

Prospects for U.S. Cotton Production in a Shifting Price Environment

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Discussion Points

● Major Assumptions

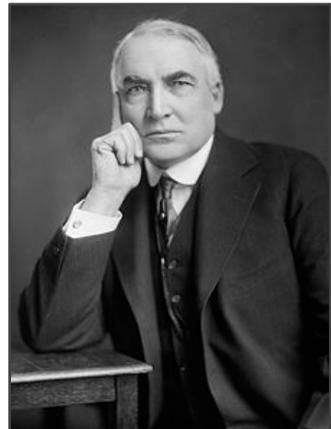
- China Stockpile Management
- Feedgrain, Wheat, & Soybean Prices
- Weather Projection
- Farm Policy Influence

● Other Ad hoc Considerations

● Cotton Prod'n Implications

“Upland cotton plantings are projected to increase almost a million acres in 2014 to 11 million as prices for competing crops fall more than do cotton prices. Acreage falls to 10 million in 2015 and remains near that level for the remainder of the projection period, as world and U.S. cotton prices are projected below the recent 5-year average.”

USDA Agricultural Long-term Projections to 2023



China Stockpile Management



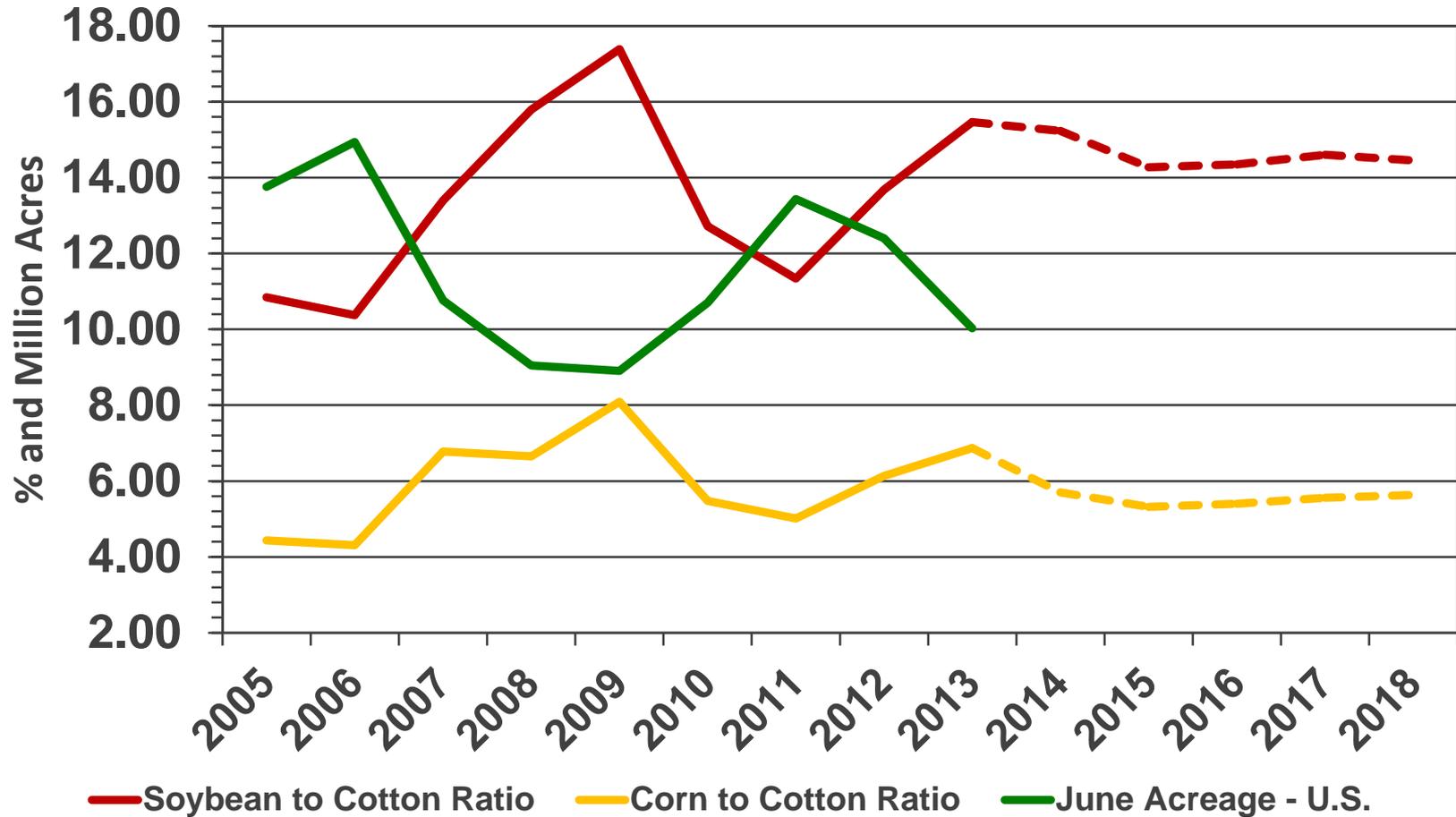
Summary China Thoughts

- **Expected policy change may end stockpiling, but still uncertainty about existing reserve stocks.**
- **Longer term expectation of reserves being reduced to 10-20M bales**
- **Downside price risk depends on when/how much they work it off**
 - **Upside price risk may be capped**
 - **Demand for U.S. exports is uncertain**

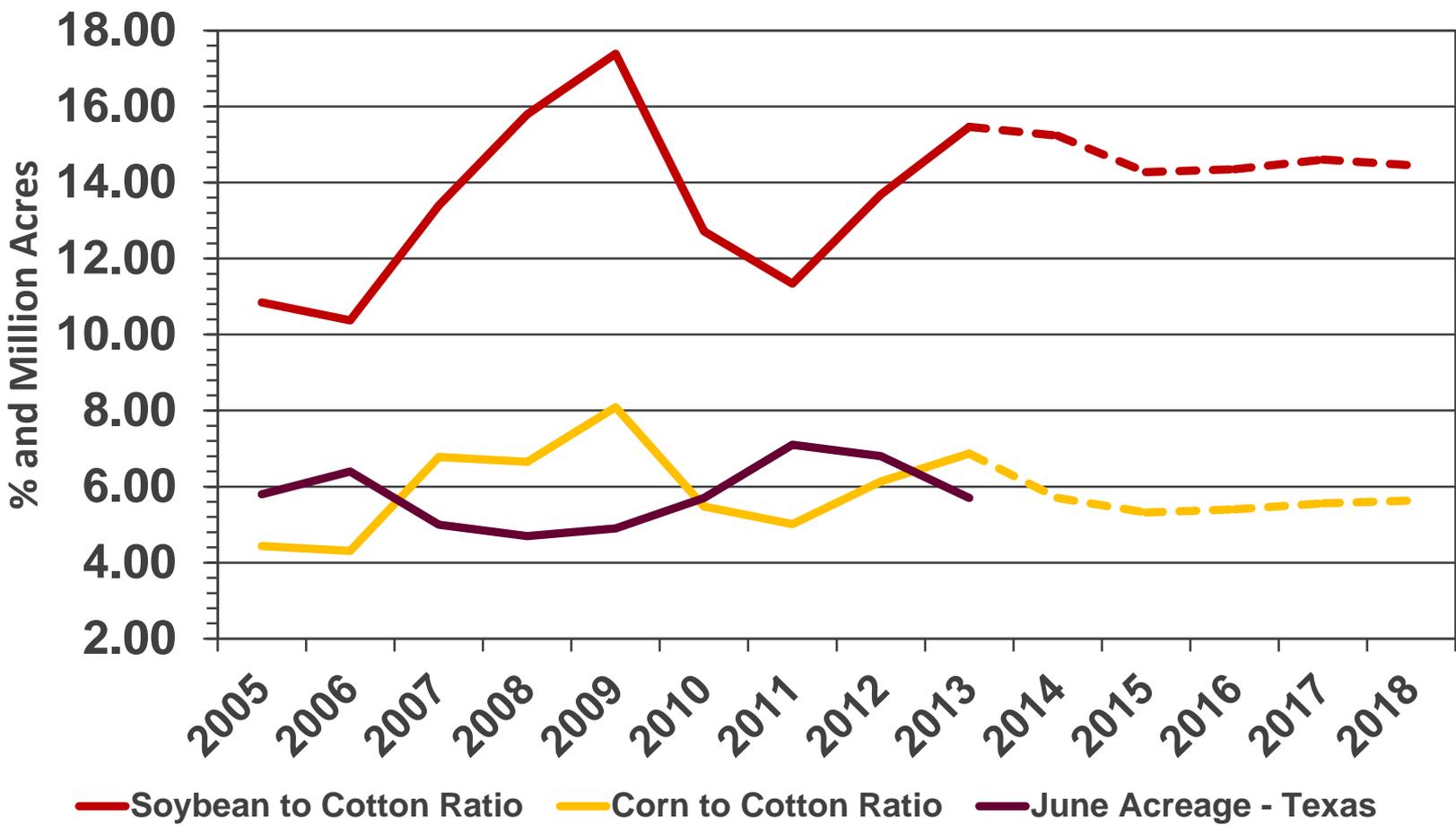
Lower Grain/Oilseed Prices

Ratio of Projected Corn and Soybean Prices to Cotton Price						
	2013	2014	2015	2016	2017	2018
Corn (\$/bu)	6.08	5.70	5.32	5.40	5.56	5.63
Soybeans (\$/bu)	16.42	15.23	14.27	14.35	14.60	14.45
USDA Long Term Projections						
	2013	2014	2015	2016	2017	2018
Corn (\$/bu)	4.50	3.65	3.30	3.35	3.45	3.60
Wheat (\$/bu)	7.00	4.90	4.35	4.30	4.45	4.60
Sorghum (\$/bu)	4.20	3.40	3.10	3.15	3.20	3.35
Soybeans (\$/bu)	12.15	9.75	8.85	8.90	9.05	9.25
Cotton (\$/lb)	0.740	0.640	0.620	0.620	0.620	0.640

Soybean/Cotton Price Ratio, Corn/Cotton Price Ratio, and U.S. Upland Cotton Planted Acreage

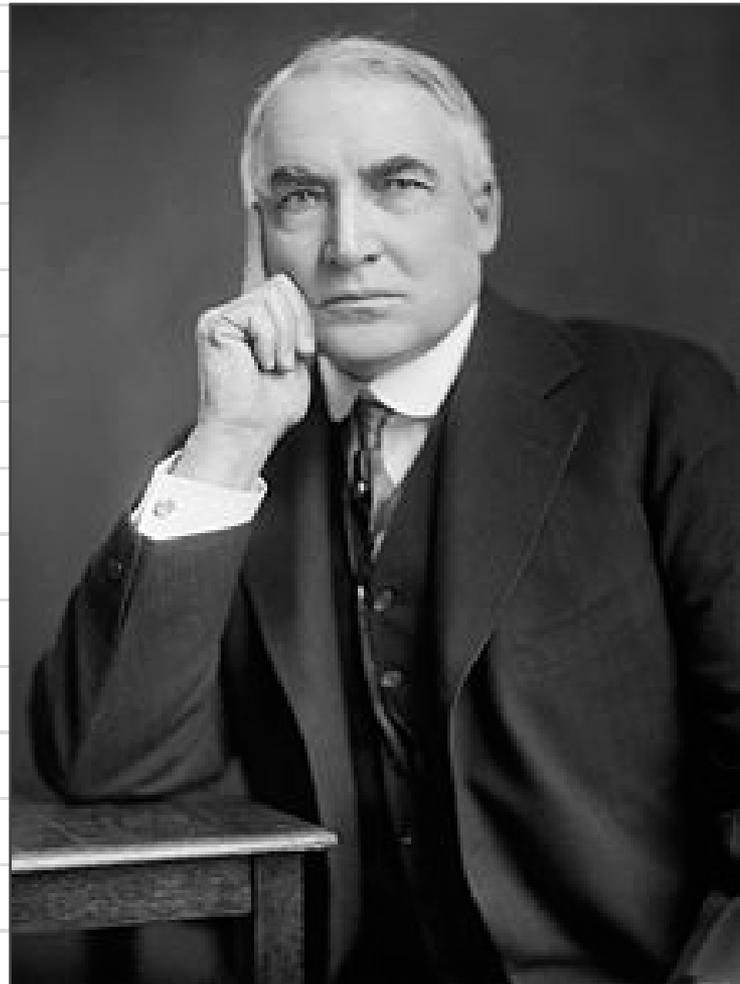


But Less of a Response to Plantings of Texas Upland Cotton



Return to Normalcy

Year	Texas	U.S.	TX % of U.S.
	Mil. Acs		
2000	6.40	15.35	42%
2001	6.00	15.50	39%
2002	5.60	13.71	41%
2003	5.60	13.30	42%
2004	5.85	13.41	44%
2005	5.95	13.98	43%
2006	6.40	14.95	43%
2007	4.90	10.54	47%
2008	5.00	9.30	54%
2009	5.00	9.01	56%
2010	5.55	10.77	52%
2011	7.55	14.43	52%
2012	6.55	12.08	54%
2013	5.80	10.21	57%



Relatively Lower Feed Grain Prices

- Reinforces dominant cotton planting patterns in Texas
- Moves crops more to a breakeven decision in other regions
- Increases influence of *ad hoc*, local determinants of planting (a testable hypothesis)

***Ad hoc* Planting Determinants**

- **Rotation – for yield enhancement, weed control, etc.**
- **Fixed Costs – ownership in gins, bins, combines and pickers**
- **Grower preference for/against risk**
 - Re: cotton's greater physical, managerial, and financial risk
- **These considerations may make acreage adjustment sticky in MS/SE**

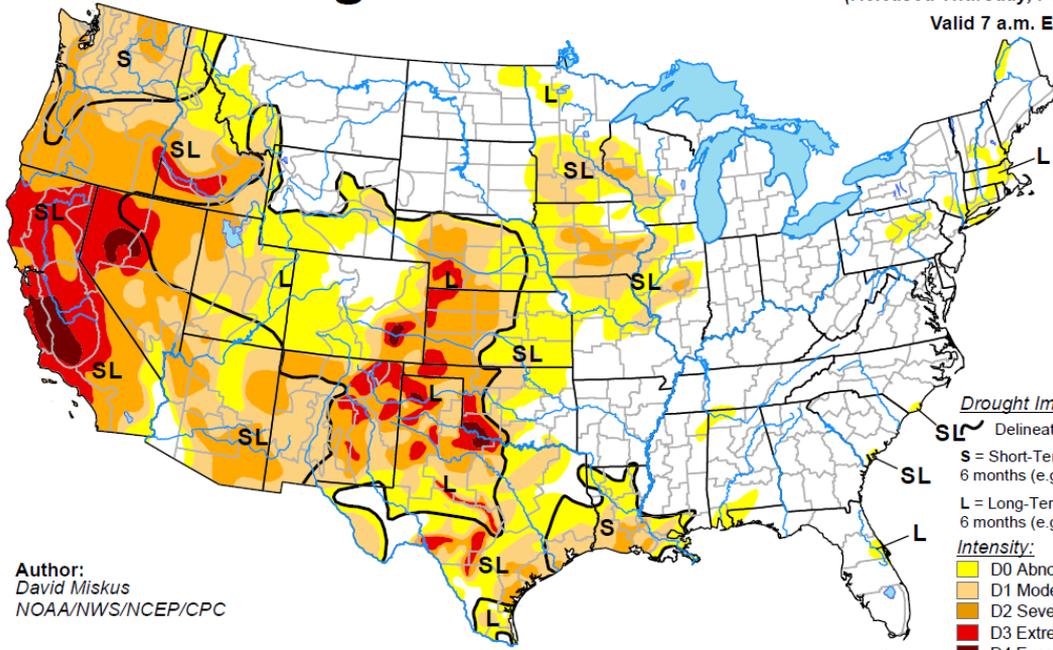
Structural Shifts

- **Production/Yield Level & Variability**
 - New varieties, technology
 - Concentration of acreage in Texas
 - Remnant of MS and SE acreage on irrigated ground
- **Policy Influence**
- **Weather Pattern**

Weather: Are We in a Long Term La Niña Pattern or Not?

U.S. Drought Monitor

February 11, 2014
 (Released Thursday, Feb. 13, 2014)
 Valid 7 a.m. EST

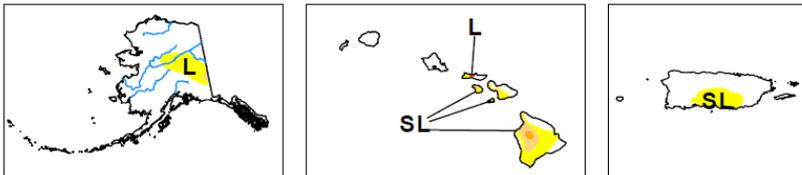


Drought Impact Types:
 SL ~ Delineates dominant impacts
 S = Short-Term, typically less than 6 months (e.g. agriculture, grasslands)
 L = Long-Term, typically greater than 6 months (e.g. hydrology, ecology)

Intensity:
 Yellow: D0 Abnormally Dry
 Orange: D1 Moderate Drought
 Red-Orange: D2 Severe Drought
 Red: D3 Extreme Drought
 Dark Red: D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

Author:
 David Miskus
 NOAA/NWS/NCEP/CPC



<http://droughtmonitor.unl.edu/>

Currently ENSO neutral with forecast of mild El Nino; still could be part of decade-long La Niña.

Drier weather works against grain crops and favors cotton from an insurance play in SW.

Could lead to relatively higher cotton plantings, and uncertain prod'n.

Conclusion

“Upland cotton plantings are projected to increase almost a million acres in 2014 to 11 million as prices for competing crops fall more than do cotton prices. Acreage falls to 10 million in 2015 and remains near that level for the remainder of the projection period, as world and U.S. cotton prices are projected below the recent 5-year average.”

USDA Agricultural Long-term Projections to 2023

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*“Upland cotton plantings are projected to increase almost a million acres in 2014 to 11 million as prices for competing crops fall more than do cotton prices. **Acreage falls to 10 million in 2015 and remains near that level for the remainder of the projection period, as world and U.S. cotton prices are projected below the recent 5-year average.**”*

USDA Agricultural Long-term Projections to 2023

2014/15 U.S. Cotton Balance Sheet		2015/16 U.S. Cotton Balance Sheet		2016/17 U.S. Cotton Balance Sheet		2017/18 U.S. Cotton Balance Sheet	
Supply		Supply		Supply		Supply	
Planted Acres (million)	11.3	Planted Acres (million)	10.0	Planted Acres (million)	9.0	Planted Acres (million)	8.5
Harv. Acres (million)	9.6	Harv. Acres (million)	8.5	Harv. Acres (million)	7.7	Harv. Acres (million)	7.2
Yield (lbs./ac.)	825.0						
Beginning Stks.	2.9	Beginning Stks.	6.6	Beginning Stks.	8.5	Beginning Stks.	8.8
Production	16.5	Production	14.6	Production	13.2	Production	12.4
Imports	<u>0.0</u>	Imports	<u>0.0</u>	Imports	<u>0.0</u>	Imports	<u>0.0</u>
Total Supply	19.4	Total Supply	21.3	Total Supply	21.6	Total Supply	21.3
Disappearance		Disappearance		Disappearance		Disappearance	
Mill Use	3.8						
Exports	<u>9.0</u>	Exports	<u>9.0</u>	Exports	<u>9.0</u>	Exports	<u>9.0</u>
Total Domestic Use	12.8						
Ending Stks.	6.6	Ending Stks.	8.5	Ending Stks.	8.8	Ending Stks.	8.5
Ending Stks./Use	52%	Ending Stks./Use	66%	Ending Stks./Use	69%	Ending Stks./Use	66%

Conclusion

*“Upland cotton plantings are projected to increase almost a million acres in 2014 to 11 million as prices for competing crops fall more than do cotton prices. **Acreage falls to 10 million in 2015 and remains near that level for the remainder of the projection period, as world and U.S. cotton prices are projected below the recent 5-year average.**”*

USDA Agricultural Long-term Projections to 2023

2014/15 U.S. Cotton Balance Sheet Supply

Planted Acres (million)	11.3
Harv. Acres (million)	9.6
Yield (lbs./ac.)	825.0
Beginning Stks.	2.9
Production	16.5
Imports	<u>0.0</u>
Total Supply	19.4
Disappearance	
Mill Use	3.8
Exports	<u>10.0</u>
Total Domestic Use	13.8
Ending Stks.	5.6
Ending Stks./Use	41%

2015/16 U.S. Cotton Balance Sheet Supply

Planted Acres (million)	10.0
Harv. Acres (million)	8.5
Yield (lbs./ac.)	825.0
Beginning Stks.	5.6
Production	14.6
Imports	<u>0.0</u>
Total Supply	20.3
Disappearance	
Mill Use	3.8
Exports	<u>10.0</u>
Total Domestic Use	13.8
Ending Stks.	6.5
Ending Stks./Use	47%

2016/17 U.S. Cotton Balance Sheet Supply

Planted Acres (million)	9.0
Harv. Acres (million)	7.7
Yield (lbs./ac.)	825.0
Beginning Stks.	6.5
Production	13.2
Imports	<u>0.0</u>
Total Supply	19.6
Disappearance	
Mill Use	3.8
Exports	<u>10.0</u>
Total Domestic Use	13.8
Ending Stks.	5.8
Ending Stks./Use	42%

2017/18 U.S. Cotton Balance Sheet Supply

Planted Acres (million)	8.5
Harv. Acres (million)	7.2
Yield (lbs./ac.)	825.0
Beginning Stks.	5.8
Production	12.4
Imports	<u>0.0</u>
Total Supply	18.3
Disappearance	
Mill Use	3.8
Exports	<u>9.0</u>
Total Domestic Use	12.8
Ending Stks.	5.5
Ending Stks./Use	43%

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