



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

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**

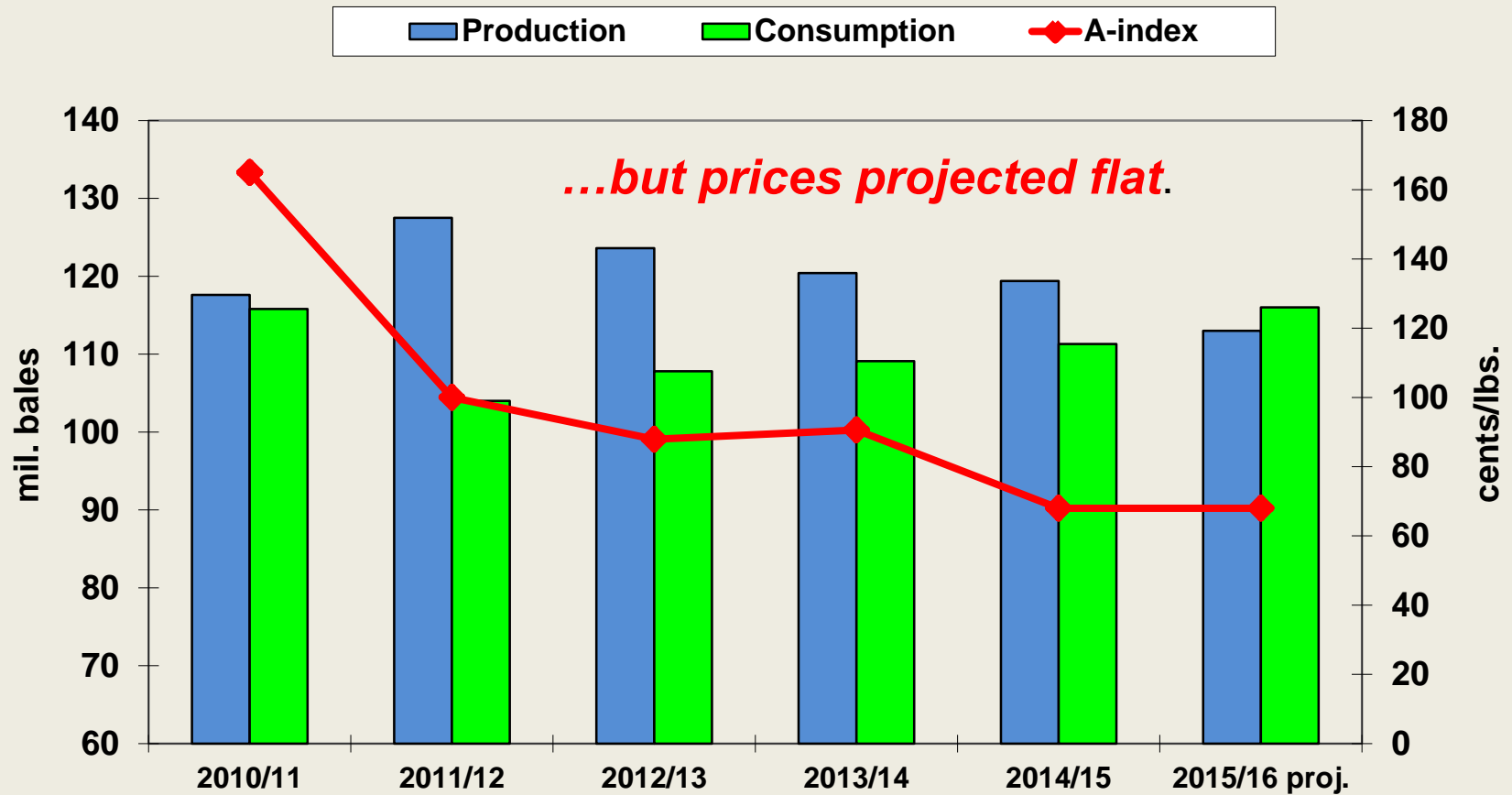
# **The World and U.S. Cotton Outlook for 2015/16**

**USDA**

**Interagency Cotton Estimates Committee**

**February 20, 2015**

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

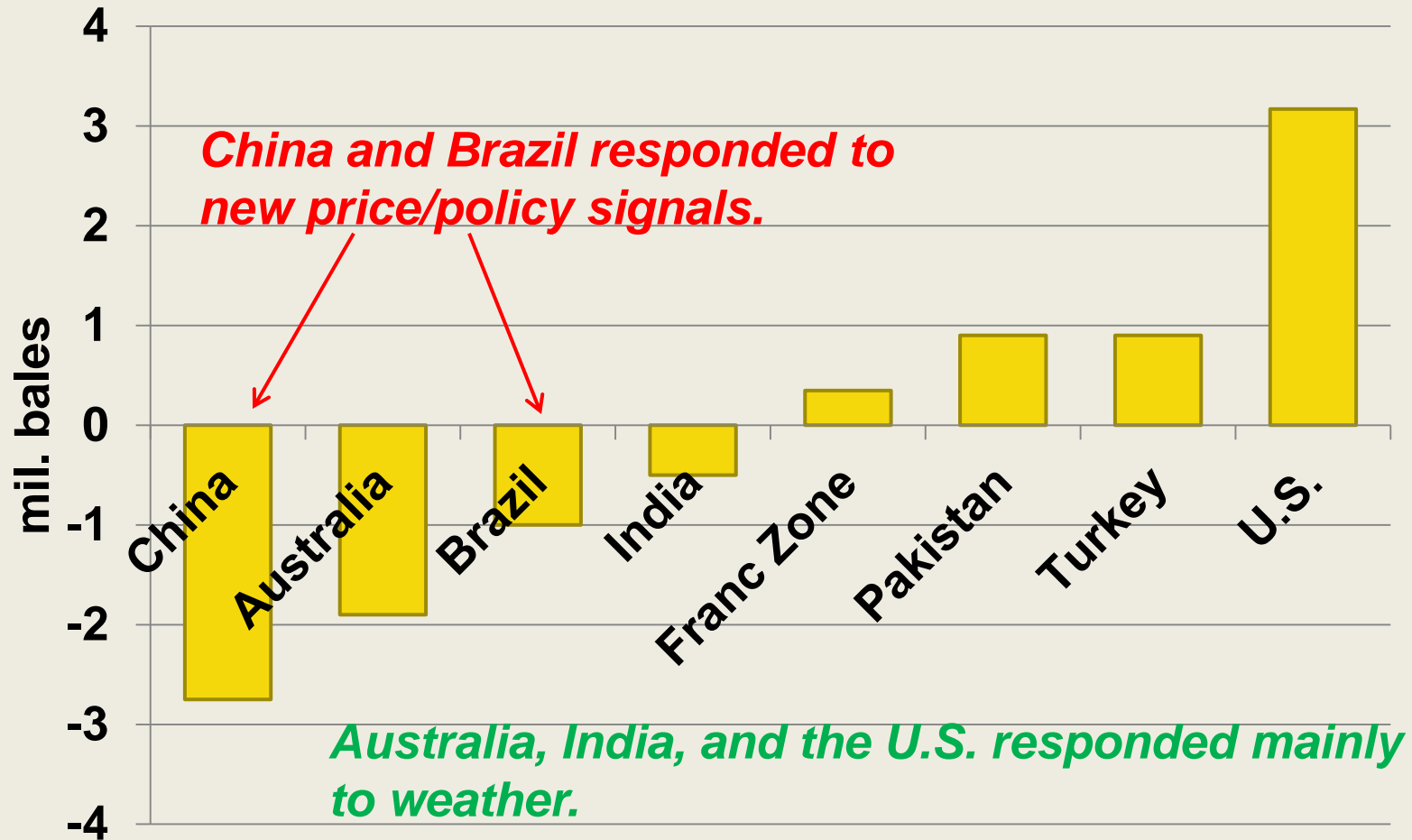


# **Stocks Adjustment is the Primary Issue**

- **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.**

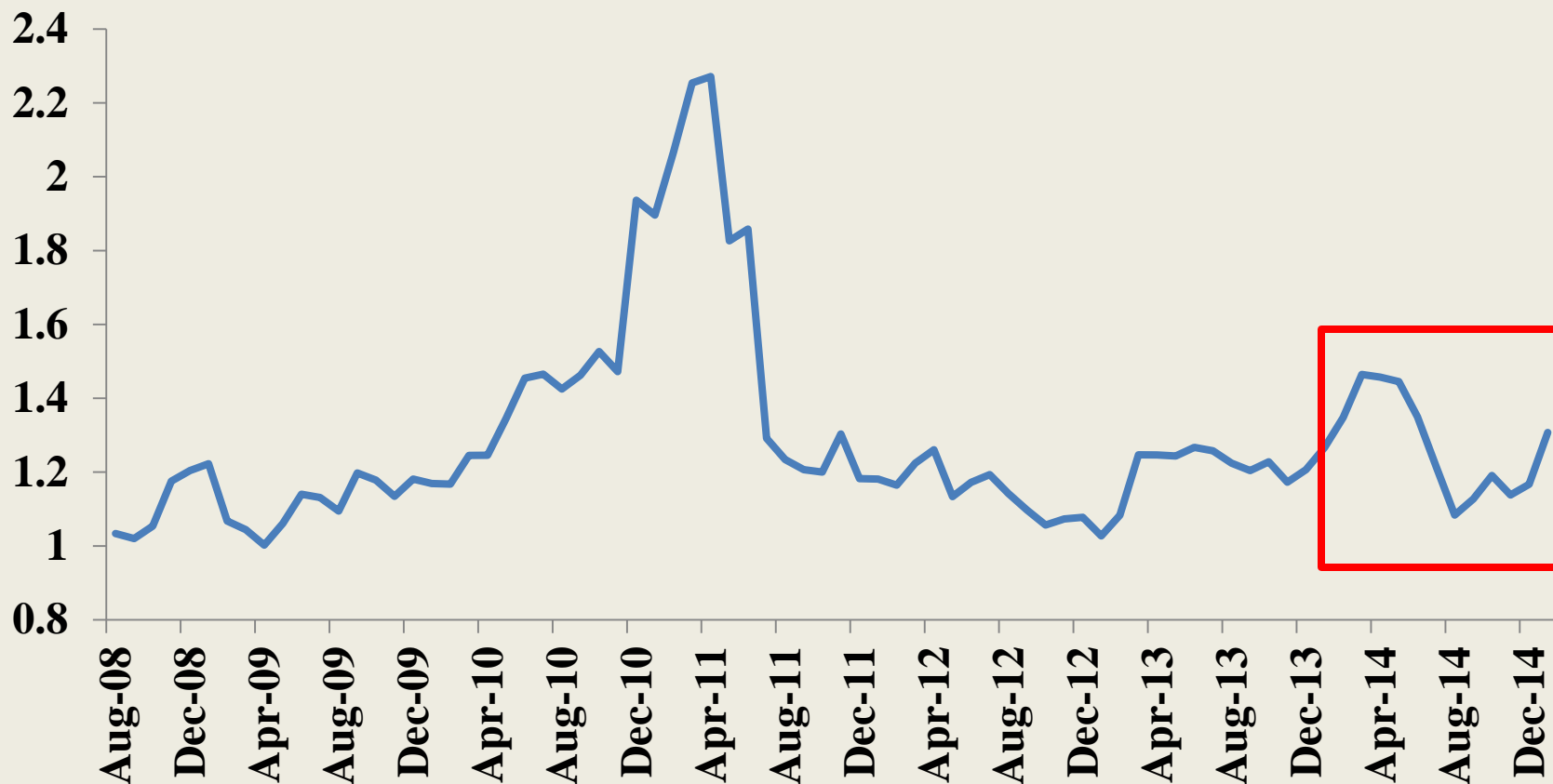


# **2014/15 World Consumption Expected to Grow 2 Percent**

- **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

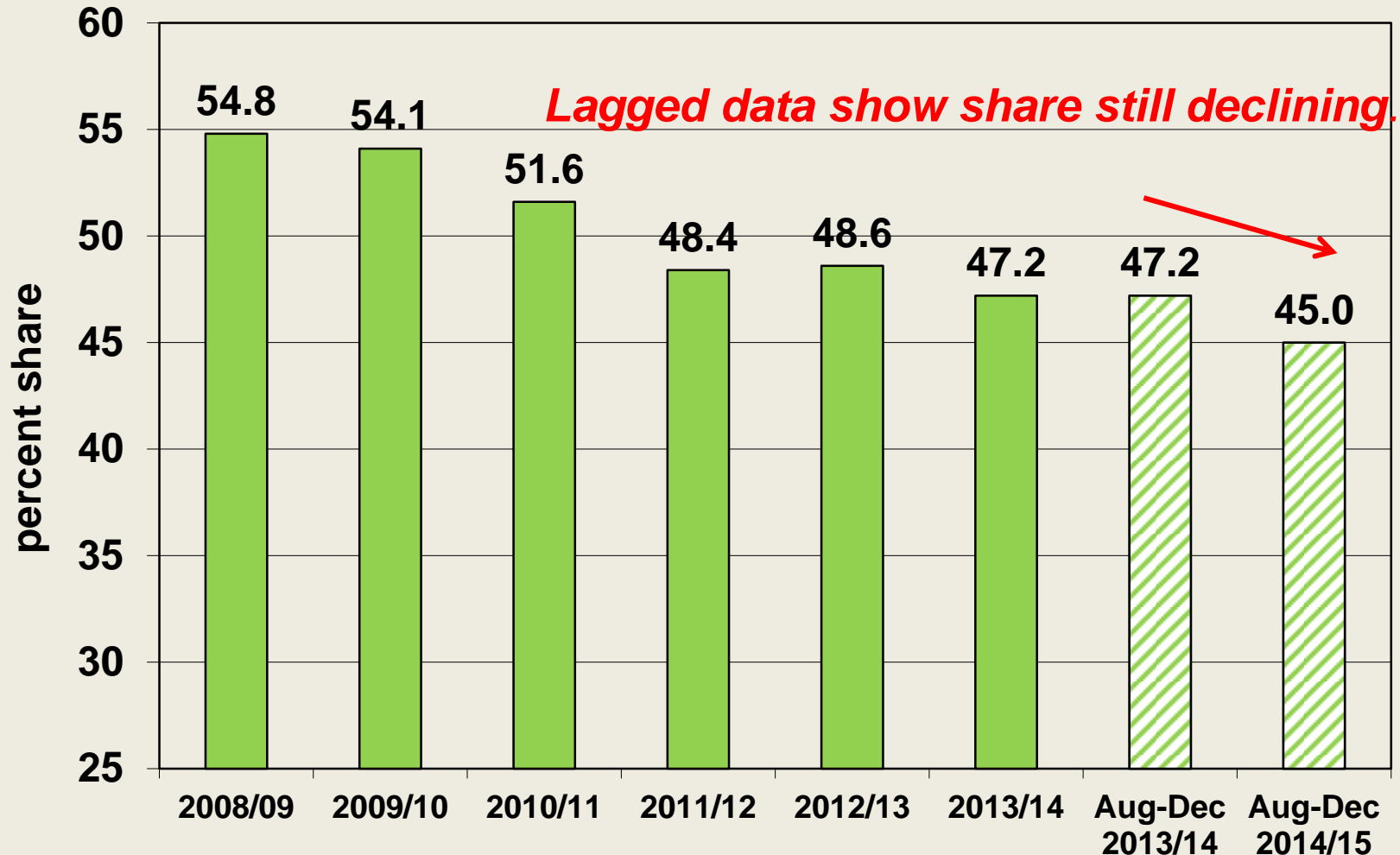
Cotton/polyester price ratio: Aug. 2008-Jan. 2015



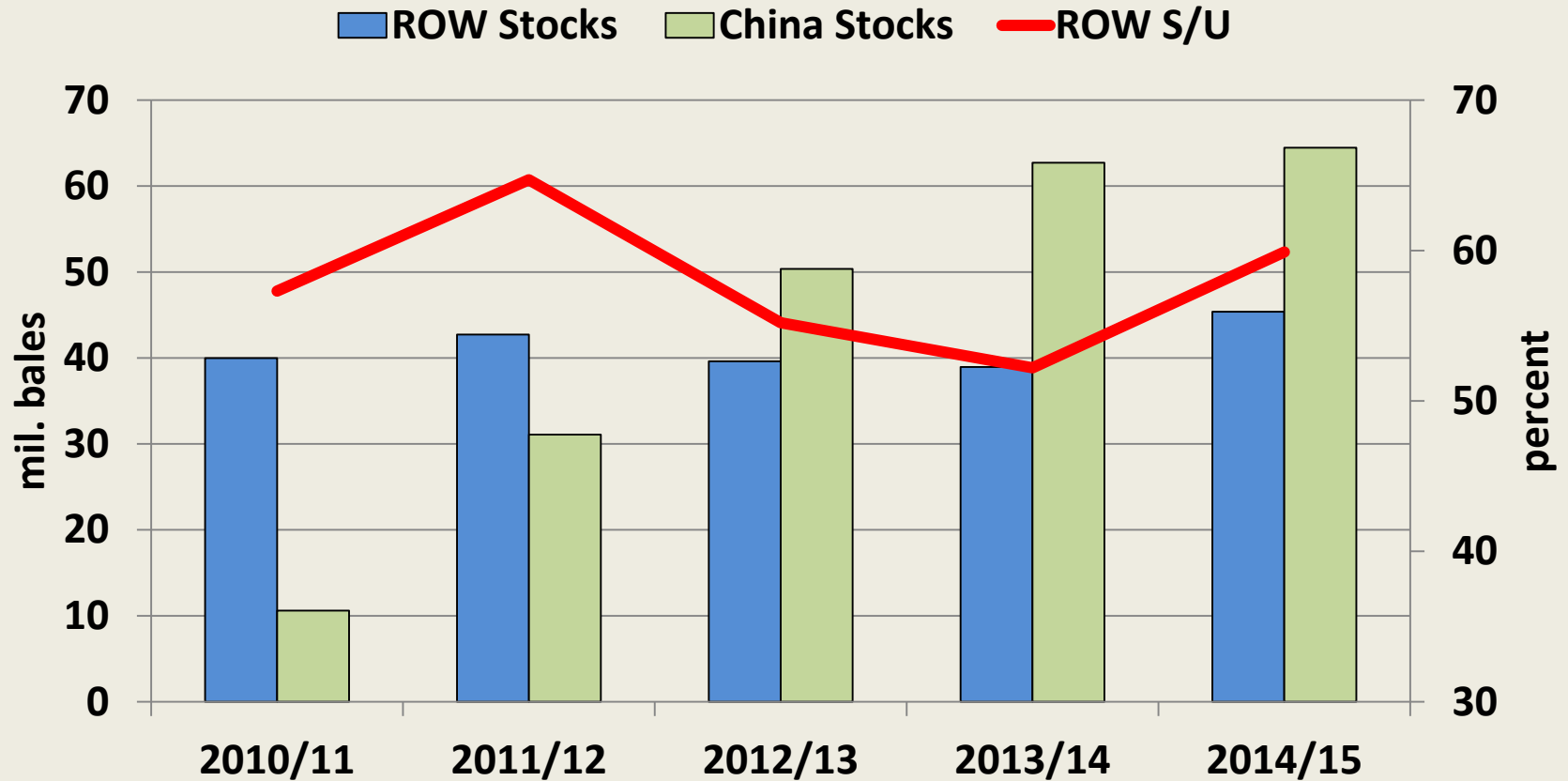
Sources: [cncotton.com](http://cncotton.com) (polyester), Cotlook Ltd. (cotton, A Index)

# Cotton's Fiber Share Has Not Recovered,

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



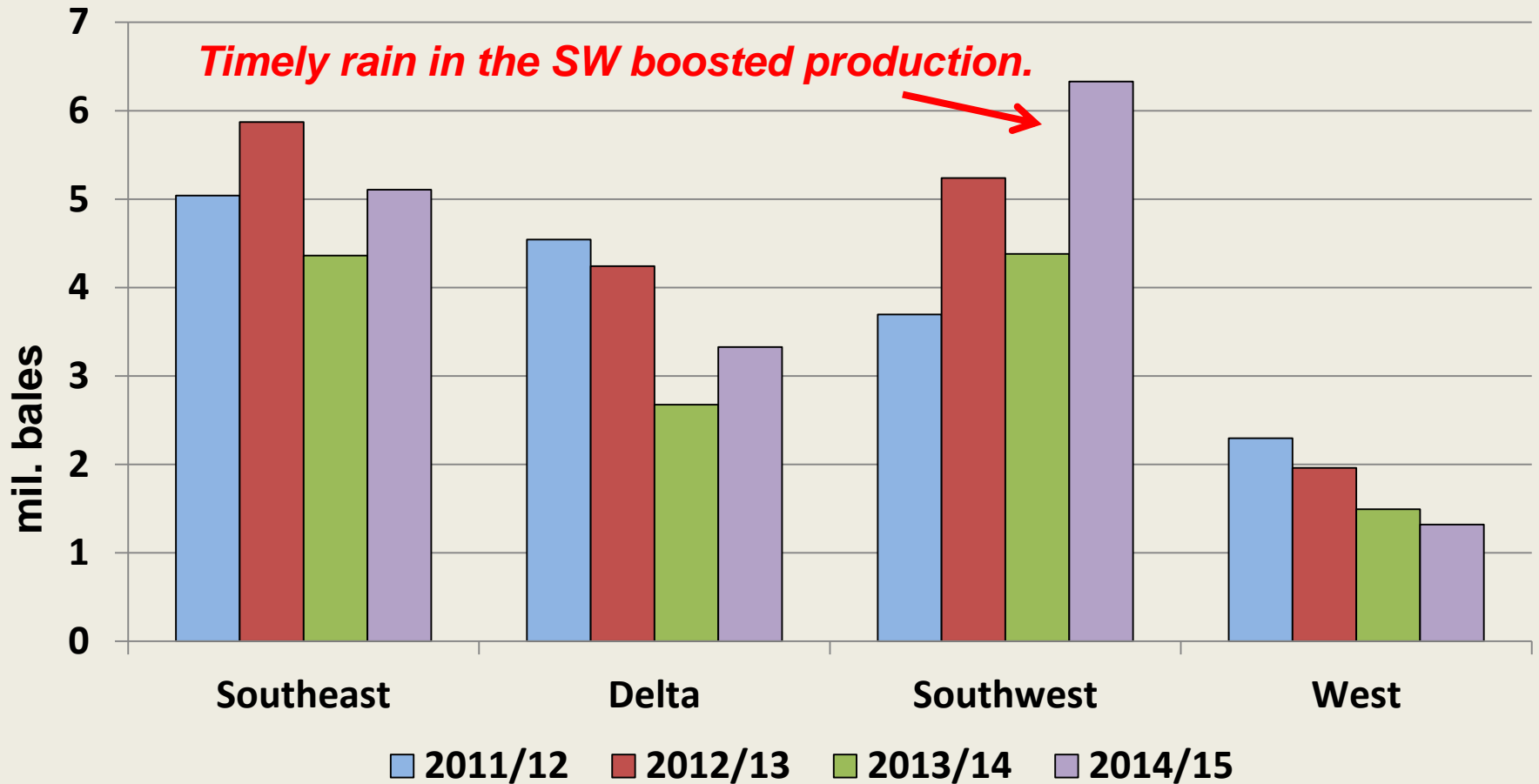
# Large Production & China Import Restrictions Force Stocks into Rest-of-World



***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

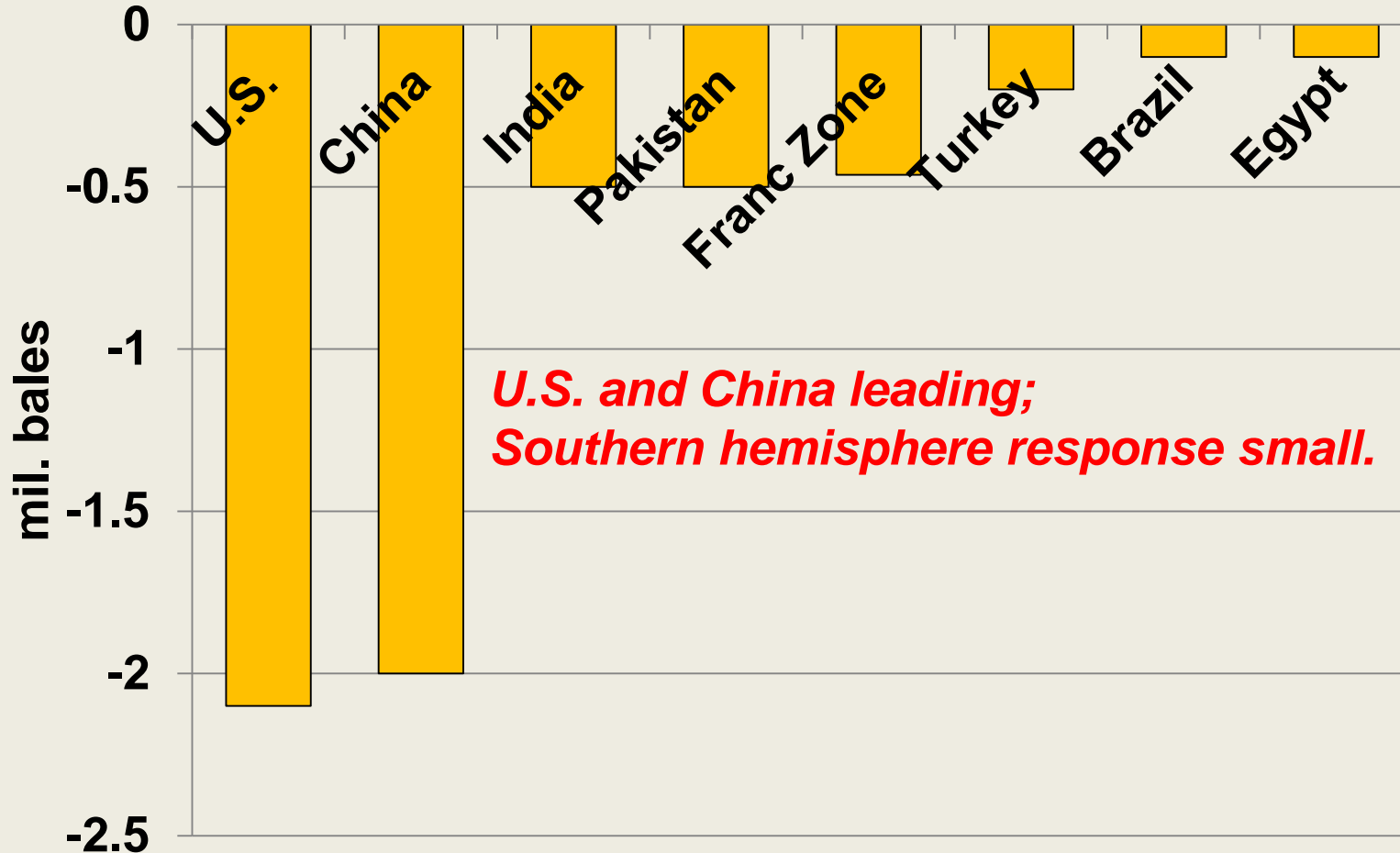
	Unit	2013/14	2014/15	Change (%)
Beg. Stocks	mil bales	3.8	2.5	-35.5
<b>Production</b>	"	<b>12.9</b>	<b>16.1</b>	<b>24.6</b>
Imports	"	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total supply	"	16.7	18.5	10.9
Mill use	"	3.6	3.7	2.8
<b>Exports</b>	"	<b><u>10.5</u></b>	<b><u>10.7*</u></b>	<b><u>1.6</u></b>
Total demand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

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

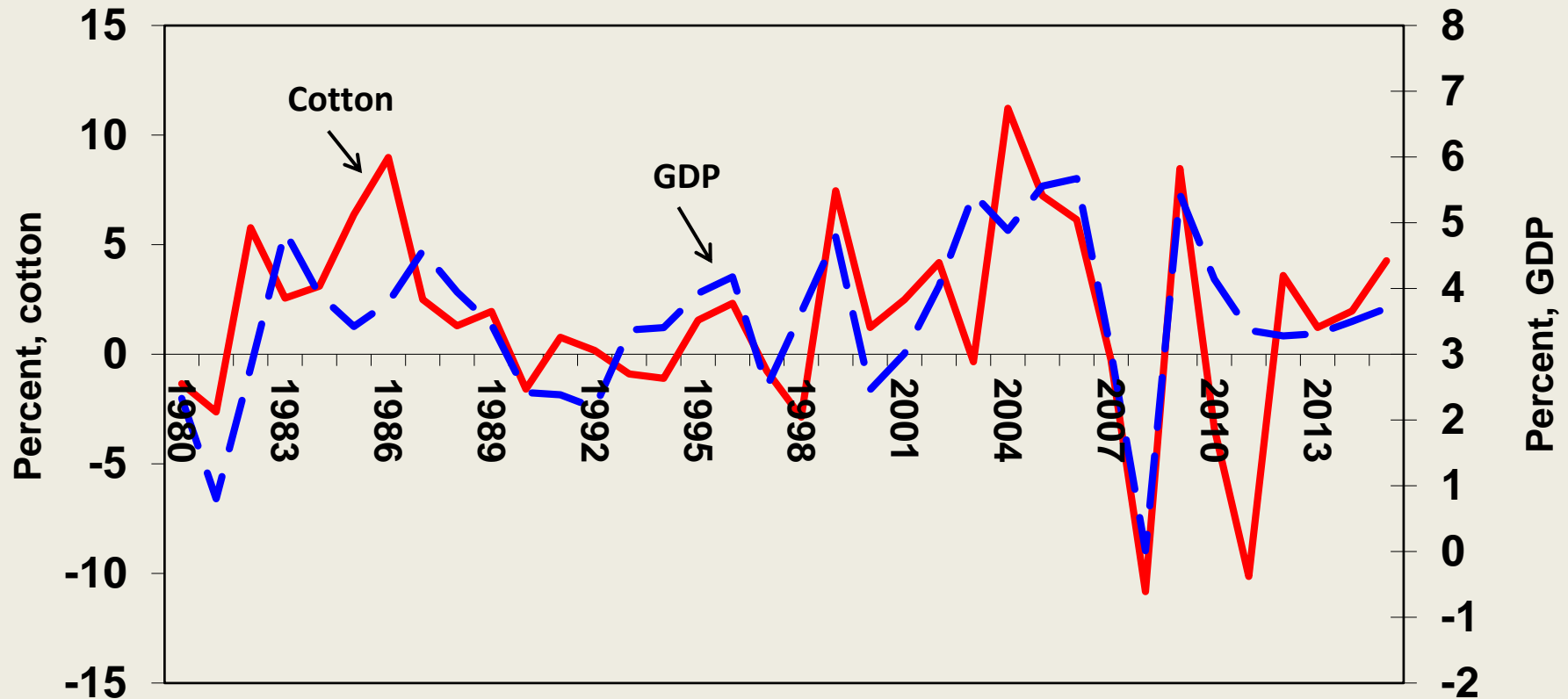
# **World and China Outlook, 2015/16**



# Global Production Projected Down 6.4 mil. bales



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

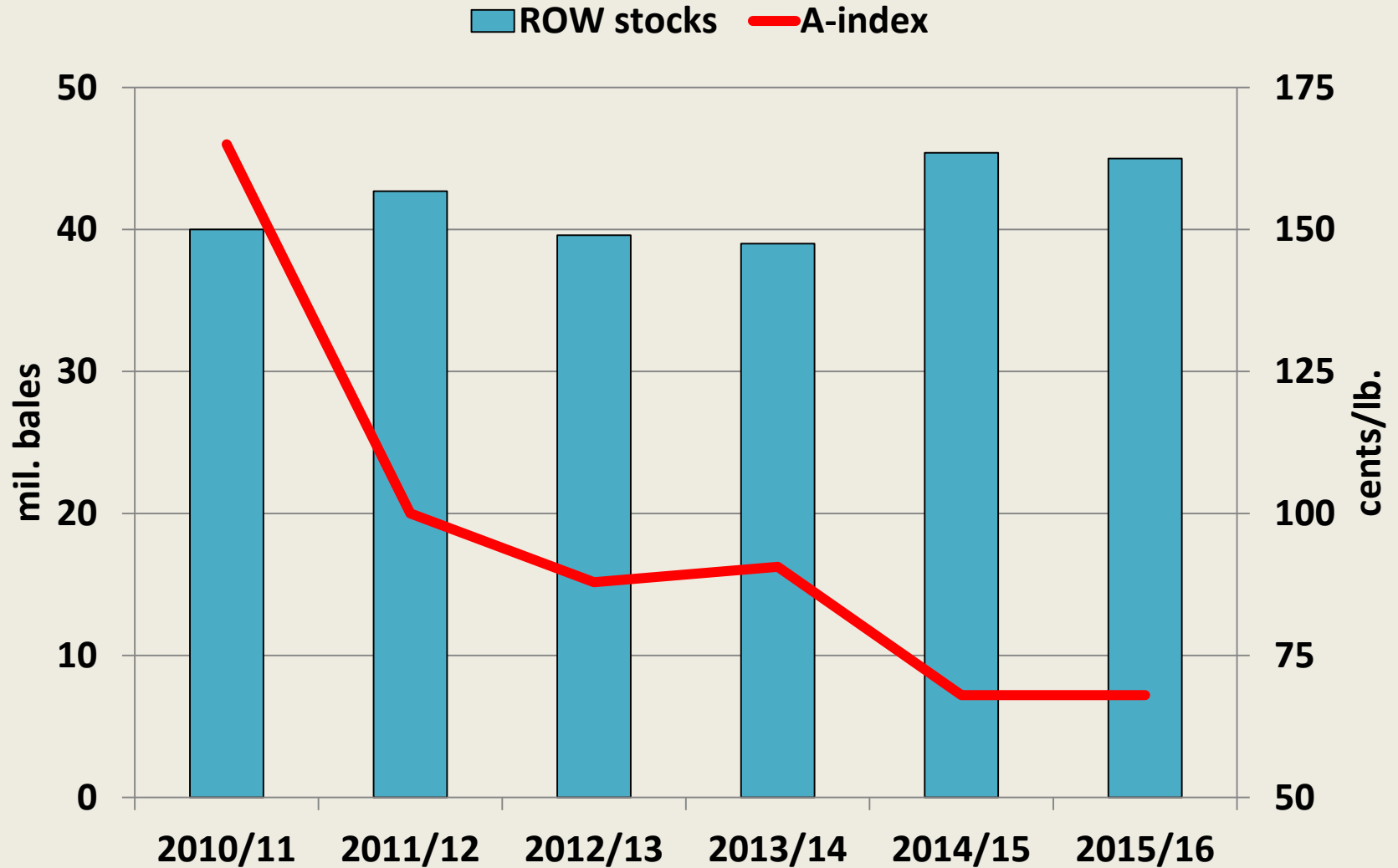


Sources: USDA and International Monetary Fund.

# **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.**

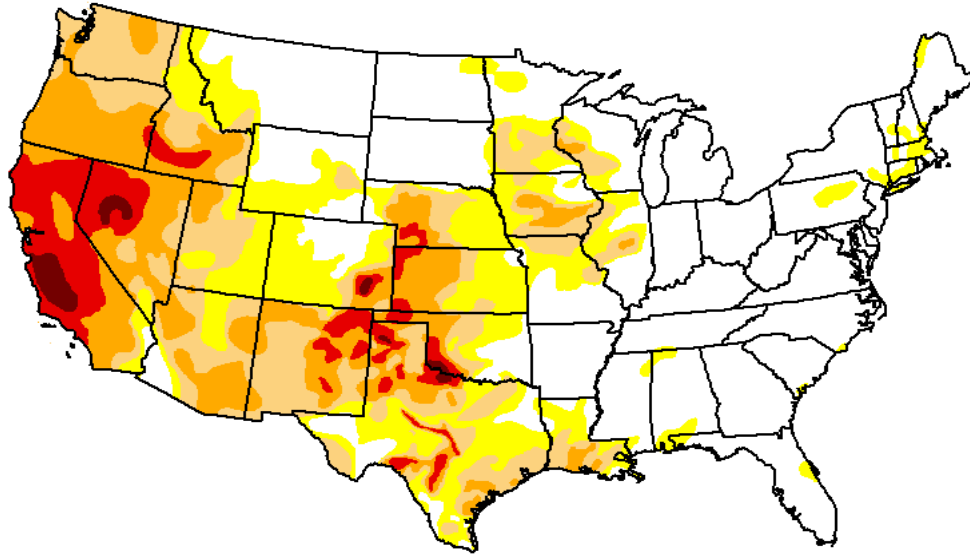
# U.S. Cotton Area, Yield, and Production

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

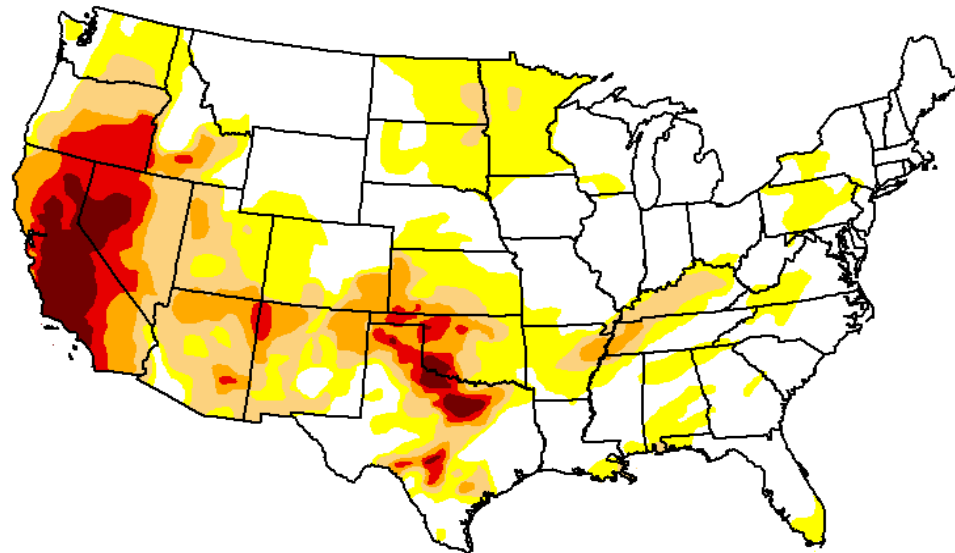
	<u>Unit</u>	<u>2014/15</u>	<u>2015/16</u>	<u>Change(%)</u>
<b>Planted area</b>	mil. acres	11.0	9.7	-11.8
<b>Harvested area</b>	"	9.7	8.4	-13.4
<b>Abandonment rate</b>	%	12.1	13.4	10.7
<b>Yield/harvested acre</b>	lbs./acre	795	800	0.6
<b>Production</b>	mil. bales	16.1	14.0	-13.0

# 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.**