Cotton Situation and Outlook

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Overview

• Global supply and demand
  – supply outpace demand

• Domestic supply and demand
  – supply outpace demand

• Price, U.S dollar index, and economic growth
  – Appreciation of U.S. dollar, lower prices, slower economic growth in advanced economy
GLOBAL SUPPLY AND DEMAND

World Cotton Supply and Demand

Data from USDA FAS
Brazil produced a record crop of 12.8 million bales in 2018.
World cotton trade at 43.3 million bales in 2019/20, second highest on record.
Share of Total Cotton Consumption by Major Spinner

Six countries account for 73 percent of the total world cotton mill use in 2019

Vietnam become the fourth largest cotton-spinning country in 2019/20

Share of Global Cotton Ending Stocks

Global Cotton Stocks and Prices

Note: 1 bale = 480 pounds.
Sources: Cotlook and USDA, Interagency Commodity Estimates Committee.
Global Supply and Demand Summary

• The supply outpace demand has created downward pressure on cotton prices globally.
• Increased production in Brazil creates higher competition for U.S. cotton.
• Vietnam is expected to continue growing in its cotton spinning industry.
• China is expected to increase its imports to support the national reserve.
DOMESTIC SUPPLY AND DEMAND

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<tr>
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<tbody>
<tr>
<td><strong>Planted and Harvested Acres &amp; Yield</strong></td>
<td></td>
<td></td>
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<tr>
<td>Planted (Million Acres)</td>
<td>14.10</td>
<td>13.76</td>
<td>-0.34</td>
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<tr>
<td>Harvested (Million Acres)</td>
<td>10.21</td>
<td>12.51</td>
<td>2.30</td>
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<tr>
<td>U.S. Yield (lbs/acre)</td>
<td>864</td>
<td>839</td>
<td>-25</td>
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<tr>
<td><strong>Supply (Million Bales)</strong></td>
<td></td>
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<tr>
<td>Beg. Stocks</td>
<td>4.20</td>
<td>4.85</td>
<td>0.65</td>
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<tr>
<td>Production</td>
<td>18.37</td>
<td>21.86</td>
<td>3.49</td>
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<tr>
<td>Imports</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
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<tr>
<td><strong>Total Supply</strong></td>
<td>22.57</td>
<td>26.72</td>
<td>4.15</td>
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<tr>
<td><strong>Use &amp; Ending Stocks (Million Bales)</strong></td>
<td></td>
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<tr>
<td>Domestic</td>
<td>2.98</td>
<td>3.00</td>
<td>0.02</td>
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<tr>
<td>Exports</td>
<td>14.76</td>
<td>16.50</td>
<td>1.74</td>
</tr>
<tr>
<td><strong>Total Use</strong></td>
<td>17.74</td>
<td>19.50</td>
<td>1.76</td>
</tr>
<tr>
<td><strong>U.S. Ending Stocks</strong></td>
<td>4.85</td>
<td>7.20</td>
<td>2.35</td>
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<tr>
<td><strong>Price and Stocks to Use Ratio</strong></td>
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<tr>
<td>U.S. Avg. Price ($/lb)</td>
<td>70.5</td>
<td>58.0</td>
<td>-12.5</td>
</tr>
<tr>
<td>U.S. Stocks/Use</td>
<td>27%</td>
<td>37%</td>
<td>10%</td>
</tr>
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September 12, 2019 USDA World Agricultural Supply and Demand Estimates
U.S. Production

U.S. production at 21.9 million bales in 2019/20, second highest on record.

Crop Year

Data from USDA FAS

Million Bales

U.S. Production

23.9
21.6
19.2
18.1
17.3
16.3
17.2
20.9
21.9


Million Bales

0.0 5.0 10.0 15.0 20.0 25.0
US Cotton Acres Planted, Harvested, and Yield

2019 national yield at 839 pounds, slightly below the 5-year average.

Data from USDA NASS
Slide from Dr. Don Shurley
U.S. Regional Upland Cotton Production

Note: 1 bale = 480 pounds.
Source: USDA, Crop Production reports.
China’s Potential Cotton Tariffs and U.S. Cotton Exports: Lessons from History

Yangxuan Liu, John R. C. Robinson, and W. Donald Shurley

JEL Classifications: F10, F13, Q17

Keywords: Agricultural trade, Cotton, Global markets, Trade retaliation

• Short term situation
  – India, Australia, and Brazil supply more cotton to China.
  – A shock to the U.S. cotton futures market.

• Longer-term situation
  – Instead of a reduction in U.S. cotton exports, U.S. exports rerouted to other cotton importing countries.
  – China imports of duty-free yarn from Vietnam, Indonesia, and the Indian subcontinent.
U.S. cotton exports for 2019/20 is second highest on record, behind only 2005/06.

Data from USDA FAS PS&D.
U.S. Cotton Exports by Destination

Export to Vietnam, Indonesia, Pakistan, Bangladesh increased.

Data from USDA FSA Global Agricultural Trade System. Cotton, Linters & Waste.
Leading Suppliers of U.S. Cotton Textile and Apparel Imports

Sources: USDA, Economic Research Service; and U.S. Census Bureau reports.
U.S. Textile Imports, by Fiber

Source: Compiled from reports by the U.S. Dept. of Commerce, U.S. Census Bureau.
Cotton Trade: The Challenges and Opportunities

• Chinese Tariff on U.S. Cotton
  – U.S. cotton less competitive in the Chinese market.
  – India, Australia, and Brazil supply more cotton to China.
  – U.S. exports rerouted to other cotton importing countries.
  – China imports of duty-free yarn from Vietnam, Indonesia, and the Indian subcontinent.

• U.S. Tariff on Chinese Textile and Apparel
  – Reduction in Chinese and global cotton fiber demand.
  – Speed up the mills and textile industry move from China to other countries, such as Vietnam, Indonesia, and Indian.
Ending stocks highest since 2007/08.
Stocks-to-use ratio 37%, the largest in over a decade.

**U.S. Ending Stocks**

Data from USDA FAS

Crop Year

Data from USDA FAS
Domestic Supply and Demand Summary

- Supply outpace demand has created downward pressure on domestic cotton prices.
- Competitive supplies from other exporters and trade uncertainty limit U.S. cotton export expansion this season.
PRICE, USD INDEX, AND ECONOMIC GROWTH
Cotton Demand: Influence of Slow Global Economics Growth

Real GDP Growth, 1980 - 2024

- World
- Advanced Economies
- Emerging Market and Developing Economies

http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

Slide from Dr. John Robinson
U.S. Dollar Index
Cotton Price Last 5 Years

70 cents per pound for 2018/19
58 cents per pound for 2019/20
WASDE, USDA September 12, 2019

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<tr>
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<th>Conventional Tillage</th>
<th>Strip-Tillage</th>
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<tr>
<td></td>
<td>Irrigated</td>
<td>Non-Irrigated</td>
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<tr>
<td>Yield</td>
<td>1200 lbs</td>
<td>750 lbs</td>
</tr>
<tr>
<td>Breakeven Price Above Variable Cost</td>
<td>$ 0.47 /lb</td>
<td>$ 0.58 /lb</td>
</tr>
<tr>
<td>Breakeven Price Above Total Cost</td>
<td>$ 0.74 /lb</td>
<td>$ 0.82 /lb</td>
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Cotton Takeaways

• Uncertainties in trade result in slower global economic growth.
  – Reduced cotton demand global
• Missed market opportunities for U.S. cotton due to trade tension with China.
• Appreciation of U.S. dollar makes agricultural product less competitive in the global market.
• Low cotton prices globally and domestically will likely discourage cotton acreage next year.
Thank you!

Questions?

Feel free to contact me:

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