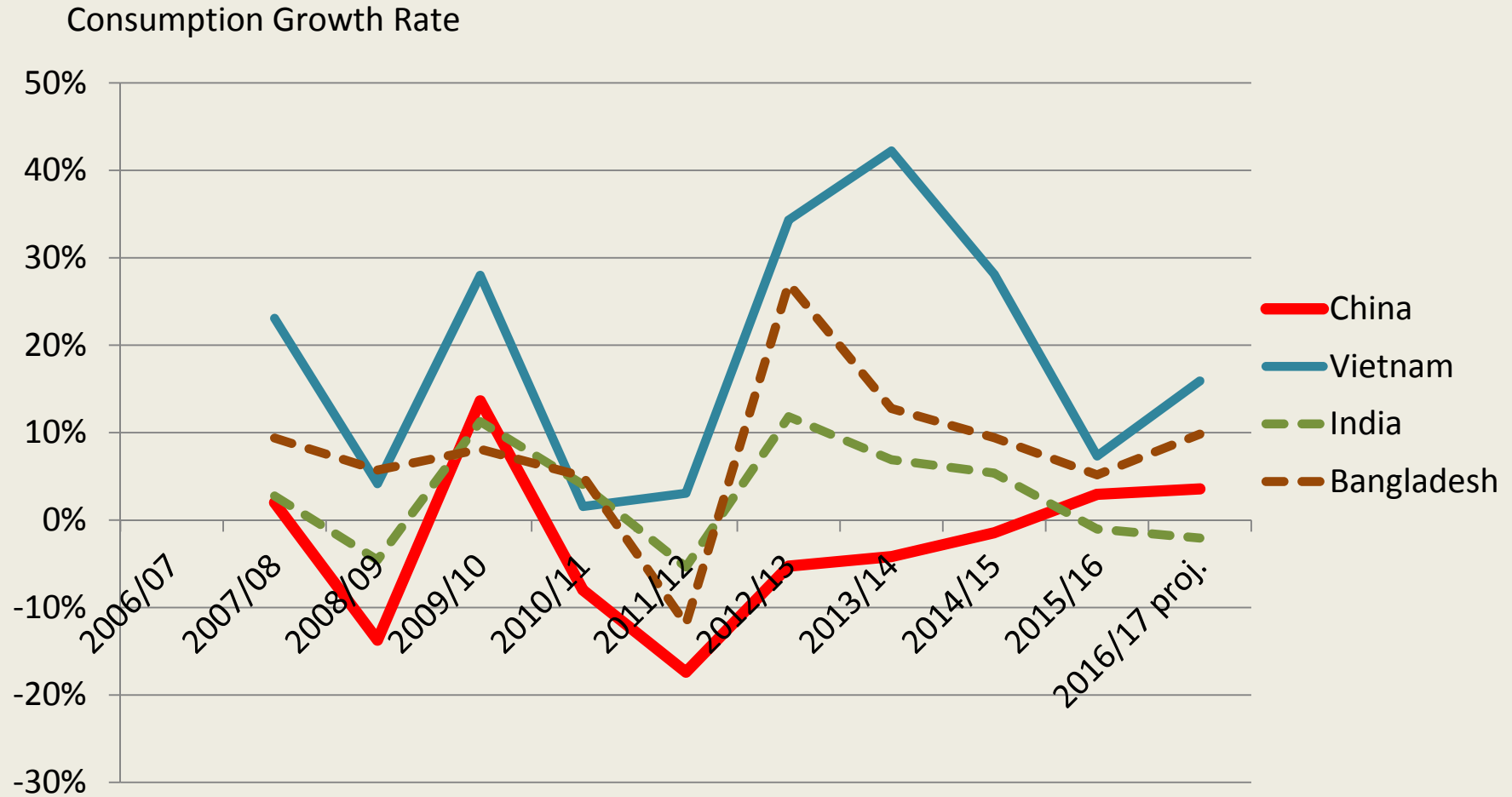
Sources: USDA calculations based on data from Cotlook Ltd., Cncotton, National Cotton Council, and International Cotton Advisory Committee.

China's Cotton Mill Use Rising...



Sources: USDA and Global Trade Atlas.

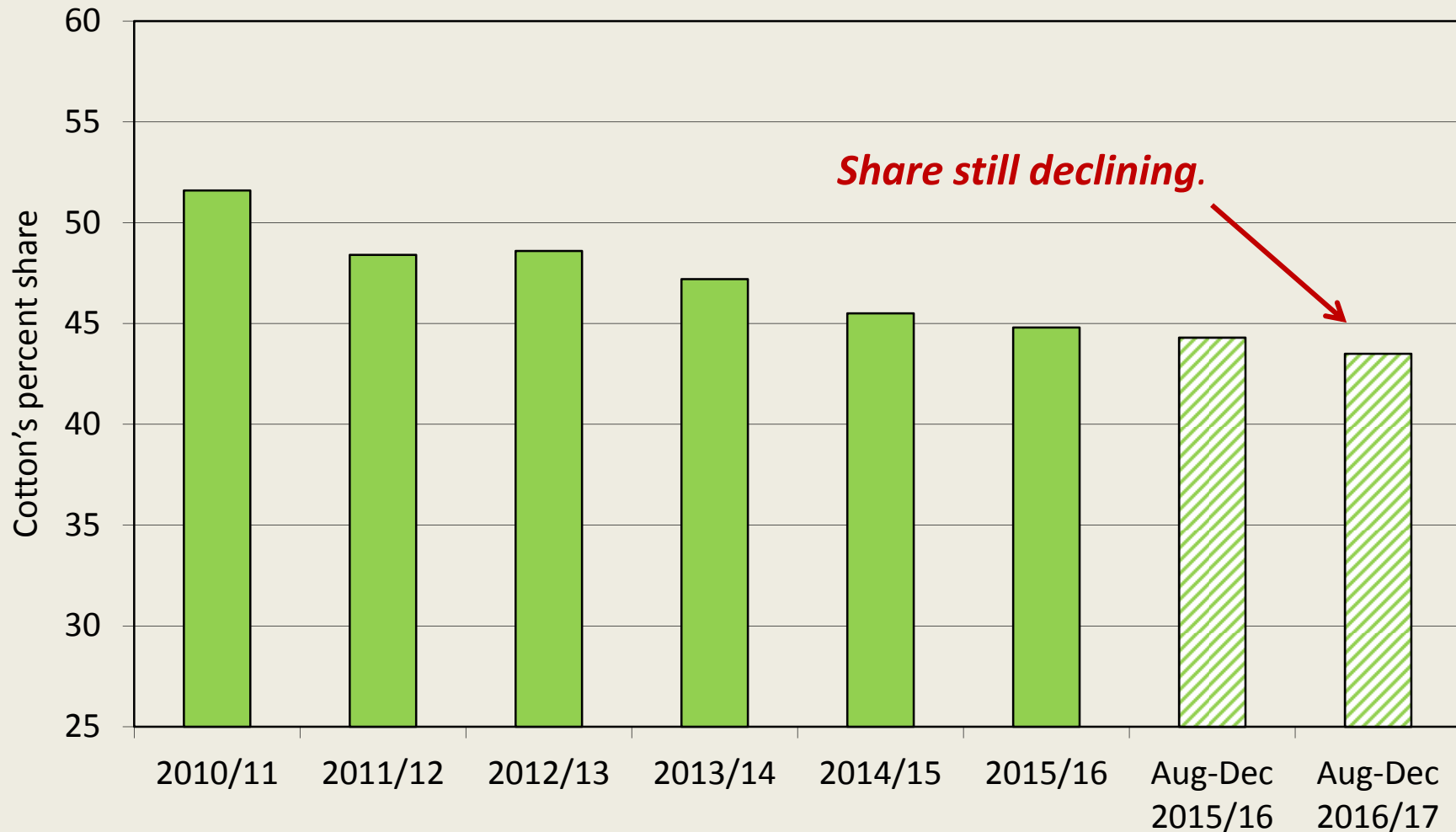
China Consumption Growth Continues: *India Slumps, Bangladesh and Vietnam Grow*



Source: USDA, Interagency Commodity Estimates Committee.

Cotton Loses Share to Manmade Fibers

(U.S. product imports, raw fiber-equivalent basis)

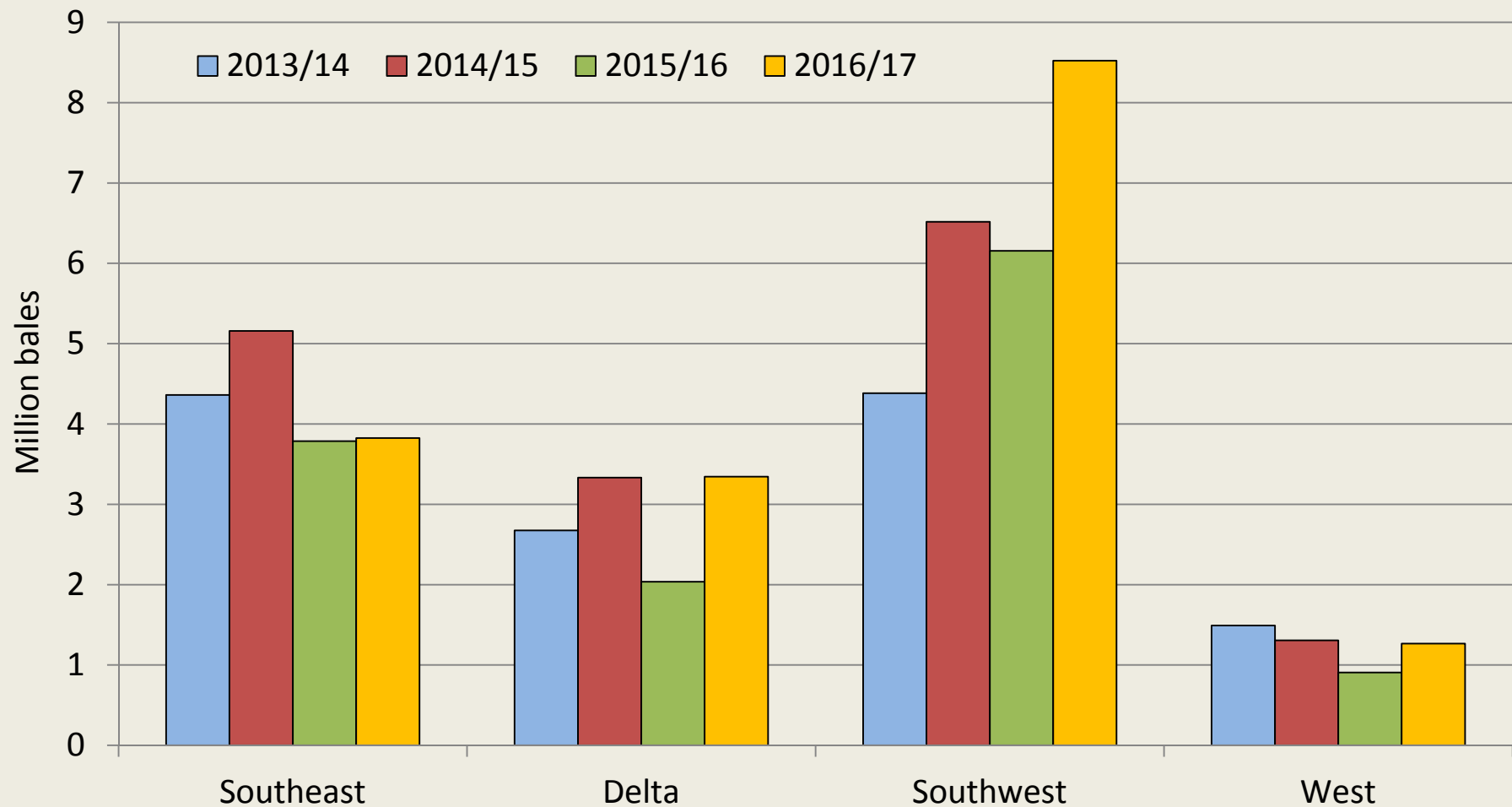


Sources: USDA, Economic Research Service and U.S. Census Bureau.

2016/17

Current U.S. Cotton Situation

U.S. Production Increases in Every Region: *Particularly Strong Growth in the Southwest*



Source: USDA, National Agricultural Statistics Service.

U.S. Cotton Supply & Demand Estimates:

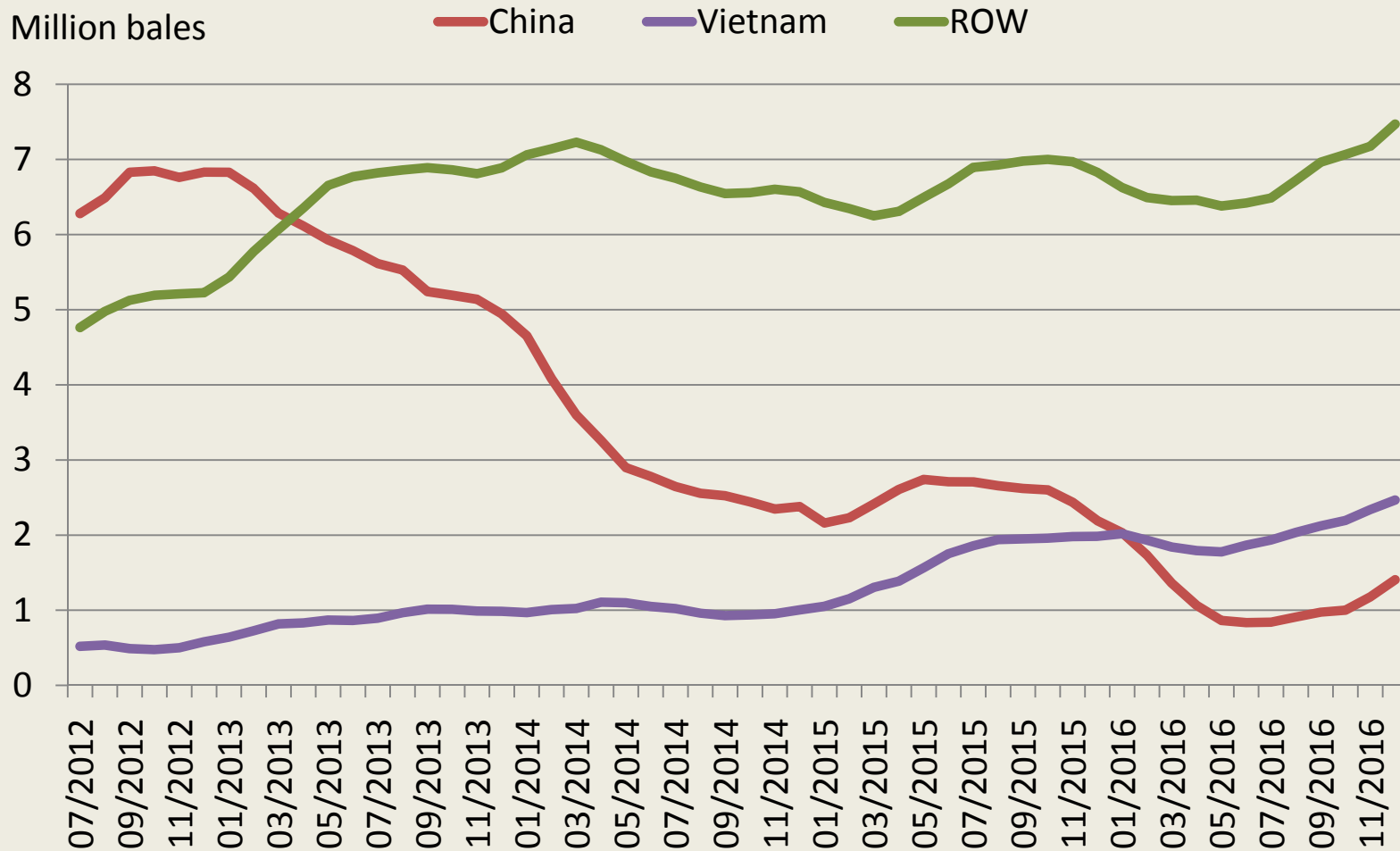
Production and Exports Significantly Higher; Stocks Still Rise

	Unit	2015/16	2016/17	Change (%)
Beg. stocks	Mil. bales	3.7	3.8	4.1
Production	"	12.9	17.0	31.6
Imports	"	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total supply	"	16.6	20.8	25.3
Mill use	"	3.5	3.3	-4.3
Exports	"	<u>9.2</u>	<u>12.7</u>	<u>38.8</u>
Total demand	"	12.6	16.0	27.0
Ending stocks	"	3.8	4.8	26.3
Stocks-to-use	%	30.2	30.0	-0.7
Farm price	Cents/lb.	61.2	69.0	12.7

Source: USDA, Interagency Commodity Estimates Committee.

Cumulative 12-Month Exports to China and Vietnam

Vietnam has become the U.S.' #1 export destination



Source: USDA, Global Trade Atlas.

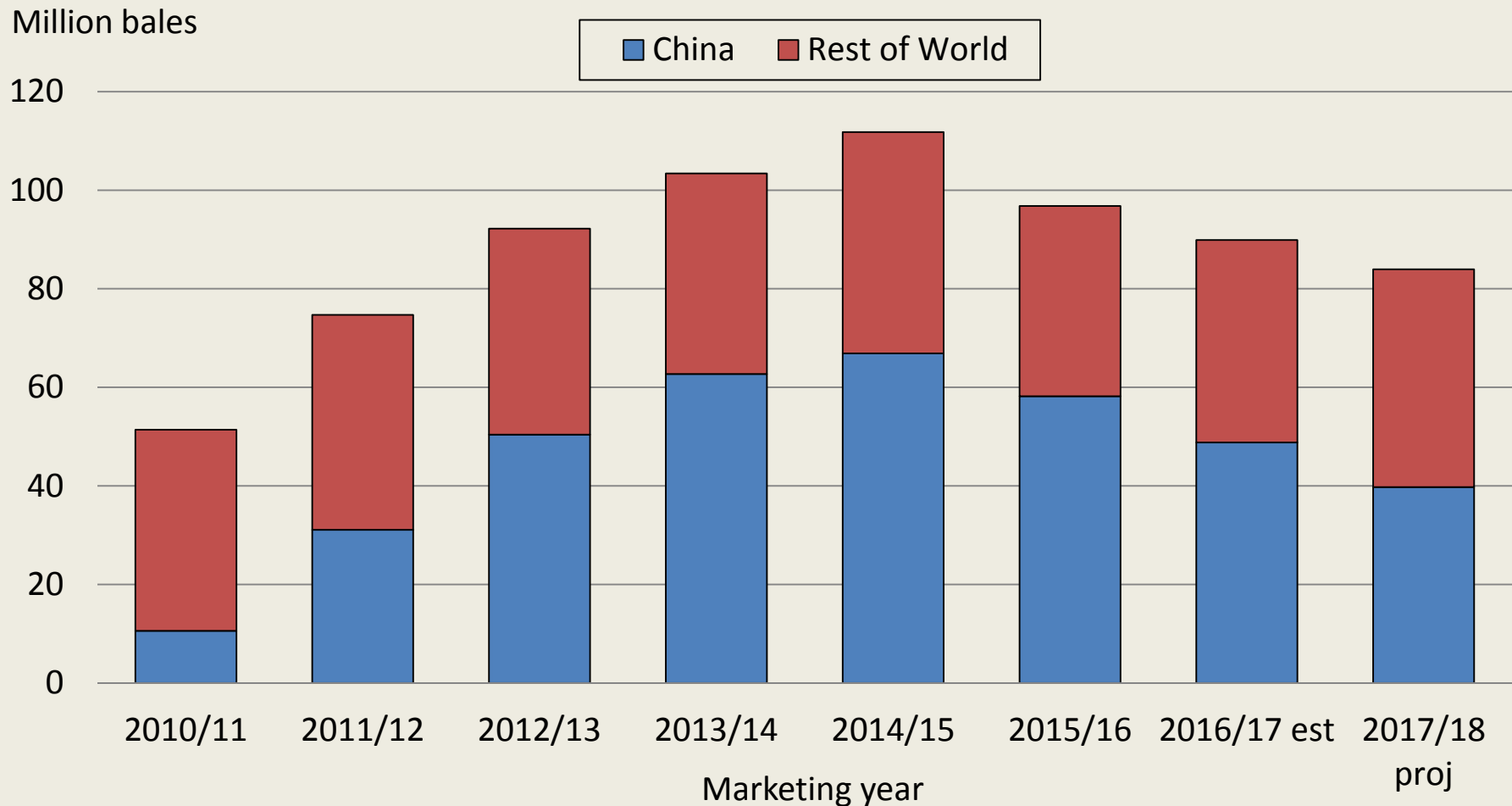
2017/18

World Cotton Outlook

Key Assumptions for USDA's 2017/18 Forecast

- World economic growth improves in calendar 2017 & 2018, aiding cotton consumption prospects.
- China continues policies discouraging production and limiting imports to reduce surplus stocks, with reserve sales continued near their recent pace.
- Relatively high prices around northern hemisphere planting time will draw additional area into cultivation.
- World and U.S. cotton prices decline from current elevated levels.

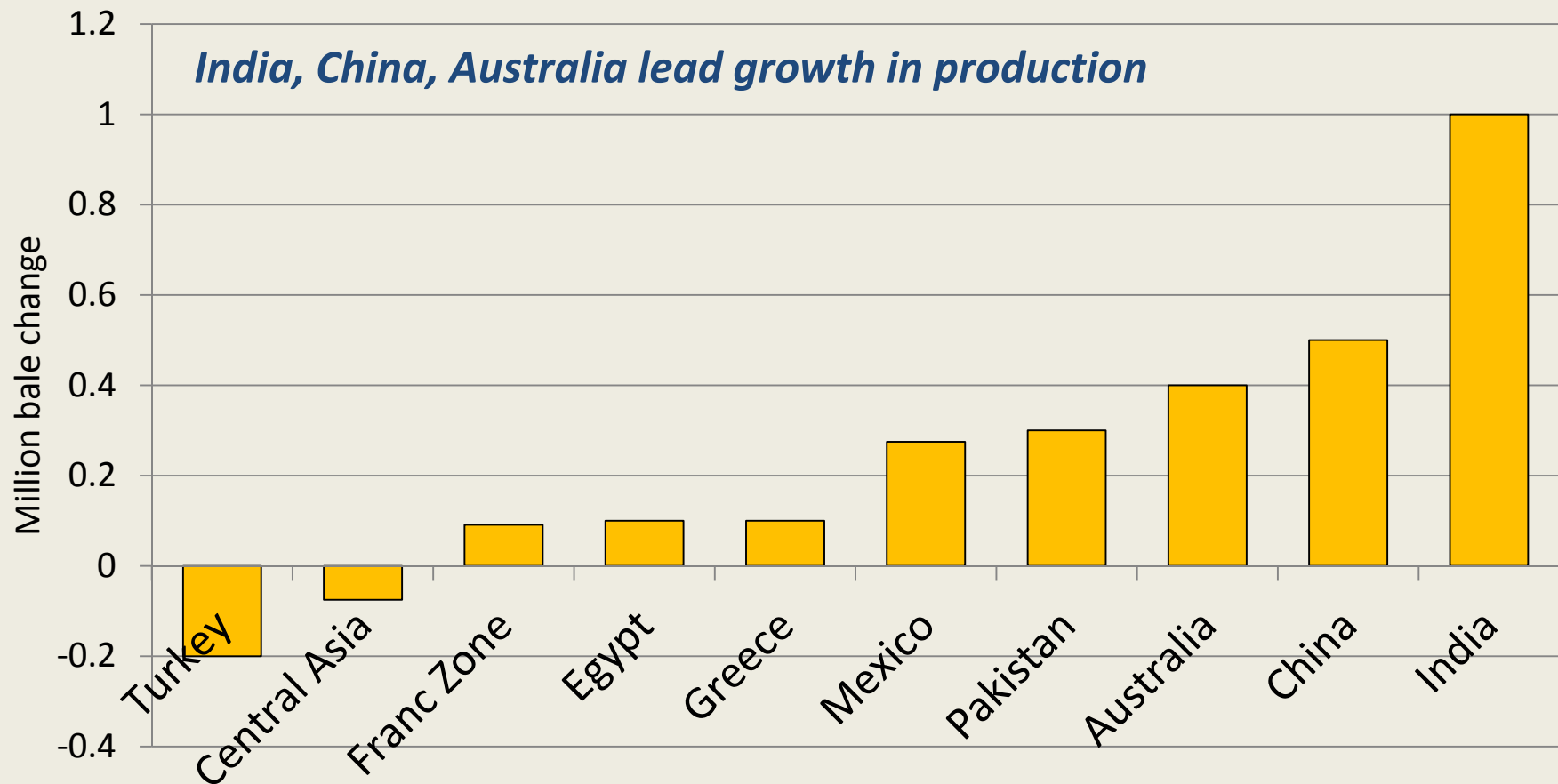
World Cotton Stocks Declining: *China drops below half of global stocks*



Source: USDA, Interagency Commodity Estimates Committee.

Global Production Projected Higher in 2017/18

Area increases drive higher production; global yields decline slightly



Source: USDA, Interagency Commodity Estimates Committee.

World Cotton Consumption Growth Rises in 2017/18

- Global consumption projected at 114.0 M bales.
 - Moderate growth (1.3%) based largely on global GDP increase.
 - Polyester price competition remains strong, especially as cotton prices are drifting upwards.
- China consumption to grow 700,000 bales.
 - Continuing reserve sales likely to keep internal prices moderated.
 - Expansion of Xinjiang spinning.
- Consumption outside China: 1% growth expected.
 - Vietnam and Bangladesh continue expansion.
 - India adjusts to demonetization
- Cotton's share of world fiber market continues to decline.

World Cotton Supply & Demand Projections:

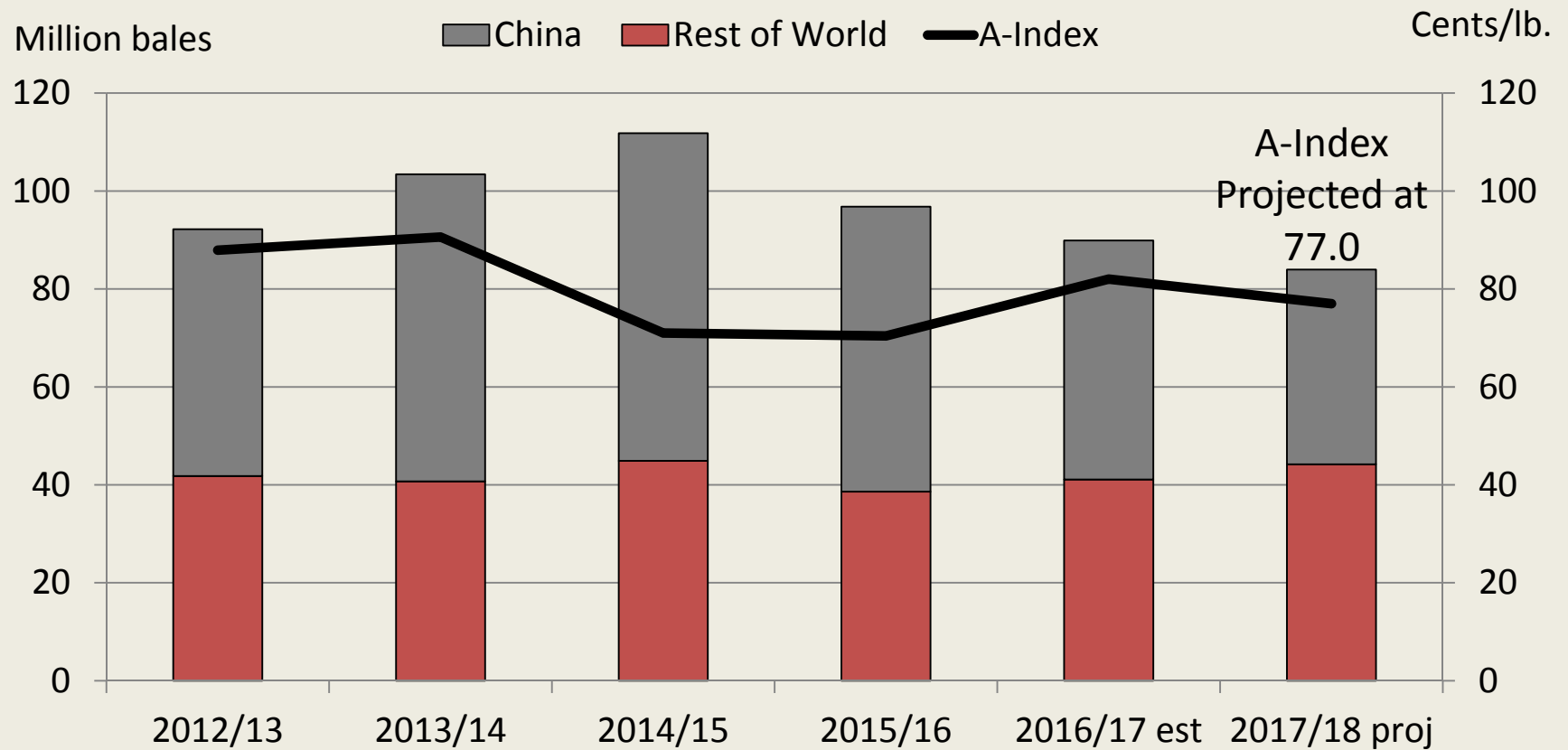
Consumption Exceeds Production for 3rd Season; Stocks Reduced Further

	Unit	2016/17	2017/18	Change (%)
Beg. stocks	Mil. bales	96.8	89.9	-7.2
Production	"	105.4	108.0	2.4
Imports	"	<u>35.7</u>	<u>35.5</u>	<u>-0.7</u>
Total supply	"	238.0	233.4	-1.9
Consumption	"	112.5	114.0	1.3
Exports	"	<u>35.7</u>	<u>35.5</u>	<u>-0.7</u>
Total demand	"	148.3	149.5	0.8
Ending stocks	"	89.9	83.9	-6.7
Stocks-to-consumption	%	79.9	73.6	-7.9

Source: USDA, Interagency Commodity Estimates Committee.

Stocks Outside China Projected Higher

...and world prices decline.



Source: USDA, Interagency Commodity Estimates Committee.

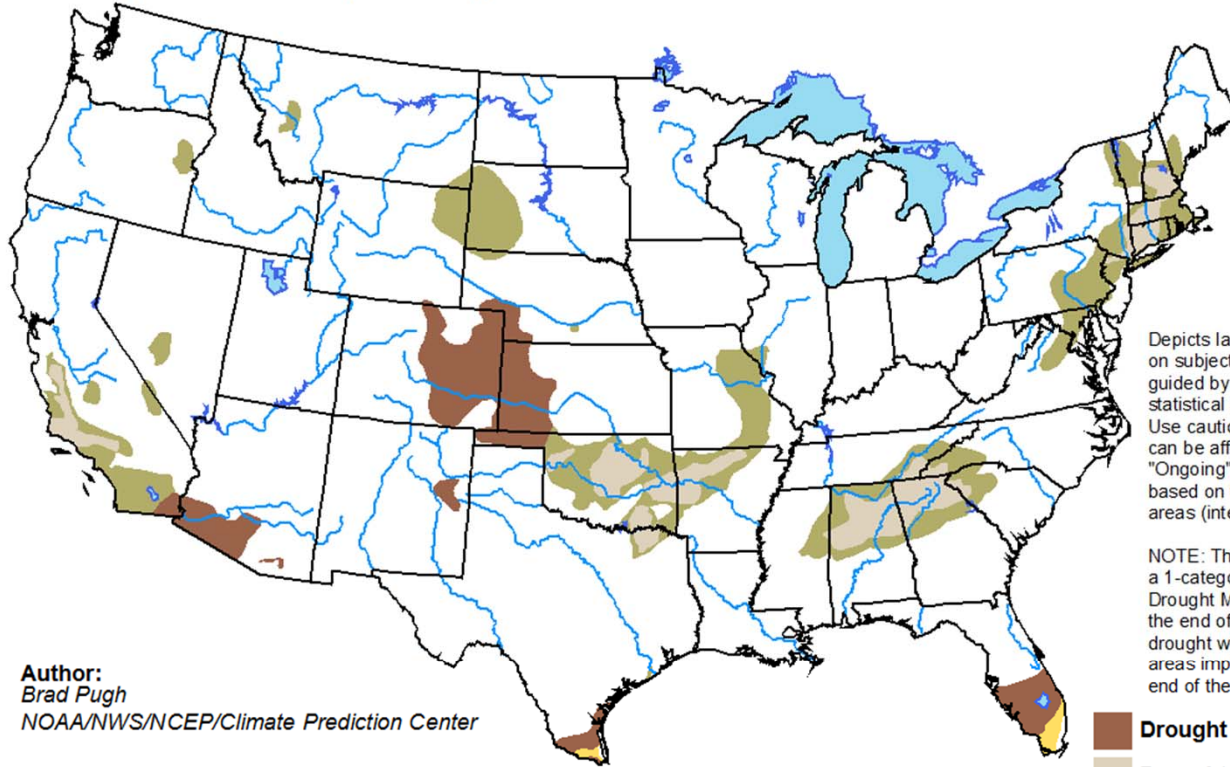
2017/18

U.S. Cotton Outlook

No Current Indications of Drought

U.S. Seasonal Drought Outlook Drought Tendency During the Valid Period





Valid for February 16 - May 31, 2017
Released February 16, 2017



Depicts large-scale trends based on subjectively derived probabilities guided by short- and long-range statistical and dynamical forecasts. Use caution for applications that can be affected by short lived events. "Ongoing" drought areas are based on the U.S. Drought Monitor areas (intensities of D1 to D4).

NOTE: The tan areas imply at least a 1-category improvement in the Drought Monitor intensity levels by the end of the period, although drought will remain. The green areas imply drought removal by the end of the period (D0 or none).

Author:
Brad Pugh
NOAA/NWS/NCEP/Climate Prediction Center

-  Drought persists
-  Drought remains but improves
-  Drought removal likely
-  Drought development likely



<http://go.usa.gov/3eZ73>

Outlook for 2017/18 U.S. Cotton Area

- Planted acreage expected higher at 11.5 million acres.
 - Harvested area forecast at 10 million acres.
 - NCC survey indicated about 11.0 million acres planted.
- Cotton is priced favorably vs. competing crops as planting approaches
- USDA is higher than NCC because prices have risen since the NCC survey period

U.S. Cotton Area, Yield, and Production

Key Factors Include Crop Conditions & Abandonment

Southwest expected to account for 60% of area

	<u>Unit</u>	<u>2016/17</u>	<u>2017/18</u>	<u>Change(%)</u>
Planted area	Mil. acres	10.07	11.50	14.2
Harvested area	"	9.52	10.00	5.0
Abandonment rate	%	5.5	13.0	236.4
Yield/harvested acre	Lbs.	855	816	-4.6
Production	Mil. bales	16.96	17.00	0.2

Source: USDA, Interagency Commodity Estimates Committee.

U.S. Cotton Supply & Demand Projections:

Production and Exports Rebound; Stocks Unchanged

	Unit	2016/17	2017/18	Change (%)
Beg. stocks	Mil. bales	3.8	4.8	26.3
Production	"	16.96	17.00	0.2
Imports	"	<u>0.01</u>	<u>0.01</u>	<u>0.0</u>
Total supply	"	20.77	21.81	5.0
Mill use	"	3.3	3.4	3.0
Exports	"	<u>12.7</u>	<u>13.2</u>	<u>3.9</u>
Total demand	"	16.0	16.6	3.7
Ending stocks	"	4.8	5.2	8.4
Stocks-to-use	%	30.0	31.2	4.3
Farm price	Cents/lb.	69.0	65.0	-5.8

Source: USDA, Interagency Commodity Estimates Committee.

U.S. Export Forecast Higher in 2017/18:

Growth Contingent Upon Several Factors

- Increased exportable supplies in the United States.
 - Additional 1 M bales at current production expectations.
 - Highest exportable supplies since 2008/09
 - Highest beginning stocks in the U.S. since 2009
- Stronger consumption growth in importing countries
 - E.g. Vietnam, Bangladesh
- High or improving U.S. market share in many importing markets
 - Improvements in Bangladesh, China
 - High share in Vietnam

Variables that Could Change the Outlook

- Cotton price volatility and its impact on area planted and harvested.
- Weather and growing conditions affecting production.
- Further China policy changes affecting stocks and prices.
- Macroeconomic conditions varying from average growth.
- Changes in polyester prices relative to cotton.

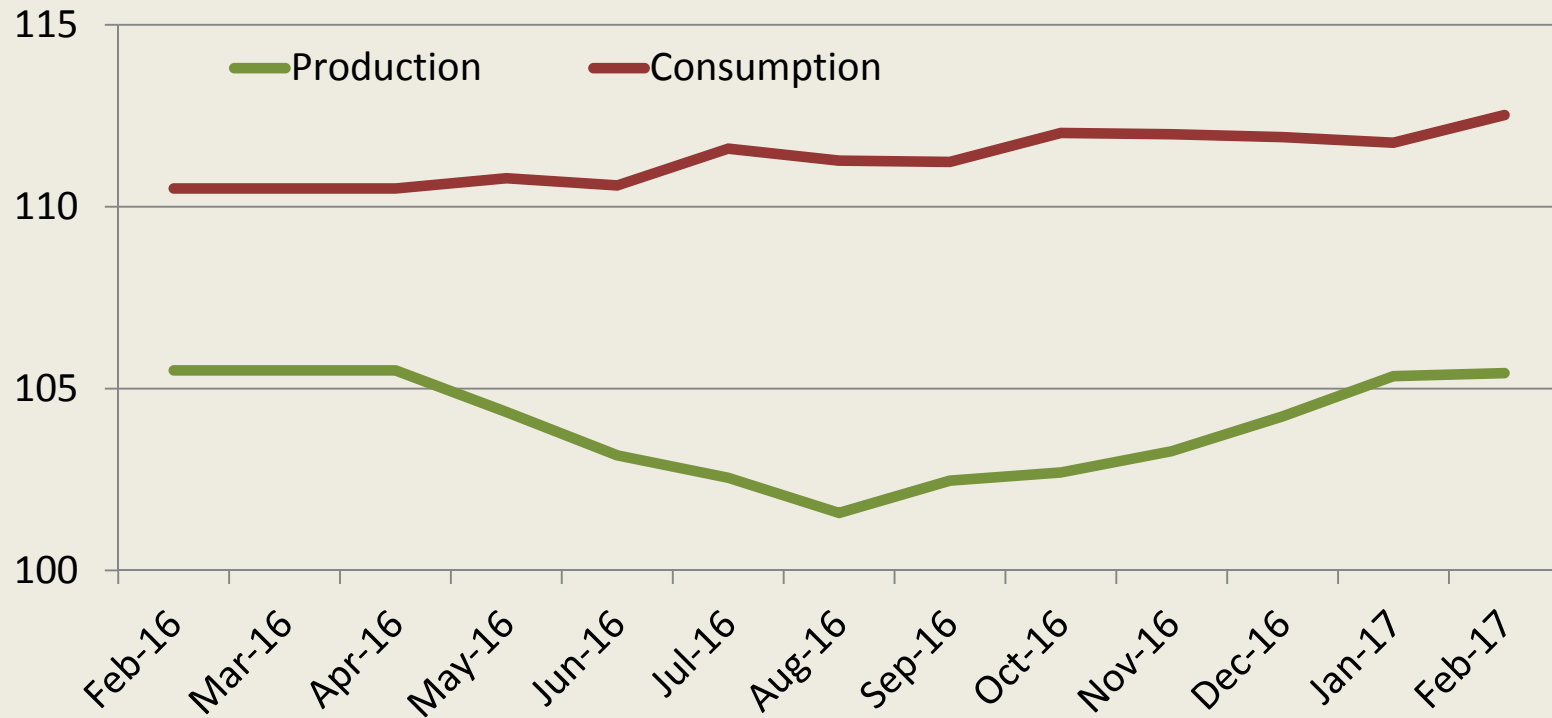
Final Thought:

***“When my information changes, I change my mind.
What do you do, sir?”***

--John Maynard Keynes (maybe)

Million bales

Global 2016/17 WASDE Forecasts Since Feb 2016

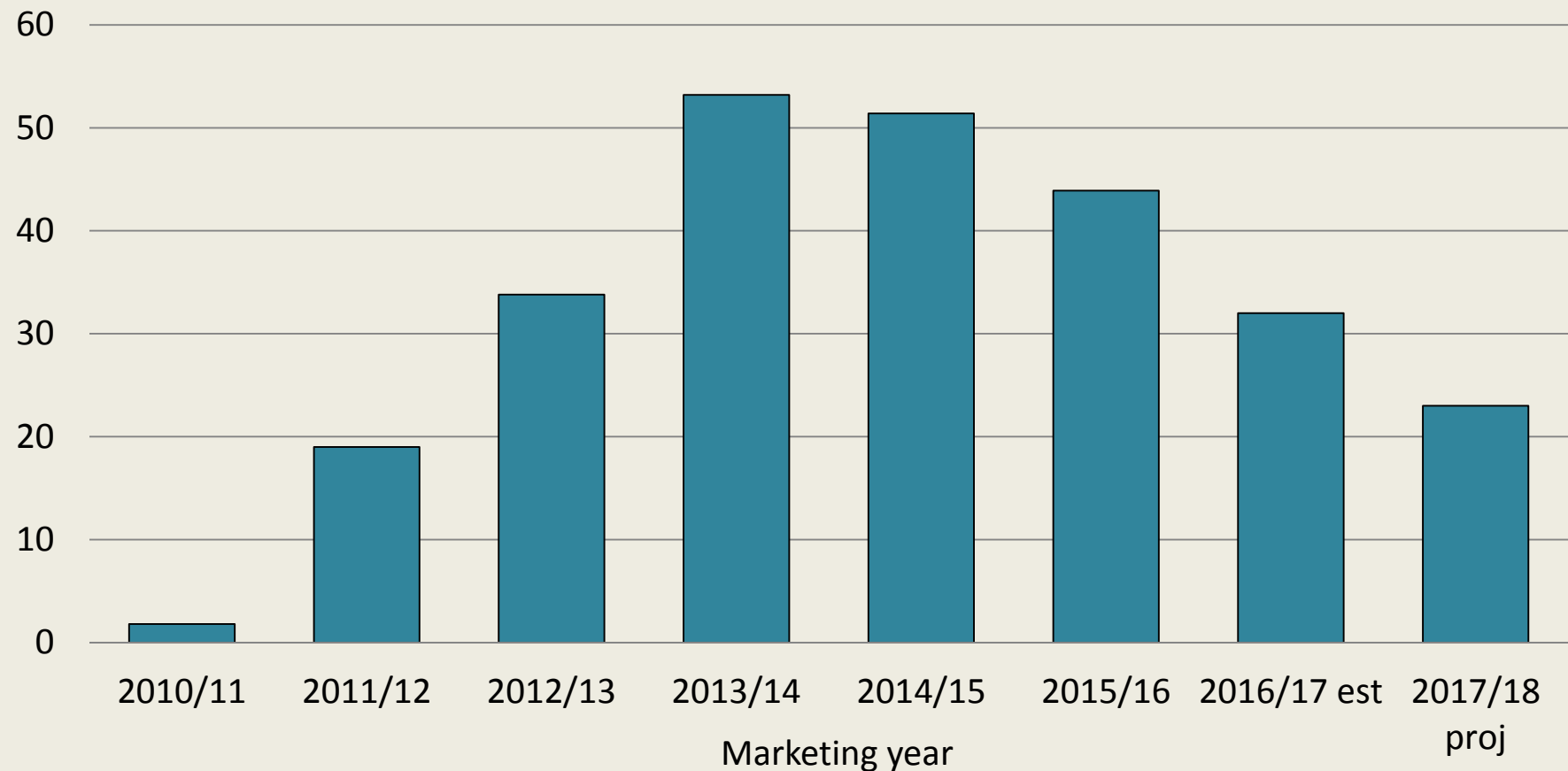


Thank You!

China's State Cotton Reserves:

Reserve sales have substantially reduced China's stockpiles

Million bales

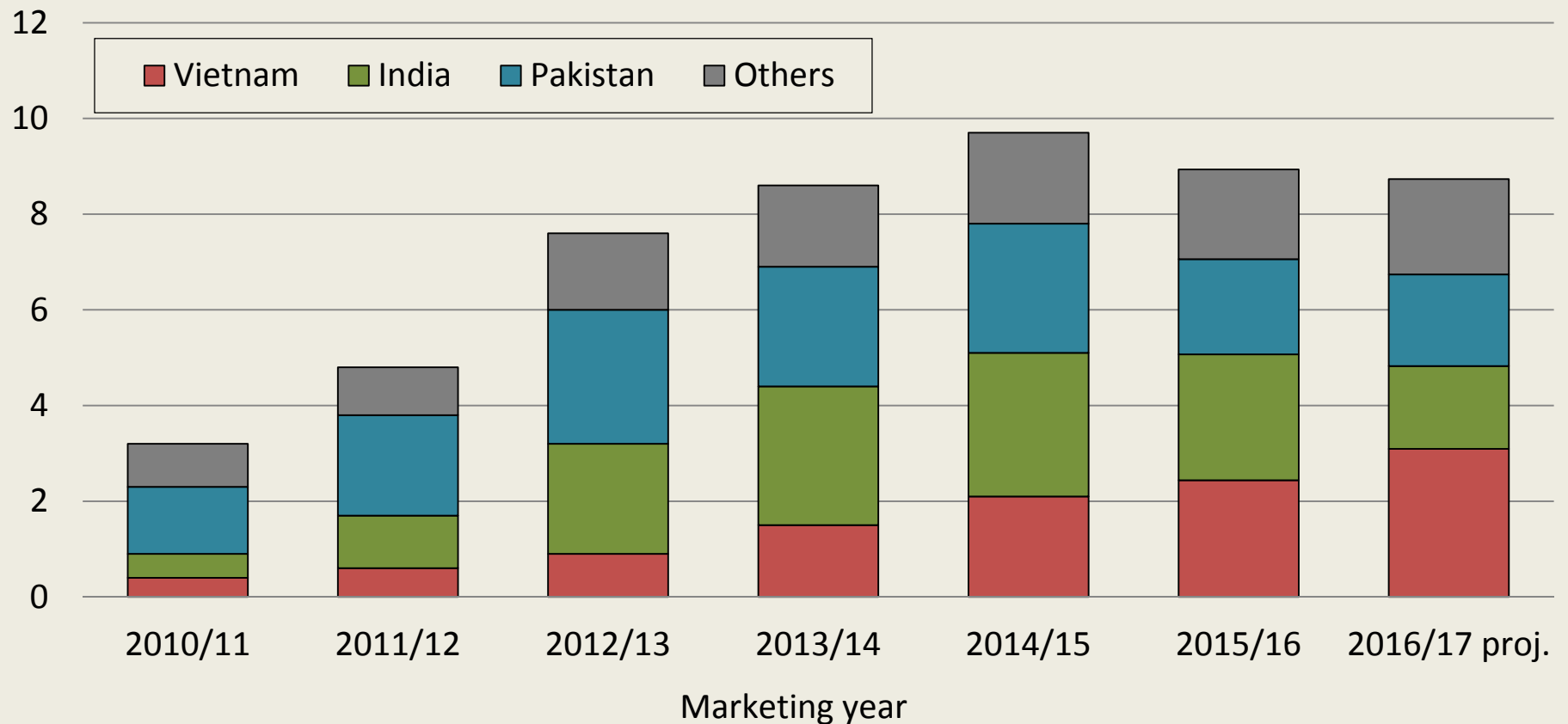


Source: USDA, Interagency Commodity Estimates Committee.

China's Cotton Yarn Import Expansion:

Leading suppliers include India, Pakistan, and Vietnam

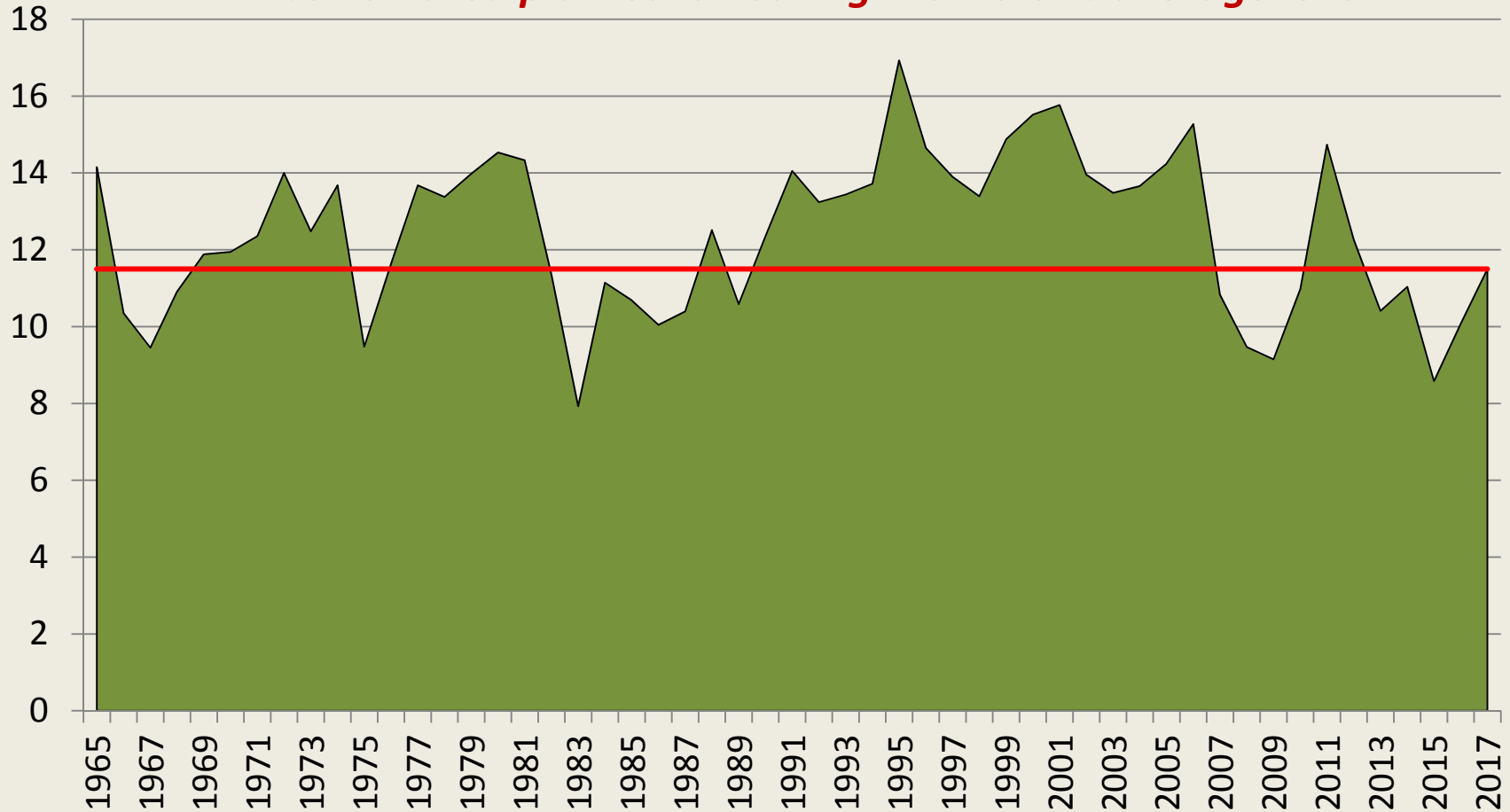
Million bale-equivalents



Sources: USDA and Global Trade Atlas.

U.S. Cotton Planted Area: A Historical Perspective

Cotton area planted is nearing the historic average level



Source: USDA, National Agricultural Statistics Service.