Prospects for Recovery of U.S. Cotton Production

2010 USDA Outlook Forum

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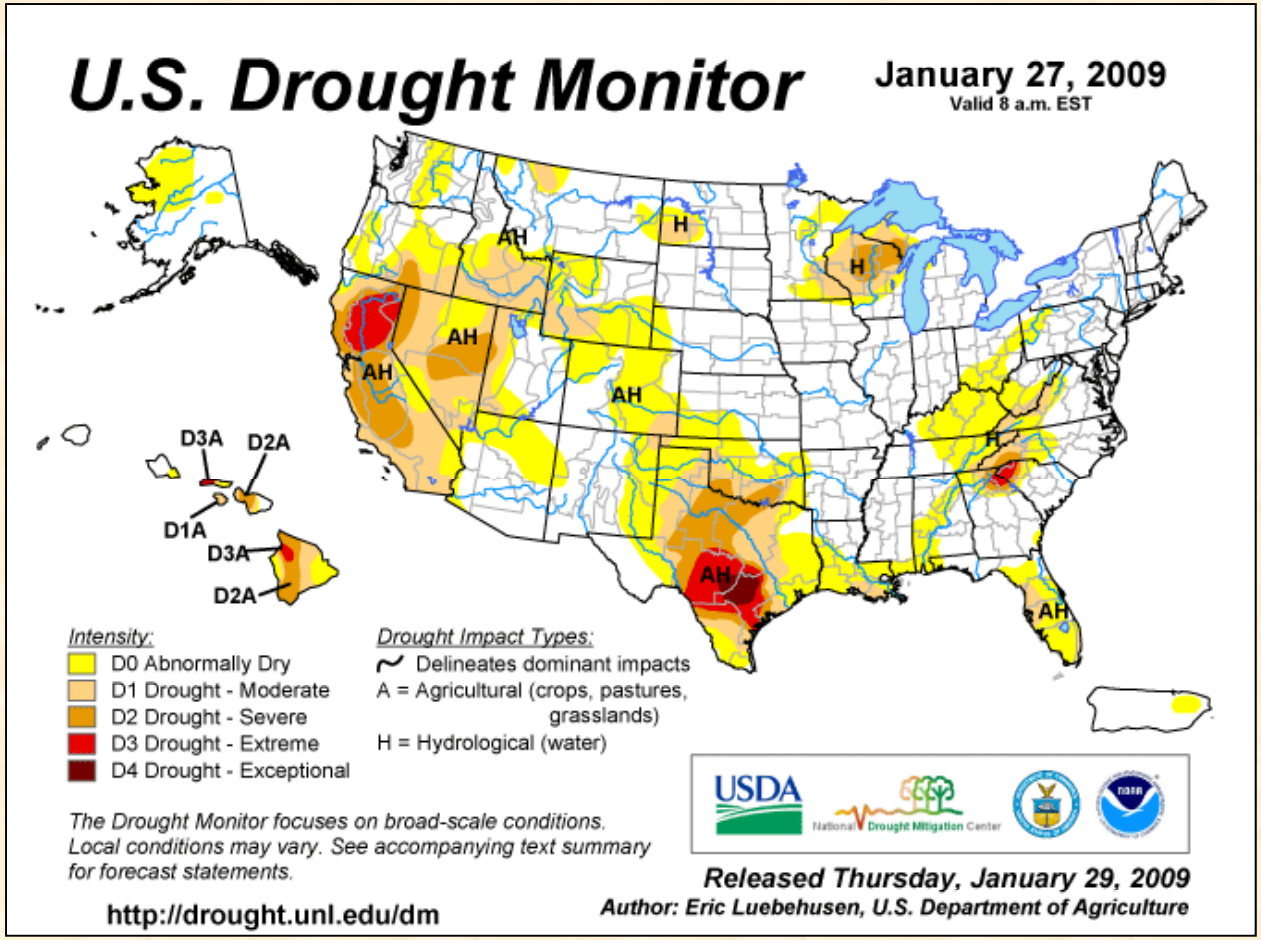
Planting Decisions

- Bio-physical (moisture, rotations)
- Short-run net returns to fixed assets (relative prices, production costs, government programs)
- Recent fixed investments (LR)
- Other
  - Operating loans
  - Recent memory of disaster
  - Age/willingness to bear risk

This Time Last Year



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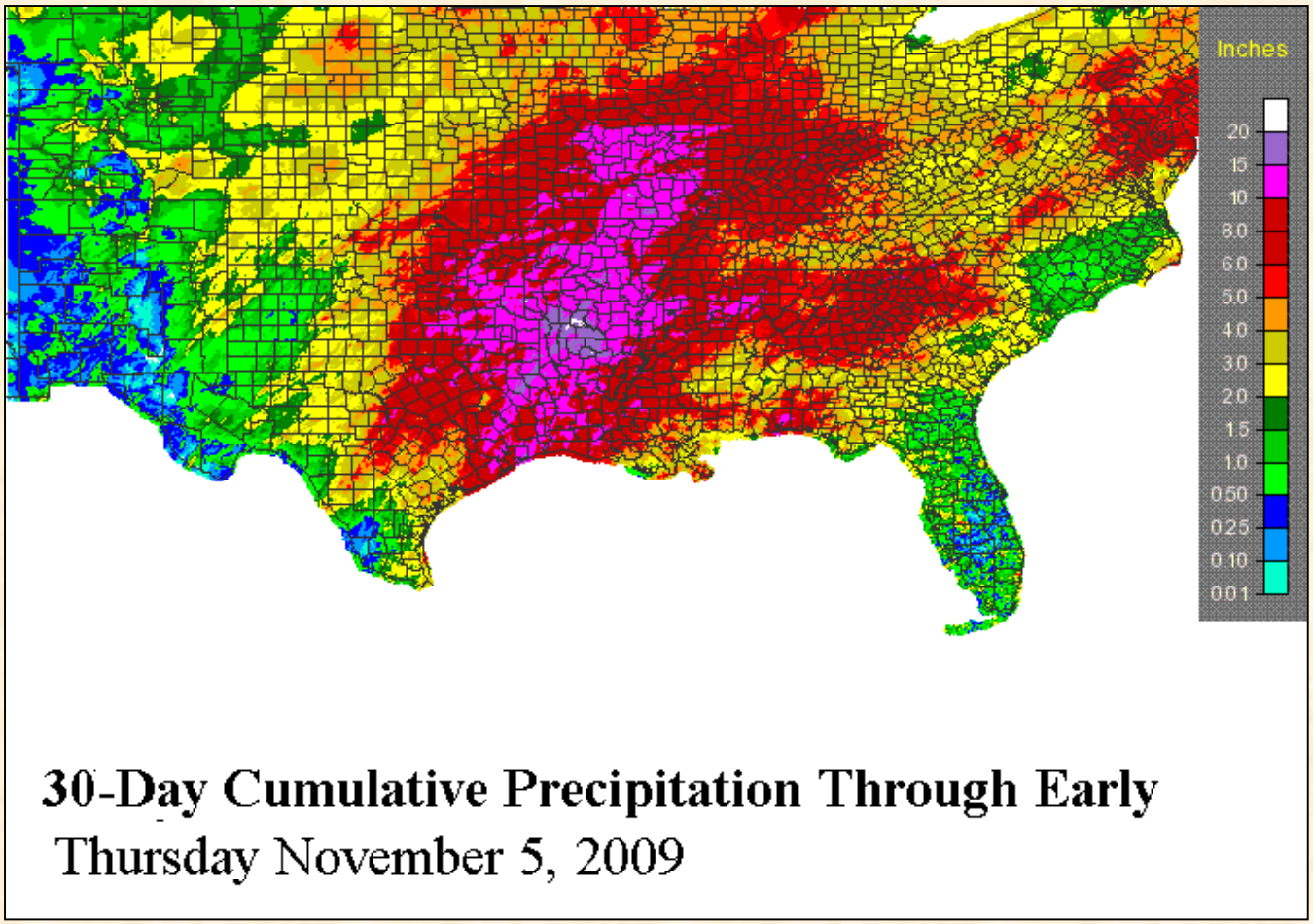
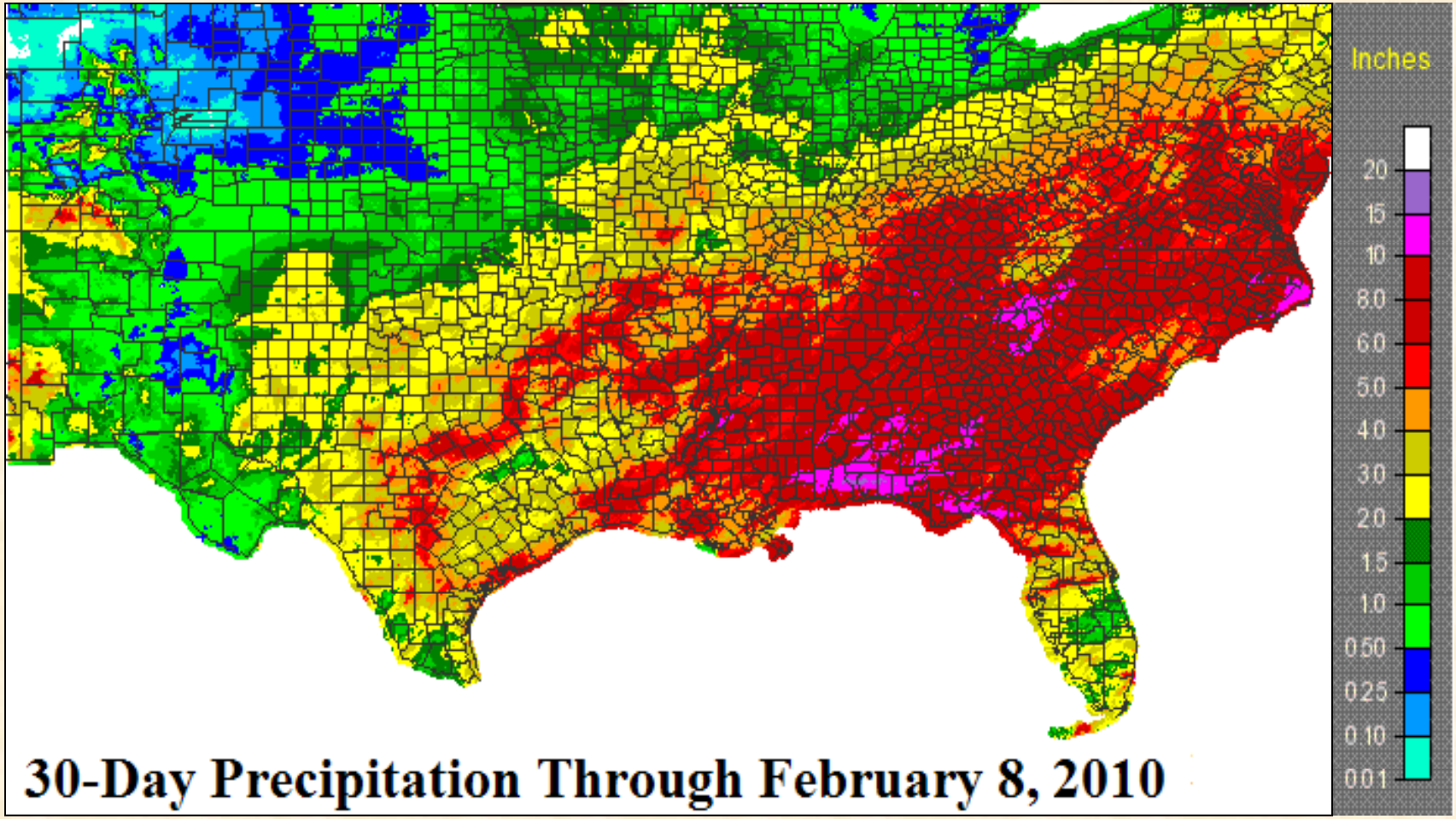
…And Last Fall



Any lingering psychological bias against planting cotton? soybeans?

…And it's a New Year



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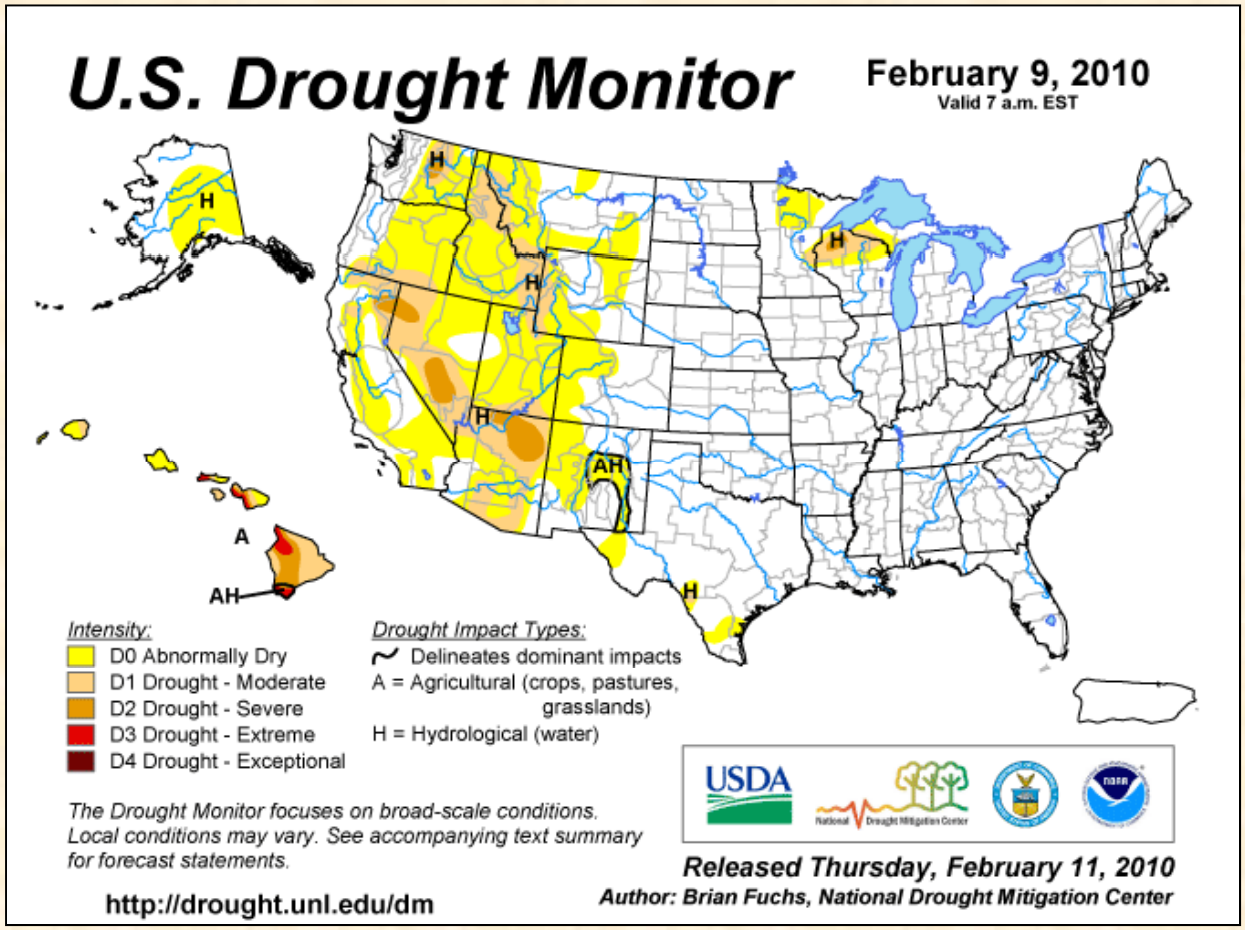
2010 Moisture Prospects

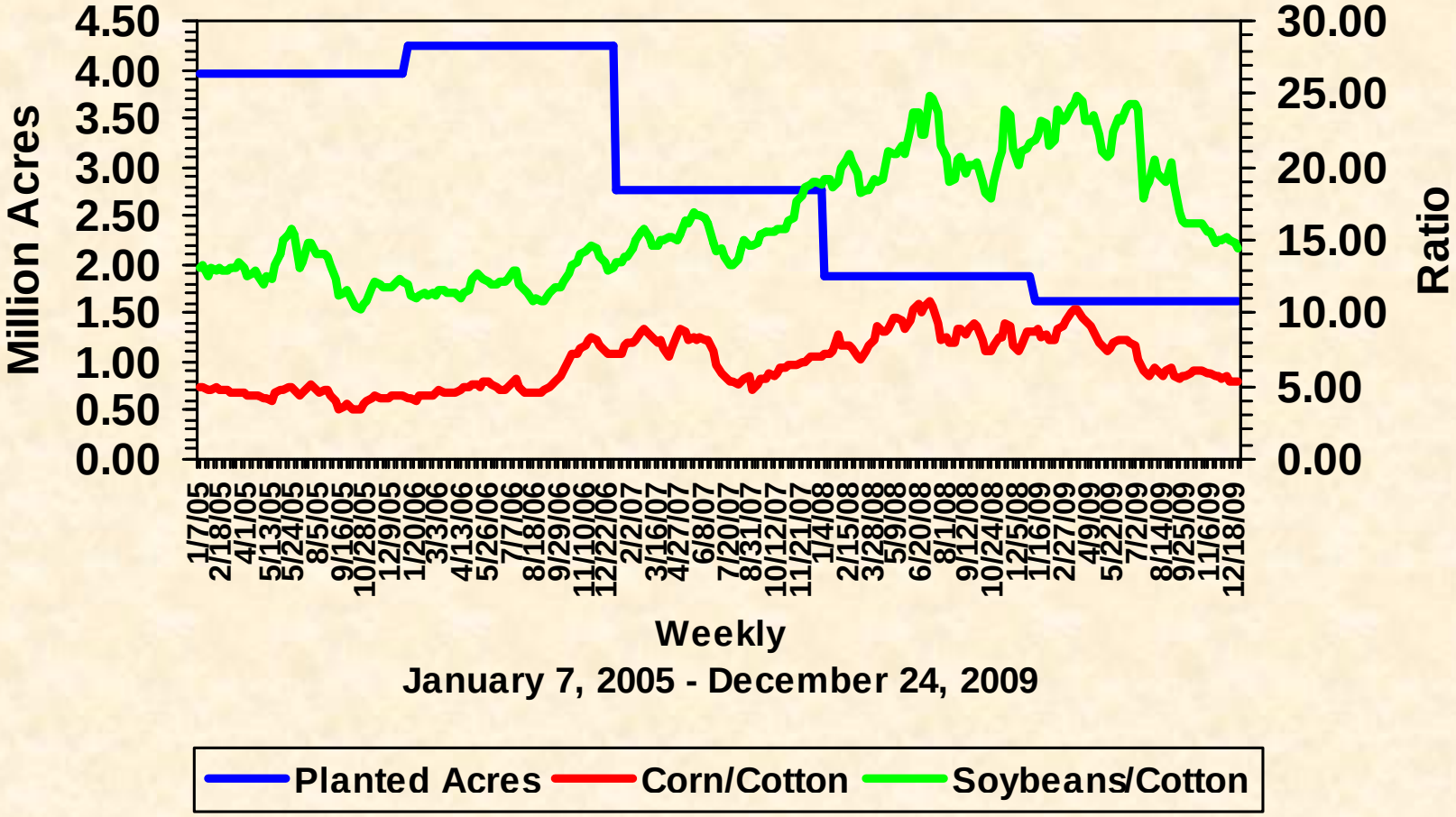


Generally most of the Cotton Belt is starting off 2010 with decent to exceptional soil moisture.

Lubbock had the 7th wettest January since official record keeping was started in 1911.

On dryland acreage over much of Texas, Q1 soil moisture is the No. 1 determinant of yield.

Relative Prices: Ratio of Memphis Corn & Soybean Cash Price to Memphis Spot 41-34 Cotton vs. Delta Planted Acreage



This suggests a rebound in Delta acreage, as constrained by recent fixed investment in grain capital, or changing grower preferences.

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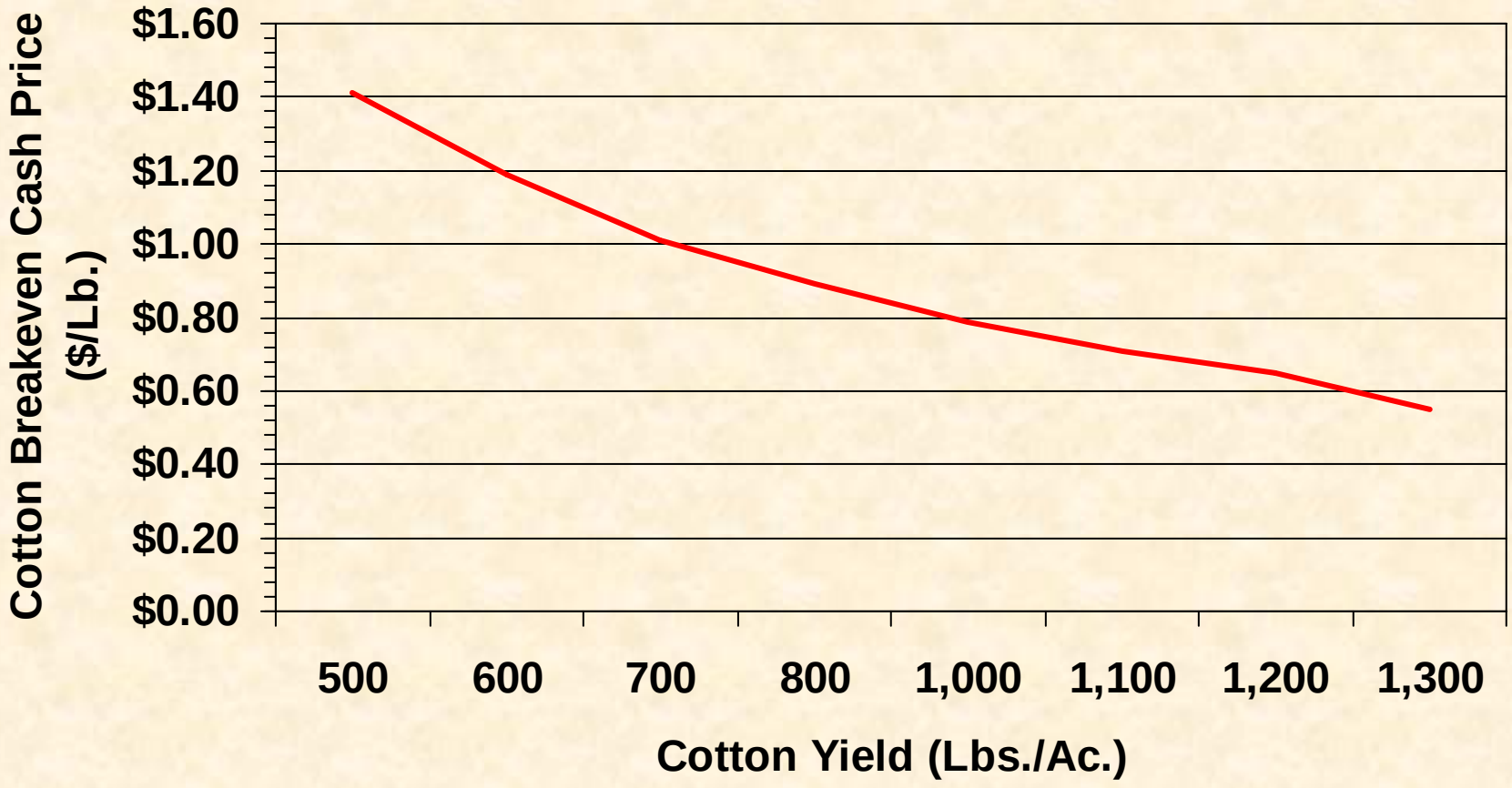
Production Costs and Breakevens

Cash Cotton Price/lb =	$ 0.79	$ 0.79
MSU 2010 Delta Planning Budgets	to breakeven	to breakeven
Feb.10 harvest basis and CBOT prices	with Corn	w/ Soybeans
Assumes the Following: Cotton Yield	900	lbs
Cotton Prod'n Costs	$ 577.82	per acre
Net Returns to Corn	$ 129.35	per acre
Net Returns to Soybeans	$ 133.30	per acre

Production Costs and Breakevens



Benchmarks of U.S. Cotton Planted Acreage

- Various Private Estimates
- NCC Planting Intentions (Feb. 5, based on late Dec/Early Jan. Grower Survey)
- USDA Planting Intention (Mar 31)
- USDA Planted Acreage (June 30)

NCC Reported 2010 Planting Intentions

Region	*2009 Actual*	*2010 Intended*	*% Change*
	(thousand of acres)		
Southeast	1,891	2,123	12.2
Mid-South	1,627	1,764	8.4
Southwest	5,243	5,718	9.1
West	247	312	26.6
ALL UPLAND	9,008	9,916	10.1
ALL ELS	142	176	24.4
ALL COTTON	9,149	10,093	10.3

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Historical Change (%) from the NCC Survey to Actual Plantings

Changes by %	2001	2002	2003	2004	2005	2006	2007	2008	2009
Southeast	0%	0%	-8%	-5%	6%	7%	-14%	-4%	19%
Midsouth	5%	-2%	-4%	-13%	8%	1%	-19%	-8%	16%
Southwest	-4%	-8%	-3%	-7%	1%	9%	-20%	4%	8%
West	-8%	-16%	8%	-1%	-7%	-5%	-7%	16%	[illegible]%
ELS	16%	-1%	-3%	18%	6%	4%	-19%	-25%	[illegible]
All Cotton	-1%	-5%	-4%	-7%	3%	6%	-18%	-1%	[illegible]

Average Absolute Change	
Southeast	7%
Mid-South	9%
Southwest	7%
West	9%
ELS	11%
All Cotton	6%

Example of large changes in Q1 relative prices (e.g., surging corn and soybean)

Dry Planting Weather in SW

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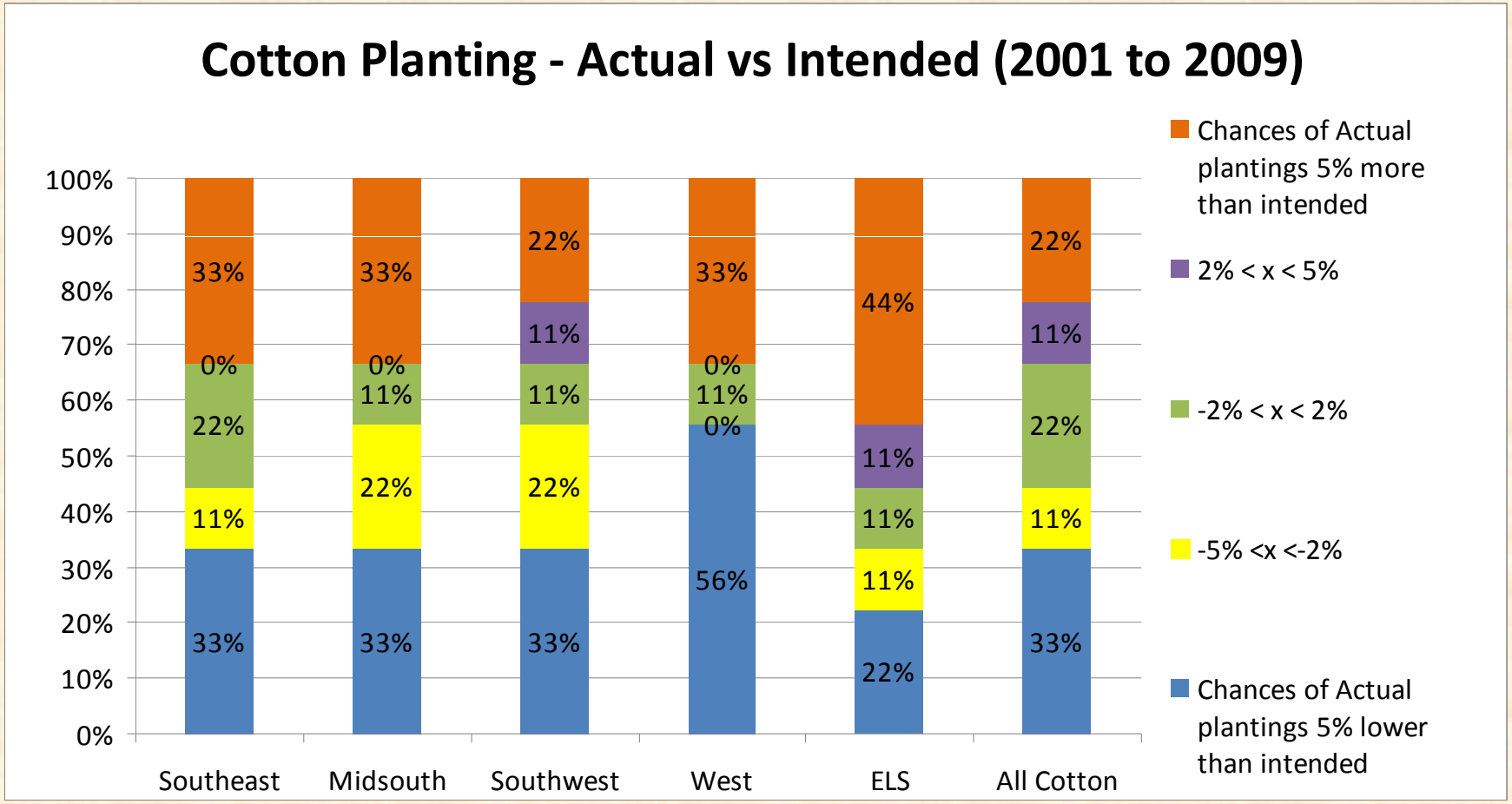
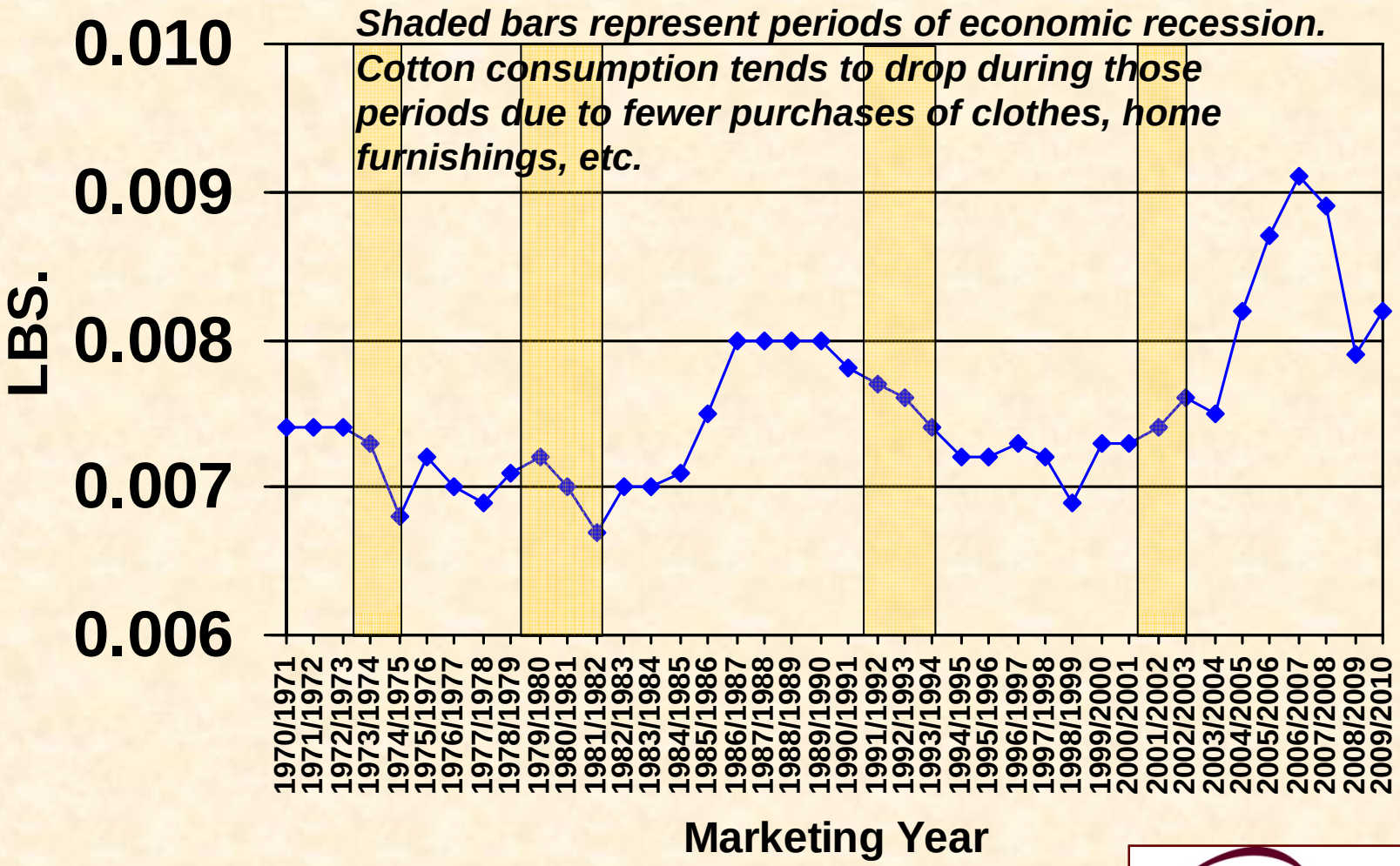
Historical Change (%) from the NCC Survey to Actual Plantings



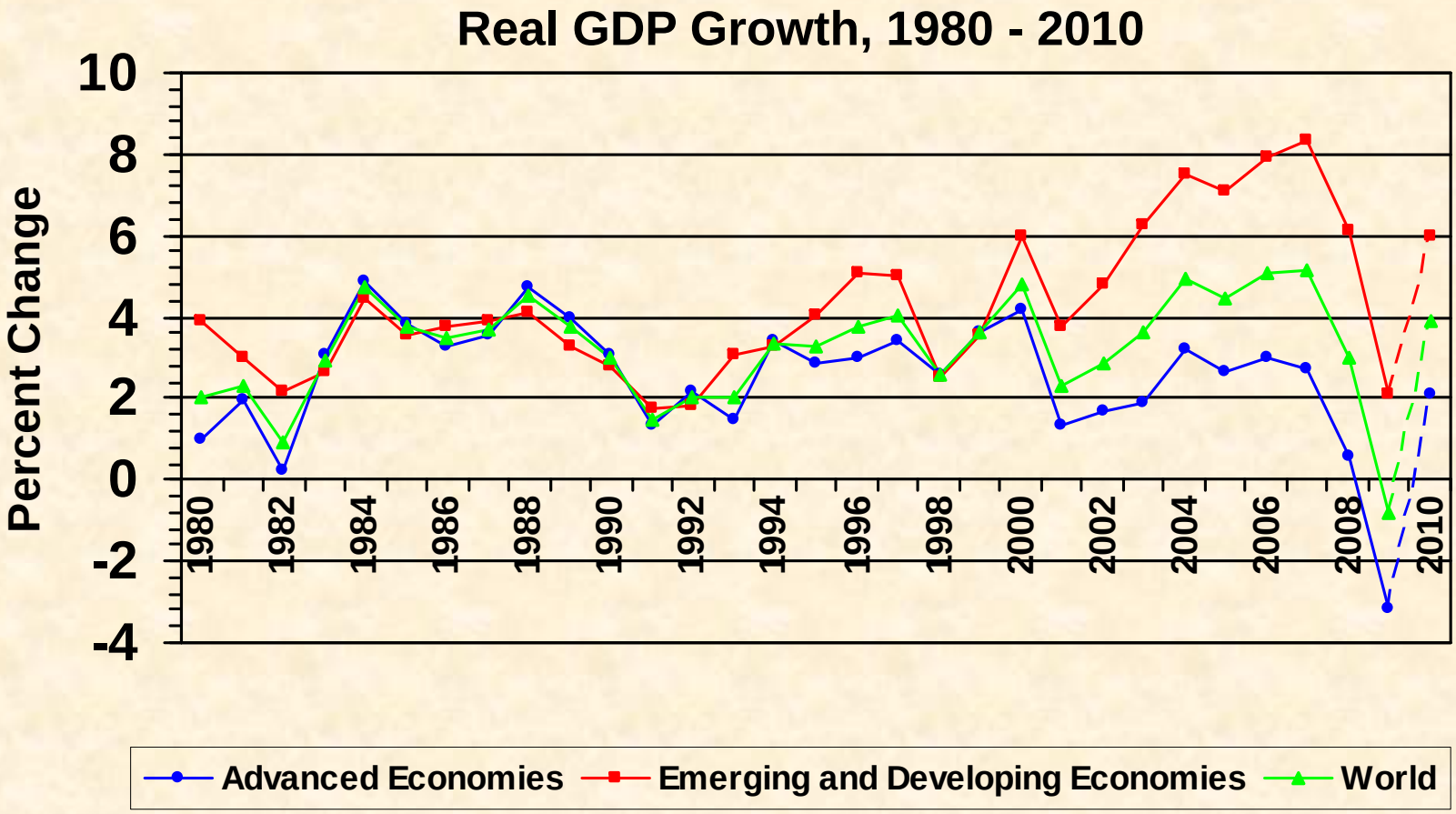
Demand Uncertainties

- **Lingering effects of recession on consumer sentiment**
- **Cotton is tied more heavily to the general economy**
- **Has GDP already turned the corner?**
  - ***When will consumer sentiment recover?***

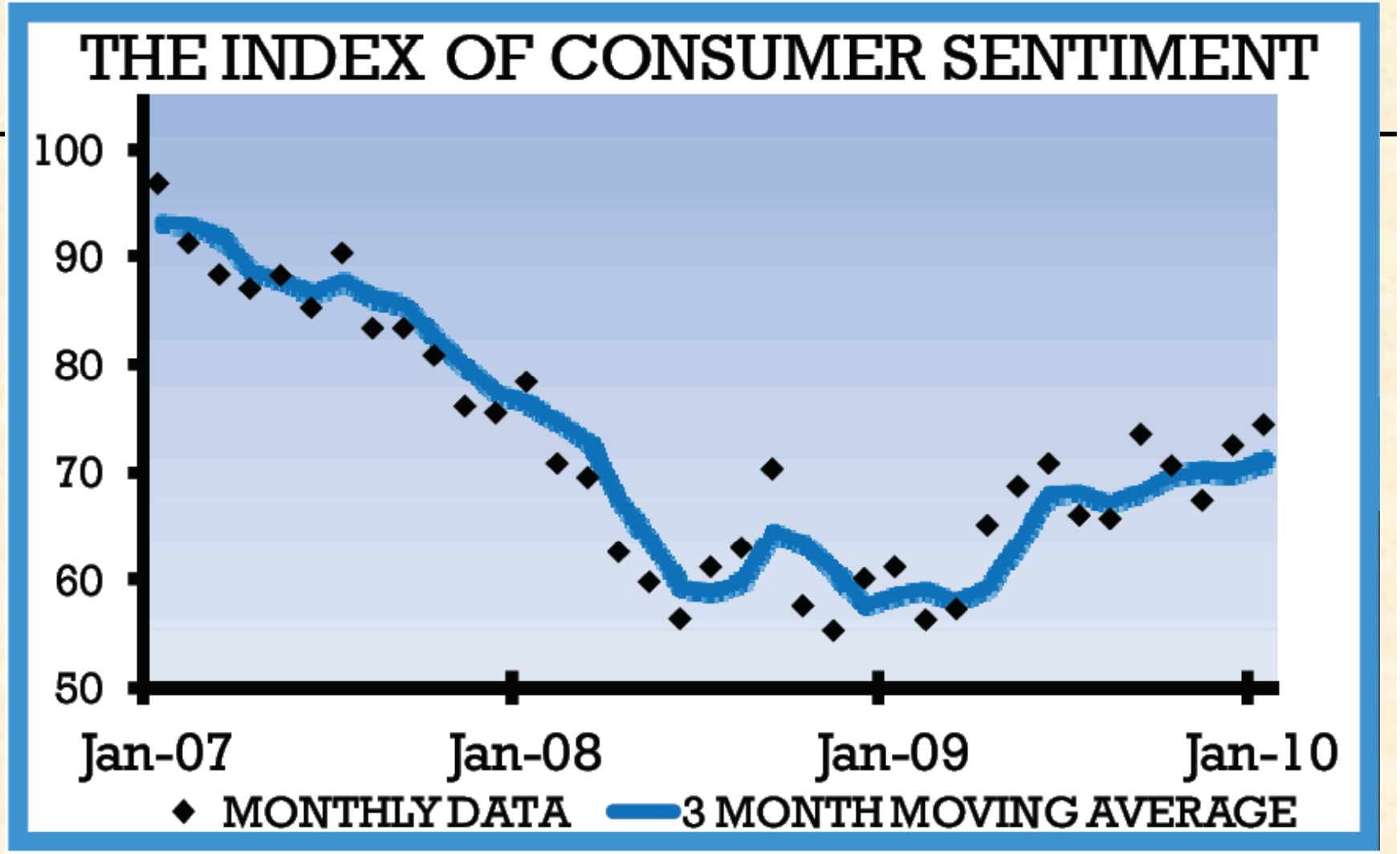
World Per Capita Cotton Use



Global Economic Rebound… ?



Source: http://www.imf.org/external/datamapper/index.php
As of January 2010



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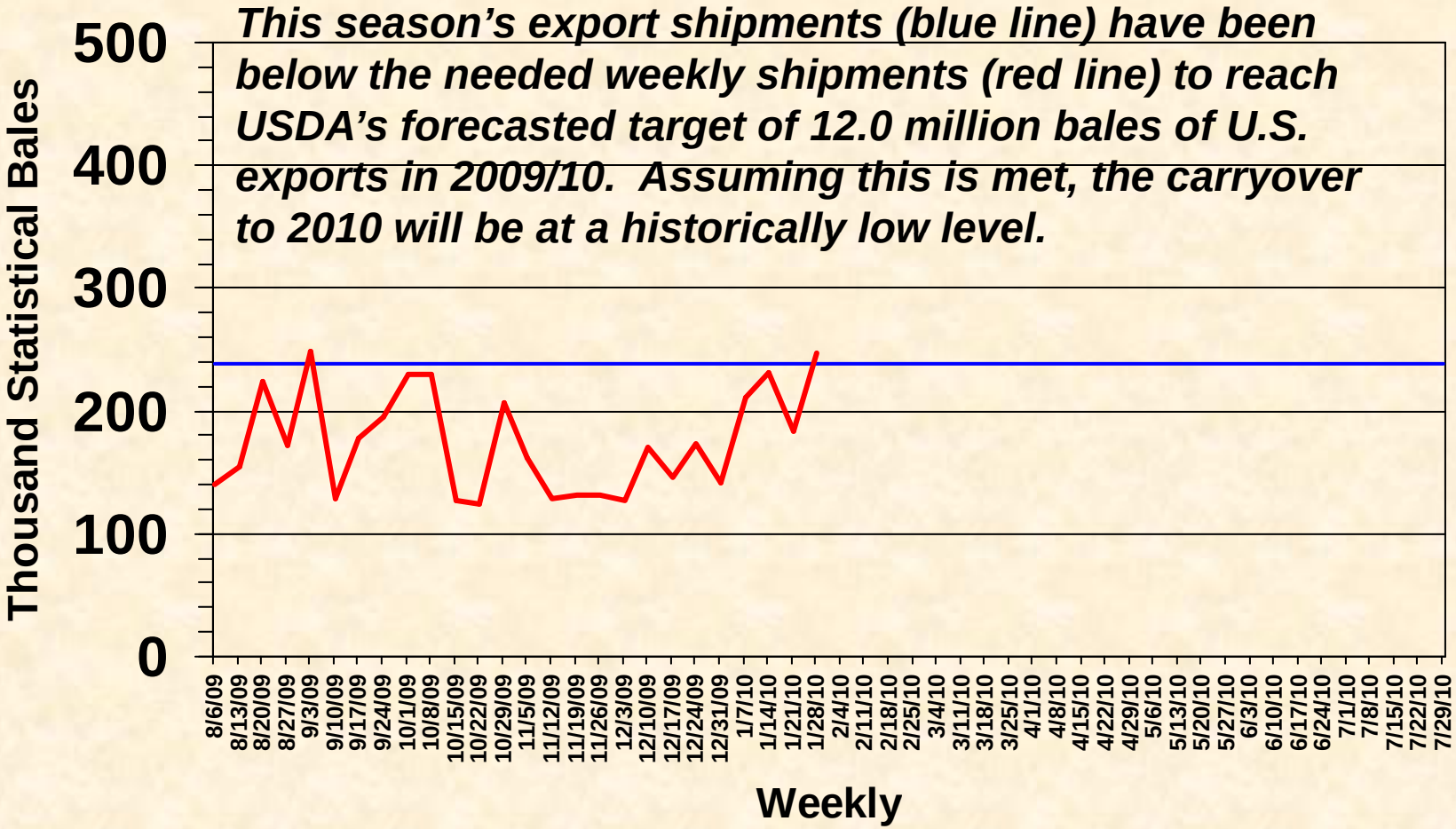
U.S. Exports of All Cotton



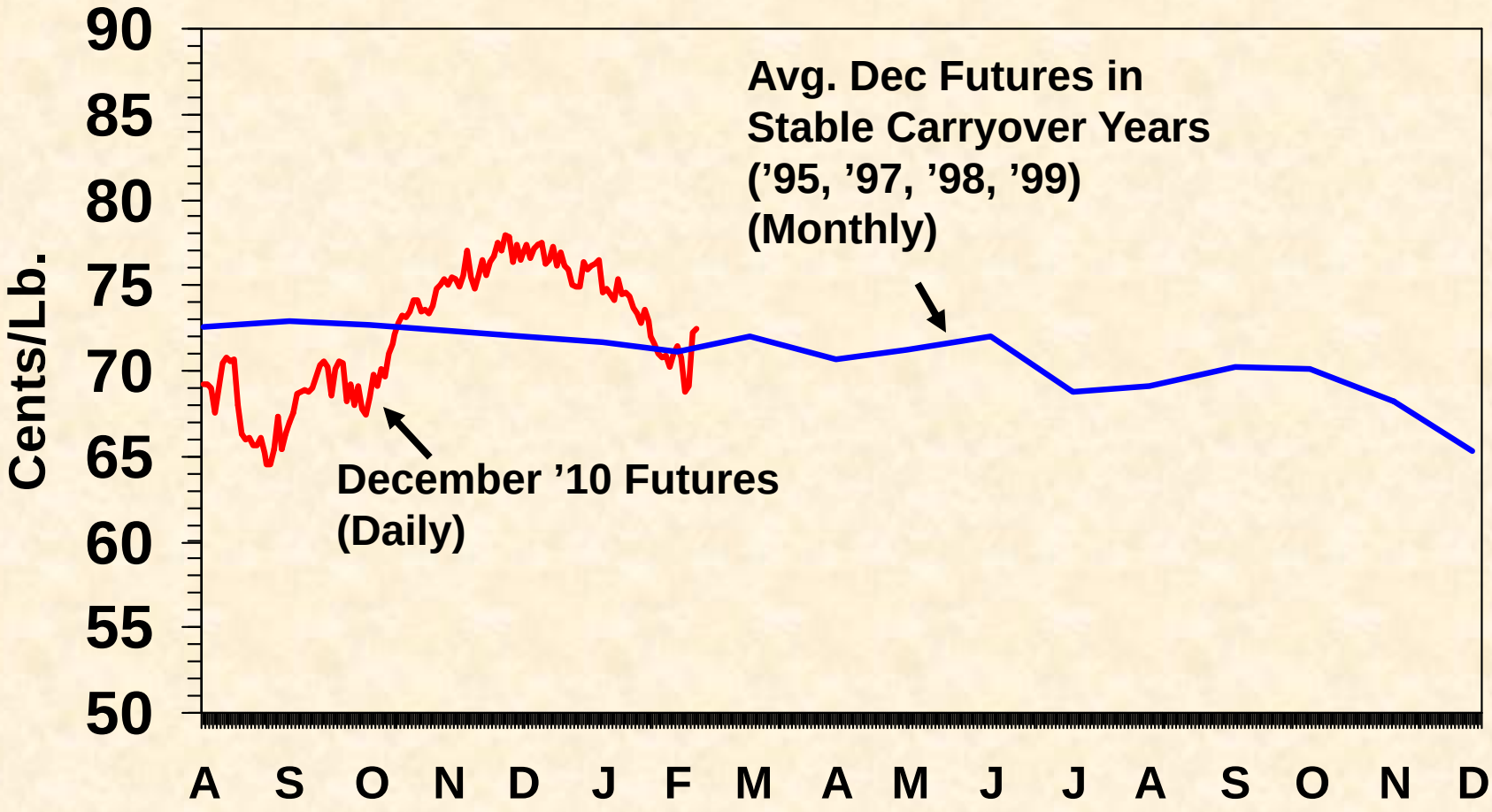
Cotton Balance Sheet

	World		Foreign			U.S.	
	2009/10					2010/11	2010/11
Supply	(USDA 2/9/10)					J.R.	NCC 2/5/10
Planted Acres (million)	---					10.00	10.09
Harv. Acres (million)	---					9.20	8.93
	---					---	---
Yield (lbs./ac.)	---	---	---	---		820.0	832.0
Beginning Stks.	62.42	53.73	56.08	50.43	6.34	3.30	3.67
Production	102.74	110.00	90.34	94.28	12.40	15.72	15.48
Imports	33.77	33.17	33.76	33.16	0.01	0.01	0.01
Total Supply	198.91	196.90	[illegible].17	177.88	18.74	19.02	19.15
Disappearance							
Mill Use	115.53	116.00				3.30	3.40
Exports	33.77	33.15				12.00	12.09
Total Domestic Use	---	---				15.30	15.49
Unaccounted	-2.46	-2.46	-2.50	-2.50	0.04	0.04	0.00
Ending Stks.	52.08	50.21	48.78	46.54	3.30	3.68	3.66
Ending Stks./Use	45.1%	43.3%	43.5%	41.3%	21.4%	24.0%	23.6%

How many acres get planted In response to high prices?

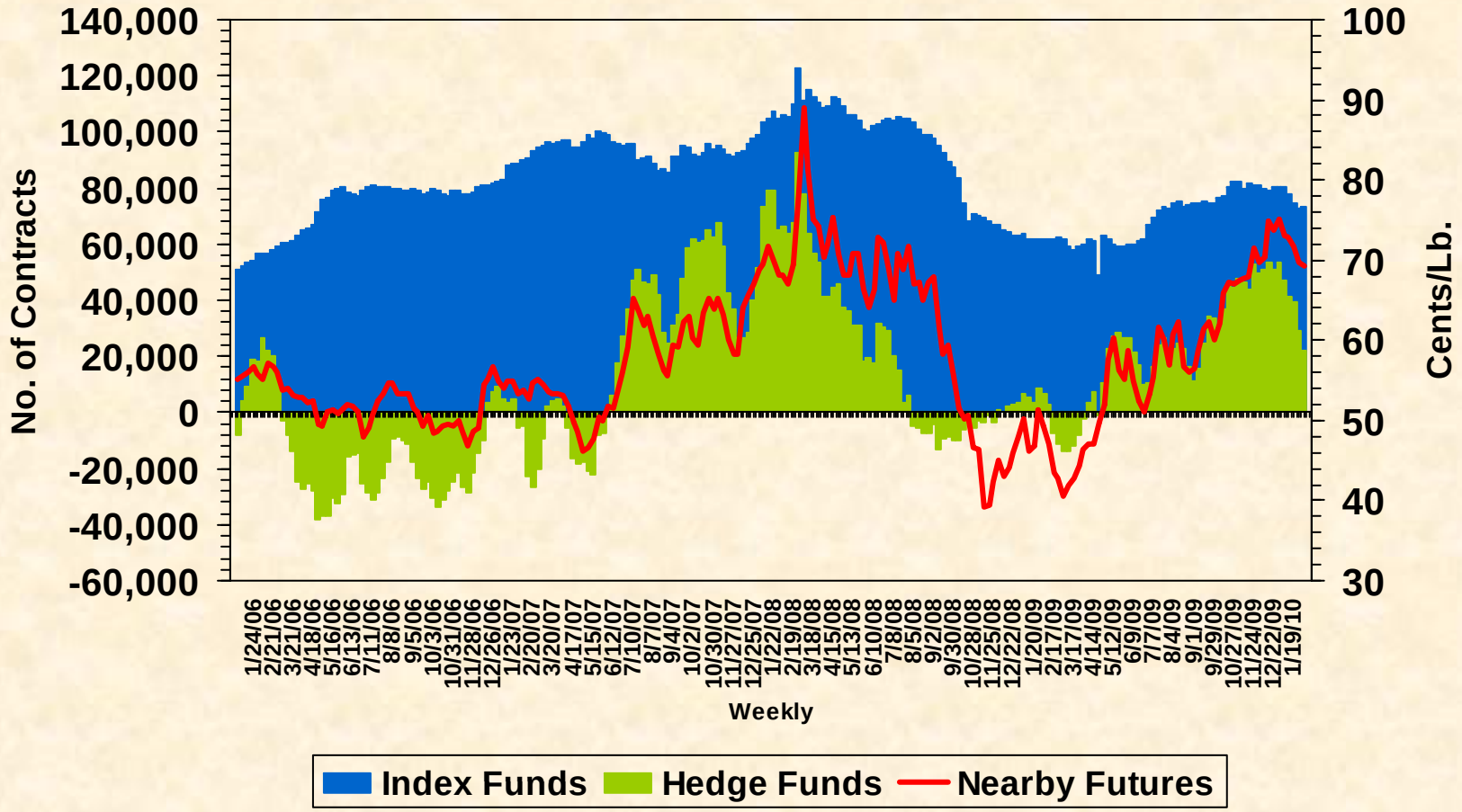
Will the resulting world supply meet or exceed the world's needs?

When ending stocks don't vary much from year to year, the historical seasonal pattern for Dec. futures is to gently trend lower into Fall.



Speculative Influences

Net Positions of Index Funds and Hedge Funds vs. Nearby Futures Prices



Source: Commitment of Traders Supplemental Report (Futures and Options)

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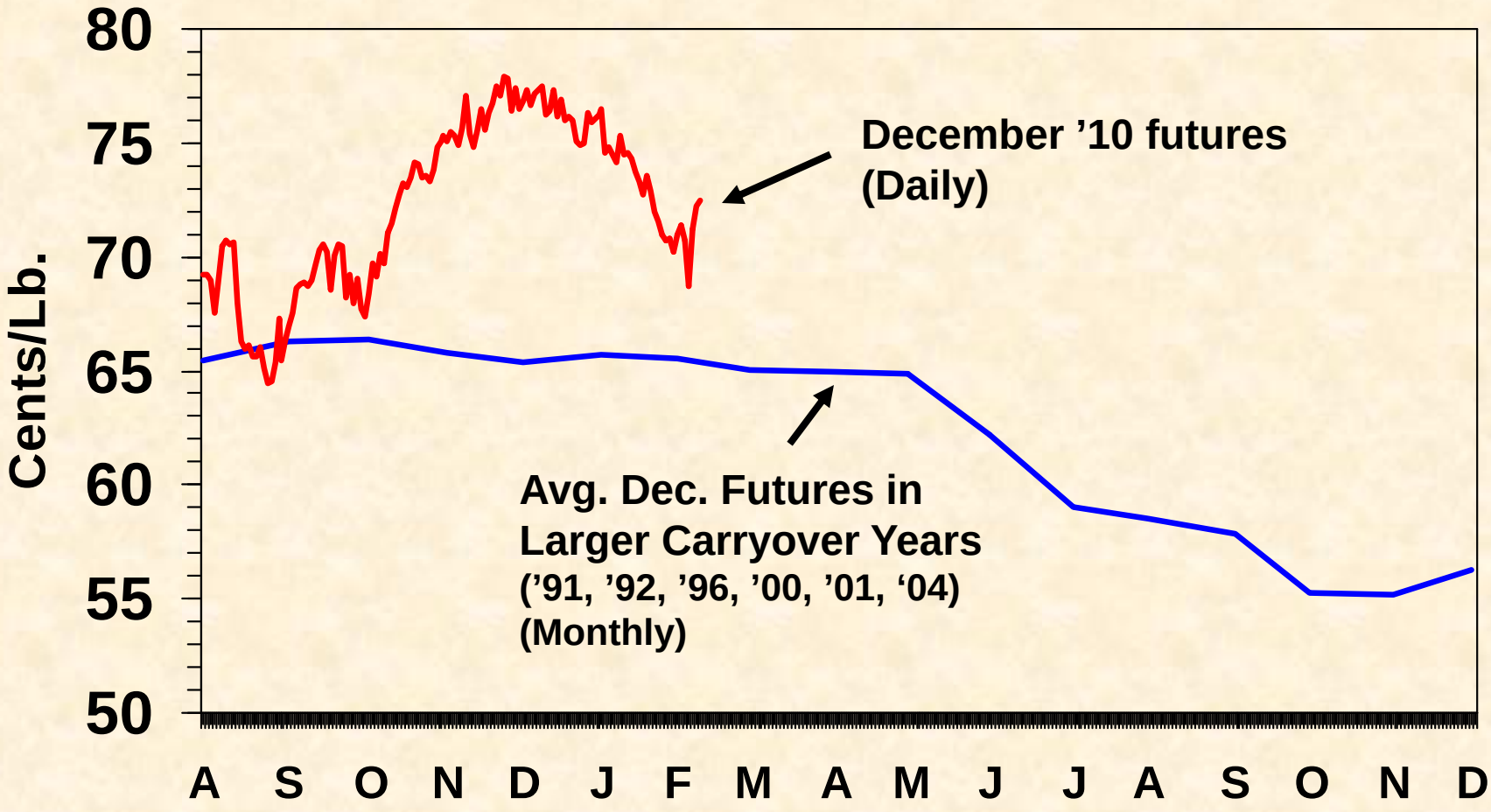
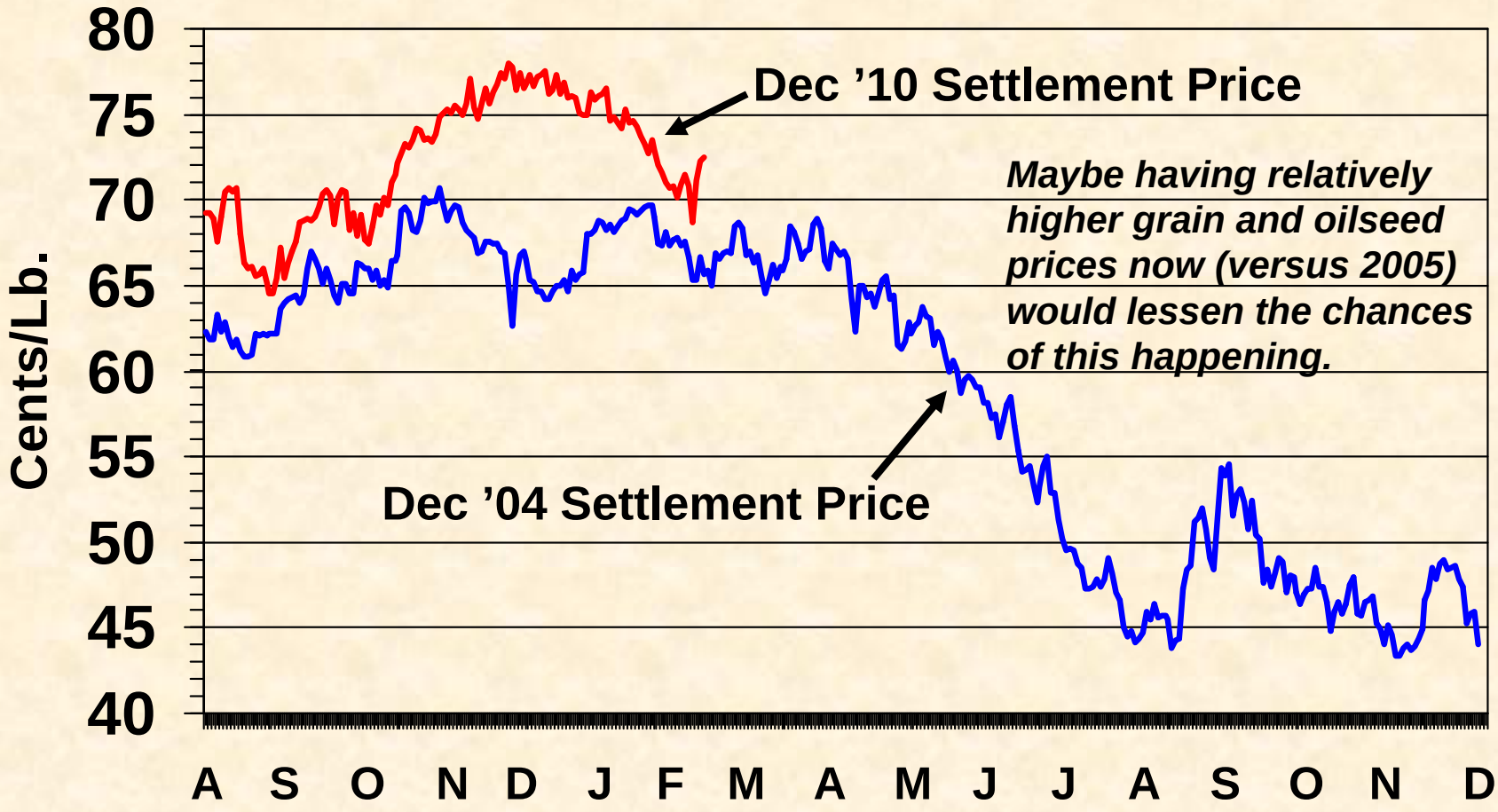
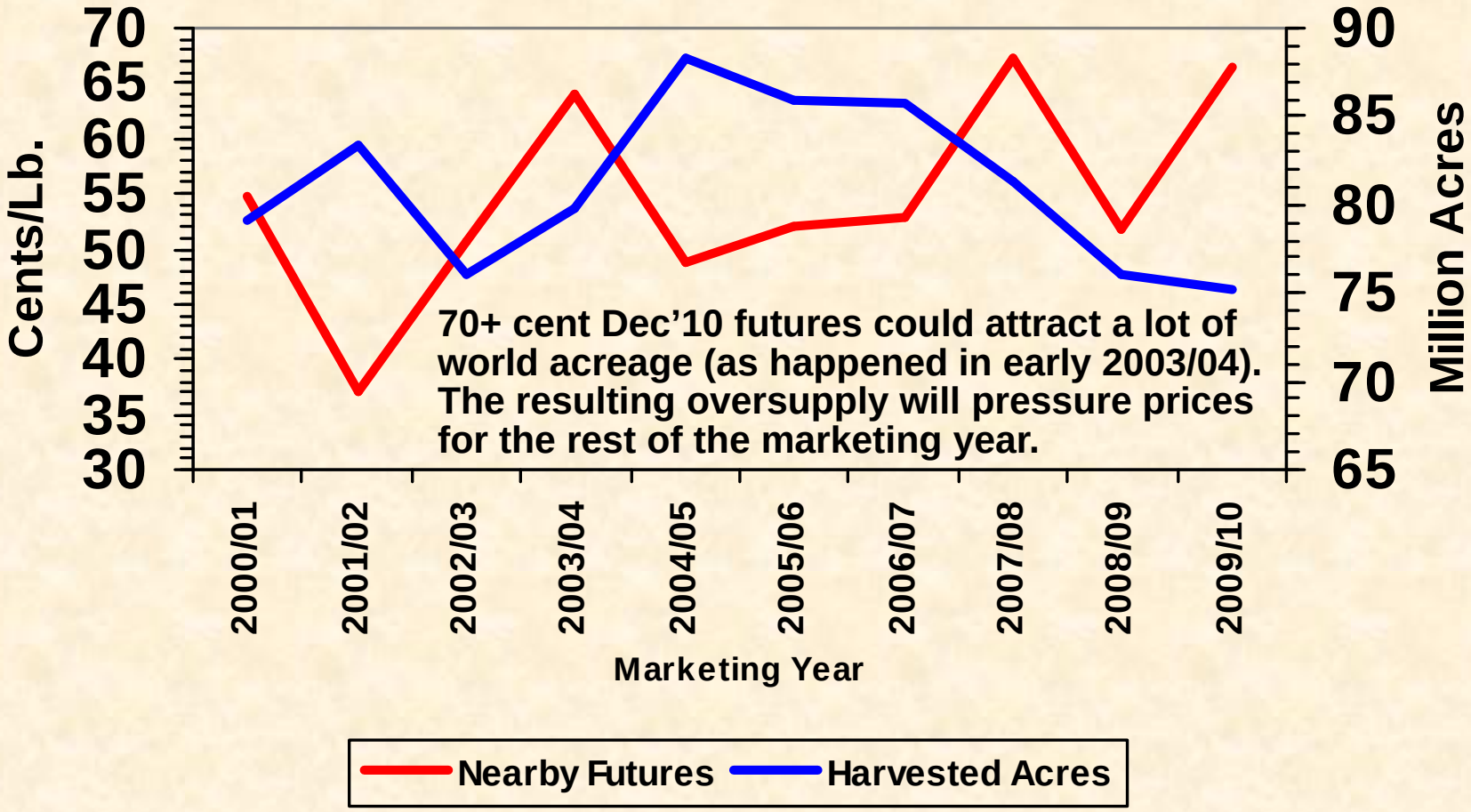
In years when the ending stocks increase, the pattern of harvest-time prices is to fall harder and sooner. This could happen with lots of worldwide supply and a lingering fuzzy demand picture.



Worst Case: High winter-time prices in 03-04 led to a supply response that outweighed demand, leading to much lower prices.



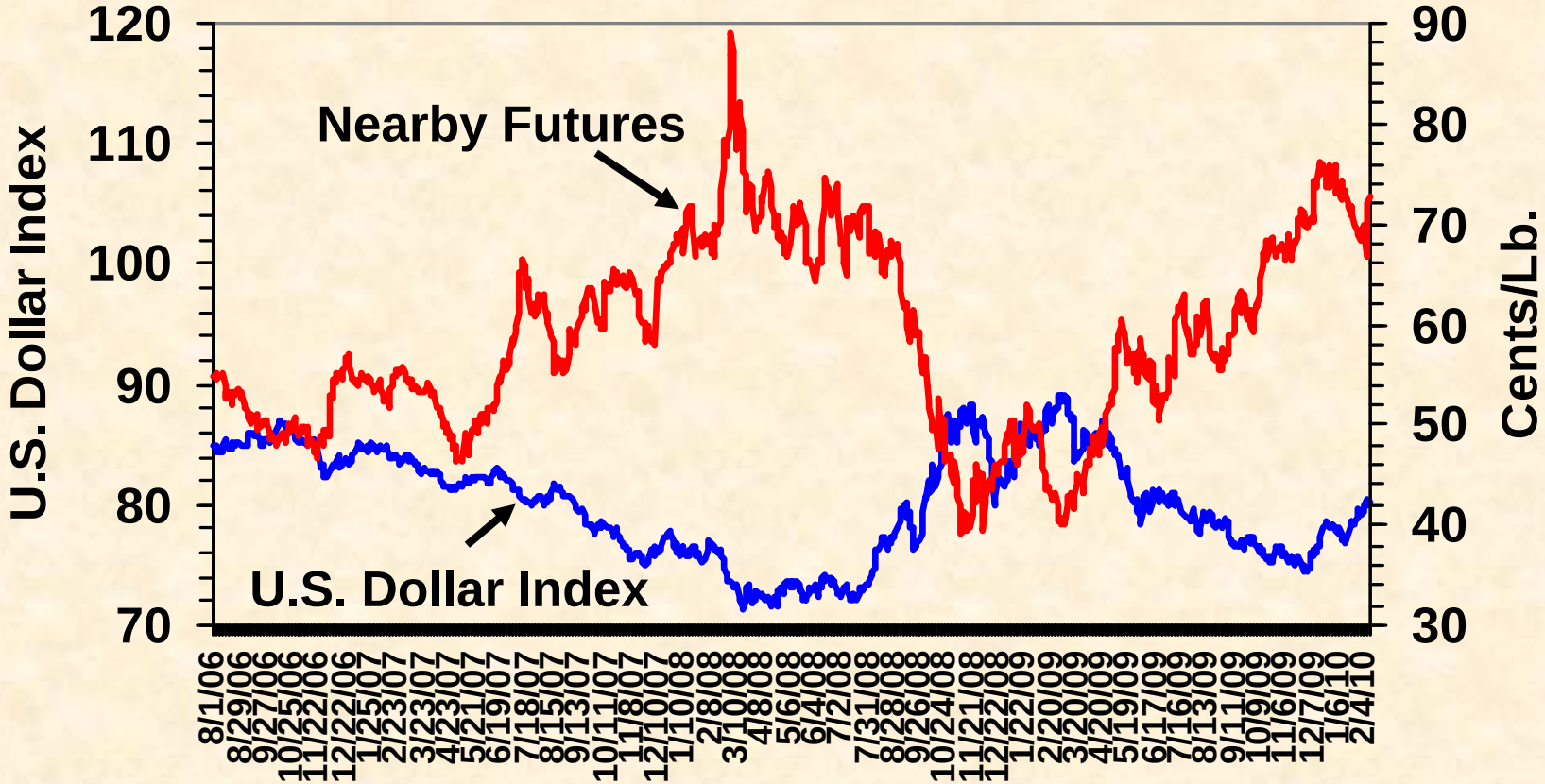
World Cotton Harvested Acres vs. Nearby Futures Settlement Price



Sustained Strong Recovery of U.S. Prod'n?

- Human Capital Constraints
- Technology Innovations
- Historic Boom/Bust cycle of brief, strong cotton prices doesn't bode well for sustained recovery of acreage in regions like Mid-South and Far West.

U.S. Dollar Index (DX) vs. Nearby Cotton Futures Settlement Price



Daily

August 1, 2006 - February 10, 2010

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The Cotton Marketing Planner

http://agecon2.tamu.edu/people/faculty/robinson-john/index.html

Welcome to John Robinson's Website on Cotton Marketing & Risk Management

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The Cotton Marketing Planner Newsletter focuses on farm-level implementation of strategies for Texas cotton growers to deal with yield and price risk. Contact me to receive it weekly by e-mail.
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January 29, 2010

Cost Expectations

A marketing plan is a contingency plan of actions that a grower would take in various possible, but ultimately uncertain, market situations. Developing and implementing a marketing plan begins with an updated estimate of expected production costs. Without accurate farm-specific cost information, it is impossible to set meaningful pricing goals to cover your production costs. Texas cotton growers have a number of available sources of information and programs to help them figure their production costs as accurately and completely as possible.

2009/10 Fundamentals and Outlook

2009/10 U.S. Supply/Demand Projections **. The near-term U.S. cotton supply/demand picture remains framed by the January WASDE report. Compared to their December report, USDA slightly decreased 2009/10 U.S. production while leaving other variables unchanged. The bottom line was a 200,000 bale decrease in projected ending stocks for 2009/10 compared to the December report, which represents yet another decrease since the Fall. Based on history, this supports the supply/demand rationale for the higher prices that we've seen in previous weeks. USDA's cash price forecast was shifted upwards one penny on the low end to a 57 to 64 cent range.**