2012 Southern Region Agricultural Outlook Conference
Atlanta, Georgia
September 24-26, 2012

Cotton Situation and Outlook

September 25, 2012

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Discussion Points

- Lower/Uncertain 2012 production/weak demand
- Fund/Fed influences
- Dec'12 between 65-76 cents per lb.
- Dec'13 between 65-85 cents per lb.

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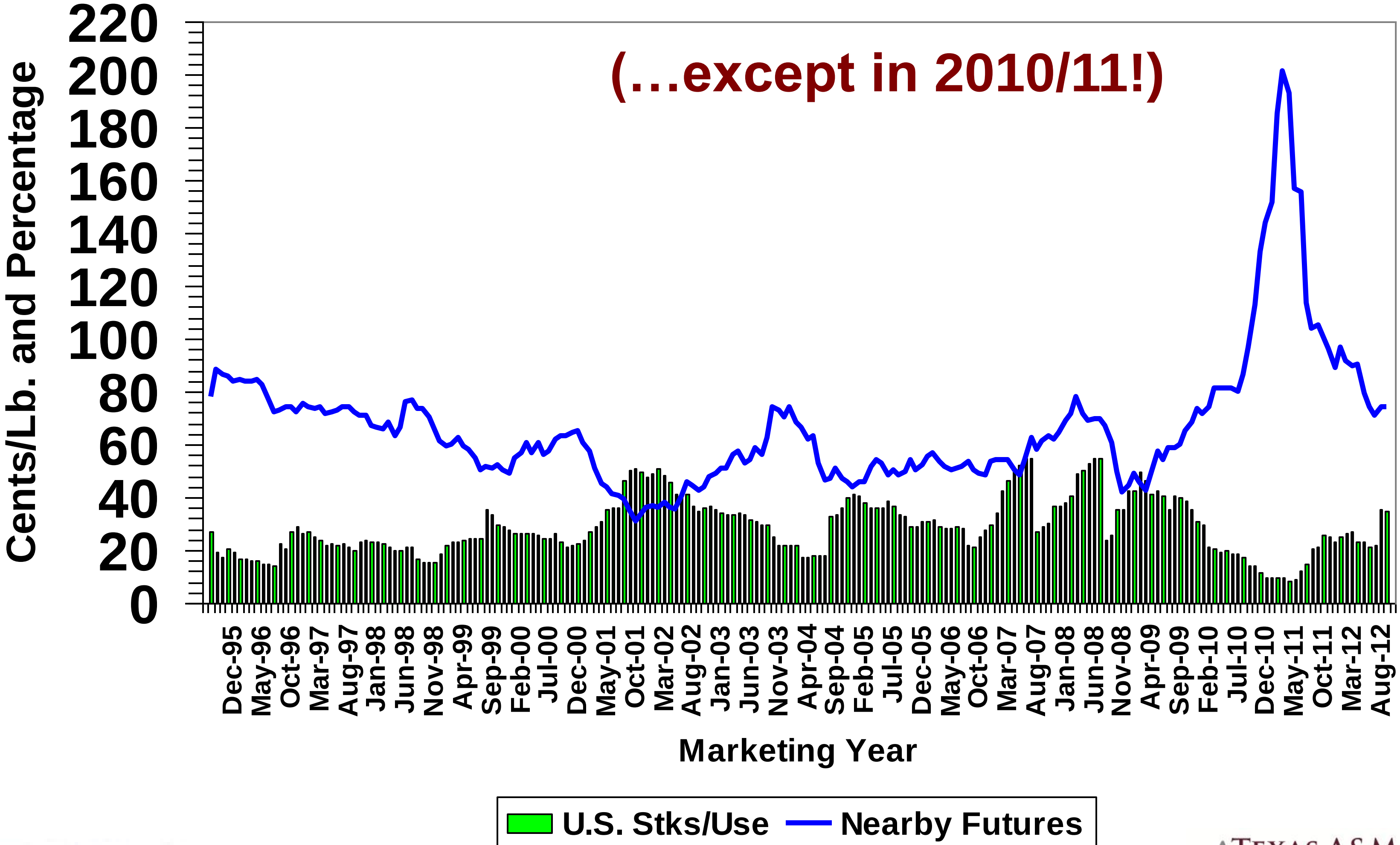
Cotton Fundamentals: The Return to Normalcy

Increasing U.S. ending stocks, year over year fits pattern of weakening prices.

Historically high world ending stocks do too, but distorted by Chinese reserve stocks policy.

	World		Foreign		U.S.	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
Supply	(USDA 9/12/12)	(USDA 9/12/12)	(USDA 9/12/12)	(USDA 9/12/12)	(USDA 9/12/12)	(USDA 9/12/12)
Planted Acres (million)	---	---	---	---	14.74	12.36
Harv. Acres (million)	---	---	---	---	9.46	10.44
	---	---	---	---		---
Yield (lbs./ac.)	---	---	---	---	790.0	786.0
Beginning Stks.	49.52	69.88	46.92	66.53	2.60	3.35
Production	124.16	114.02	108.59	96.92	15.57	17.10
Imports	44.91	36.60	44.89	36.59	0.02	0.01
Total Supply	218.59	220.50	200.40	200.04	18.18	20.46
Disappearance						
Mill Use	104.28	107.55	100.98	104.15	3.30	3.40
Exports	44.97	36.60	33.26	24.80	11.71	11.80
Total Domestic Use	---	---	---	---	15.01	15.20
Unaccounted	-0.55	-0.17	-0.38	-0.13	-0.17	-0.04
Ending Stks.	69.88	76.52	66.53	71.22	3.35	5.30
Ending Stks./Use	67.0%	71.1%	65.9%	68.4%	22.3%	34.8%

U.S. Cotton Stocks-to-Use Show Fundamental Rationale for Price Movements…



August 95 – September 2012

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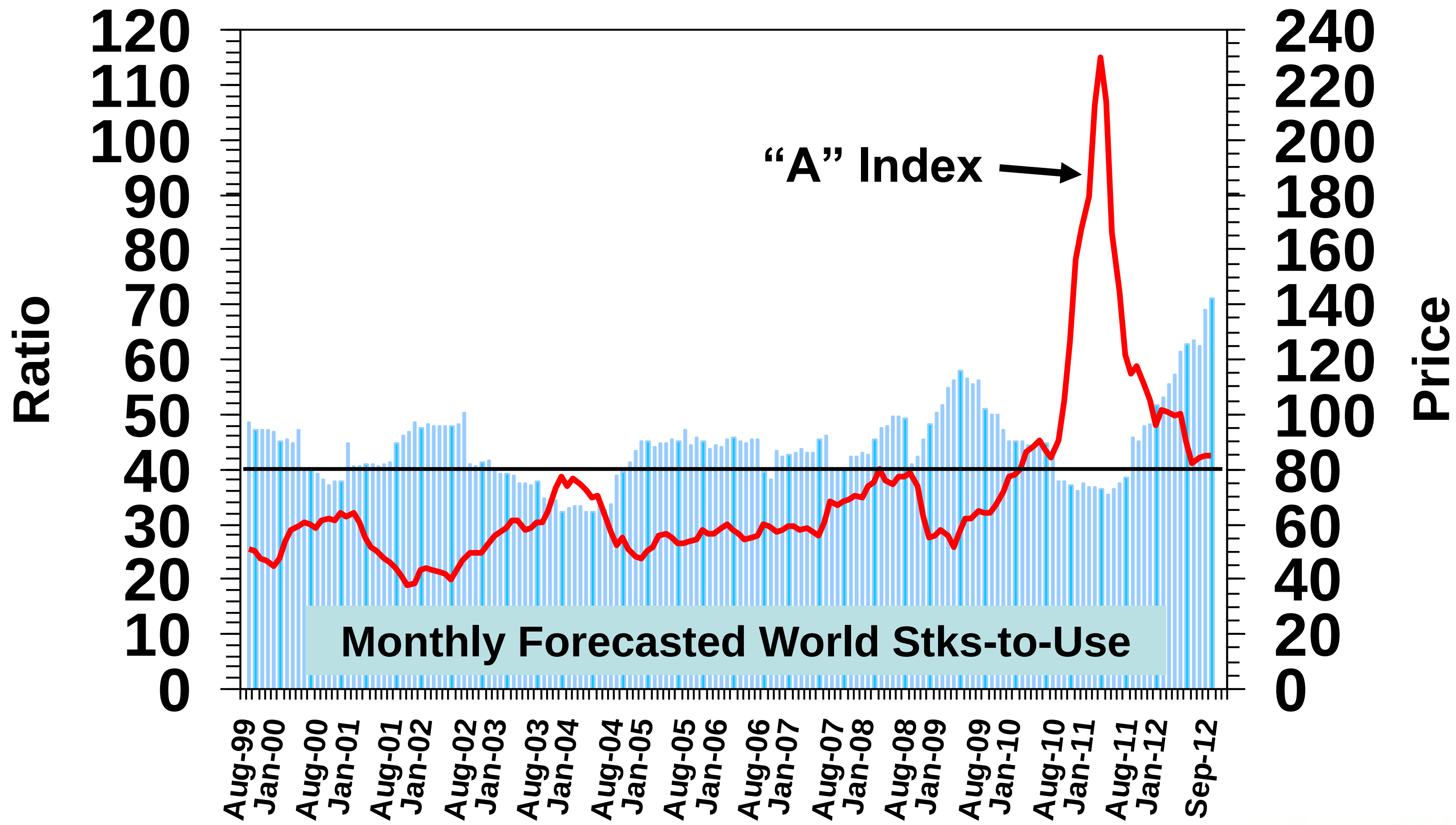
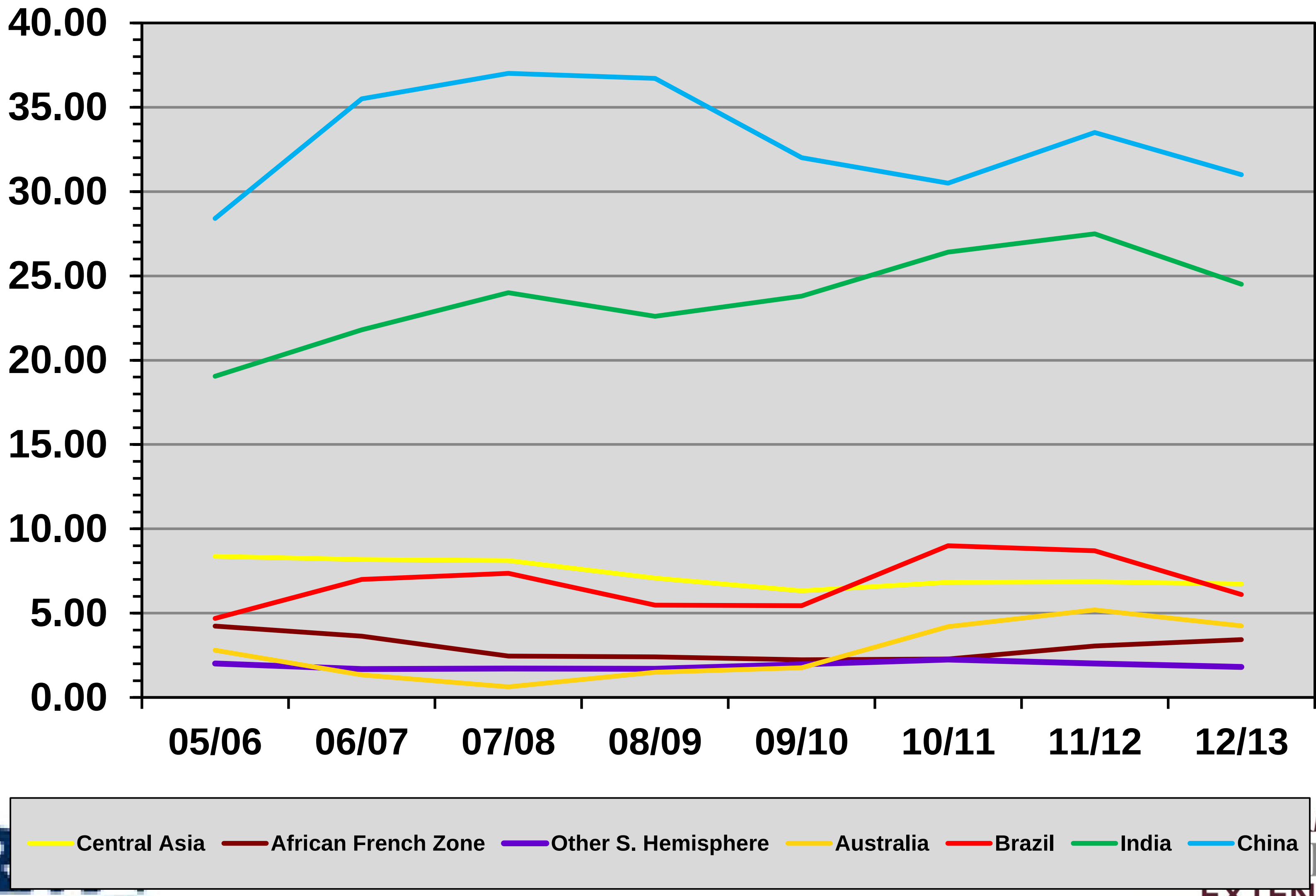
World Stocks-to-Use Show Similar Relationship to Price Movements



Reflections on $2.00 Cotton

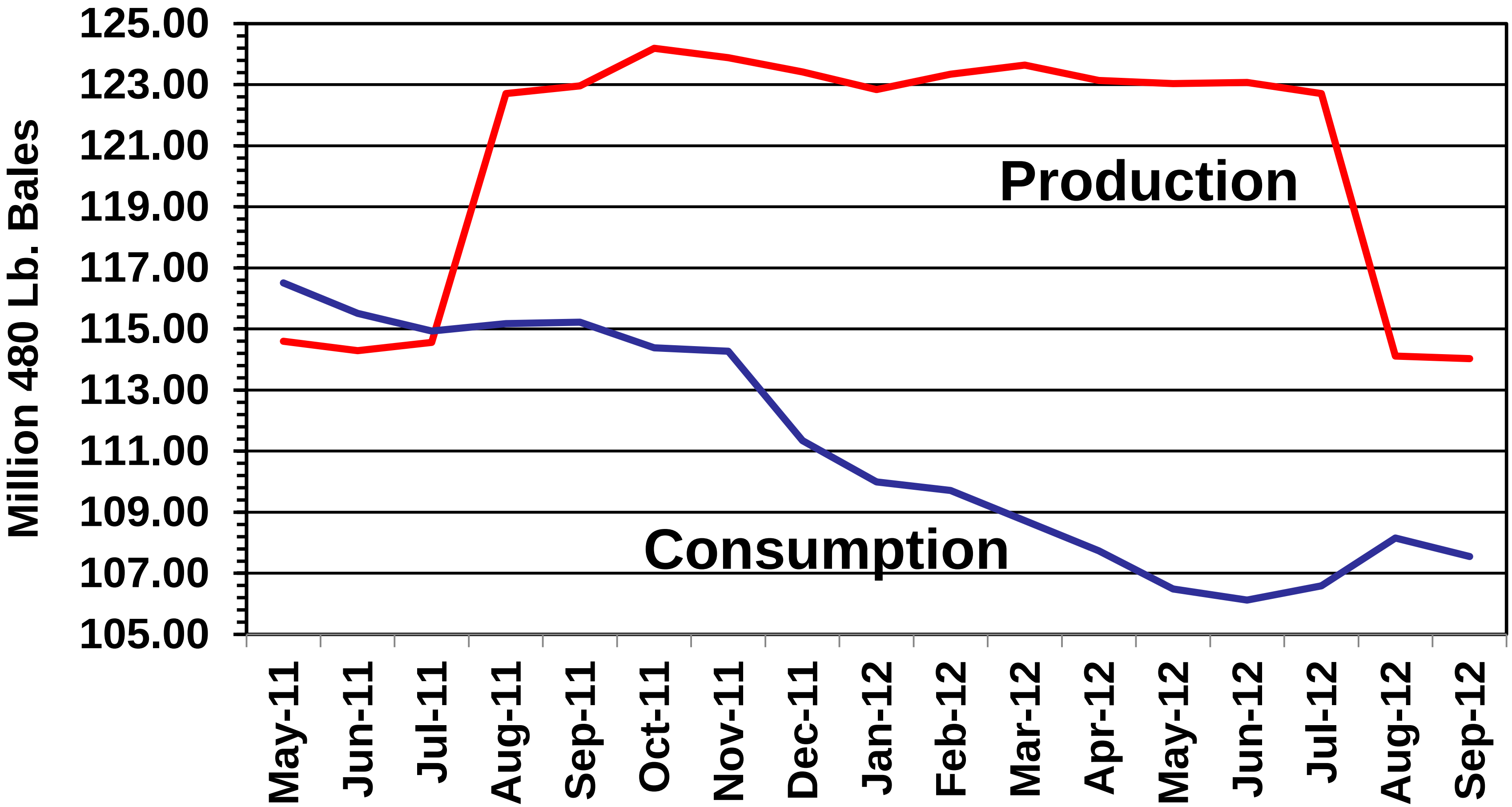
- Not likely repeatable confluence of mill behavior and market shocks
- Induced regret, and other behaviors, among cotton producers and end users
- Higher production by foreign growers
- Reduced quantity demanded (cancelled export sales, less usage, switching to polyester)

High Prices Stimulated More Foreign Production (Mil. Bales)



High Prices Also Reduced Consumption:

Monthly Forecasts of World Cotton Production vs. Consumption, 2012/13 Crop Year



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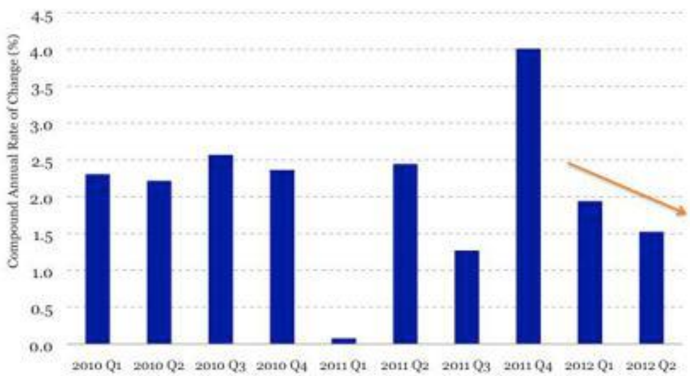
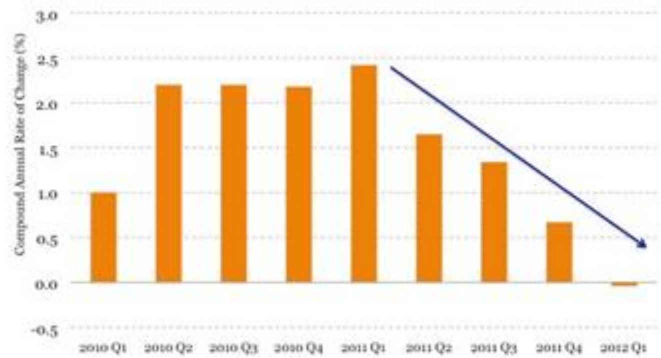
U.S. Real GDP Growth Fading Lower

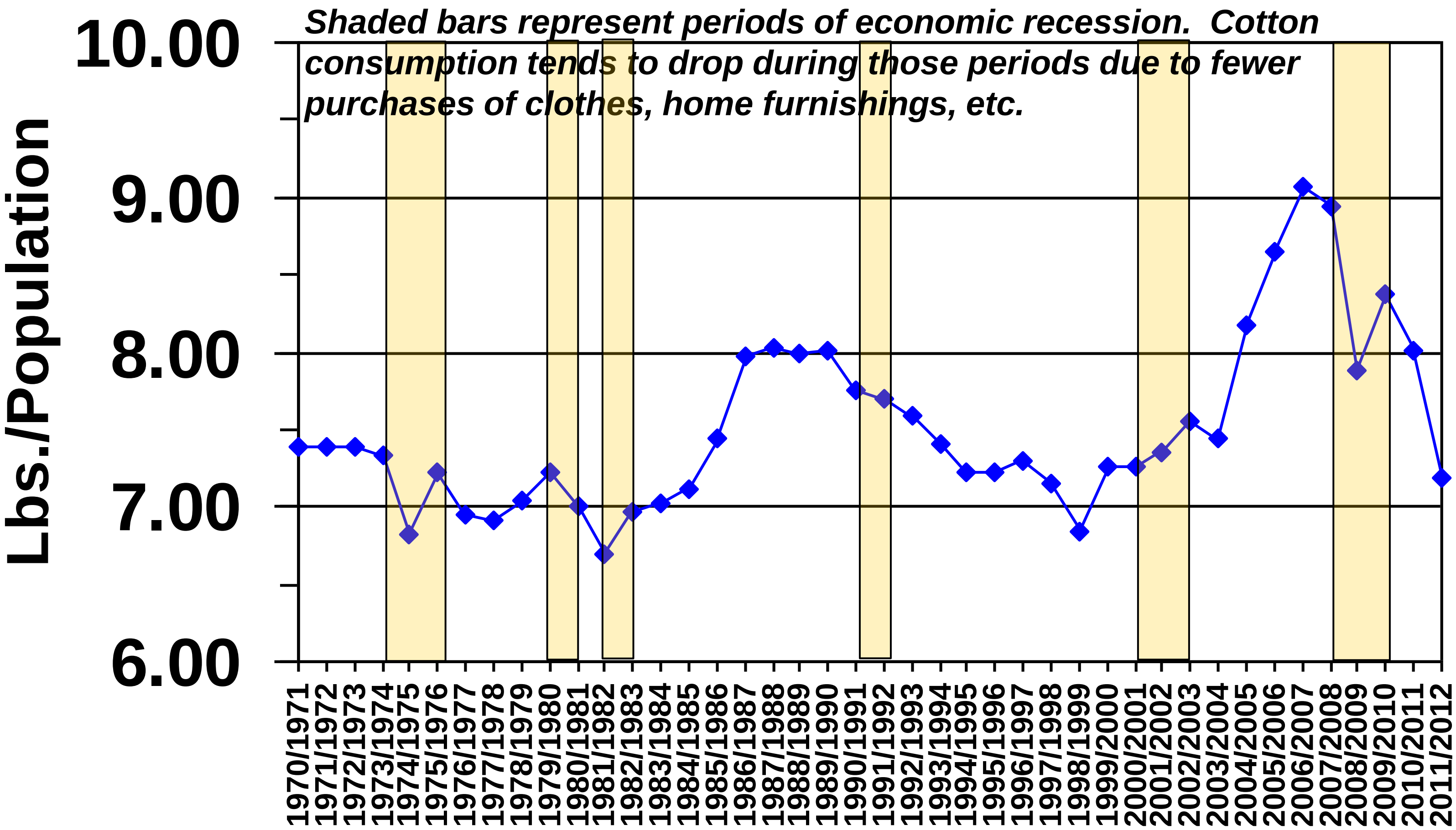


Euro Area GDP Growth Turning Negative



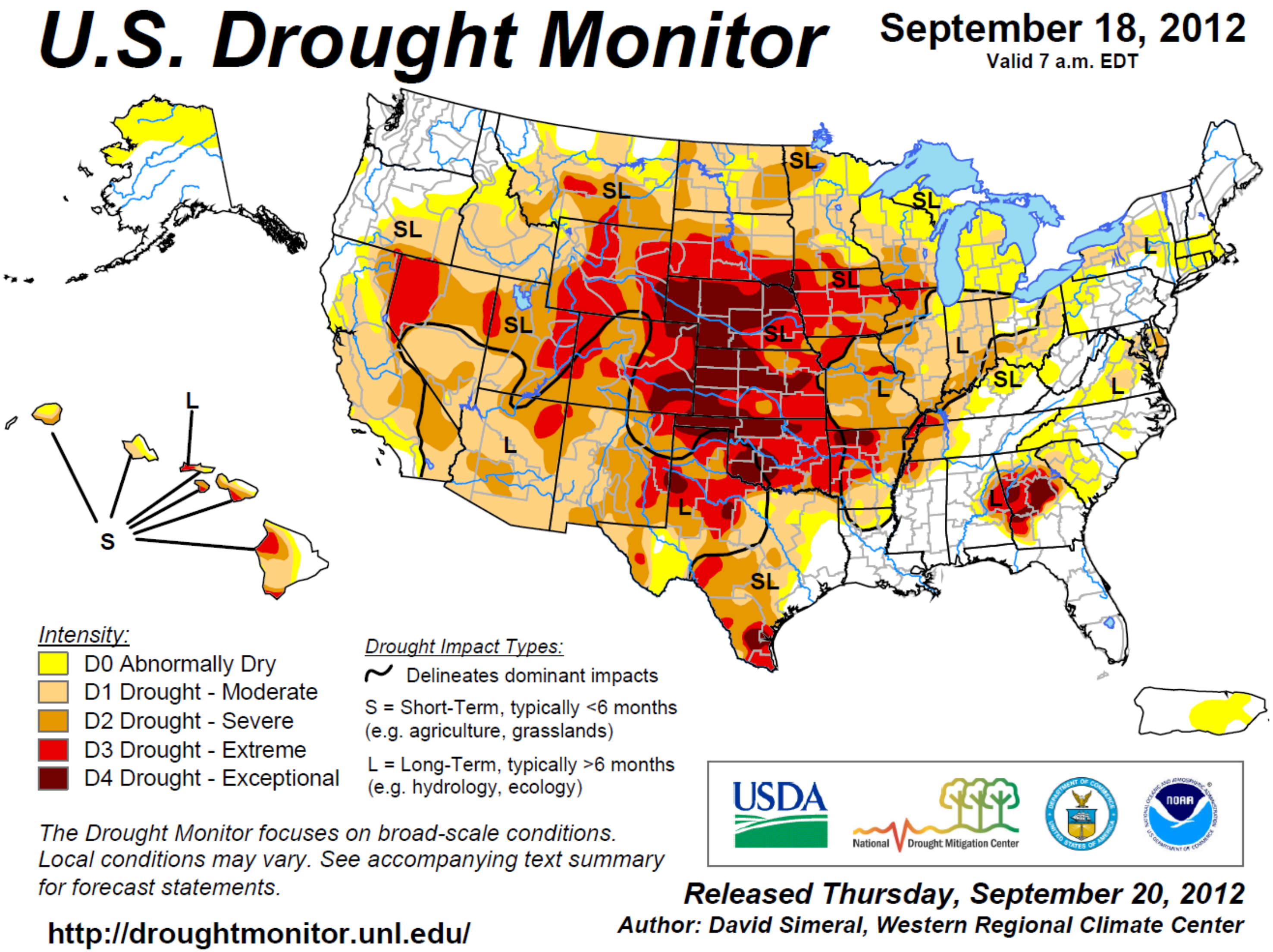
- **Implies slow to negative economic growth in U.S. and Europe**
- **Historically this is associated with reduced demand for cotton**

World Per Capita Cotton Use



Source: USDA/ERS/WASDE

Lingering Drought Effects Will Likely Lower 2012 U.S. Production



Not enough for a supply shock…

More like a little uncertainty premium into November.

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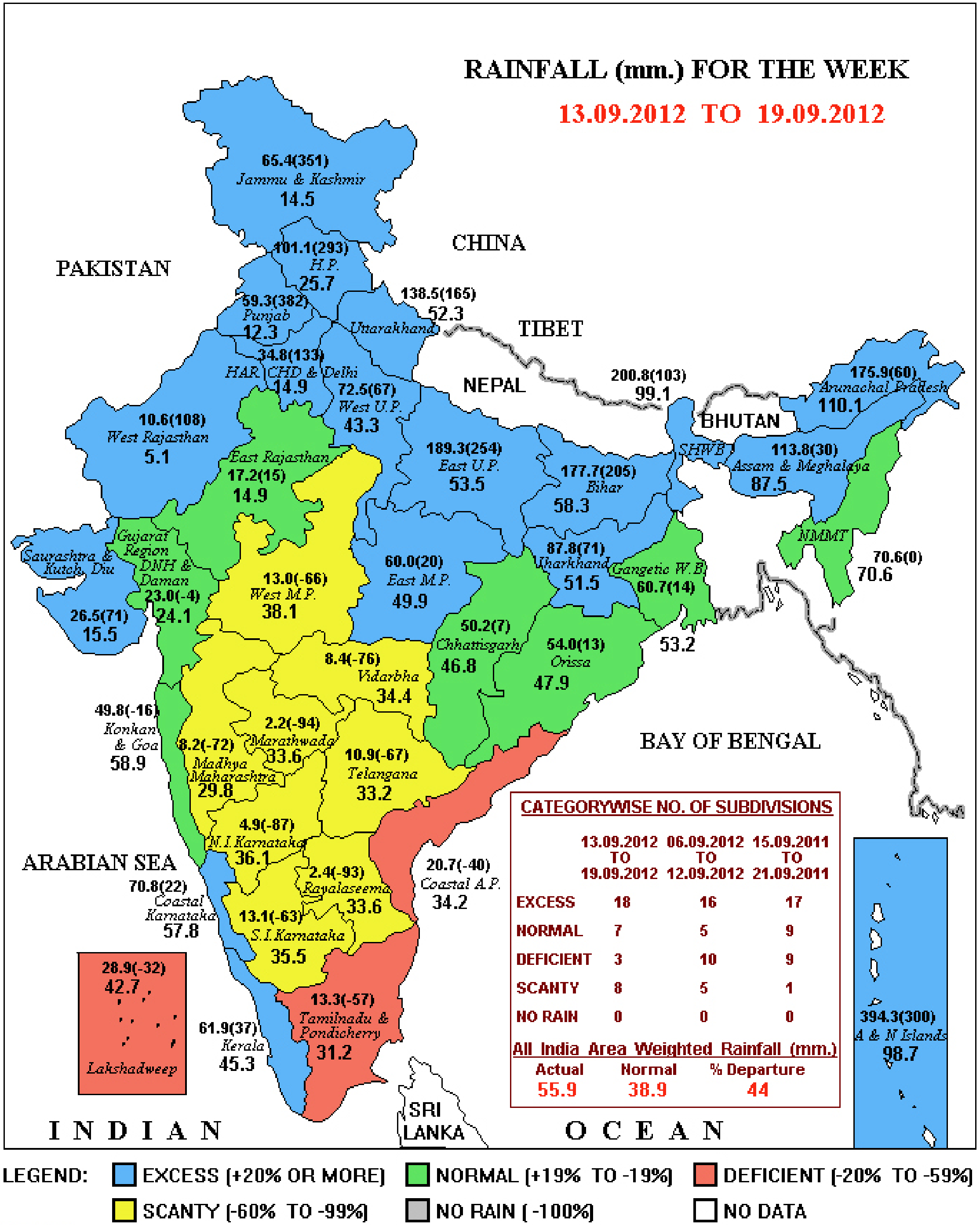
This drought map was shaping up to give us a real supply shock, but the situation has improved a lot in recent weeks.



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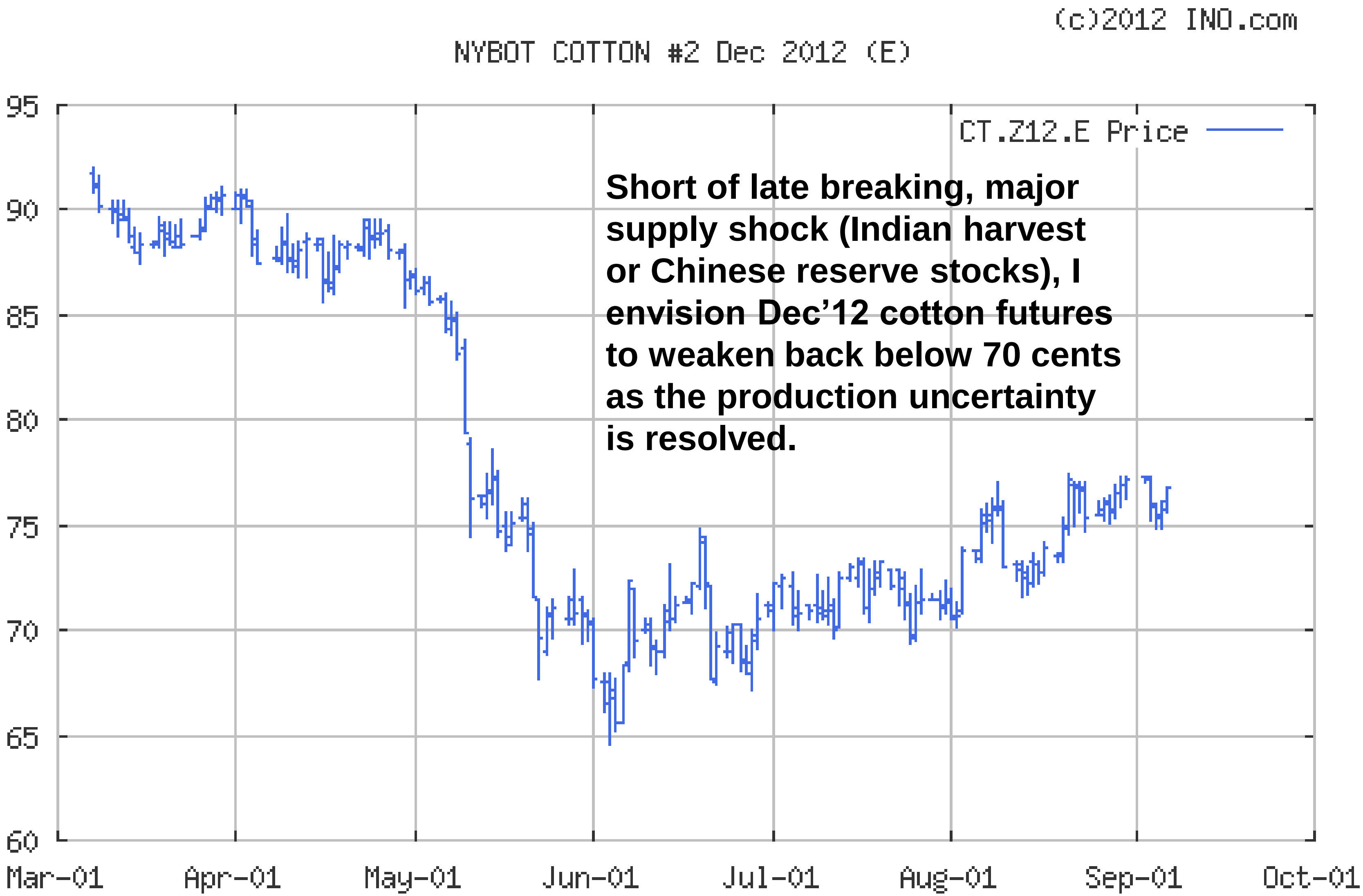
Recent Cotton Price Behavior



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Fund/Fed Influences

- Fund Sector was an early catalyst, but not the main force behind the 2010/11 rally.
- In 2011/12, the Specs contributed to volatility, more in a semi-weekly risk on/off money flows.
    1. Changing expectations of economic growth = demand for commodities
    2. Often following euro/$USD shifts
    3. Changing expectations/reactions of QE

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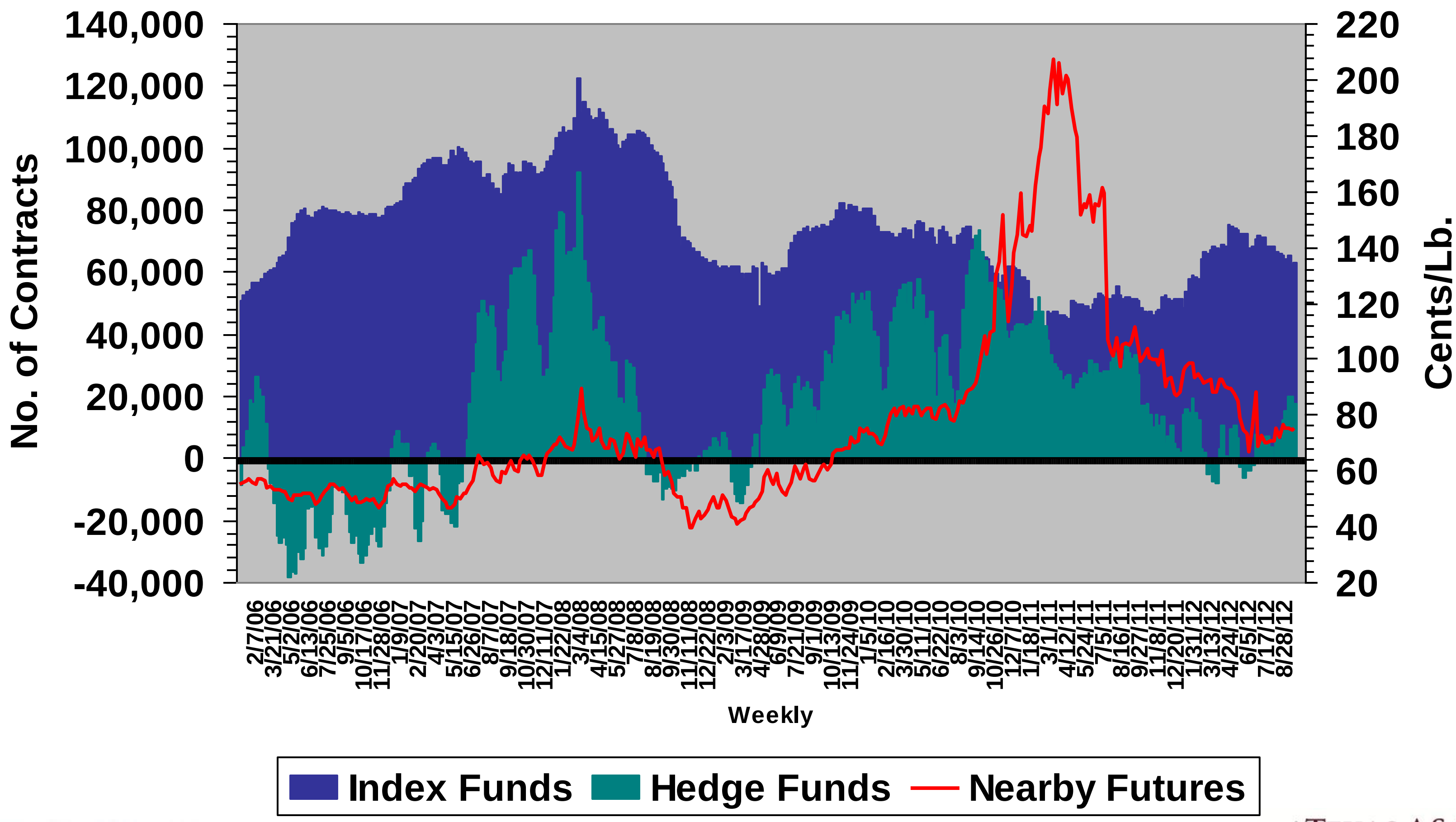
CFTC Snapshot of Net Position of Index Funds and Hedge Funds (No. of Futures Contracts)

January 3, 2006 Through September 18, 2012



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

Bloomberg

Commodities Boom May Have Peaked as Fed Stimulus Fades

By Maria Kolesnikova - Sep 20, 2012 7:08 AM CT

The biggest advances in commodities this year may be over because of mounting concern that policy makers aren't doing enough to bolster economic growth at a time when producers are expanding supply.
The Standard & Poor's GSCI gauge of 24 raw materials will end the year at 677, 3.1 percent higher than now, based on the median of 10 investor and analyst estimates compiled by Bloomberg. The index is 1.8 percent lower since the European Central Bank announced an unlimited bond-purchase program Sept. 6 and 3.8 percent below its level when the Federal Reserve pledged a third round of debt-buying Sept. 13.

That contrasts with a 92 percent surge from the end of 2008 through June 2011 as the Fed bought $2.3 trillion of debt in two bouts of quantitative easing. The impact will probably be smaller this time, Barclays Plc says. Prices are already in a bull market, the 17-nation euro area is contracting and China has slowed for six straight quarters. Europe and China represent about 60 percent of global copper demand and about 33 percent of crude-oil consumption.

"The investment demand that might be driven by people's changed perception after Fed action is not going to sustain a further long-term move of the commodity complex," said Michael Aronstein, the president of Marketfield Asset Management in New York who correctly predicted the slump in prices in 2008 and the rebound in 2009. "The longer you keep prices in all of these sectors elevated, the more supply you recruit."

"This is not as much as a one-way ticket as it has been in the previous two instances," said Sean Corrigan, the chief investment strategist at Diapason Commodities Management SA in Lausanne, Switzerland, which has about $7 billion invested in commodities. "The tug of war is between how much is already priced in and how much poorer is the underlying commodity demand because the world economy is in a much worse condition now."

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Outlook for 2012

- No major Spec influence short of meltdown in $USD
- The demand picture will remain weak from reduced consumption and poor/slow economic growth.
- For a while, this will be balanced by uncertain production.
  - September WASDE report influential
  - Production risk premiums starts to fade

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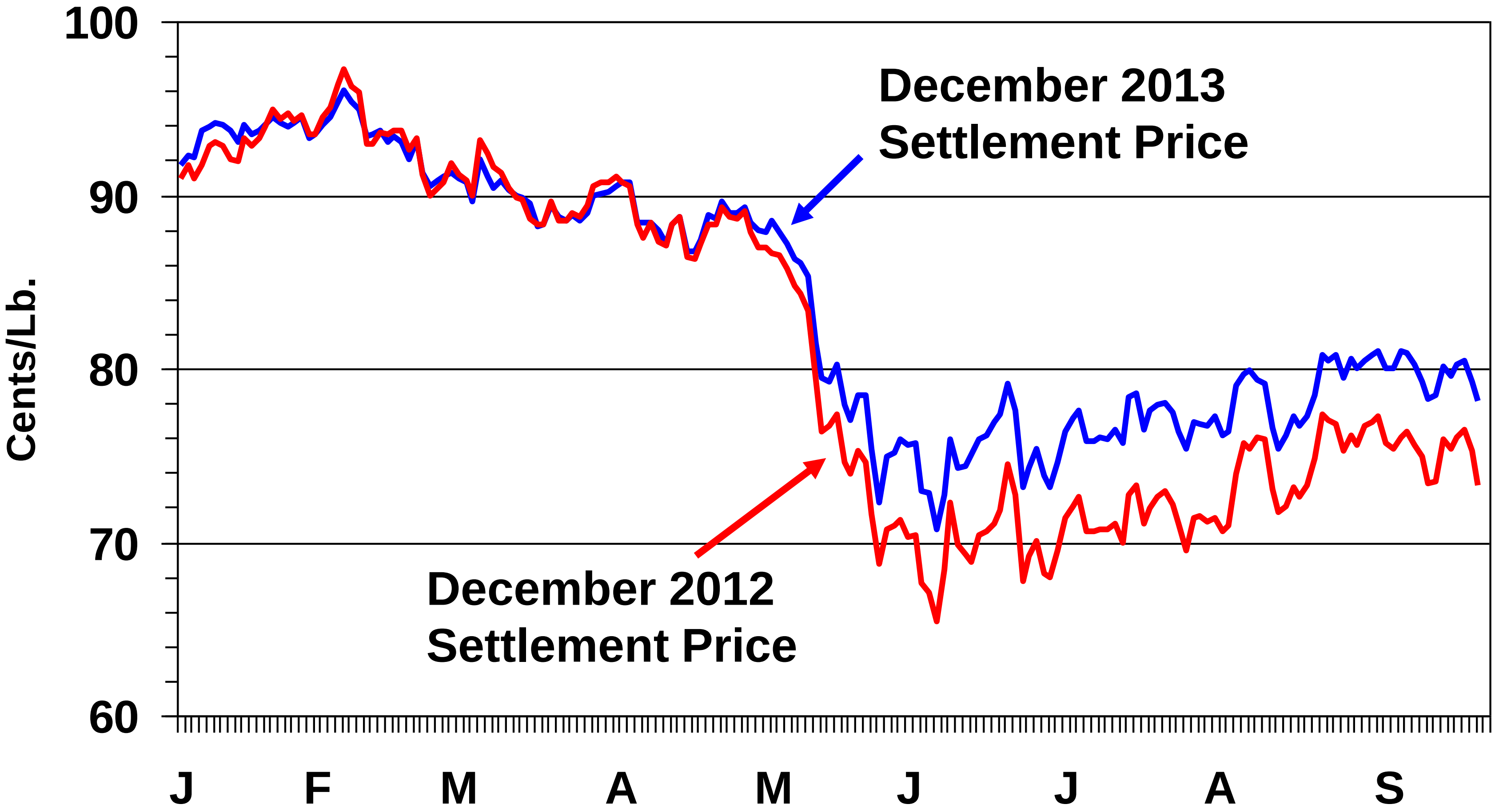
What About 2013?



January 3, 2012 – September 21, 2012

What About 2013?

- Consider 2007 when the 4,900,000 planted acres of Texas cotton was 23% less than in 2006 – and pretty much for the same reasons. So let's assume that U.S. planted acres of all cotton decline to 9.5 million.
- With avg. abandonment and yields, could still see 15M bales of production. Adding in likely 2012/13 carryover gives a 20 million bale supply. If we export 12 million and use 3.4 million, that gives a roughly similar ending stocks for 2013/14 and 2012/13.
  - Little fundamental rationale for significantly higher cotton prices than this year's range of the Dec '12 contract.
- Assumes no demand or policy shock in 2013/14. Chinese cotton stocks, polyester over-capacity, and cotton demand are the big wildcards.

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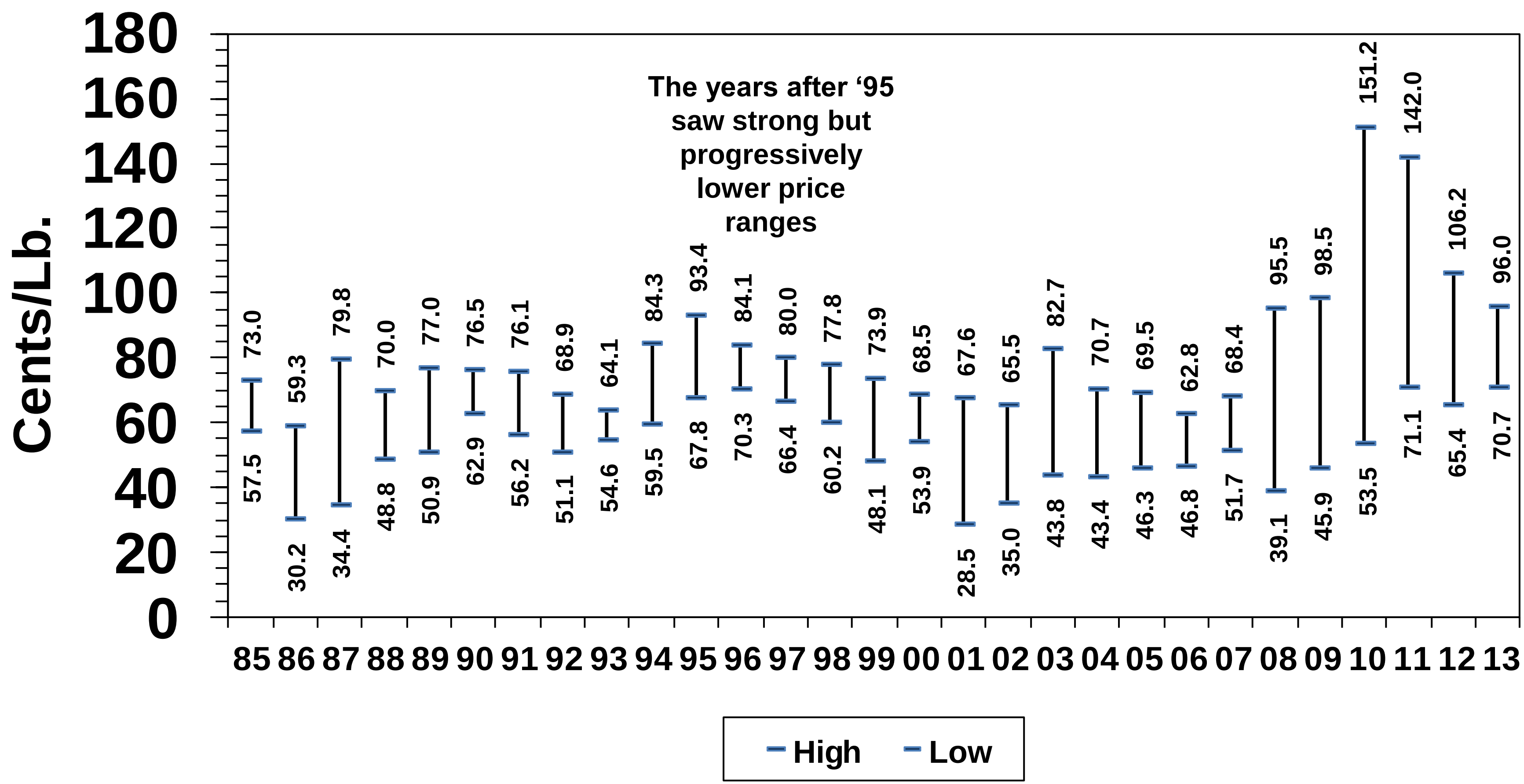
Dec'13 Cotton Futures Could Follow 1995-98 Pattern



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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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September 14, 2012

Recent Price Patterns and Short-Term Influences

Recent Price Pattern. The week ending Friday September 14 saw the Dec'12 cotton futures trend slightly downward on pre-WASDE positioning, fall hard with bearish WASDE numbers on Wednesday, then recover on either strong export sales, QE3 support, or something else. Friday's settlements were 75.90 and 80.10 cents per pound for the Dec'12 and '13 contracts, respectively. Outside commodity and stock markets were anticipating, and then positively reacting to, the announcement by the U.S. Federal Reserve of more quantitative easing. Click here for a discussion of longer term fundamental influences on 2012/13 cotton futures.

2012/13 Fundamentals and Outlook

2012/13 cotton supply/demand picture was bearishly adjusted by USDA's September WASDE report. Foreign cotton supplies were increased via large increases in beginning stocks for Australia (+300,000 bales), India (+400,000 bales) and China (+1.3 million bales), compared to the August numbers. For China this is the second month in a row of such adjustments. Indian production was raised one million bales over the August projection, presumably on expectations of recently improved monsoon rains. However, the Indian production increase was offset by lowered production in Brazil and the U.S. Projected Chinese imports were reduced by one million bales, thus lowering both the world export and import numbers.