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United States Department of Agriculture

The World and U.S. Cotton Outlook for 2016/17

Interagency Commodity Estimates Committee

Presented by

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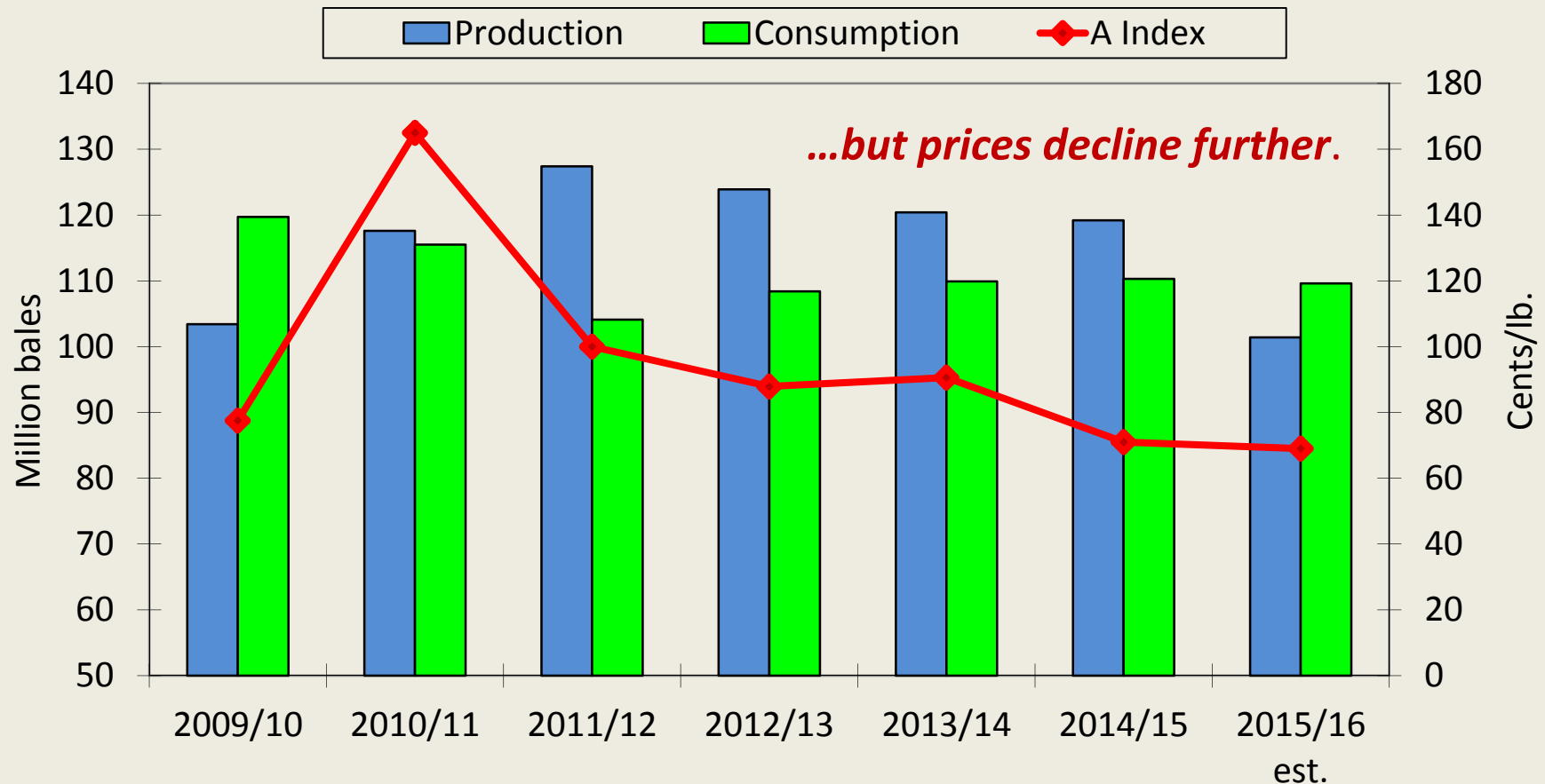
Agricultural Outlook Forum

February 26, 2016

Economic Research Service
www.ers.usda.gov



World Cotton Consumption Exceeds Production for the First Time in 6 Years...



Sources: USDA, Interagency Commodity Estimates Committee and Cotlook.

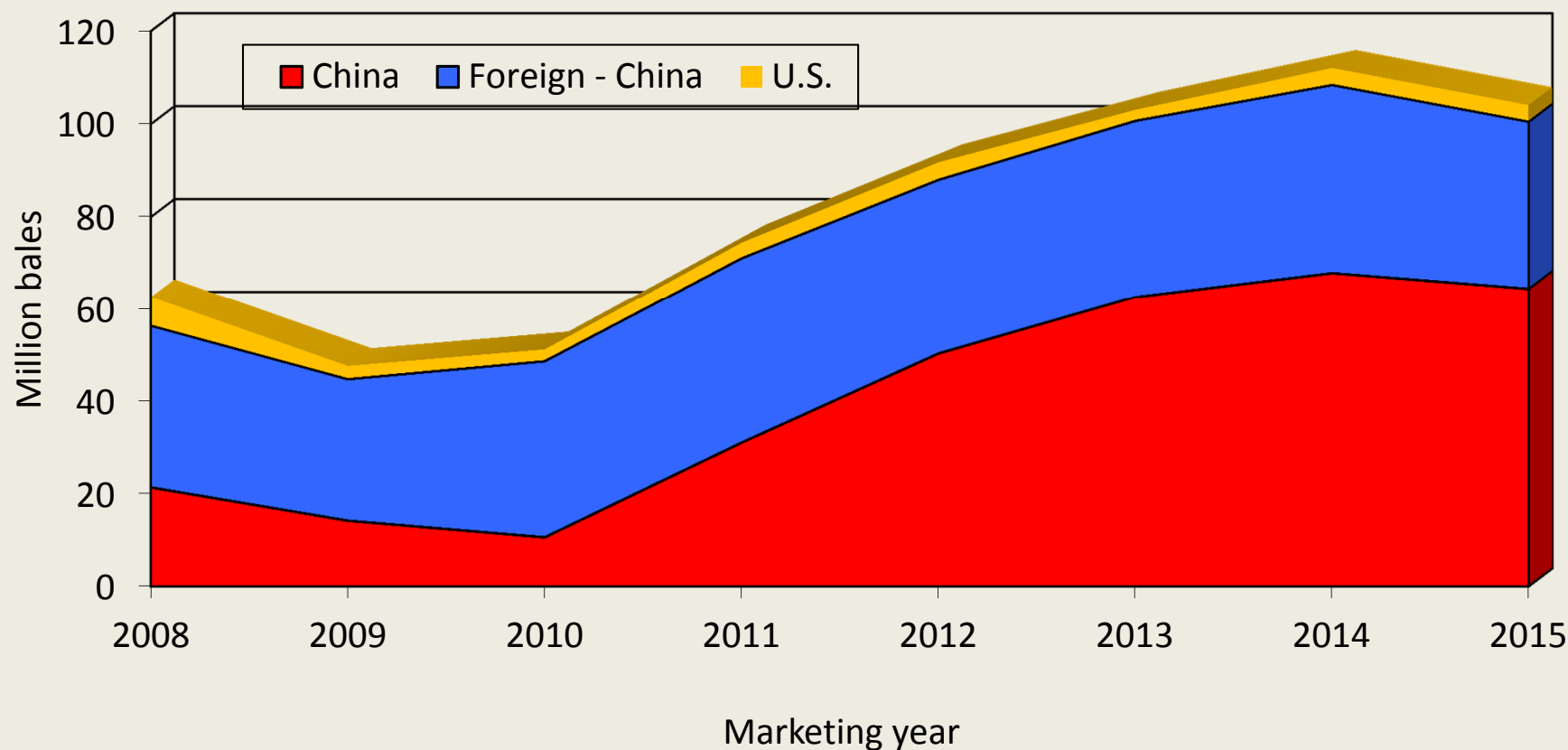


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Global Cotton Stocks Decline From Record...

...but supplies represent nearly a year's worth of consumption.



Source: USDA, Interagency Commodity Estimates Committee.



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2015/16 World Cotton Situation

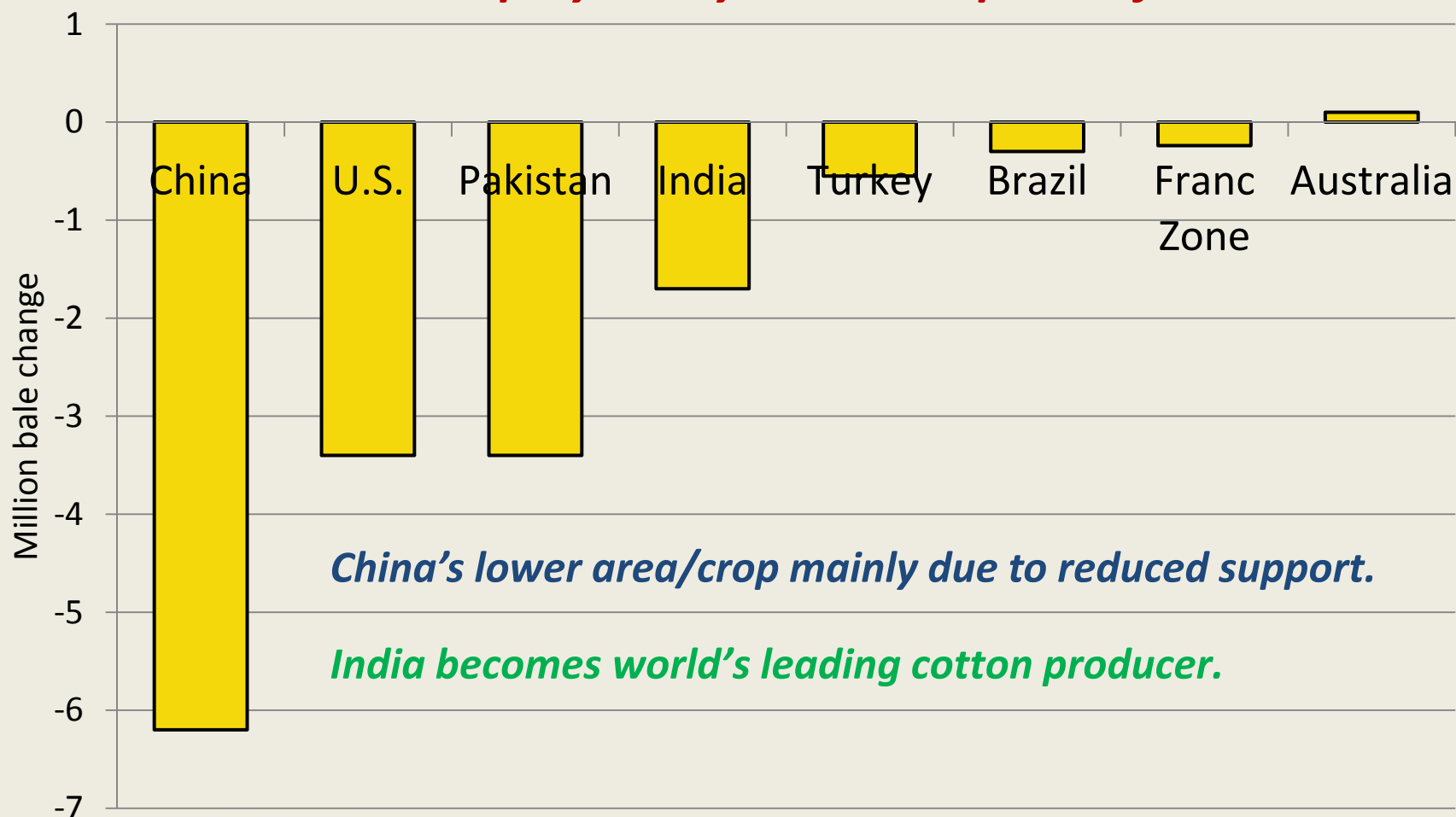


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Global Production Experienced Declines in 2015/16

Weather played key role in crop shortfall



Source: USDA, Interagency Commodity Estimates Committee.



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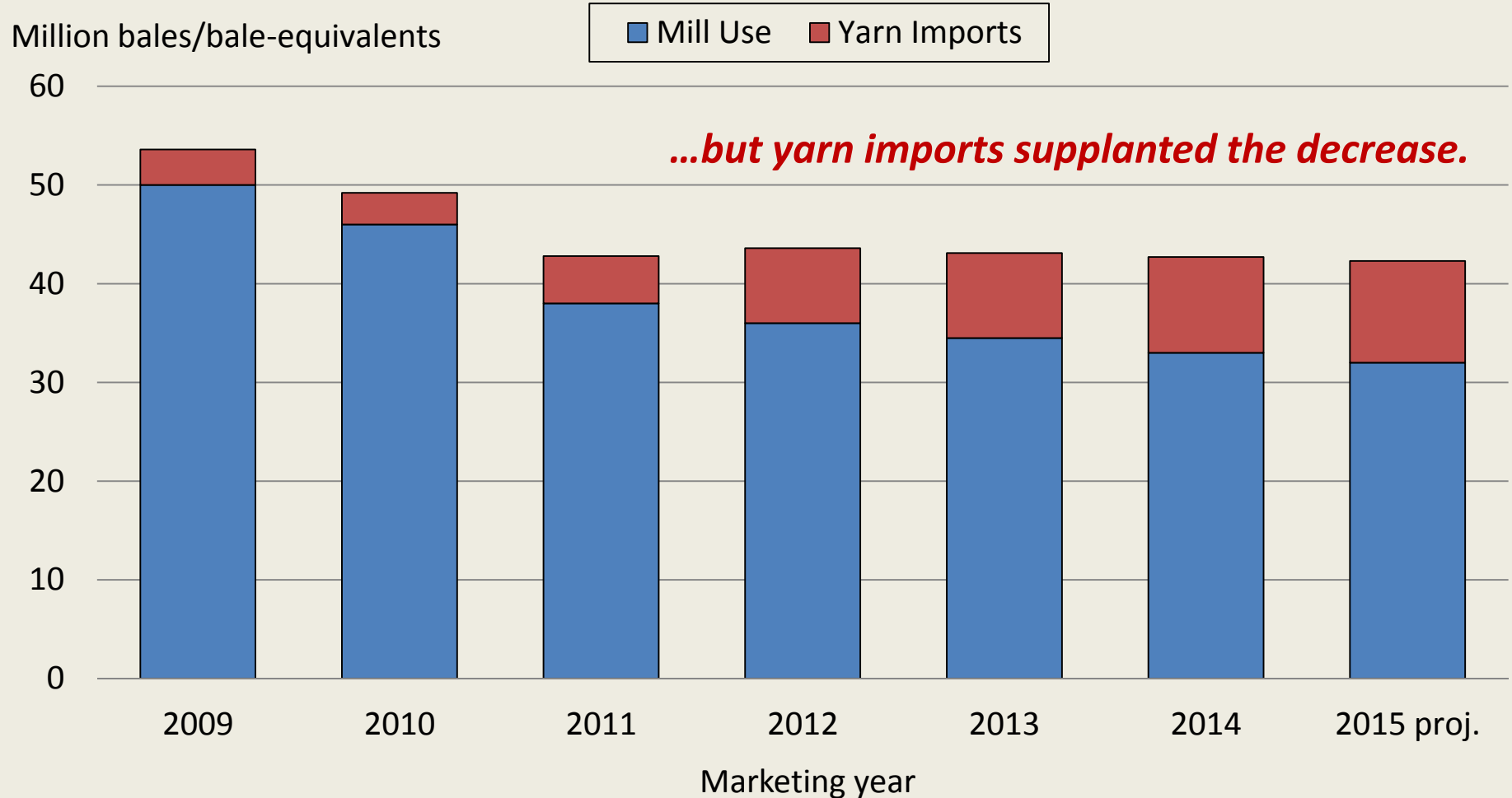
World Consumption Decrease Expected in 2015/16

Cotton consumption estimated at 109.6 million bales.

- Equal to the 5-year average despite lowest prices in 7 years.
 - Declines expected in China and Pakistan.
 - Increases expected in Bangladesh and Vietnam.
 - India, Turkey, and the United States are unchanged.
- Macroeconomic uncertainties constraining retail growth.
- Polyester prices have fallen further than cotton, increasing its price competitiveness.



China's Cotton Mill Use Declines...



Sources: USDA and Global Trade Atlas.



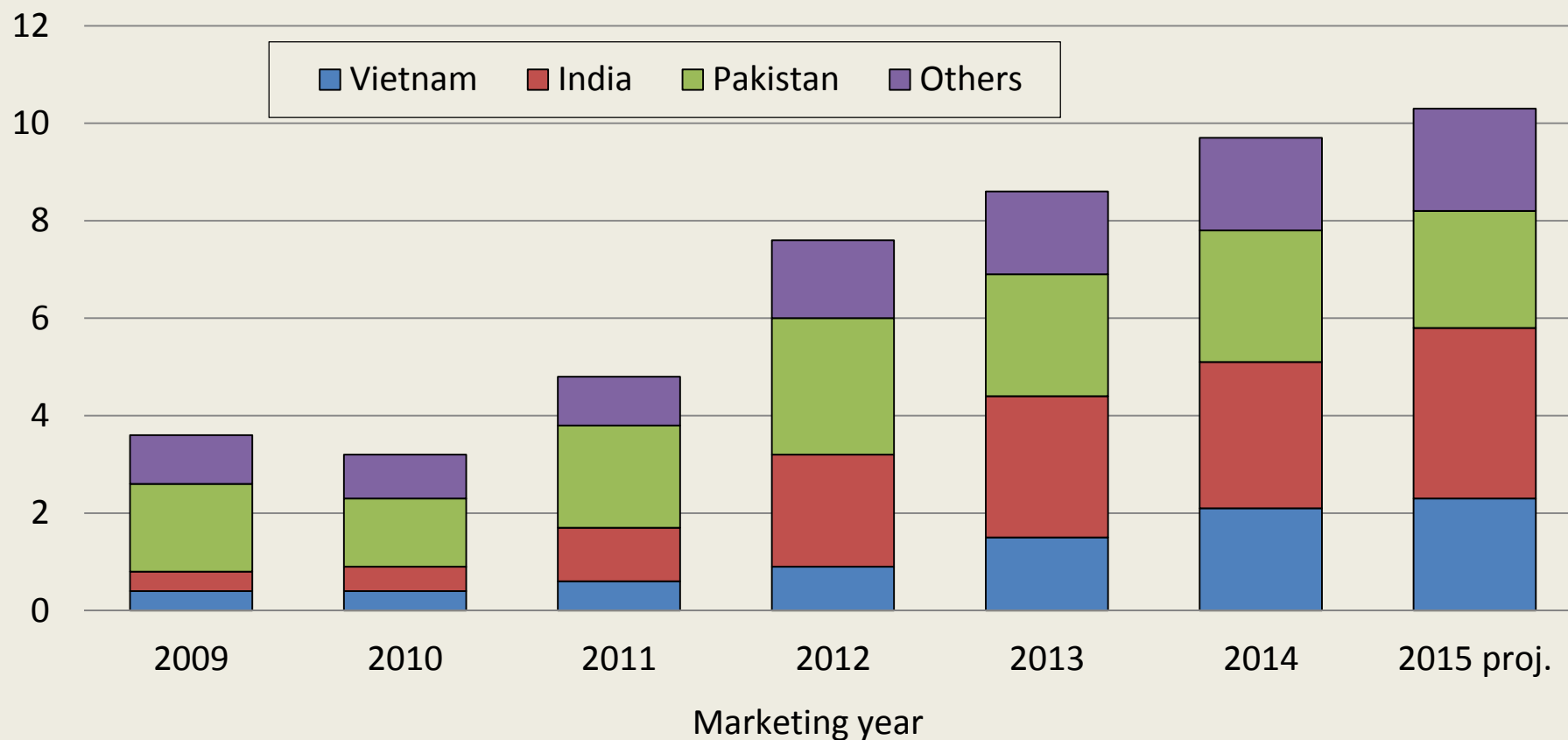
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China's Cotton Yarn Import Expansion:

Leading suppliers include India, Pakistan, and Vietnam

Million bale-equivalents



Sources: USDA and Global Trade Atlas.

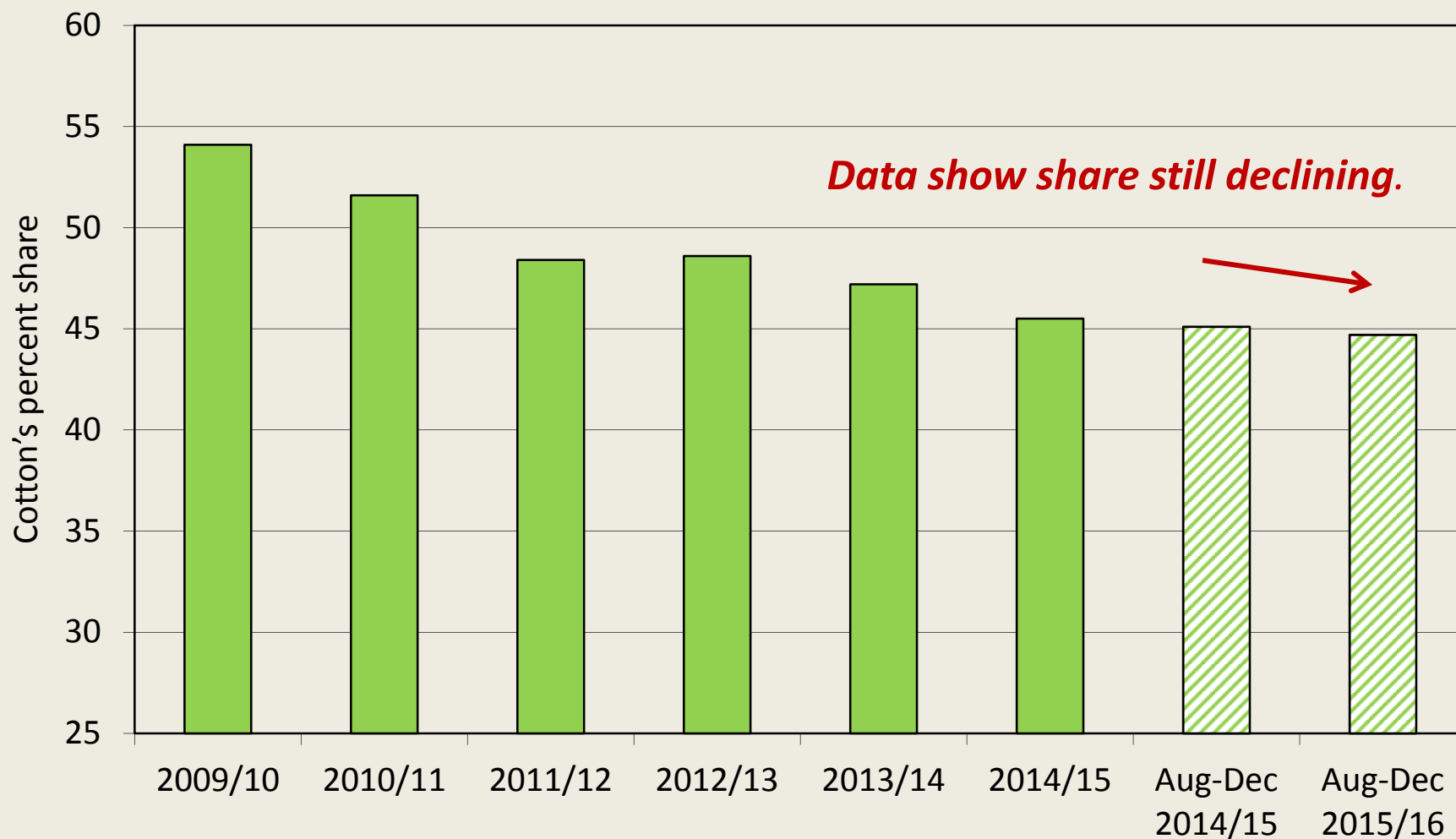


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Cotton Loses Share to Manmade Fibers

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



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



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2015/16 U.S. Cotton Situation

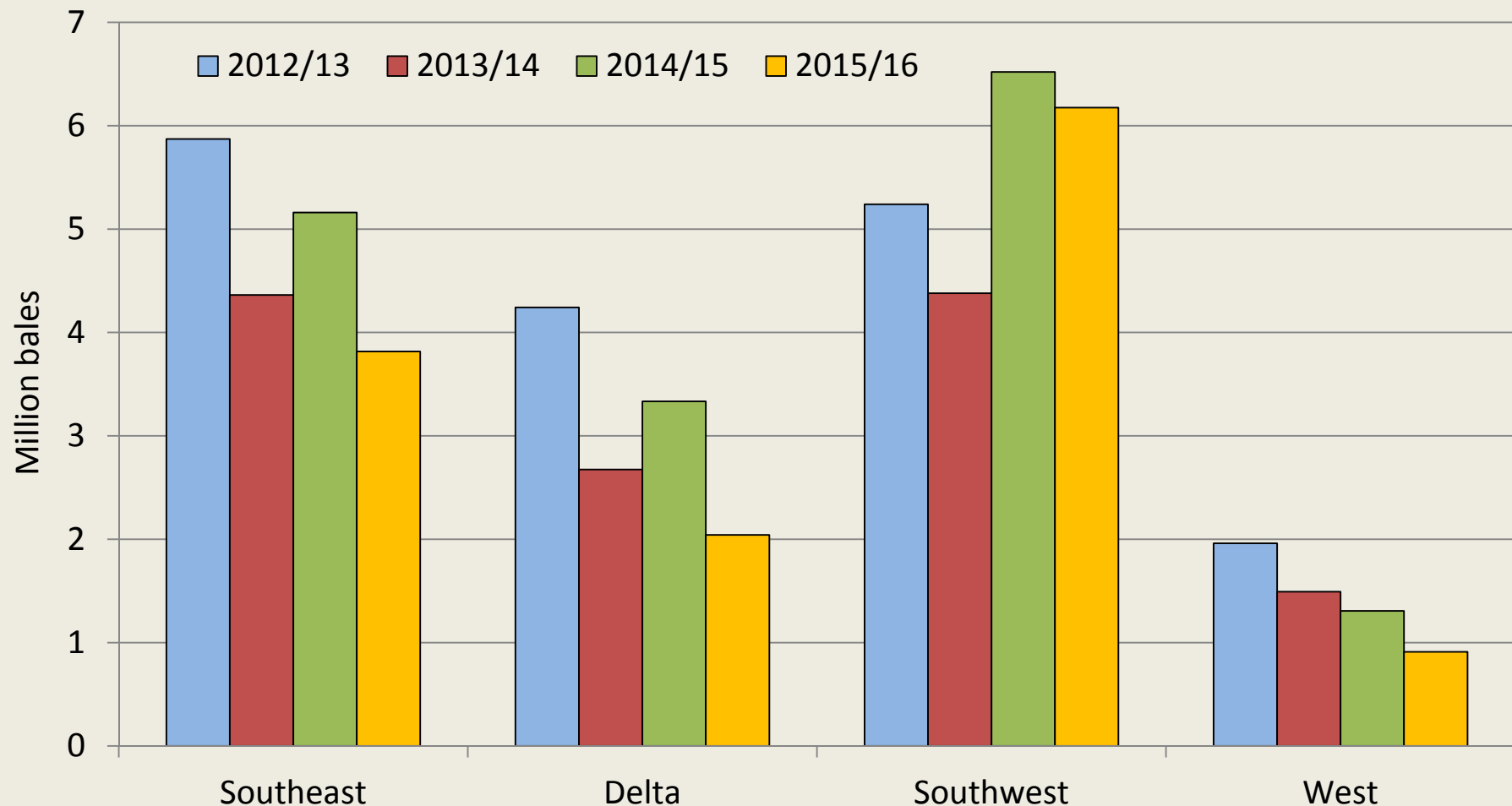


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U.S. Production Declines in Each Region:

Total planted area smallest since 1983



U.S. Cotton Supply & Demand Estimates:

Production and Exports Significantly Lower; Stocks Down Slightly

	Unit	2014/15	2015/16	Change (%)
Beg. stocks	Mil. bales	2.4	3.7	54.2
Production	"	16.3	12.9	-20.9
Imports	"	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total supply	"	18.7	16.7	-10.7
Mill use	"	3.6	3.6	0.0
Exports	"	<u>11.2</u>	<u>9.5</u>	<u>-15.2</u>
Total demand	"	14.8	13.1	-11.5
Ending stocks	"	3.7	3.6	-2.7
Stocks-to-use	%	25.0	27.5	10.0
Farm price	Cents/lb.	61.3	59.5	-2.9

Source: USDA, Interagency Commodity Estimates Committee.

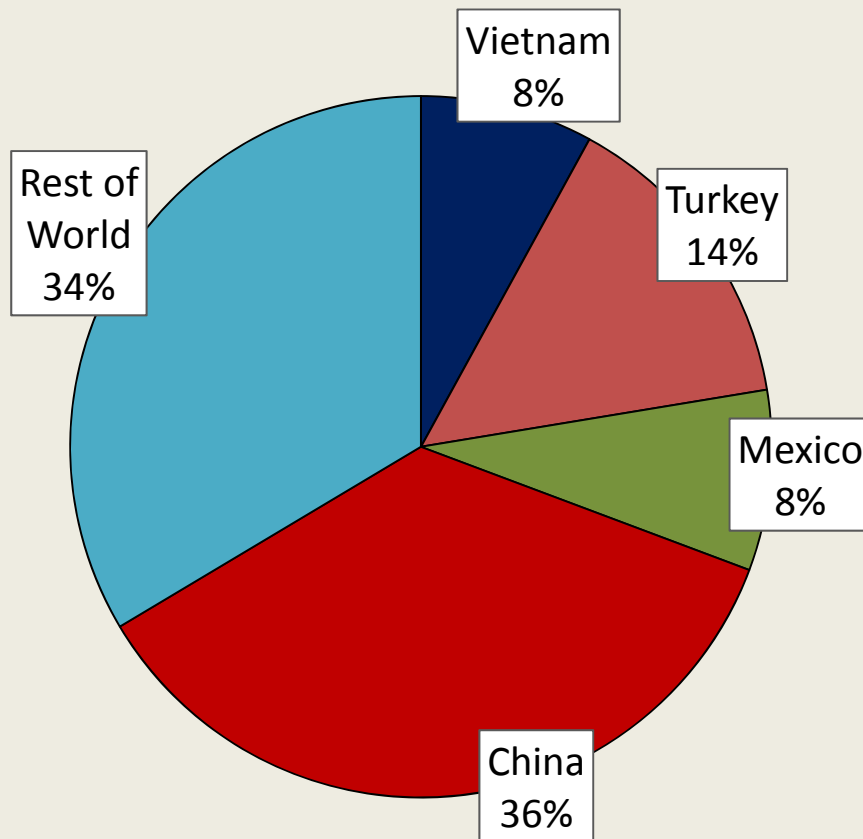


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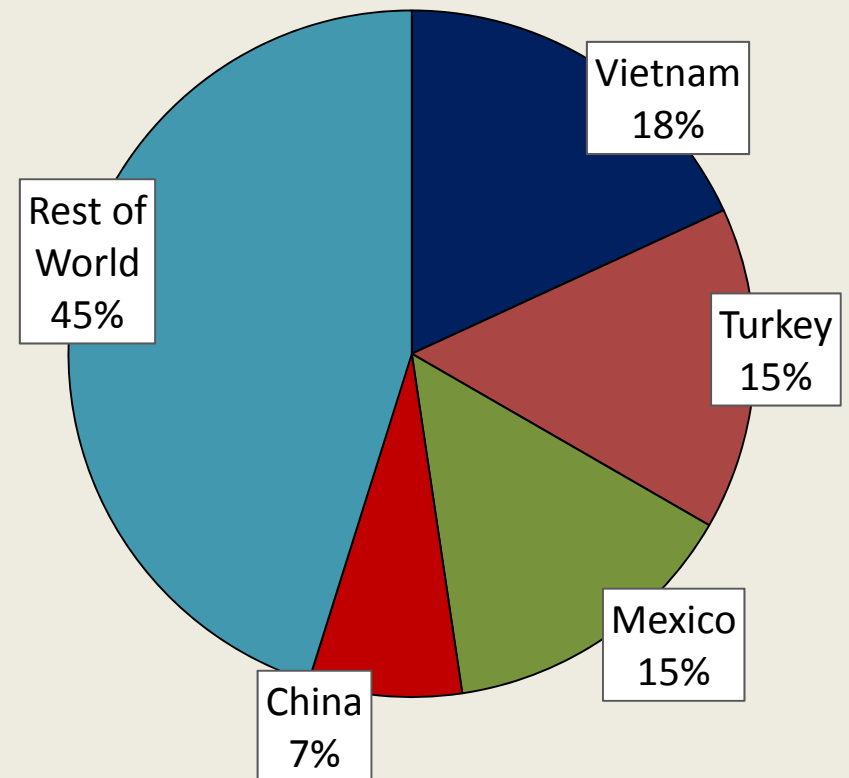


U.S. Cotton Export Share by Country

2010/11-2014/15 Average



Aug-Jan 2015/16



Source: USDA, Foreign Agricultural Service.



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2016/17 World Cotton Outlook

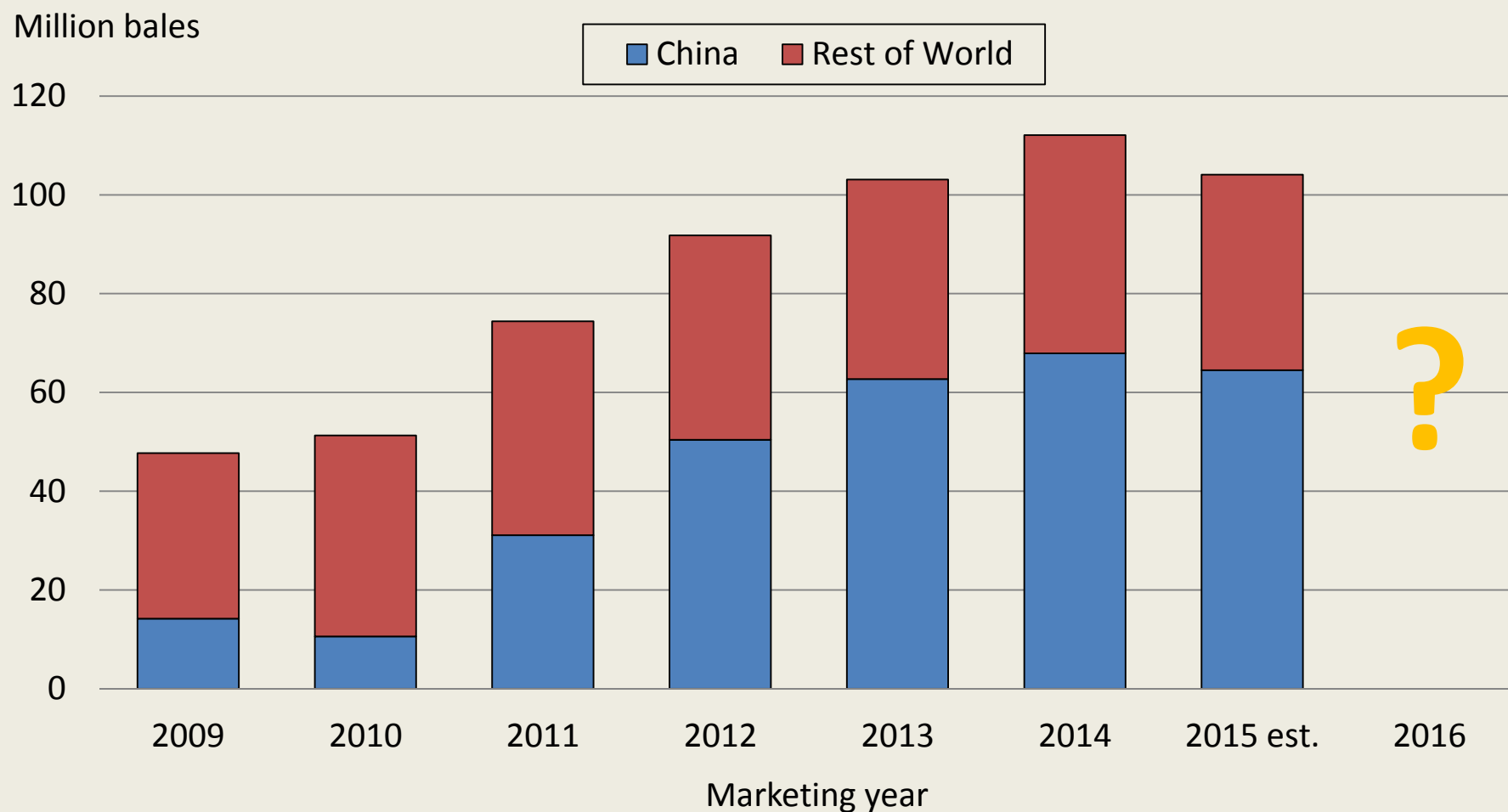


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Cotton's Global Supply Problem:

China accounts for over 60% of world stocks



Source: USDA, Interagency Commodity Estimates Committee.



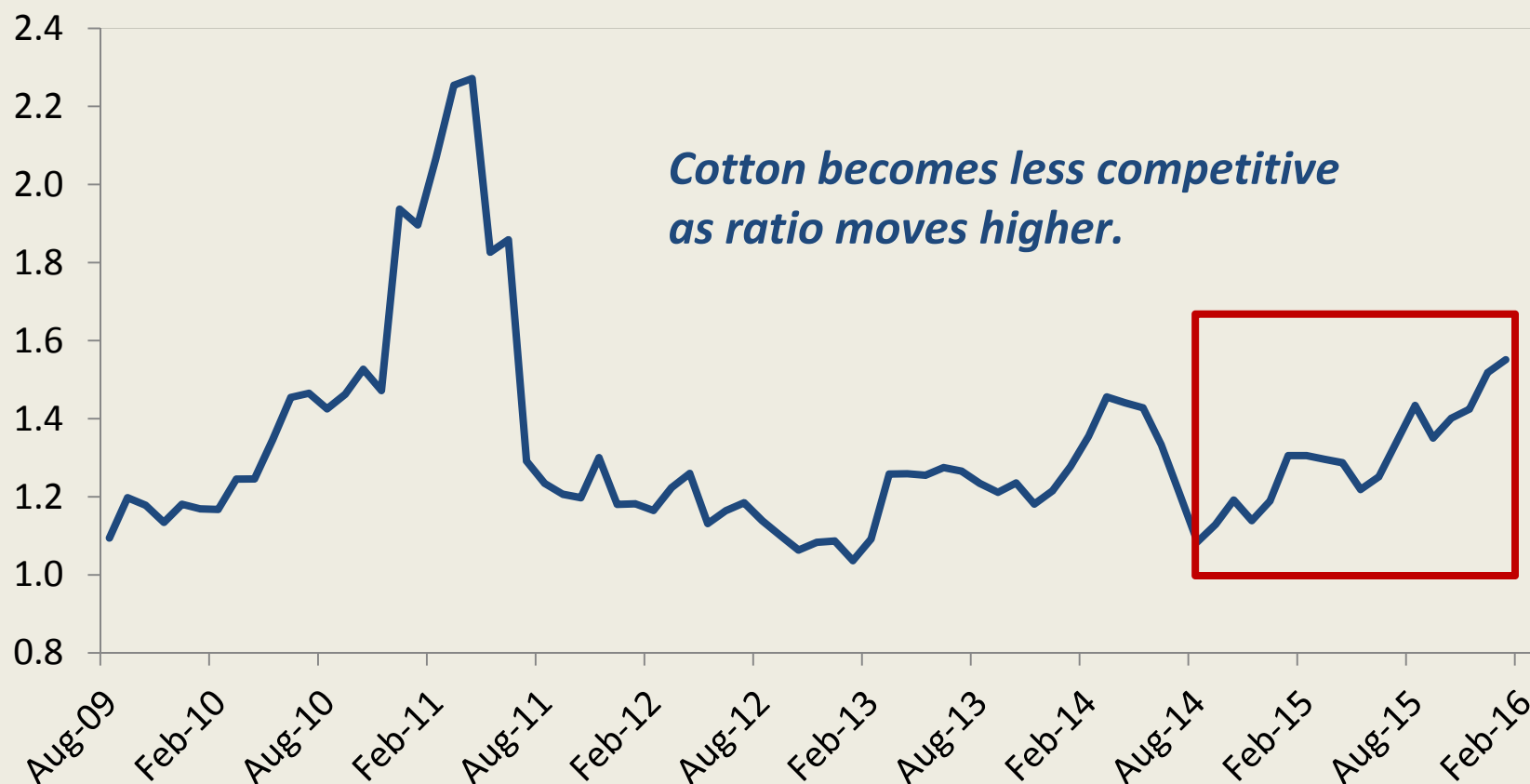
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Cotton's Global Demand Problem:

Cotton share in fiber products declining

Cotton/polyester price ratio



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



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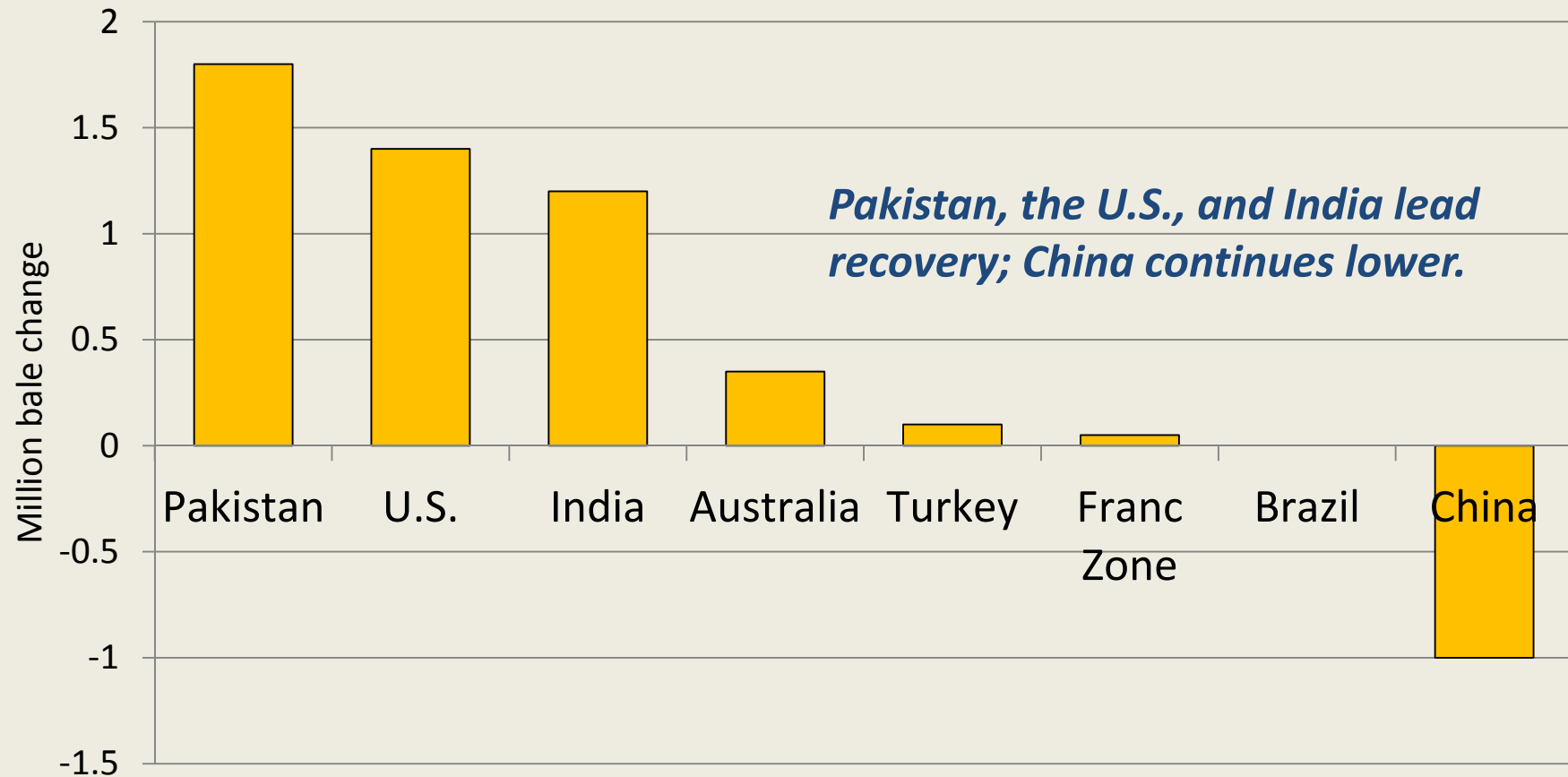
Key Assumptions for USDA's 2016/17 Forecast

- World economic growth improves in calendar 2016 & 2017, aiding cotton consumption prospects.
- China continues policies discouraging production and limiting imports to reduce surplus stocks, with reserve sales higher.
- Normal weather and growing conditions provide modest rebound in global production.
- World and U.S. cotton prices decline slightly.



Global Production Projected Higher in 2016/17

Yield rebound largely behind production growth



Source: USDA, Interagency Commodity Estimates Committee.



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World Cotton Consumption Growth Limited in 2016/17

- Global consumption projected at 110.5 M bales.
 - Modest growth (< 1%) based on global GDP increase.
 - Polyester price competition remains strong.
- China consumption to grow 1 M bales.
 - Increased access to reserve stocks.
 - Expansion of Xinjiang spinning.
- Consumption outside China: No-net growth projected.
 - Vietnam and Bangladesh continue expansion.
 - India and U.S. remain flat while others decline.
- Cotton's share of world fiber market continues to decline.



World Cotton Supply & Demand Projections:

Consumption Exceeds Production; Stocks Reduced Further

	Unit	2015/16	2016/17	Change (%)
Beg. stocks	Mil. bales	112.2	104.1	-7.2
Production	"	101.4	105.5	4.1
Imports	"	<u>35.0</u>	<u>35.0</u>	<u>0.0</u>
Total supply	"	248.5	244.6	-1.5
Consumption	"	109.6	110.5	0.8
Exports	"	<u>35.0</u>	<u>35.0</u>	<u>0.0</u>
Total demand	"	144.6	145.5	0.6
Ending stocks	"	104.1	99.1	-4.8
Stocks-to-consumption	%	95.0	89.7	-5.6

Source: USDA, Interagency Commodity Estimates Committee.

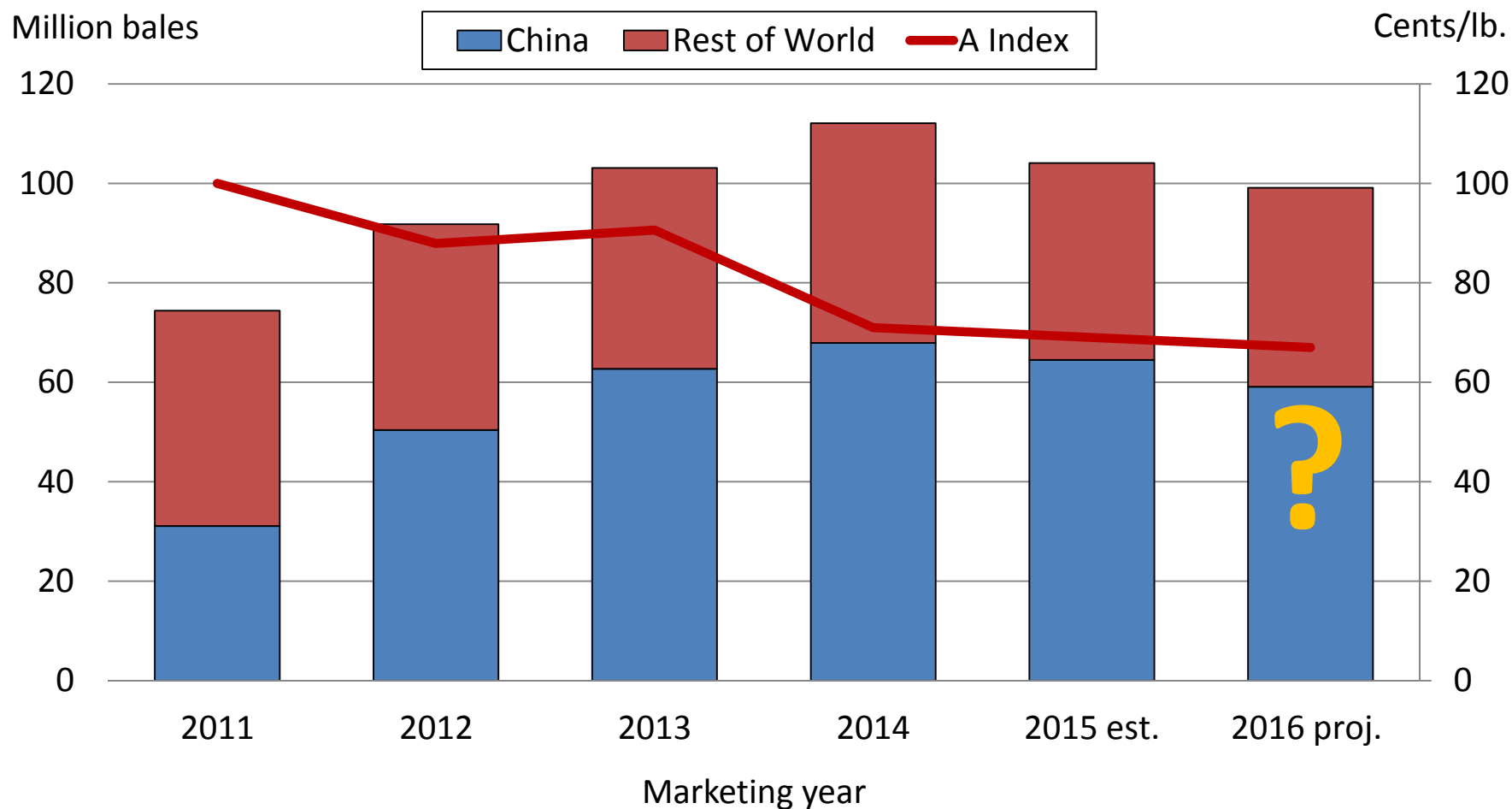


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Global Cotton Stocks Projected Lower...

...but world prices also decline.



Source: USDA, Interagency Commodity Estimates Committee.



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2016/17 U.S. Cotton Outlook

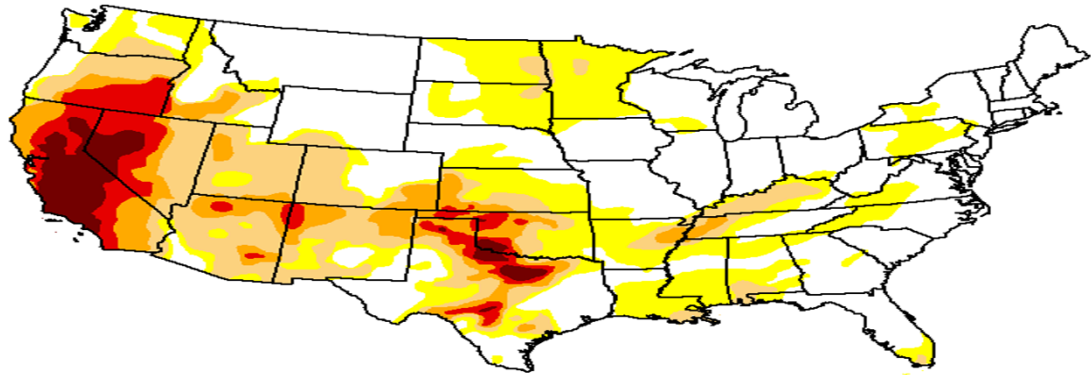


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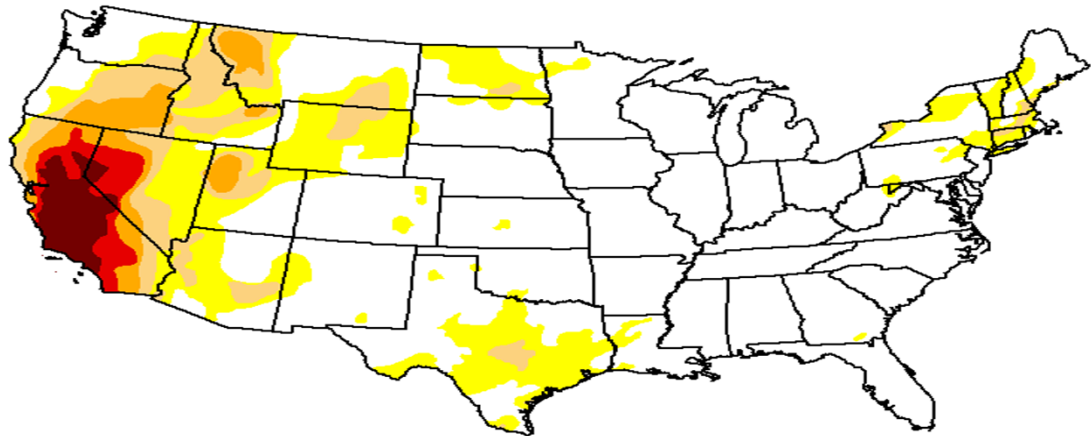
Drought Monitor Shows Improvement in 2016...

February 17, 2015



... but dry conditions developing in Texas.

February 16, 2016



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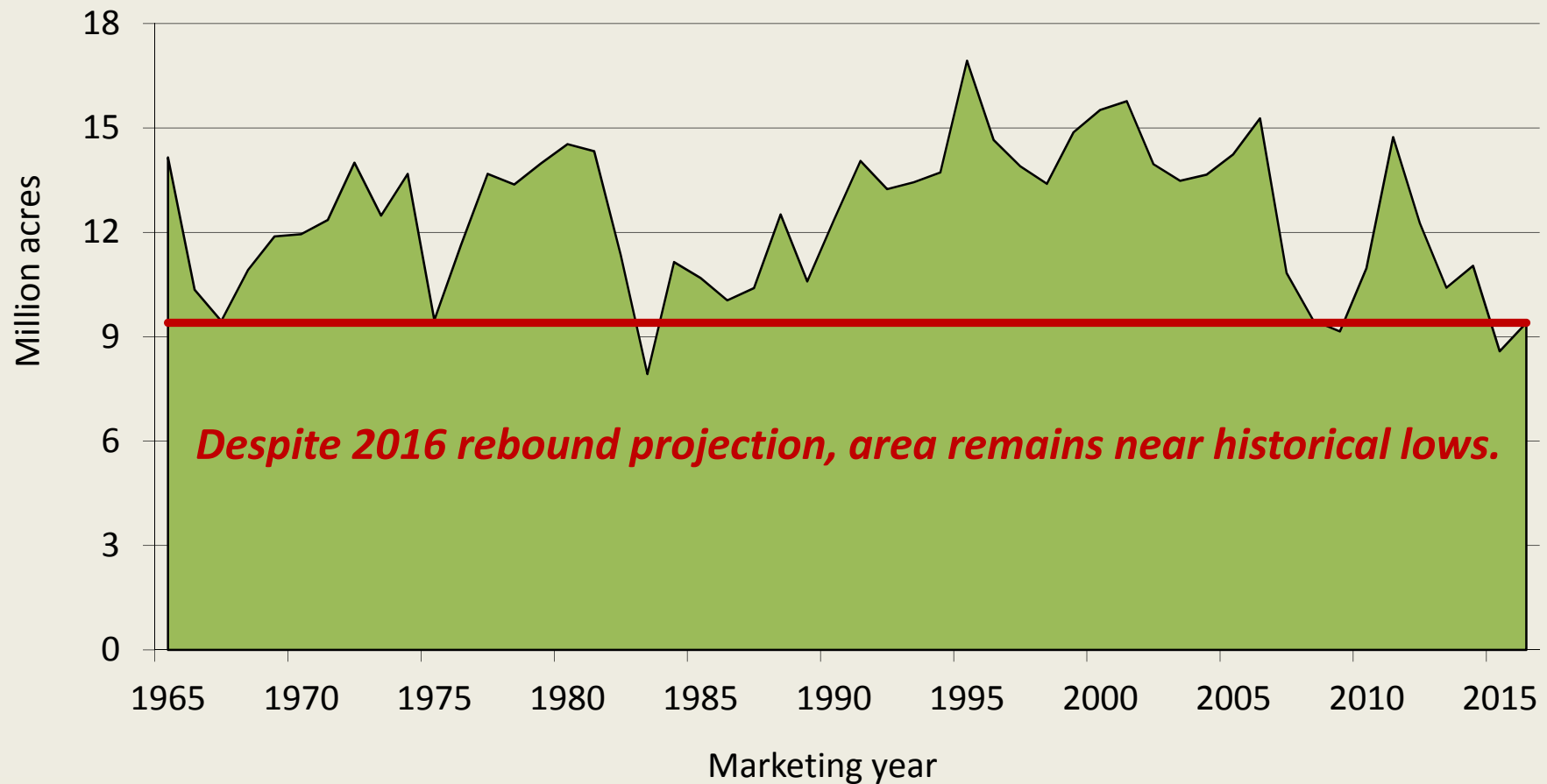


Outlook for 2016 U.S. Cotton Area

- Planted acreage expected higher due mainly to 2015 “prevented plantings” area returning.
 - Total plantings at 9.4 M acres—nearly 10% higher.
 - NCC survey indicated 9.1 M acres.
- Relative prices favor cotton slightly, but high input costs may offset this advantage.
- Cotton marketing loan program cushions the downside price risk.



U.S. Cotton Planted Area: A Historical Perspective



Source: USDA, National Agricultural Statistics Service.



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U.S. Cotton Area, Yield, and Production

Key Factors Include Crop Conditions & Abandonment

Southwest expected to account for 60% of planted area

	<u>Unit</u>	<u>2015/16</u>	<u>2016/17</u>	<u>Change(%)</u>
Planted area	Mil. acres	8.58	9.40	9.6
Harvested area	"	8.08	8.45	4.6
Abandonment rate	%	5.9	10.1	71.2
Yield/harvested acre	Lbs.	769	812	5.6
Production	Mil. bales	12.94	14.30	10.5

Source: USDA, Interagency Commodity Estimates Committee.



U.S. Cotton Supply & Demand Projections:

Production and Exports Rebound; Stocks Unchanged

	Unit	2015/16	2016/17	Change (%)
Beg. stocks	Mil. bales	3.7	3.6	-2.7
Production	"	12.9	14.3	10.5
Imports	"	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total supply	"	16.7	17.9	7.6
Mill use	"	3.6	3.6	0.0
Exports	"	<u>9.5</u>	<u>10.7</u>	<u>12.6</u>
Total demand	"	13.1	14.3	9.2
Ending stocks	"	3.6	3.6	0.0
Stocks-to-use	%	27.5	25.2	-8.4
Farm price	Cents/lb.	59.5	58.0	-2.5

Source: USDA, Interagency Commodity Estimates Committee.



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U.S. Export Forecast Higher in 2016/17:

Growth Contingent Upon Several Factors

- Relatively tight foreign stocks outside China.
 - Beginning stocks lowest in 6 years.
 - Import demand similar to 2015/16.
- Increased exportable supplies in the United States.
 - Additional 1+ M bales at current production expectations.
 - U.S. share of world trade (30.6%) between previous 2 seasons.
- Better quality distribution of the 2016 U.S. crop expected.
 - High quality cotton limited in 2015.
 - Less than 60 percent of U.S. crop tenderable.



Variables that Could Change the Outlook

- Greater world area response to low prices than anticipated.
- Weather and growing conditions altering production.
- Further China policy changes affecting stocks and prices.
- Macroeconomic growth varying from average expectations.
- Changes in polyester prices relative to cotton.



Final Thought:

“Prediction is very difficult, especially if it’s about the future.”

--Niels Bohr, Nobel laureate in Physics

Thank You



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