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...

...but prices projected flat.
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.
Marginal Decrease in World Production, 2014/15

China and Brazil responded to new price/policy signals.

Australia, India, and the U.S. responded mainly to weather.
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


Sources: cnCotton.com (polyester), Cotlook Ltd. (cotton, A Index)
Cotton’s Fiber Share Has NotRecovered,
(U.S. textile imports, raw fiber equivalent basis)

Lagged data show share still declining.
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

Timely rain in the SW boosted production.
U.S. Cotton Supply & Demand, 2014/15

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

* 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

U.S. and China leading; Southern hemisphere response small.
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

- **ROW stocks**
- **A-index**

The chart shows the comparison between ROW stocks and the A-index from 2010/11 to 2015/16. The x-axis represents the years (2010/11 to 2015/16), and the y-axis represents the stock levels in millions of bales and the price in cents per pound. The A-index line shows a decreasing trend over the years.
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)*

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<tr>
<td>Planted area</td>
<td>mil. acres</td>
<td>11.0</td>
<td>9.7</td>
<td>-11.8</td>
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<tr>
<td>Harvested area</td>
<td>&quot;</td>
<td>9.7</td>
<td>8.4</td>
<td>-13.4</td>
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<tr>
<td>Abandonment rate</td>
<td>%</td>
<td>12.1</td>
<td>13.4</td>
<td>10.7</td>
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<td>Yield/harvested acre</td>
<td>lbs./acre</td>
<td>795</td>
<td>800</td>
<td>0.6</td>
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<td>Production</td>
<td>mil. bales</td>
<td>16.1</td>
<td>14.0</td>
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Drought Persists in Texas High Plains; Worsens in California

February 11, 2014

February 10, 2015
## U.S. Cotton Supply & Demand, 2015/16

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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.