United States Department of Agriculture

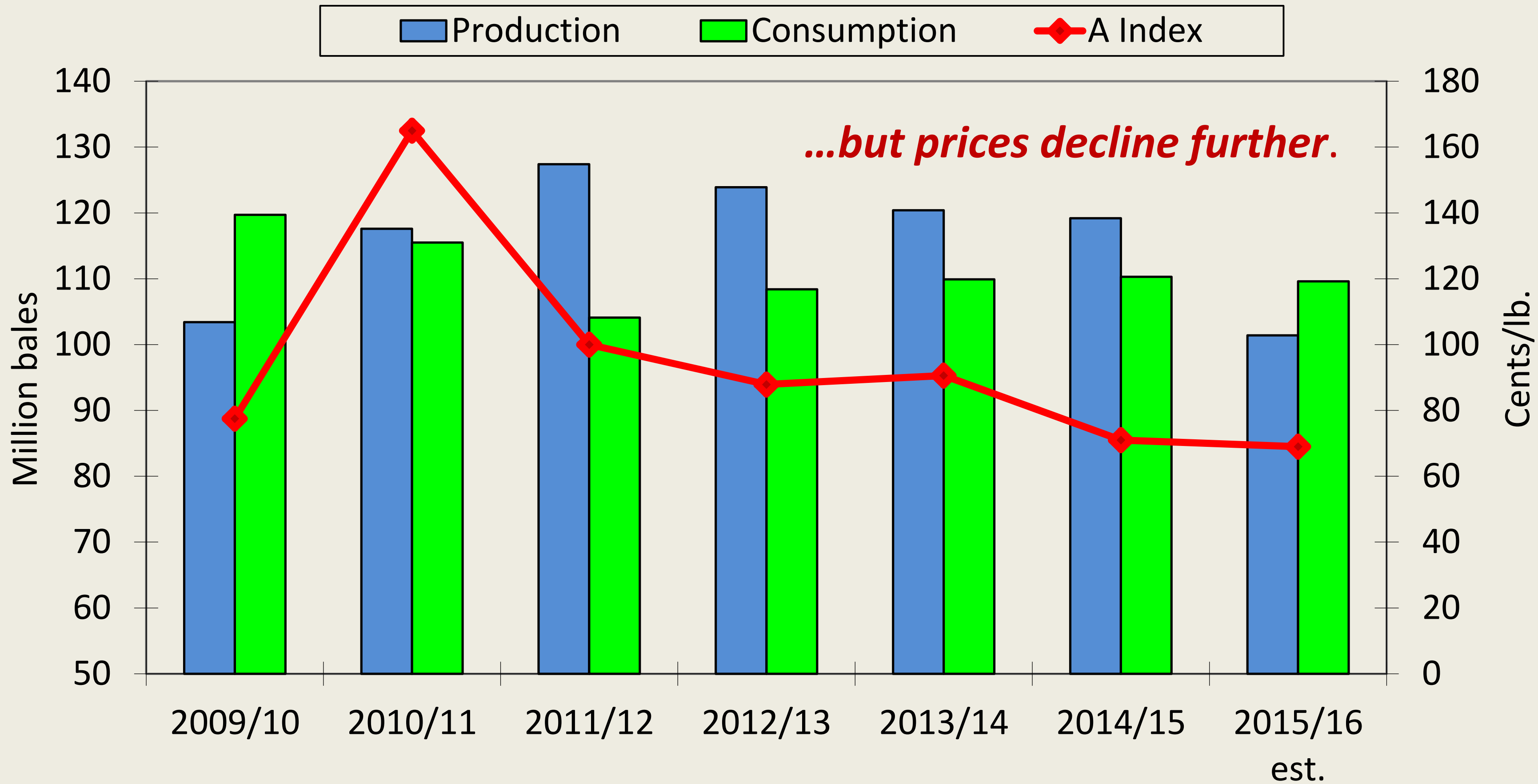
The World and U.S. Cotton Outlook for 2016/17

Interagency Commodity Estimates Committee

Presented by
Leslie A. Meyer
LMEYER@ERS.USDA.GOV

Agricultural Outlook Forum
February 26, 2016

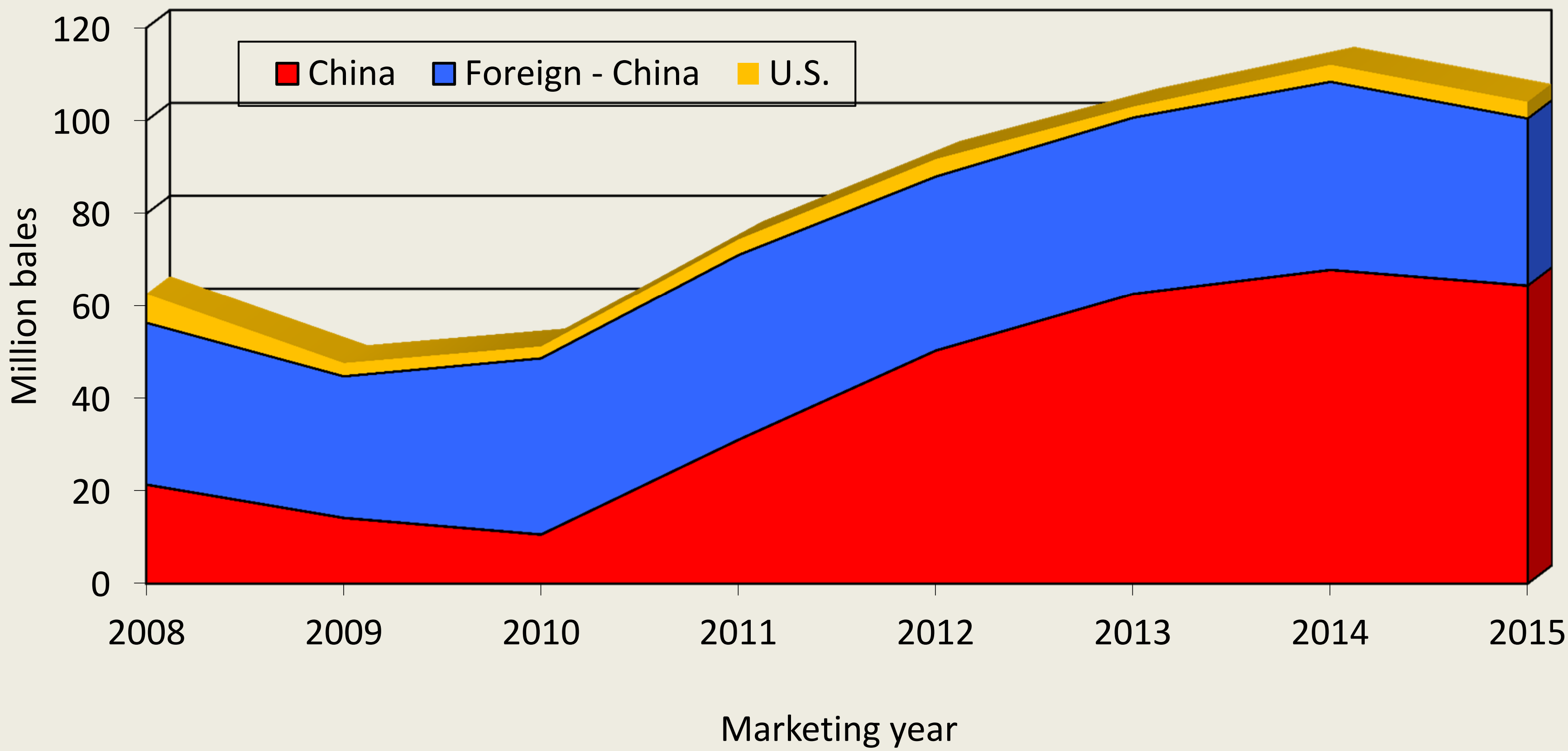
World Cotton Consumption Exceeds Production for the First Time in 6 Years…



Sources: USDA, Interagency Commodity Estimates Committee and Cotlook.

Global Cotton Stocks Decline From Record…

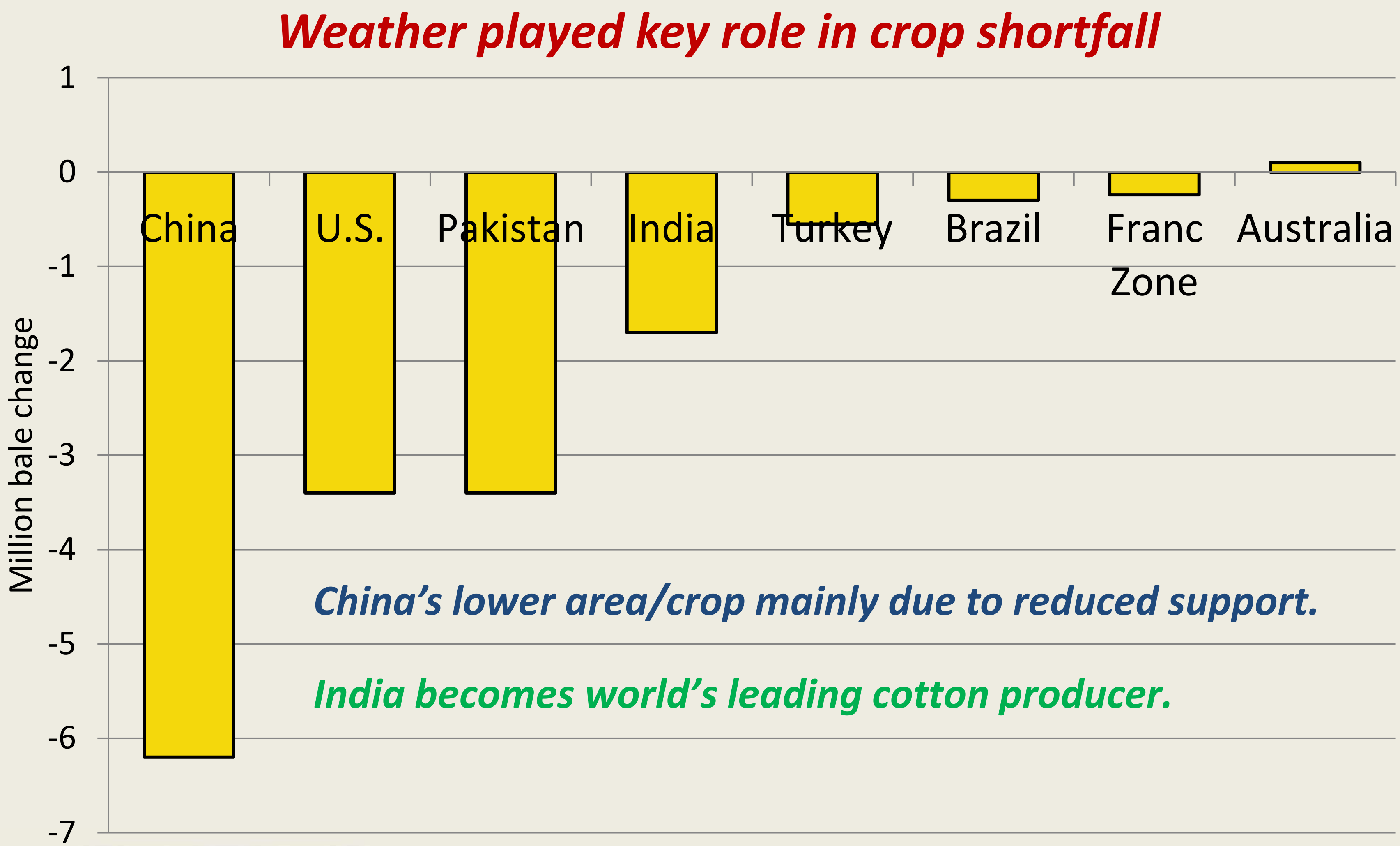
…but supplies represent nearly a year's worth of consumption.



Source: USDA, Interagency Commodity Estimates Committee.

2015/16
World Cotton Situation

Global Production Experienced Declines in 2015/16



Source: USDA, Interagency Commodity Estimates Committee.

World Consumption Decrease Expected in 2015/16

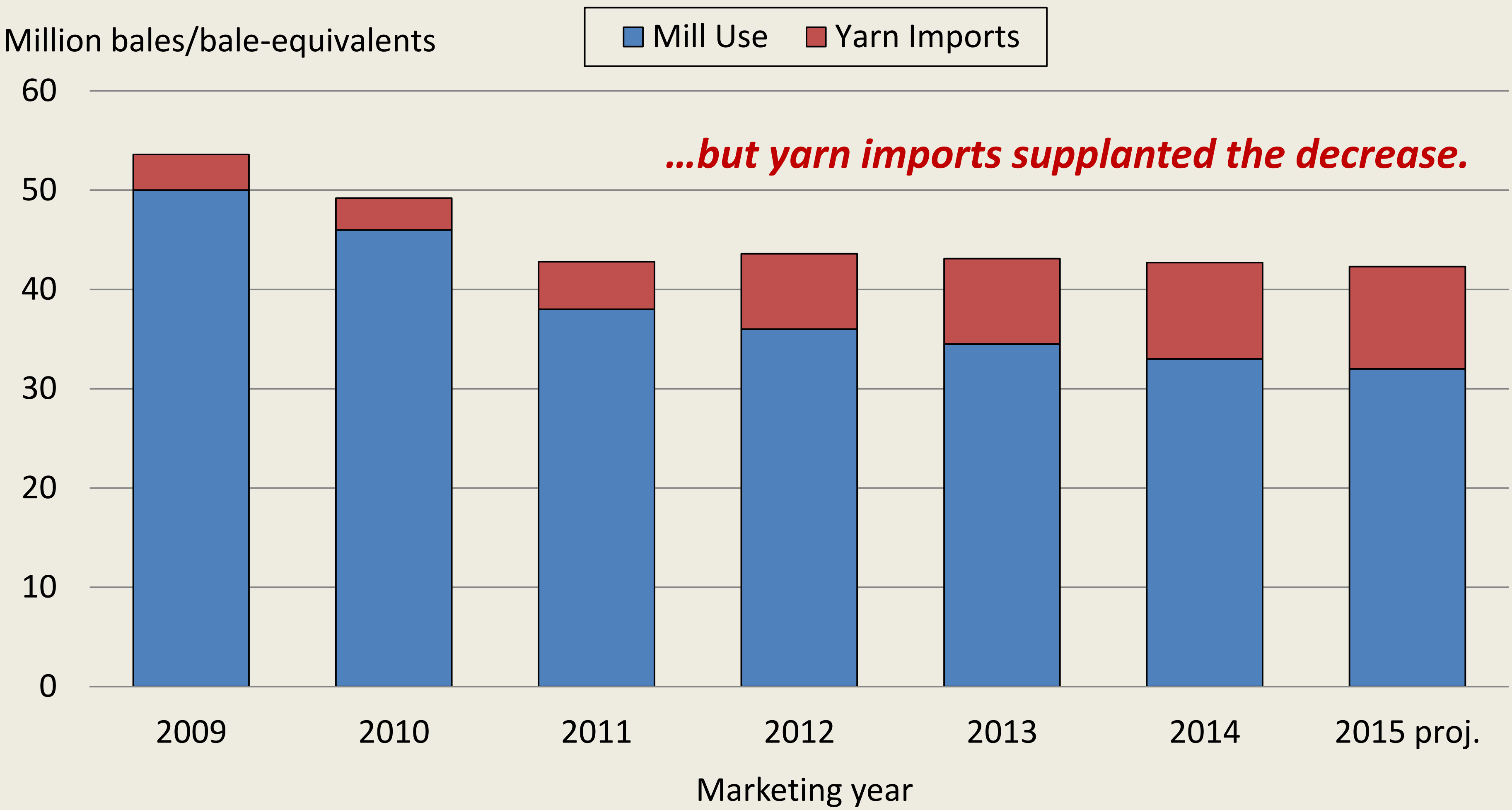
Cotton consumption estimated at 109.6 million bales.

- 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.

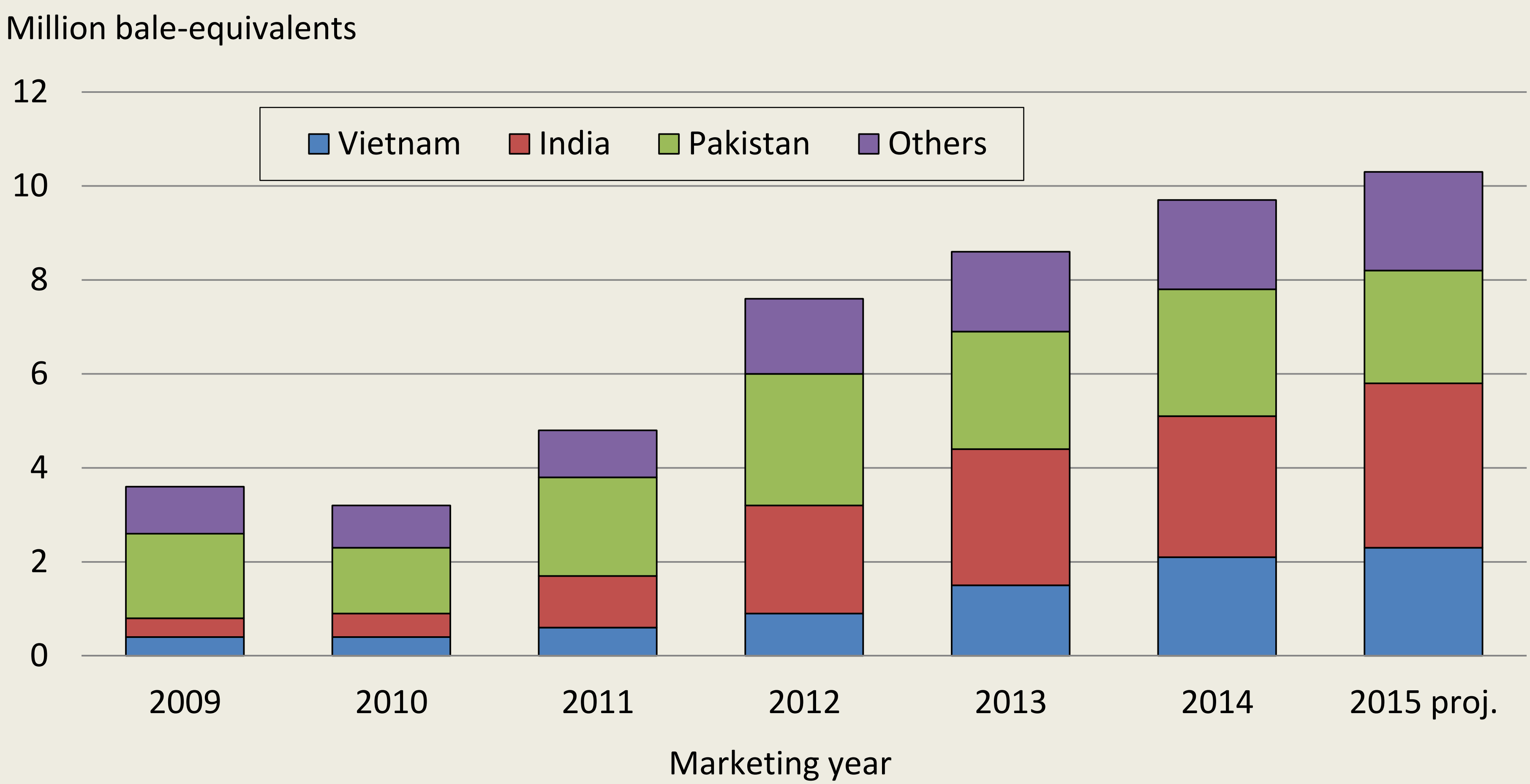
China's Cotton Mill Use Declines…



Sources: USDA and Global Trade Atlas.

China's Cotton Yarn Import Expansion:

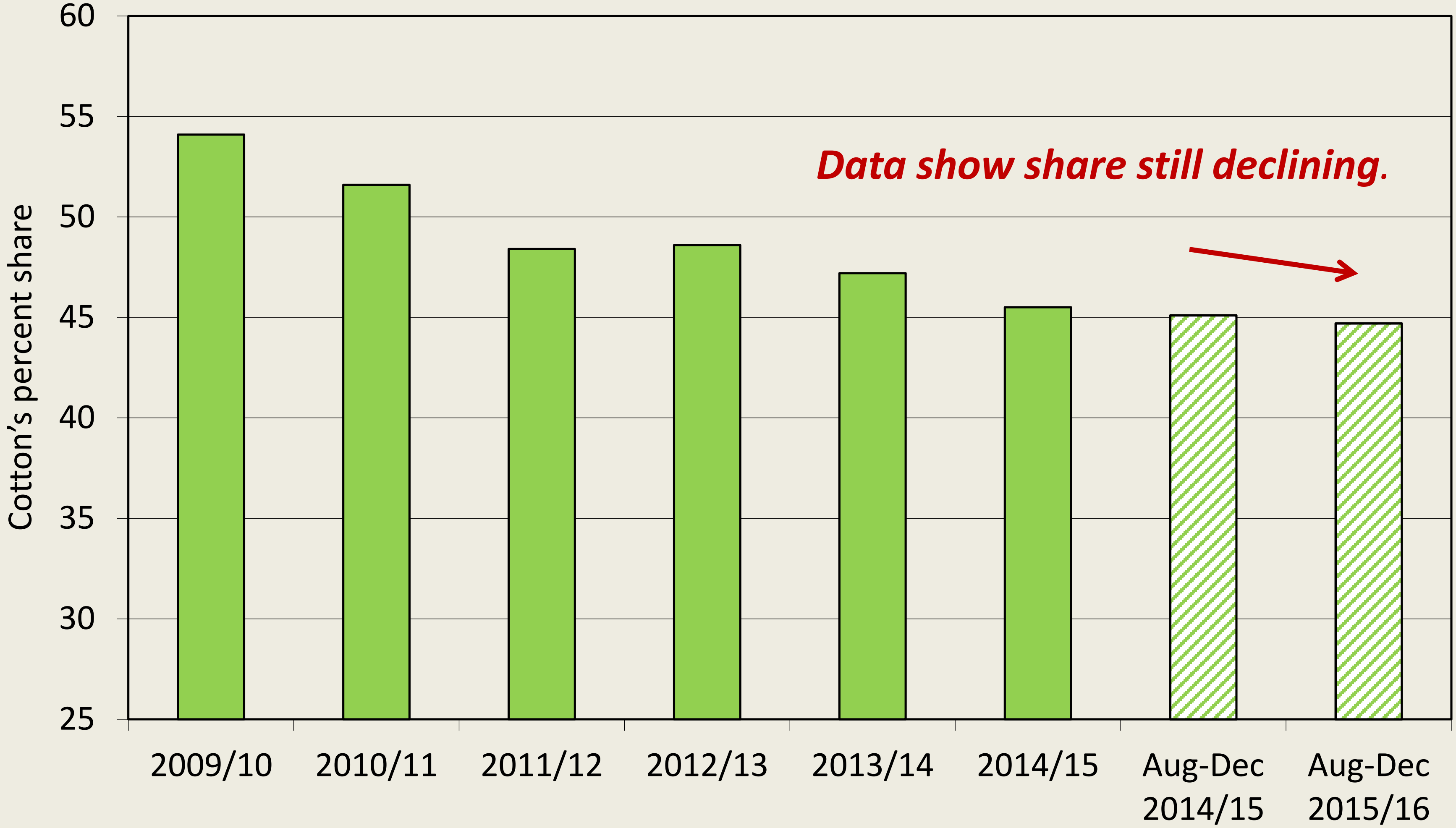
Leading suppliers include India, Pakistan, and Vietnam



Sources: USDA and Global Trade Atlas.

Cotton Loses Share to Manmade Fibers

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

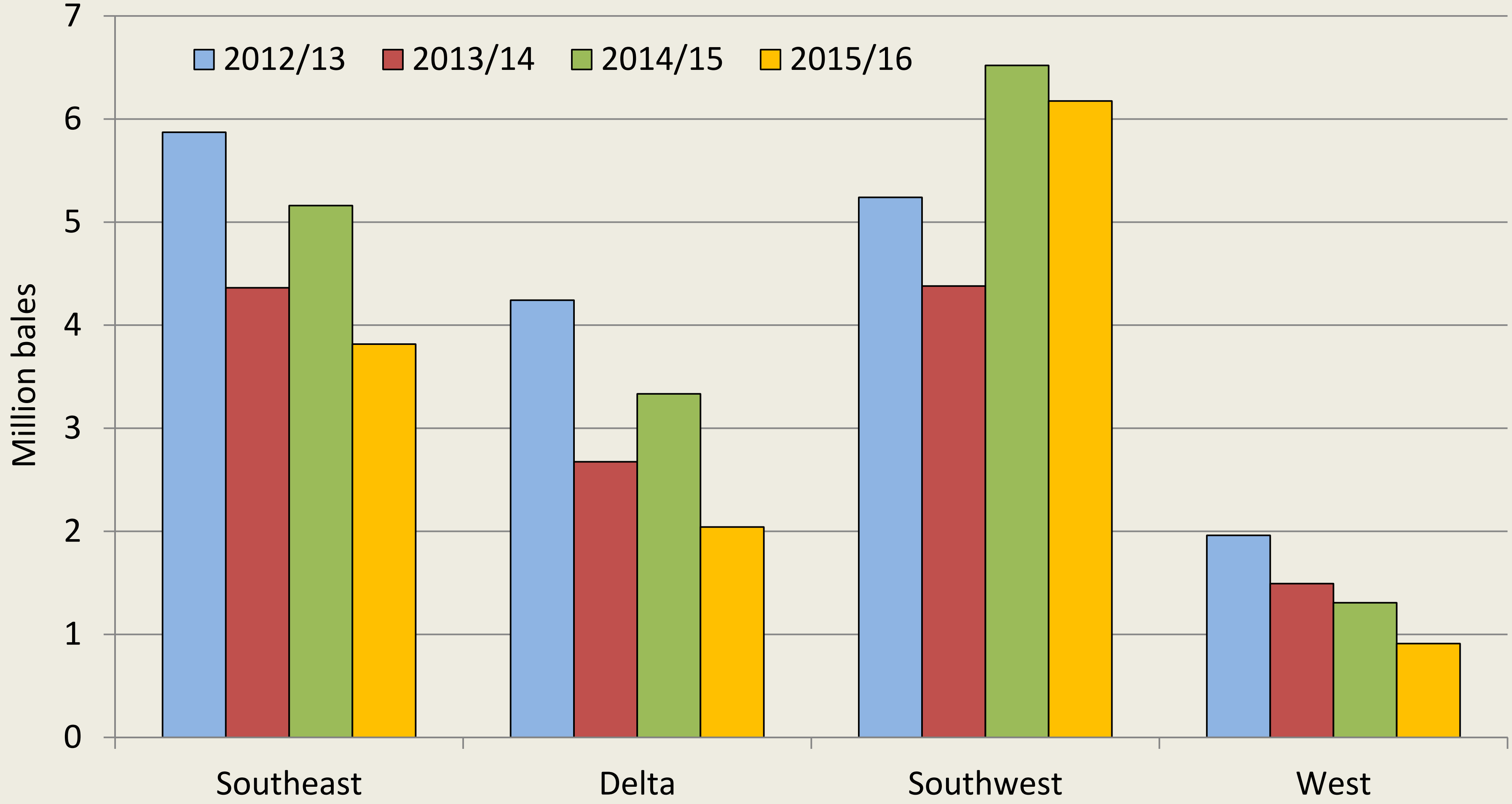


Sources: USDA, Economic Research Service and U.S. Census Bureau.

2015/16
U.S. Cotton Situation

U.S. Production Declines in Each Region:

Total planted area smallest since 1983



Source: USDA, National Agricultural Statistics Service.

U.S. Cotton Supply & Demand Estimates:

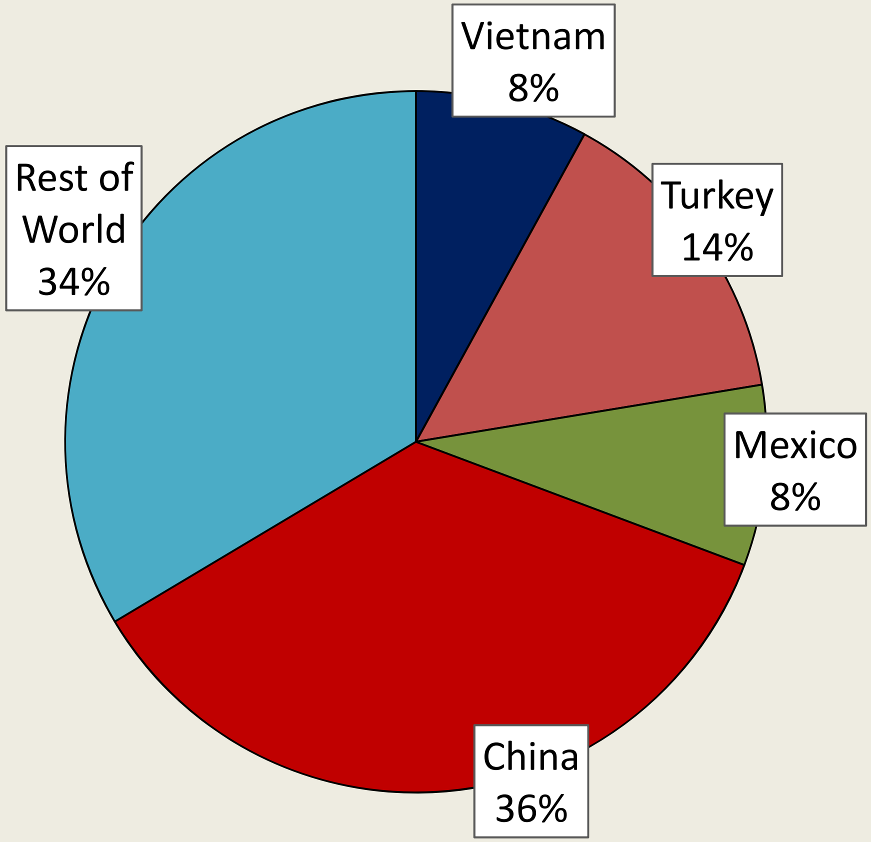
Production and Exports Significantly Lower; Stocks Down Slightly

	Unit	2014/15	2015/16	Change (%)
Beg. stocks	Mil. bales	2.4	3.7	54.2
Production	"	**16.3**	**12.9**	**-20.9**
Imports	"	0.0	0.0	0.0
Total supply	"	18.7	16.7	-10.7
Mill use	"	3.6	3.6	0.0
Exports	"	**11.2**	**9.5**	**-15.2**
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

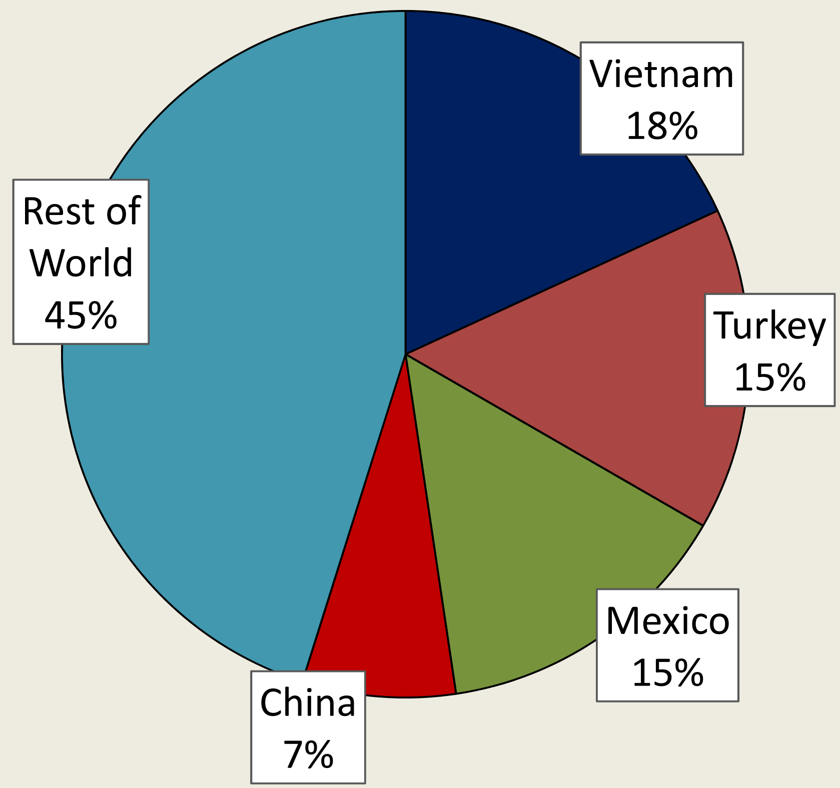
Source: USDA, Interagency Commodity Estimates Committee.

U.S. Cotton Export Share by Country

2010/11-2014/15 Average



Aug-Jan 2015/16

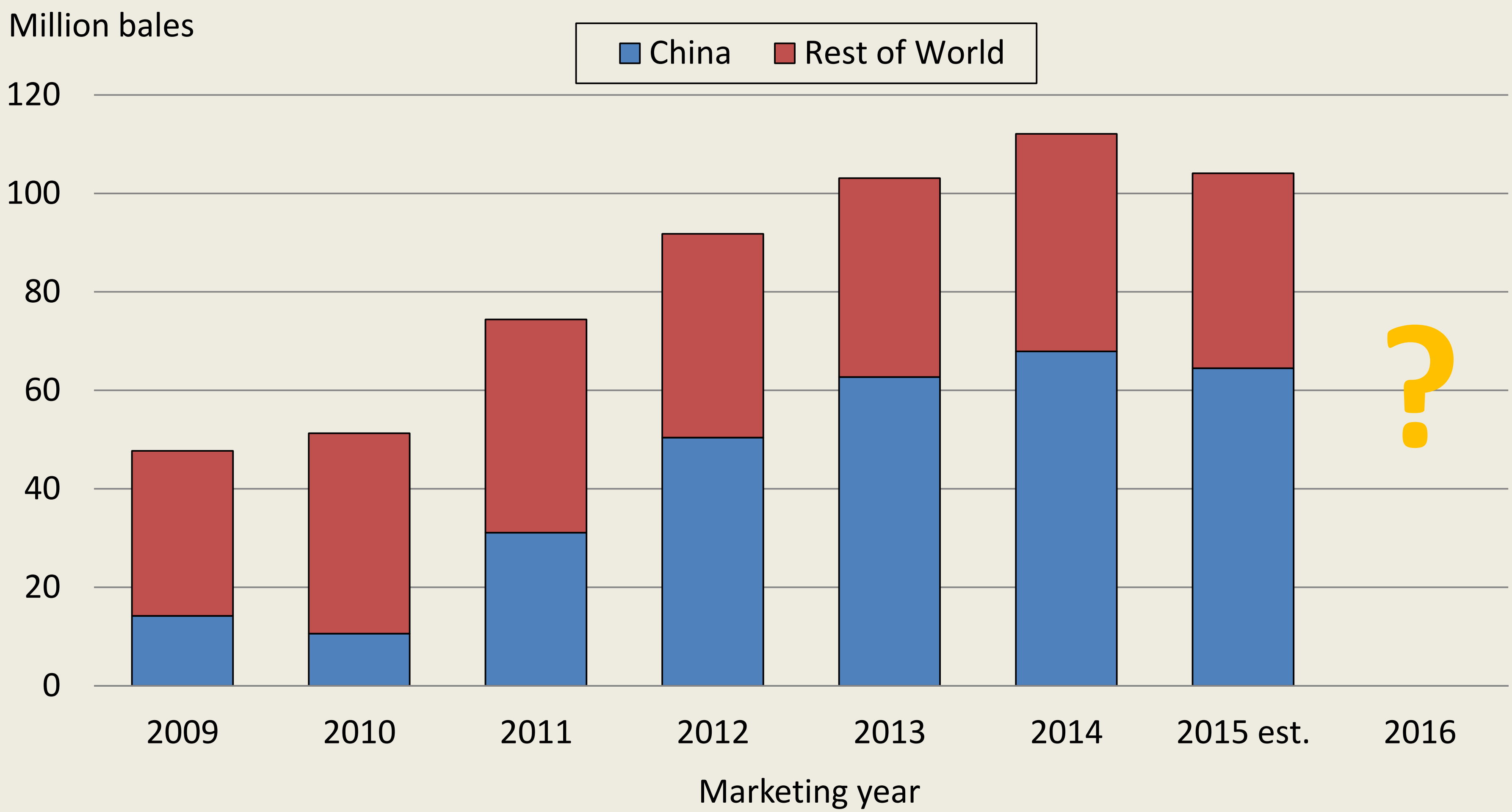


Source: USDA, Foreign Agricultural Service.

2016/17
World Cotton Outlook

Cotton's Global Supply Problem:

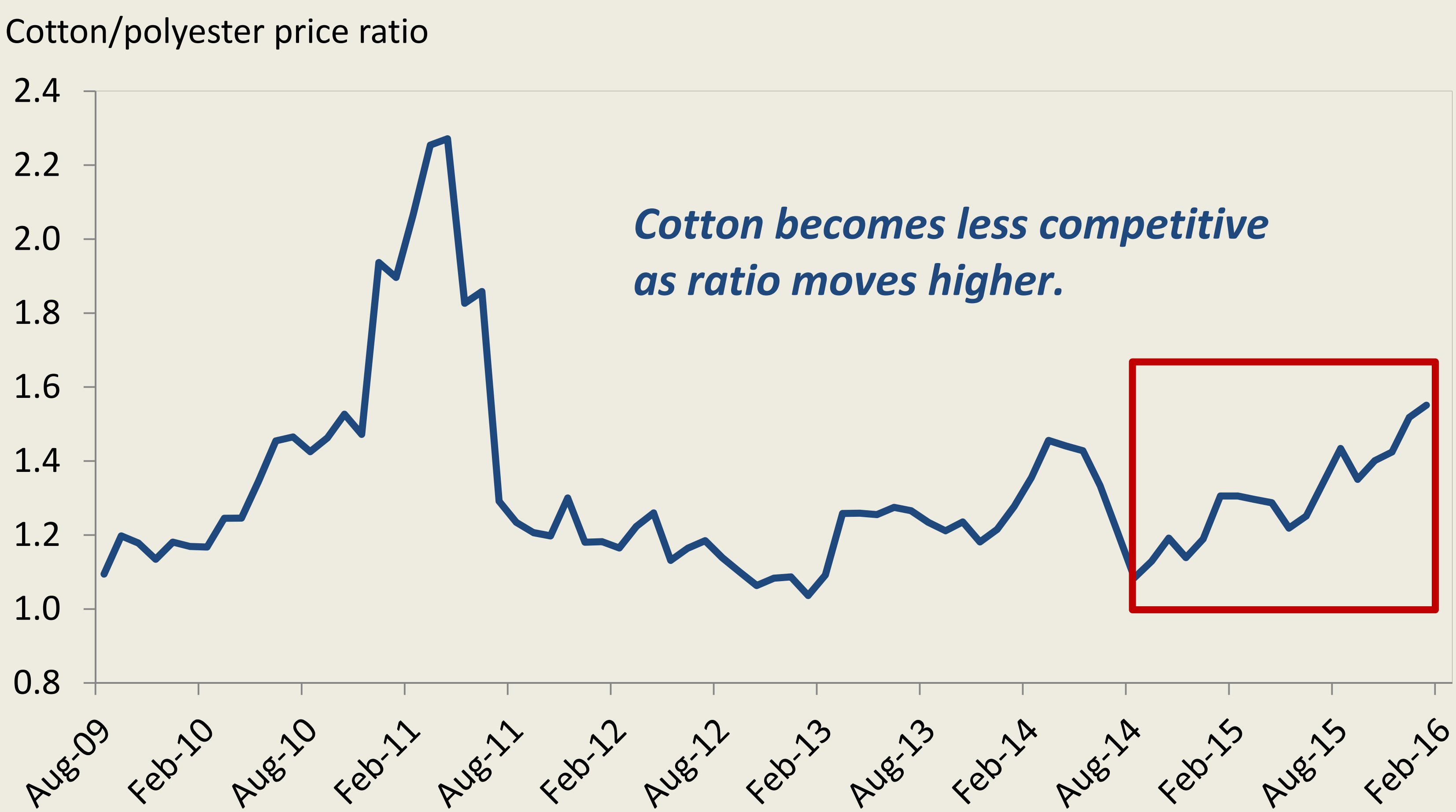
China accounts for over 60% of world stocks



Source: USDA, Interagency Commodity Estimates Committee.

Cotton's Global Demand Problem:

Cotton share in fiber products declining



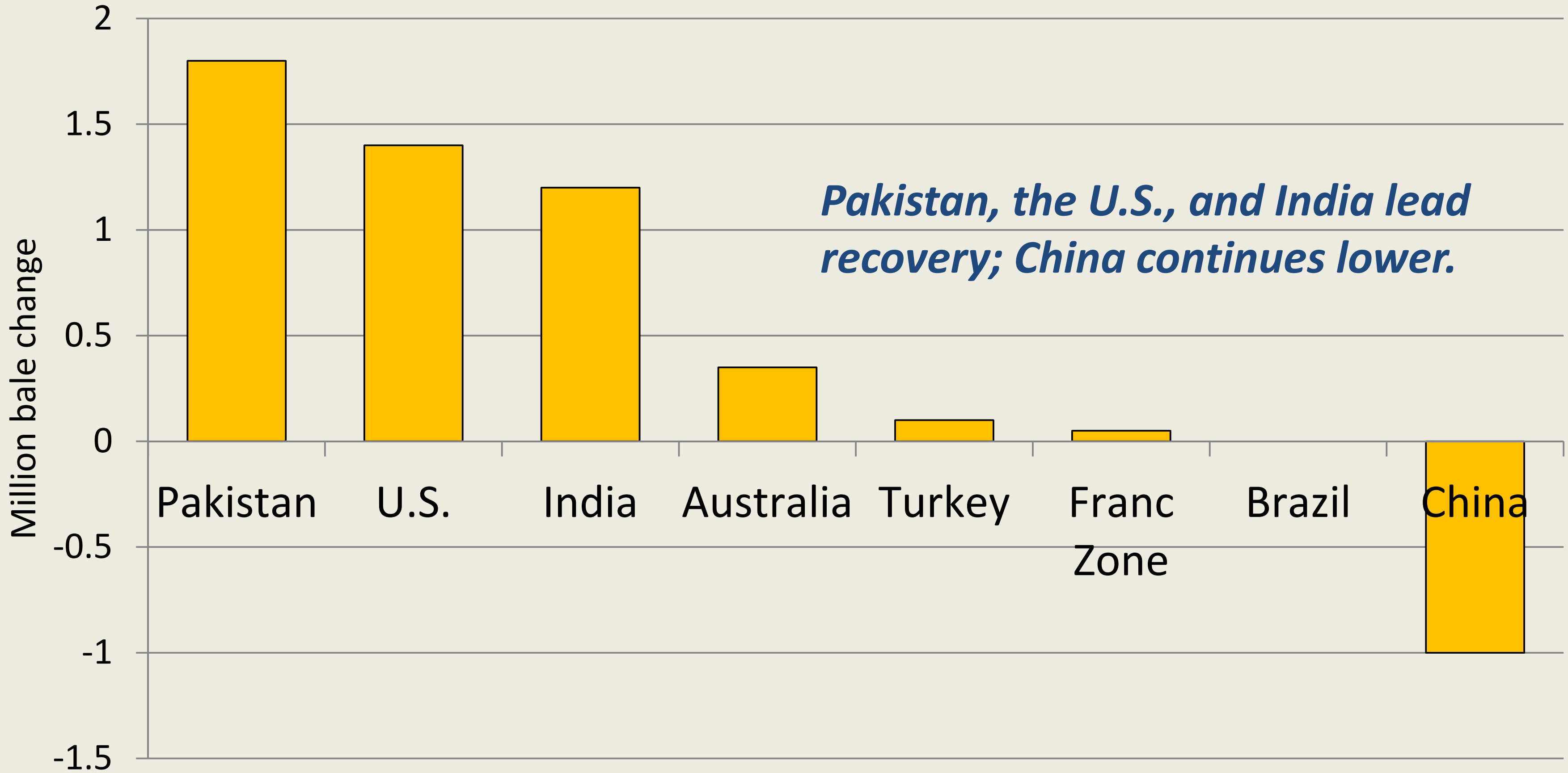
Sources: cncotton.com (polyester) and Cotlook (cotton, A Index).

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.

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:

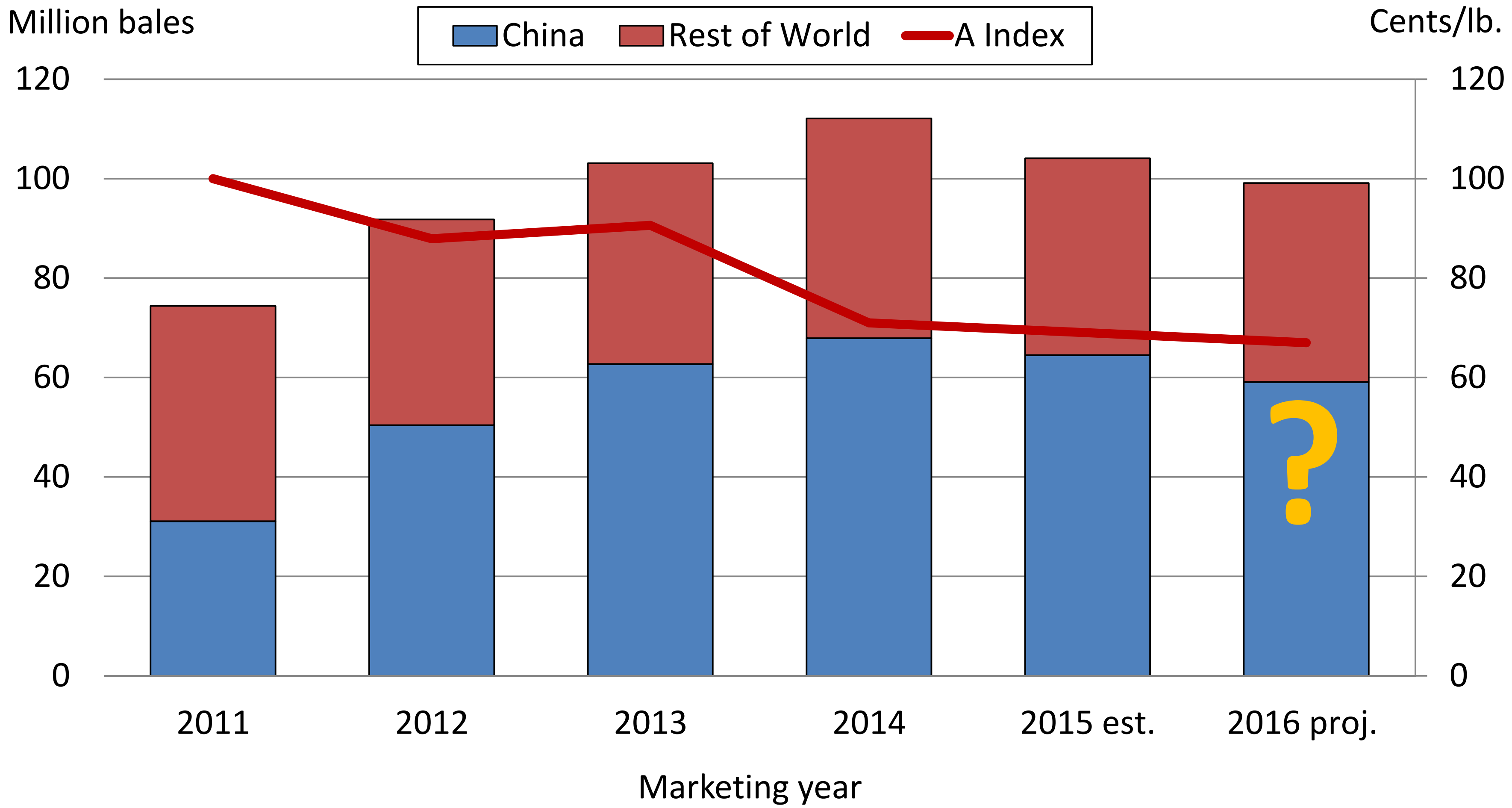
Consumption Exceeds Production; Stocks Reduced Further

	Unit	2015/16	2016/17	Change (%)
Beg. stocks	Mil. bales	112.2	104.1	-7.2
Production	"	101.4	**105.5**	4.1
Imports	"	35.0	35.0	0.0
Total supply	"	248.5	244.6	-1.5
Consumption	"	109.6	**110.5**	0.8
Exports	"	35.0	35.0	0.0
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.

Global Cotton Stocks Projected Lower…

…but world prices also decline.

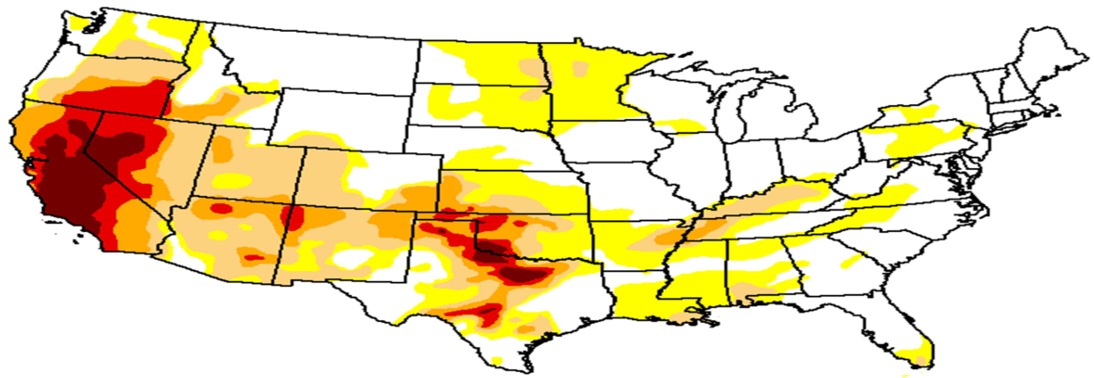


Source: USDA, Interagency Commodity Estimates Committee.

2016/17
U.S. Cotton Outlook

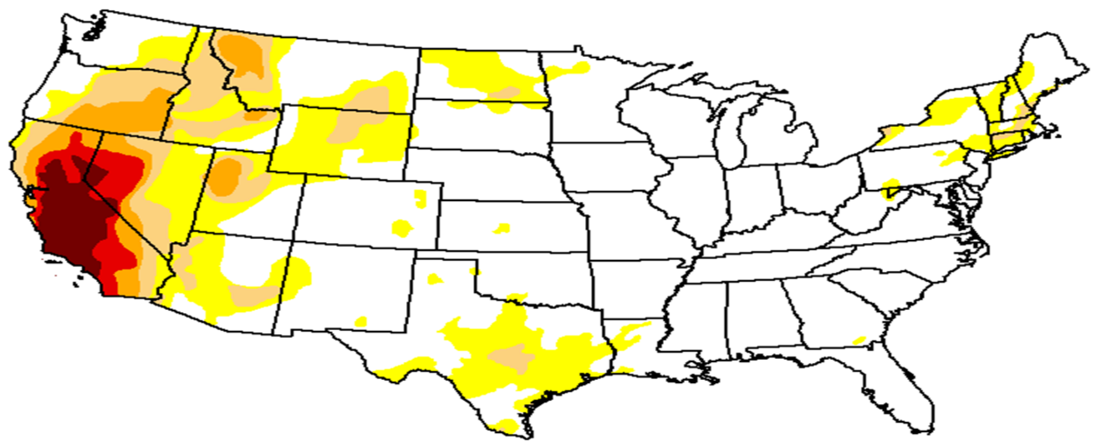
Drought Monitor Shows Improvement in 2016…

February 17, 2015



… but dry conditions developing in Texas.

February 16, 2016



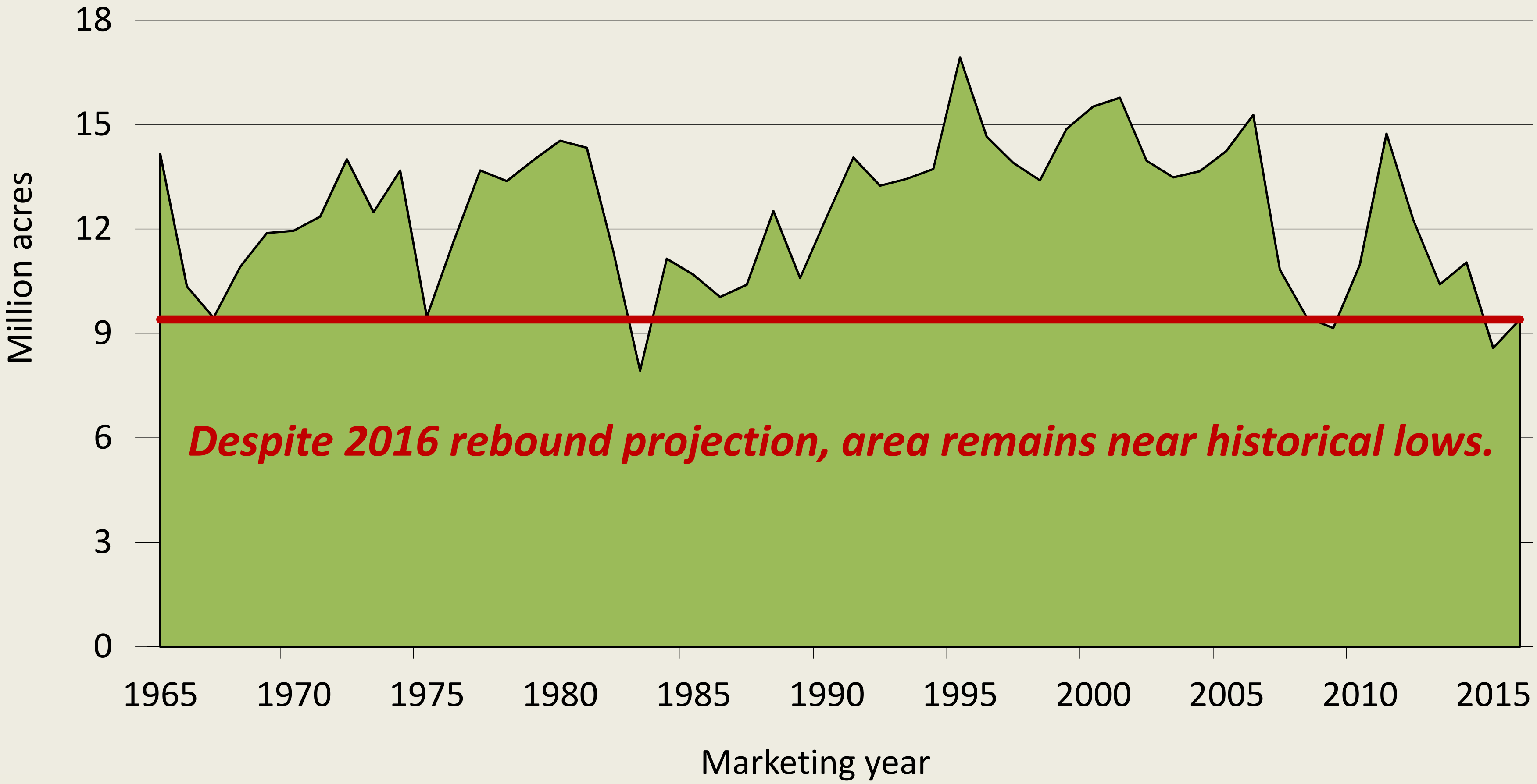
Outlook for 2016 U.S. Cotton Area

- 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.

U.S. Cotton Area, Yield, and Production

Key Factors Include Crop Conditions & Abandonment

Southwest expected to account for 60% of planted area

	Unit	2015/16	2016/17	Change(%)
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	"	0.0	0.0	0.0
Total supply	"	16.7	17.9	7.6
Mill use	"	3.6	3.6	0.0
Exports	"	**9.5**	**10.7**	**12.6**
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.

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