The World and U.S. Cotton Outlook for 2017/18

Interagency Commodity Estimates Committee

Presented by
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Agricultural Outlook Forum
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USDA 2017/18 Cotton Outlook

• 2016/17 Current year review:
  – Production has grown globally and in the U.S.
  – Consumption has grown in China, Vietnam, Bangladesh, elsewhere
  – Consumption remains above production
  – Global stocks are tightening, especially within China
  – Prices have risen

• 2017/18 Upcoming year outlook:
  – Production is forecast up again from 2016/17
  – Consumption is forecast up again, remains above production
  – Global stocks will continue to tighten, led by China
  – Prices are expected to fall
2016/17
Current World Cotton Situation
World Cotton Consumption Exceeds Production For a Second Year ... and Prices Begin to Rise

...but still well below recent peaks.

Sources: USDA, Interagency Commodity Estimates Committee and Cotlook.
Global Cotton Stocks Decline From Record...  
...but remain well above historically normal levels.

Source: USDA, Interagency Commodity Estimates Committee.
Global Production Rose in 2016/17

*Improved weather conditions helped boost production*

- **U.S. production increase on recovery of area and yield**
- **Australia’s production rose on improved water availability.**
- **India/Pakistan production recovered somewhat from pests.**

Source: USDA, Interagency Commodity Estimates Committee.
World Consumption Increase Expected in 2016/17

*Cotton consumption estimated at 112.5 million bales.*

- Consumption has begun recovering even as prices seem high.
  - Strong growth in Bangladesh (10%), Vietnam (16%)
  - Recovery of growth in China after several years of declines
  - Consumption declines in India, partly from demonetization

- Retail growth constrained by continued consumer uncertainty.

- Cotton prices have risen substantially more than polyester prices recently, which constrains continued expansion of use.
Relative Price of Cotton Continues to Rise

Sources: USDA calculations based on data from Cotlook Ltd., Cncotton, National Cotton Council, and International Cotton Advisory Committee.
China’s Cotton Mill Use Rising...

...with yarn imports roughly stable.

Sources: USDA and Global Trade Atlas.
China Consumption Growth Continues: *India Slumps, Bangladesh and Vietnam Grow*

Source: USDA, Interagency Commodity Estimates Committee.
Cotton Loses Share to Manmade Fibers
(U.S. product imports, raw fiber-equivalent basis)

Cotton’s percent share

Sources: USDA, Economic Research Service and U.S. Census Bureau.
2016/17
Current U.S. Cotton Situation
U.S. Production Increases in Every Region:

Particularly Strong Growth in the Southwest

Source: USDA, National Agricultural Statistics Service.
# U.S. Cotton Supply & Demand Estimates:

*Production and Exports Significantly Higher; Stocks Still Rise*

<table>
<thead>
<tr>
<th>Unit</th>
<th>2015/16</th>
<th>2016/17</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beg. stocks</td>
<td>Mil. bales</td>
<td>3.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Production</td>
<td>&quot;</td>
<td>12.9</td>
<td>17.0</td>
</tr>
<tr>
<td>Imports</td>
<td>&quot;</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total supply</td>
<td>&quot;</td>
<td>16.6</td>
<td>20.8</td>
</tr>
<tr>
<td>Mill use</td>
<td>&quot;</td>
<td>3.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Exports</td>
<td>&quot;</td>
<td>9.2</td>
<td>12.7</td>
</tr>
<tr>
<td>Total demand</td>
<td>&quot;</td>
<td>12.6</td>
<td>16.0</td>
</tr>
<tr>
<td>Ending stocks</td>
<td>&quot;</td>
<td>3.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Stocks-to-use</td>
<td>%</td>
<td>30.2</td>
<td>30.0</td>
</tr>
<tr>
<td>Farm price</td>
<td>Cents/lb.</td>
<td>61.2</td>
<td>69.0</td>
</tr>
</tbody>
</table>

Source: USDA, Interagency Commodity Estimates Committee.
Cumulative 12-Month Exports to China and Vietnam

*Vietnam has become the U.S.’ #1 export destination*

Source: USDA, Global Trade Atlas.
Key Assumptions for USDA’s 2017/18 Forecast

• World economic growth improves in calendar 2017 & 2018, aiding cotton consumption prospects.

• China continues policies discouraging production and limiting imports to reduce surplus stocks, with reserve sales continued near their recent pace.

• Relatively high prices around northern hemisphere planting time will draw additional area into cultivation.

• World and U.S. cotton prices decline from current elevated levels.
World Cotton Stocks Declining:

*China drops below half of global stocks*

Source: USDA, Interagency Commodity Estimates Committee.
Global Production Projected Higher in 2017/18

Area increases drive higher production; global yields decline slightly

India, China, Australia lead growth in production

Source: USDA, Interagency Commodity Estimates Committee.
World Cotton Consumption Growth Rises in 2017/18

- Global consumption projected at 114.0 M bales.
  - Moderate growth (1.3%) based largely on global GDP increase.
  - Polyester price competition remains strong, especially as cotton prices are drifting upwards.

- China consumption to grow 700,000 bales.
  - Continuing reserve sales likely to keep internal prices moderated.
  - Expansion of Xinjiang spinning.

- Consumption outside China: 1% growth expected.
  - Vietnam and Bangladesh continue expansion.
  - India adjusts to demonetization

- Cotton’s share of world fiber market continues to decline.
**World Cotton Supply & Demand Projections:**

*Consumption Exceeds Production for 3rd Season; Stocks Reduced Further*

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</thead>
<tbody>
<tr>
<td>Beg. stocks</td>
<td>Mil. bales</td>
<td>96.8</td>
<td>89.9</td>
<td>-7.2</td>
</tr>
<tr>
<td>Production</td>
<td>&quot;</td>
<td>105.4</td>
<td>108.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Imports</td>
<td>&quot;</td>
<td>35.7</td>
<td>35.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>Total supply</td>
<td>&quot;</td>
<td>238.0</td>
<td>233.4</td>
<td>-1.9</td>
</tr>
<tr>
<td>Consumption</td>
<td>&quot;</td>
<td>112.5</td>
<td>114.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Exports</td>
<td>&quot;</td>
<td>35.7</td>
<td>35.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>Total demand</td>
<td>&quot;</td>
<td>148.3</td>
<td>149.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Ending stocks</td>
<td>&quot;</td>
<td>89.9</td>
<td>83.9</td>
<td>-6.7</td>
</tr>
<tr>
<td>Stocks-to-consumption</td>
<td>%</td>
<td>79.9</td>
<td>73.6</td>
<td>-7.9</td>
</tr>
</tbody>
</table>

Source: USDA, Interagency Commodity Estimates Committee.
Stocks Outside China Projected Higher

…and world prices decline.

Source: USDA, Interagency Commodity Estimates Committee.
2017/18
U.S. Cotton Outlook
No Current Indications of Drought
Outlook for 2017/18 U.S. Cotton Area

• Planted acreage expected higher at 11.5 million acres.
  – Harvested area forecast at 10 million acres.
  – NCC survey indicated about 11.0 million acres planted.

• Cotton is priced favorably vs. competing crops as planting approaches

• USDA is higher than NCC because prices have risen since the NCC survey period
### U.S. Cotton Area, Yield, and Production

**Key Factors Include Crop Conditions & Abandonment**

> **Southwest expected to account for 60% of area**

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<th>2017/18</th>
<th>Change(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planted area</td>
<td>Mil. acres</td>
<td>10.07</td>
<td>11.50</td>
<td>14.2</td>
</tr>
<tr>
<td>Harvested area</td>
<td>&quot;</td>
<td>9.52</td>
<td>10.00</td>
<td>5.0</td>
</tr>
<tr>
<td>Abandonment rate</td>
<td>%</td>
<td>5.5</td>
<td>13.0</td>
<td>236.4</td>
</tr>
<tr>
<td>Yield/harvested acre</td>
<td>Lbs.</td>
<td>855</td>
<td>816</td>
<td>-4.6</td>
</tr>
<tr>
<td>Production</td>
<td>Mil. bales</td>
<td>16.96</td>
<td>17.00</td>
<td>0.2</td>
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Source: USDA, Interagency Commodity Estimates Committee.
U.S. Cotton Supply & Demand Projections: *Production and Exports Rebound; Stocks Unchanged*

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<td>16.96</td>
<td>17.00</td>
<td>0.2</td>
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<tr>
<td>Imports</td>
<td>&quot;</td>
<td>0.01</td>
<td>0.01</td>
<td>0.0</td>
</tr>
<tr>
<td>Total supply</td>
<td>&quot;</td>
<td>20.77</td>
<td>21.81</td>
<td>5.0</td>
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<td>Mill use</td>
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<td>3.4</td>
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<td>65.0</td>
<td>-5.8</td>
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Source: USDA, Interagency Commodity Estimates Committee.
U.S. Export Forecast Higher in 2017/18:

*Growth Contingent Upon Several Factors*

• Increased exportable supplies in the United States.
  – Additional 1 M bales at current production expectations.
  – Highest exportable supplies since 2008/09
  – Highest beginning stocks in the U.S. since 2009

• Stronger consumption growth in importing countries
  – E.g. Vietnam, Bangladesh

• High or improving U.S. market share in many importing markets
  – Improvements in Bangladesh, China
  – High share in Vietnam
Variables that Could Change the Outlook

• Cotton price volatility and its impact on area planted and harvested.

• Weather and growing conditions affecting production.

• Further China policy changes affecting stocks and prices.

• Macroeconomic conditions varying from average growth.

• Changes in polyester prices relative to cotton.
Final Thought:

“When my information changes, I change my mind. What do you do, sir?”

--John Maynard Keynes (maybe)
Thank You!
China’s State Cotton Reserves:

Reserve sales have substantially reduced China’s stockpiles

Source: USDA, Interagency Commodity Estimates Committee.
China’s Cotton Yarn Import Expansion: 
*Leading suppliers include India, Pakistan, and Vietnam*

Sources: USDA and Global Trade Atlas.
U.S. Cotton Planted Area: A Historical Perspective

Cotton area planted is nearing the historic average level

Source: USDA, National Agricultural Statistics Service.