

Cotton Fundamentals and Outlook

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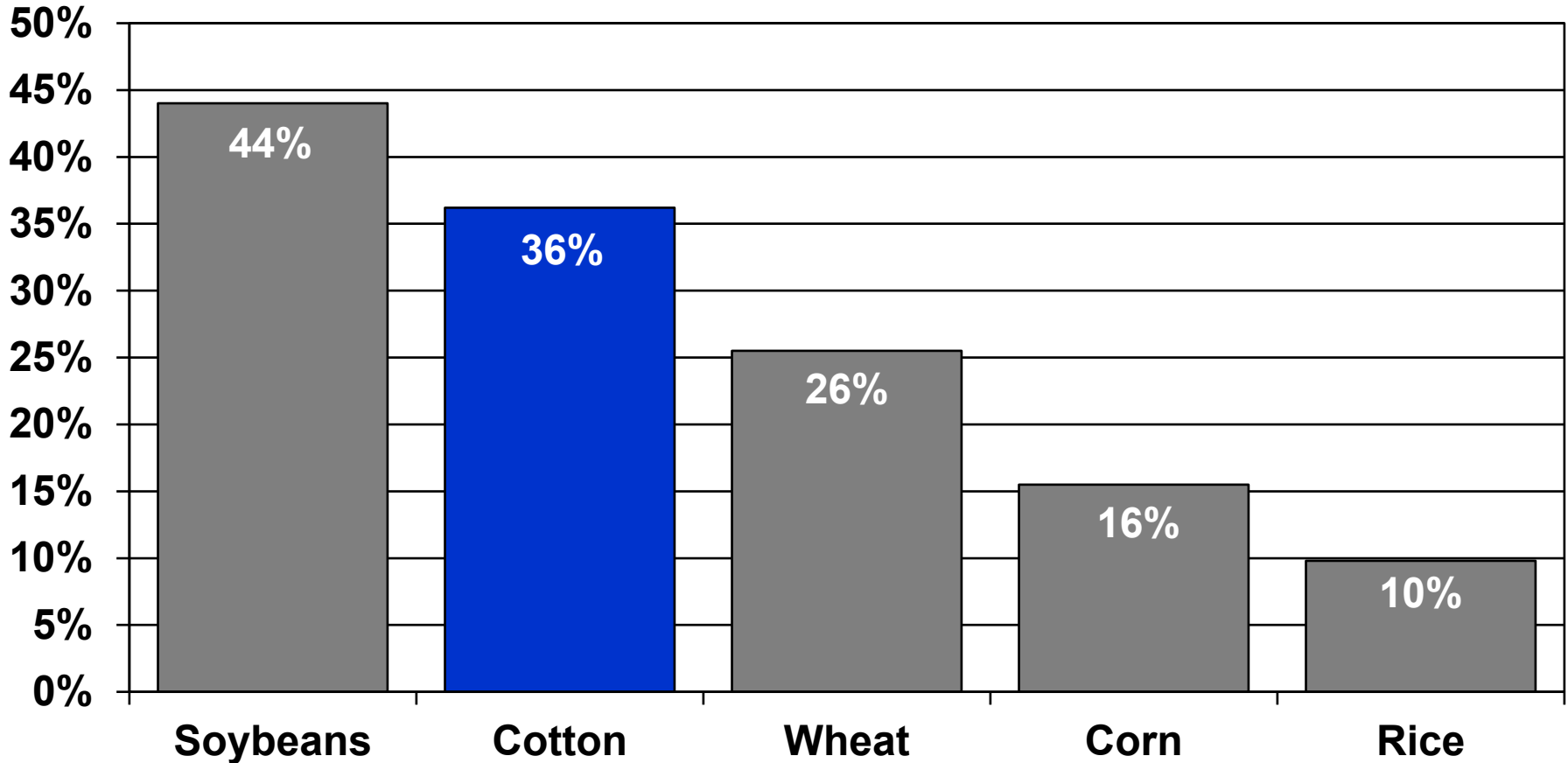
<http://agrilife.org/cottonmarketing/>

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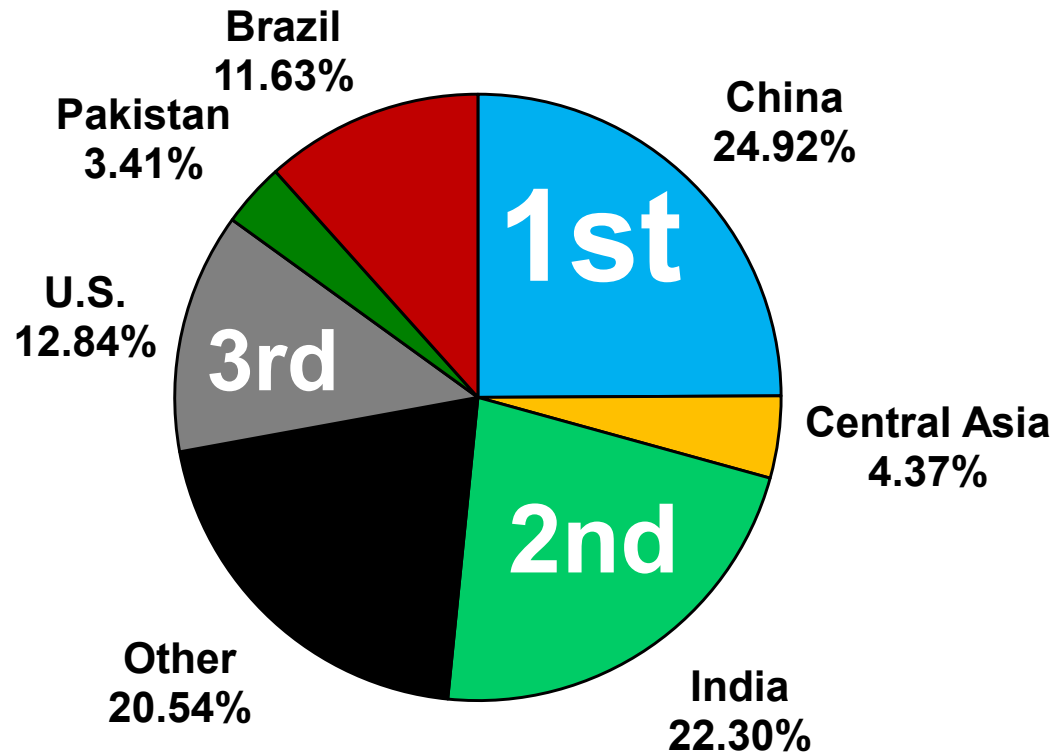
Cotton is a Global Commodity

Percentage of annual U.S. production that is exported (average 2016/17-2022/23)



Source: USDA/FAS

Major World Cotton Producers

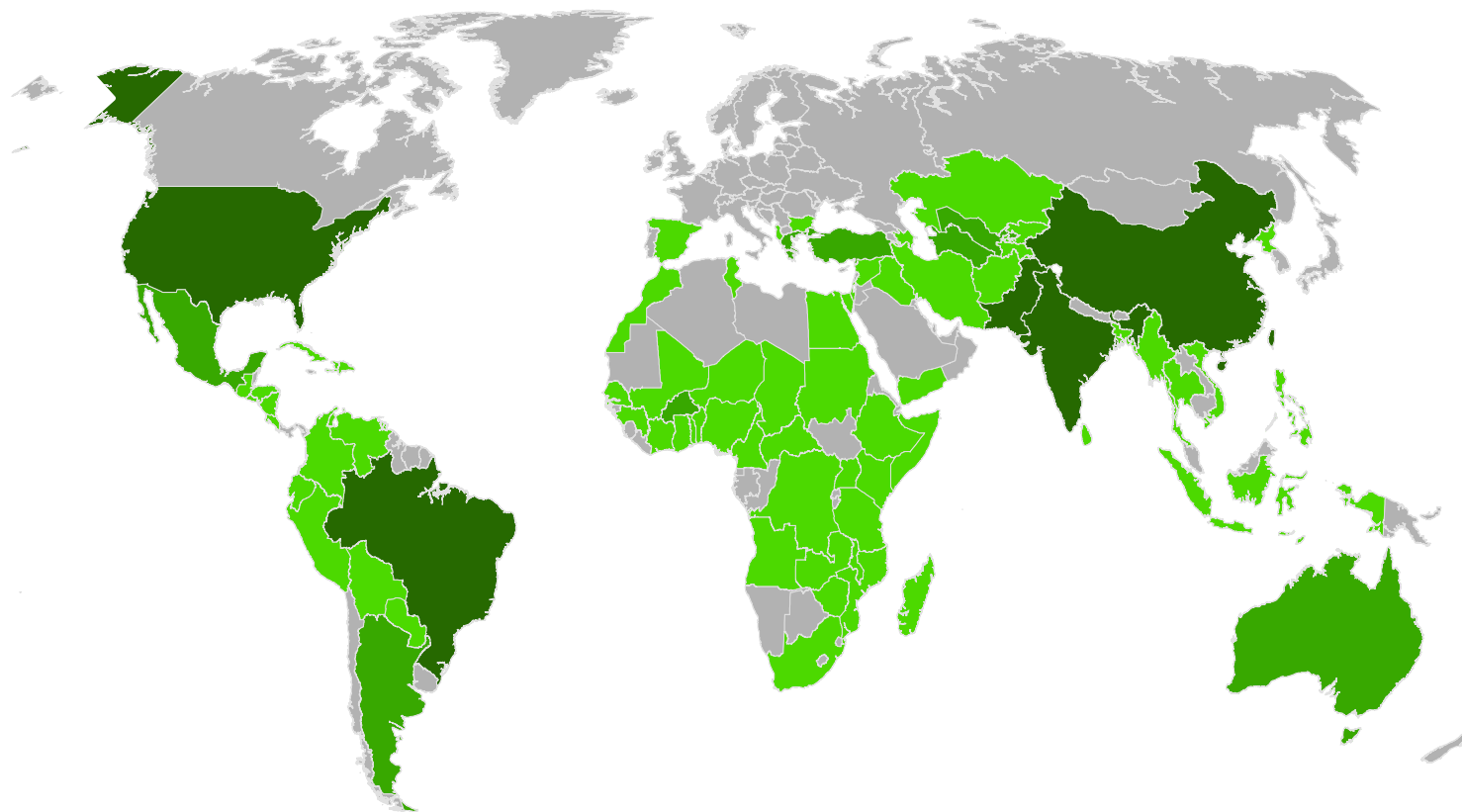


2022/23

**Total Production = 114.37
Million 480-Lb. Bales**

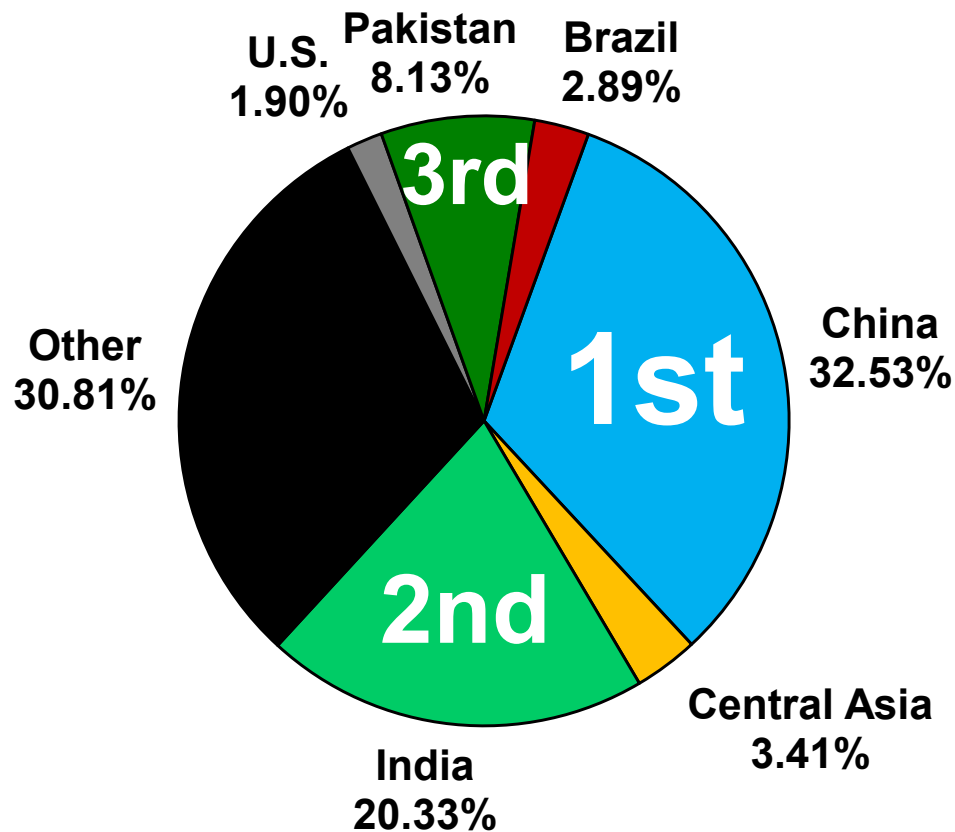
Global Cotton Production

480lb bales (average 2010/11 to 2014/15)



Source: USDA

Major World Cotton Consumers

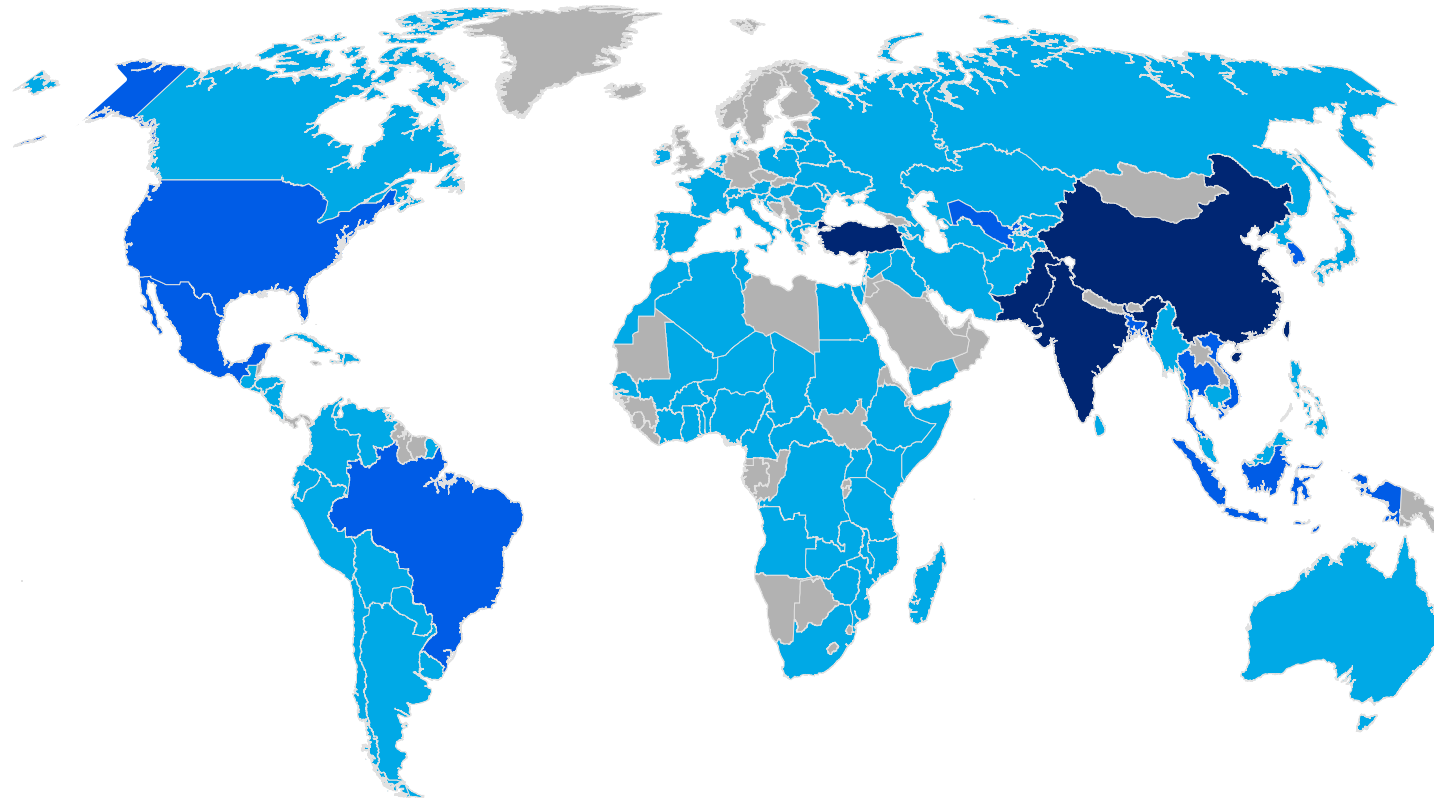


2022/23

**Total Domestic Use = 110.66
Million 480-Lb. Bales**

Global Cotton Mill-Use

480lb bales (average 2014/15 to 2018/19)



Source: USDA

Global Market

- **Cotton growers in major exporting countries respond to price signals.**
 - **More so in developed, commercial exporters (U.S., Brazil, Australia)**
 - **Less in developing countries**
- **Cotton exporters are also influenced by exchange rates and changing economic conditions.**

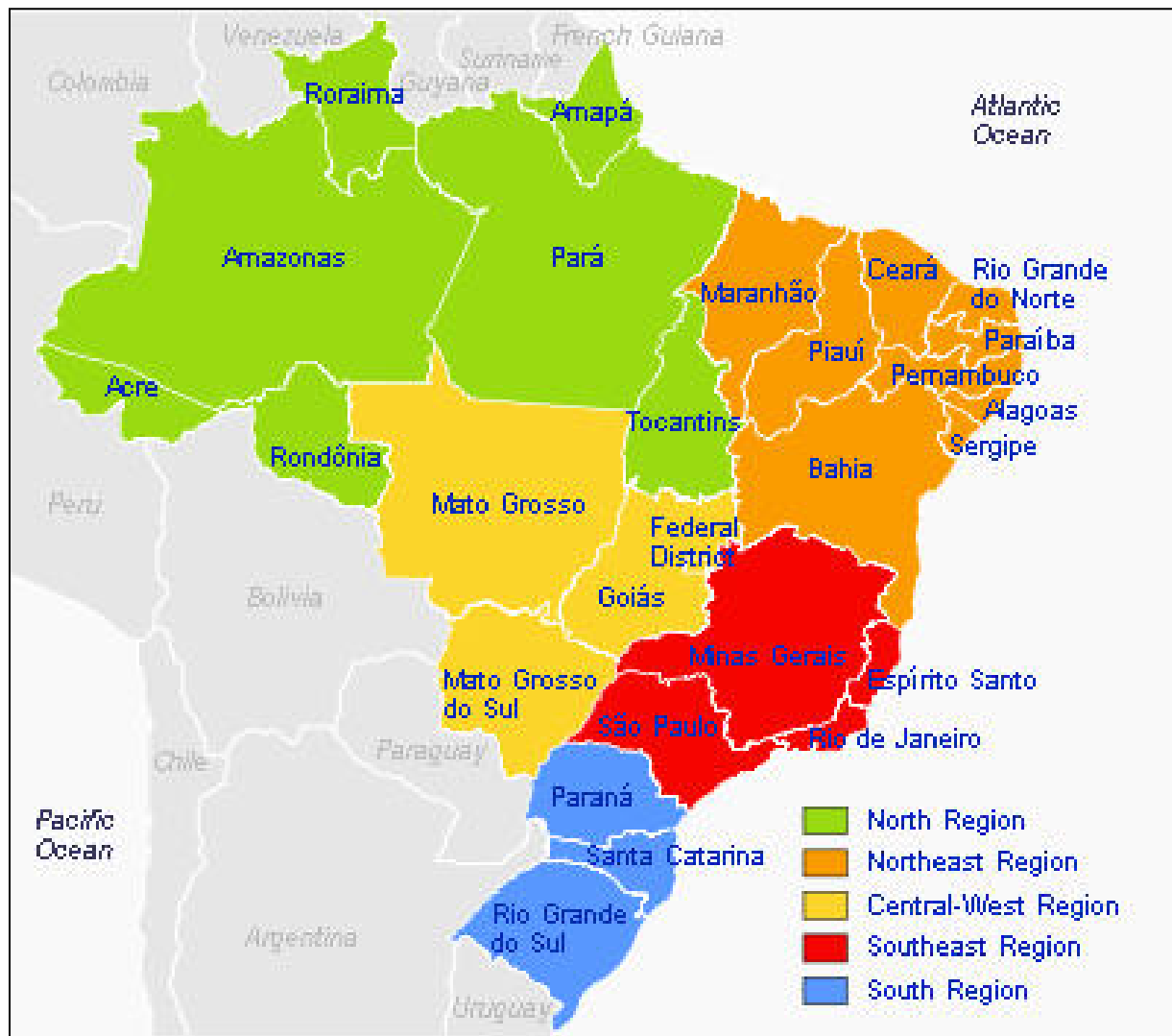
Brazil

**2022/23
Production:**

**13.3 million
bales**

**2022/23
Consumption:**

**3.2 million
bales**

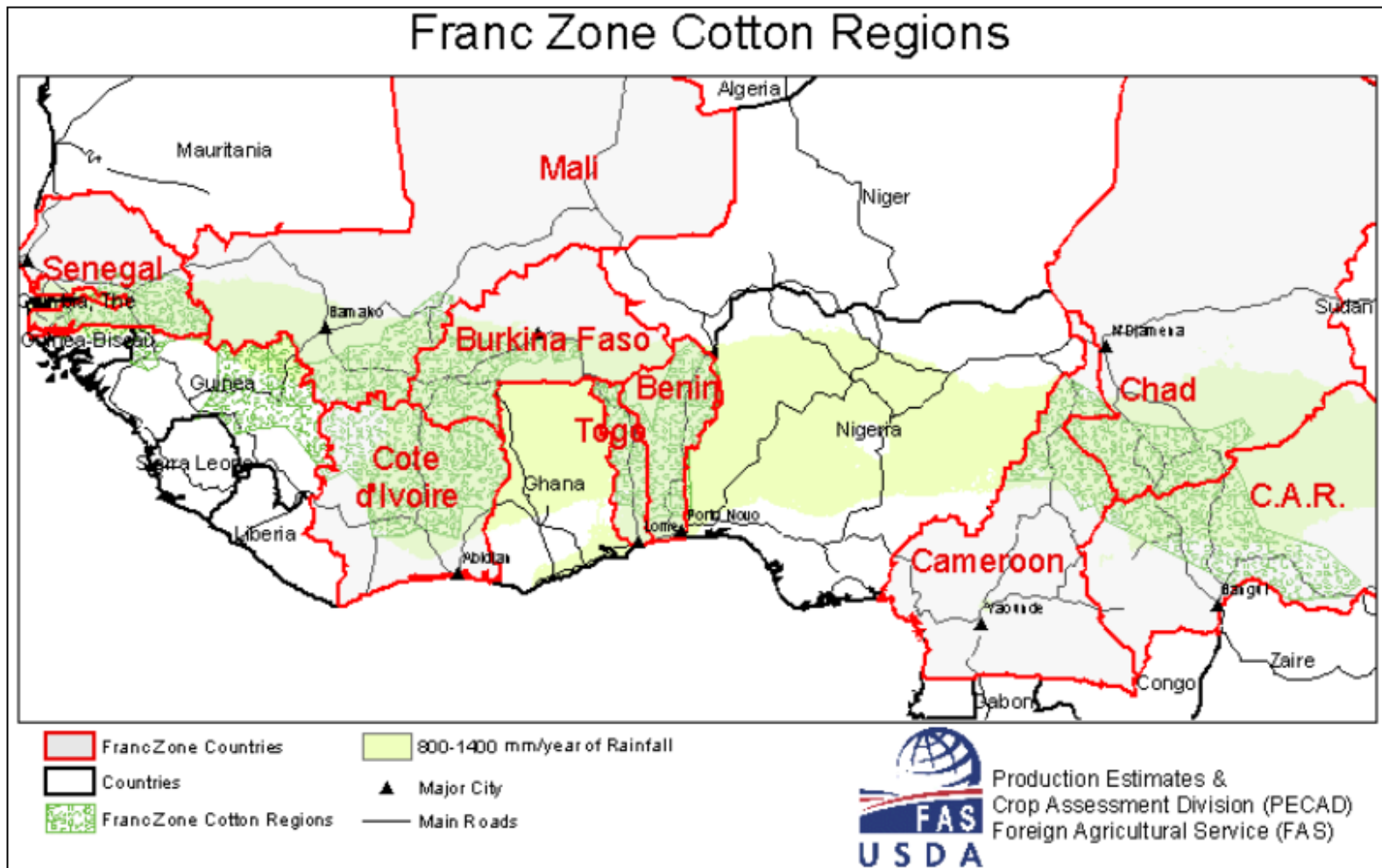


Australia



2022/23 Production and Consumption:
5.0 million bales 0.01 million bales

West African Cotton Belt



2022/23 Production and Consumption:
4.81 million bales 0.10 million bales

Make a New Plan, Stan

**2022/23
Production
(480 bales)**

**Pakistan:
3.90 million**

**Central Asia:
5.00 million**

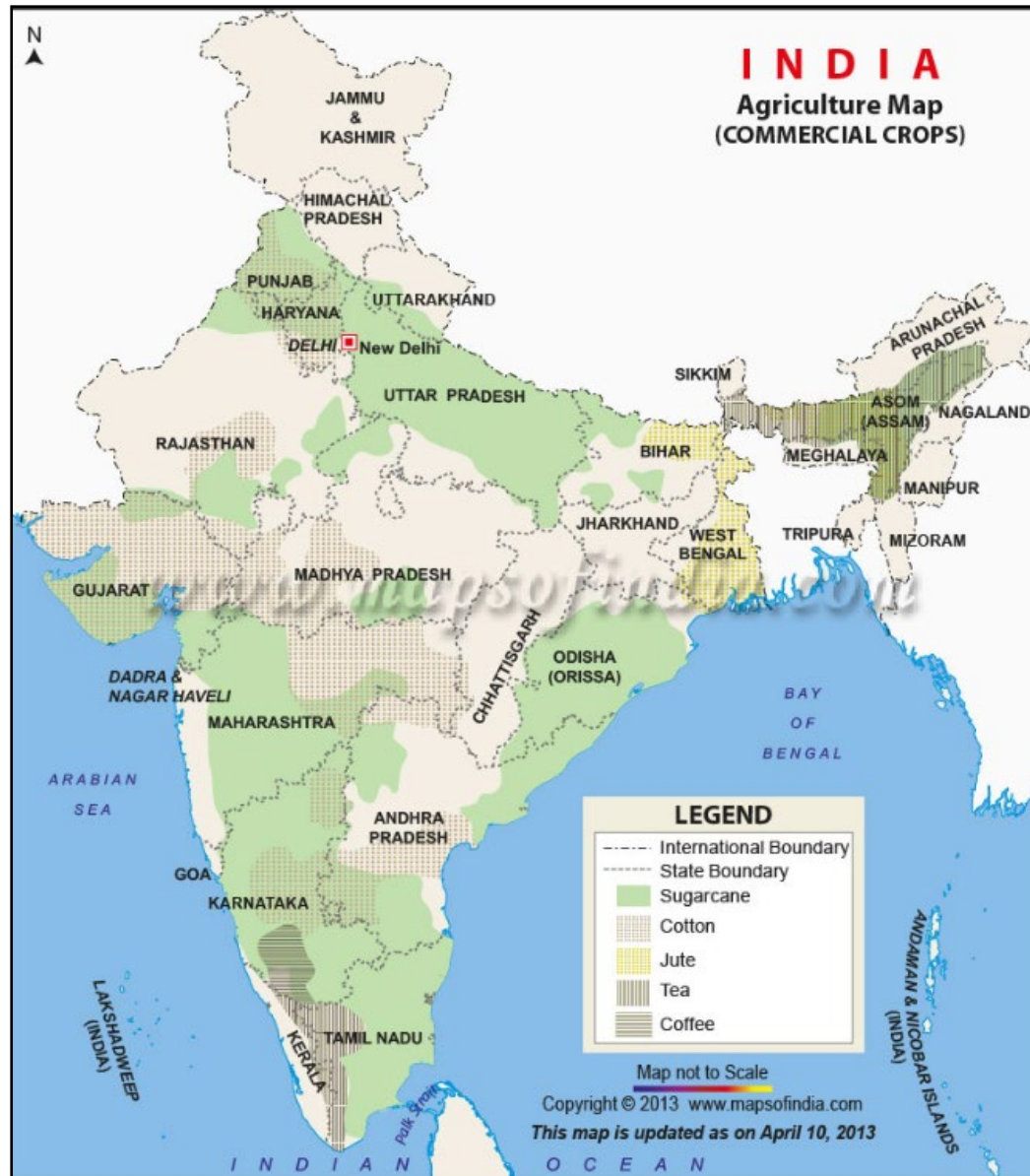
**(Pakistan and
Central Asia
consume 8.80M
and 3.77M bales,
respectively)**



India

2022/23
Production:
25.5 million bales

2022/23
Consumption:
22.5 million bales



Chinese Cotton Belt

Production Share in 2019/20 (%)	
Xinjiang	85.25
Shandong	4.07
Hebei	3.64
Hubei	2.46
Hunan	1.39
Anhui	0.95
Gansu	0.56
Henan	0.46
Jiangsu	0.27
<u>Other</u>	<u>0.95</u>
Total China	100.00



Source: USDA/FAS China Attache Gain Report #CH2020-0047, April 2020.

2022/23 Production: 28.50 million bales
2022/23 Consumption: 36.00 million bales
2022/23 Net Deficit: 7.50 million bales

WASDE - 633 - 27

**World Cotton Supply and Use 1/
(Million 480-Pound Bales)**

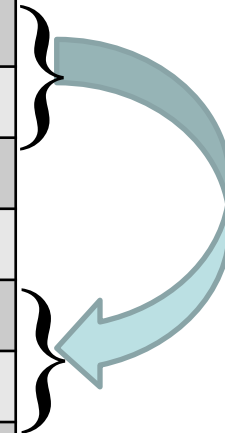
2022/23 Proj.		Beginning Stocks	Production	Imports	Domestic Use	Exports	Loss /2	Ending Stocks
World	Jan	85.34	115.40	41.63	110.85	41.66	-0.08	89.93
	Feb	85.24	114.37	40.44	110.66	40.38	-0.08	89.08
World Less China	Jan	48.03	87.40	33.88	75.35	41.53	-0.08	52.49
	Feb	47.92	85.87	32.69	74.66	40.26	-0.08	51.64
United States	Jan	3.75	14.68	0.01	2.20	12.00	0.04	4.20
	Feb	3.75	14.68	0.01	2.10	12.00	0.04	4.30
Total Foreign	Jan	81.59	100.72	41.62	108.65	29.66	-0.12	85.73
	Feb	81.49	99.69	40.44	108.56	28.38	-0.12	84.78
Major Exporters 4/	Jan	32.11	57.74	2.45	31.16	25.54	-0.17	35.78
	Feb	32.04	56.03	2.32	31.08	24.25	-0.17	35.23
Major Importers 8/	Jan	46.75	39.74	36.90	73.41	2.87	0.06	47.06
	Feb	46.75	40.38	35.84	73.40	2.86	0.06	46.66

Fundamental Heaviness of Old Crop Balance Sheet

Longer term trends in cotton prices are highly influenced by Ending Stocks variable changes (either monthly or year-over-year).

Fundamental Tug of War

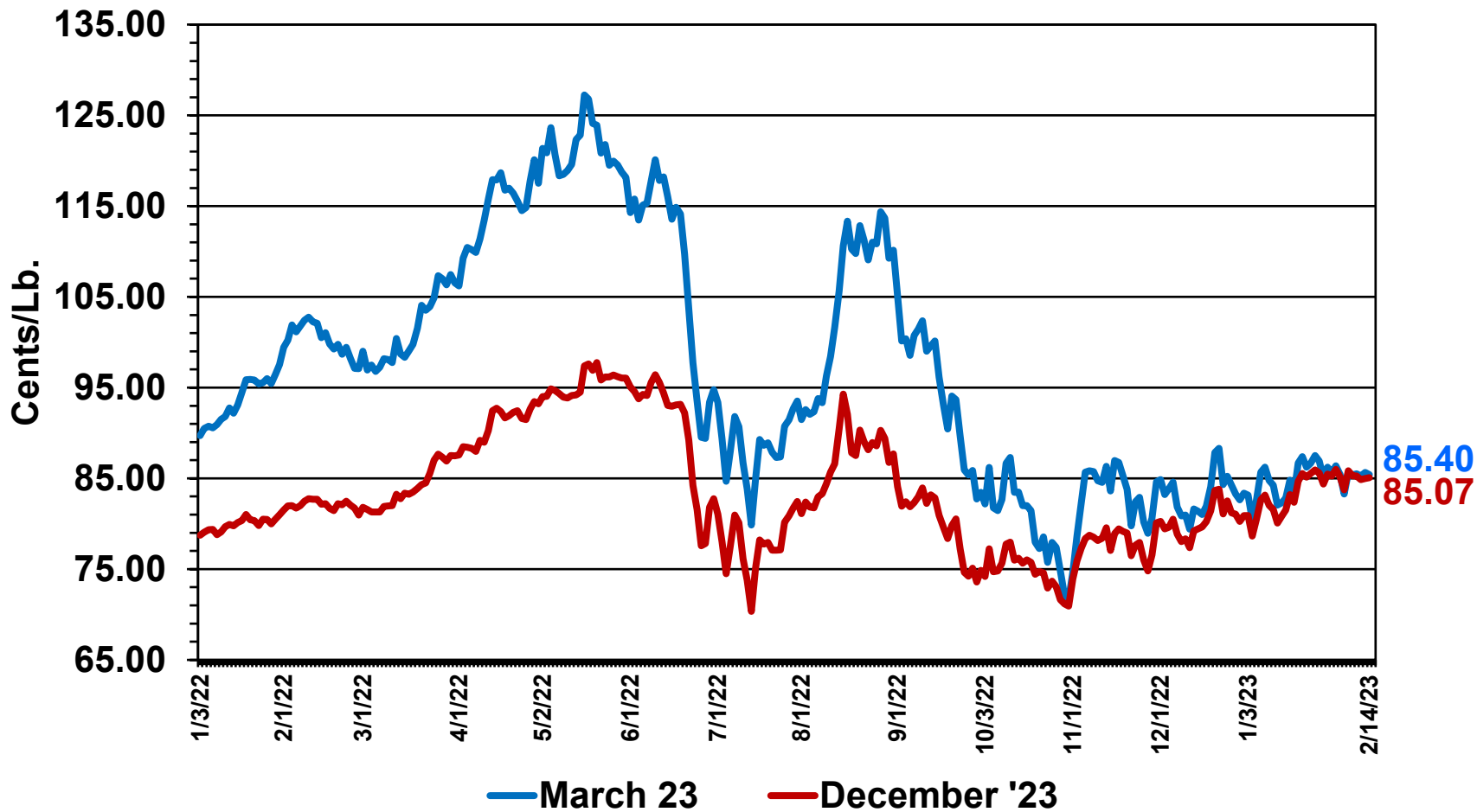
	2020/21	2021/22	2022/23
	<i>Area Million Acres</i>		
Planted	12.09	11.22	13.76
Harvested	8.22	10.27	7.44
	<i>Pounds</i>		
Yield/Harvested Acre	853	819	947
	<i>Million 480 Pound Bales</i>		
Beginning Stocks	7.25	3.15	3.75
Production	14.61	17.52	14.68
Imports	0.00	0.01	0.01
Supply, Total	21.86	20.68	18.44
Domestic Use	2.40	2.55	2.10
Exports, Total	16.35	14.62	12.00
Use, Total	18.75	17.17	14.10
Unaccounted	-0.04	-0.24	0.04
Ending Stocks	3.15	3.75	4.30
Stocks-to-Use (%)	16.80	21.84	30.50



Fundamental Tug of War



Old and New Crop Futures Prices

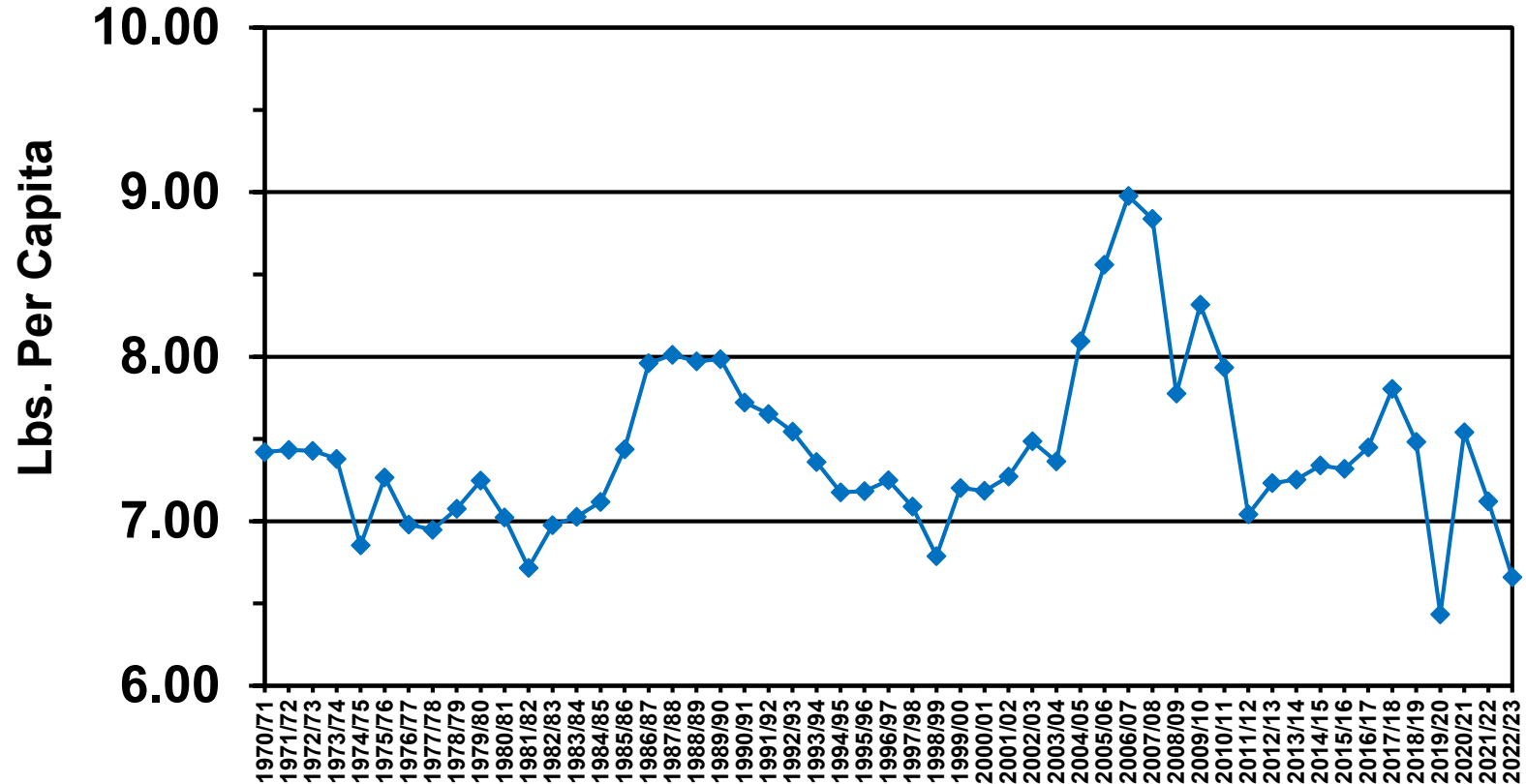


Daily

January 3, 2022 – February 14, 2023

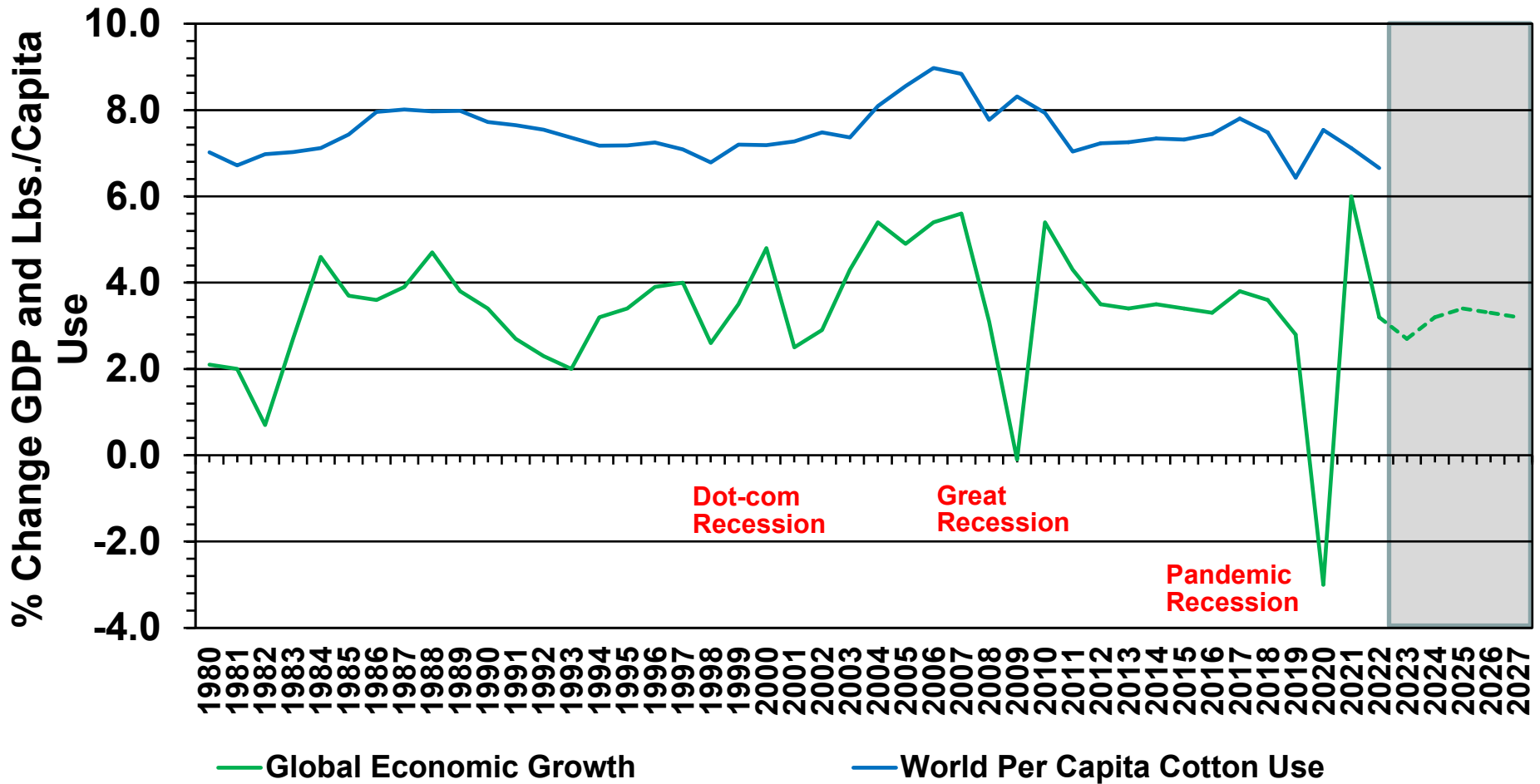
Demand Influences

World Per Capita Cotton Use



Source: USDA/ERS/WASDE

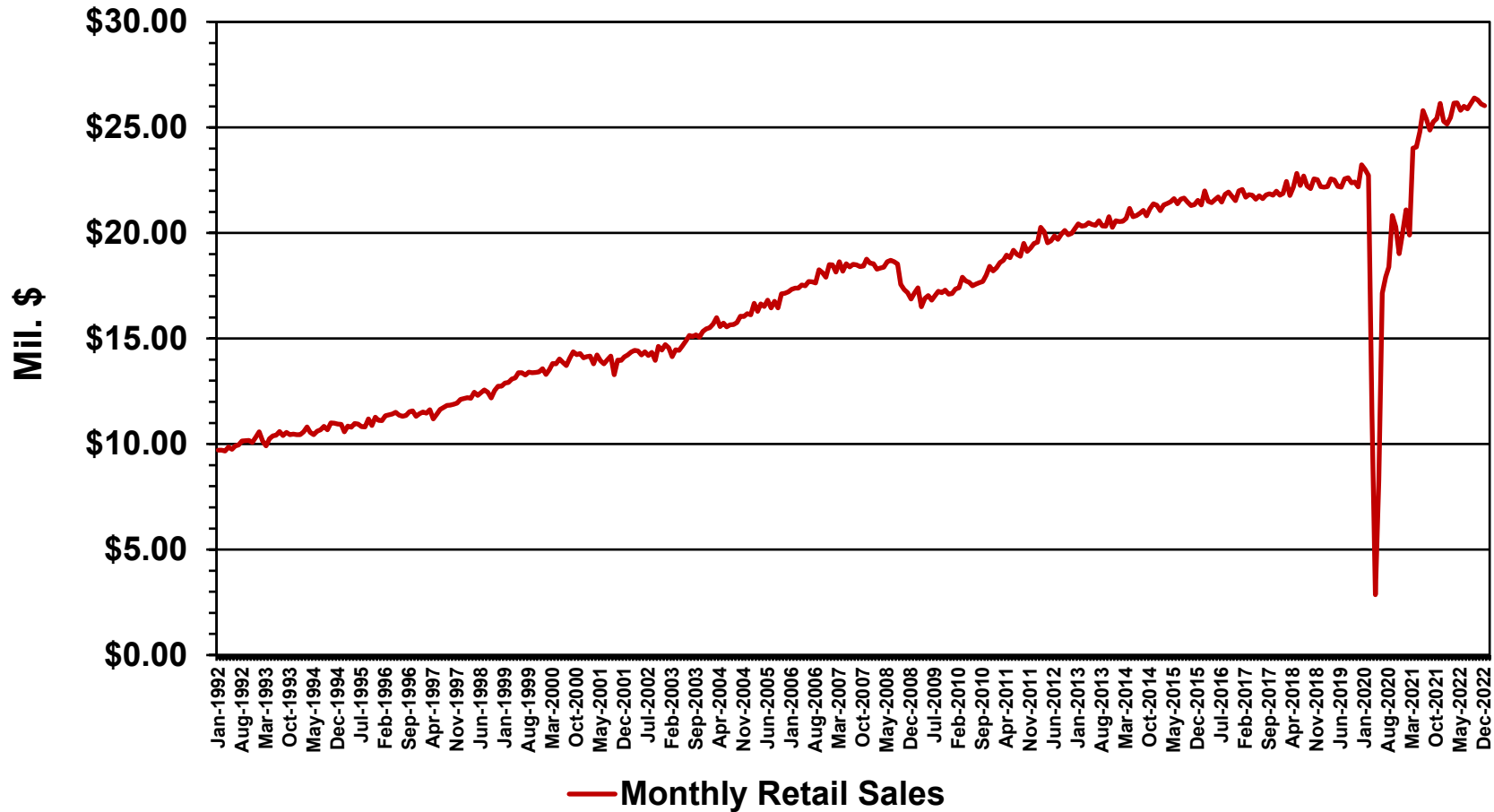
World Per Capita Cotton Use and Global Economic Growth



World Economic, Outlook, October 2022 <http://www.imf.org>

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

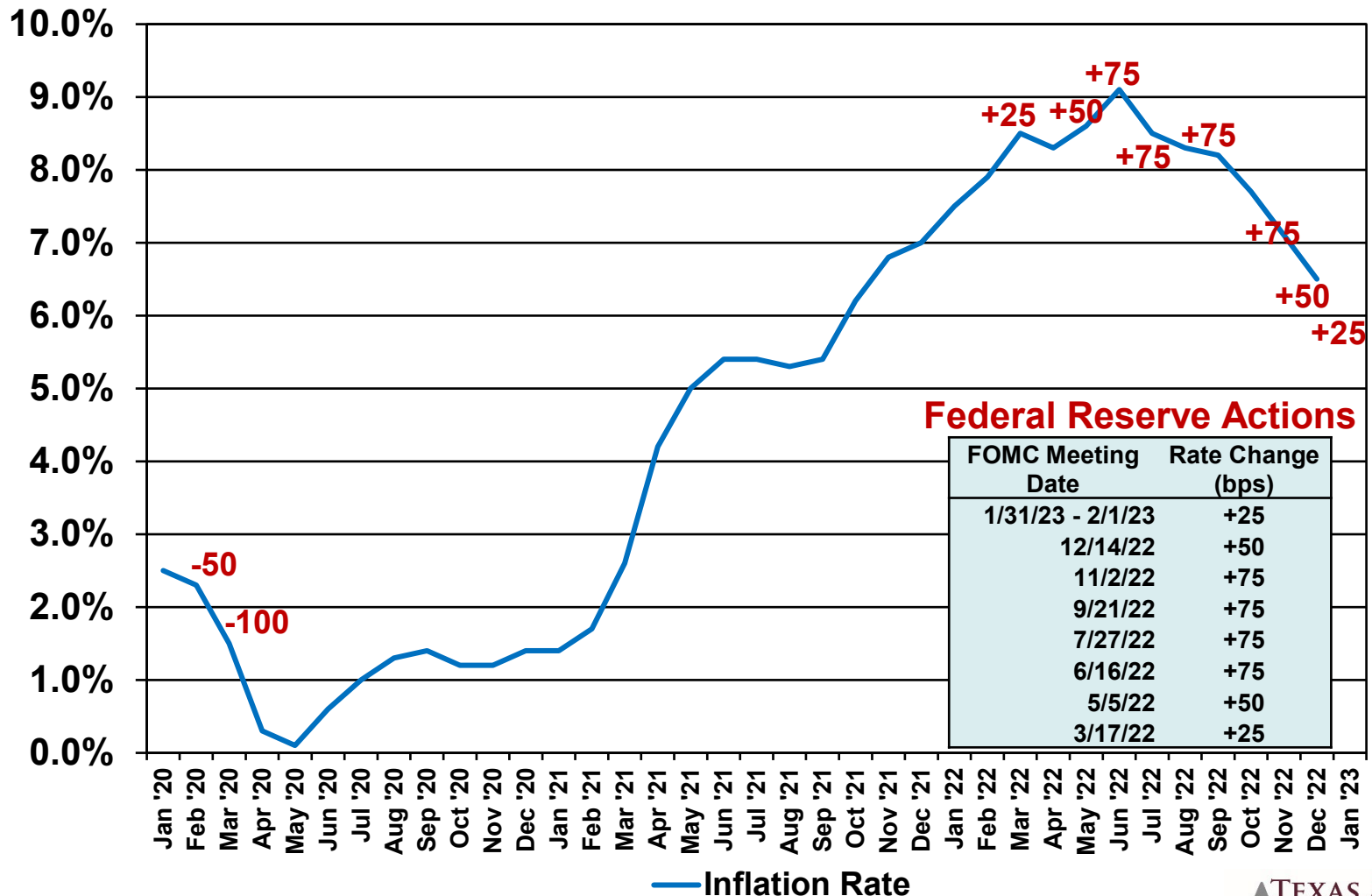
U.S. Total Retail Sales: Clothing and Clothing Accessory Stores, 1992 - 2022



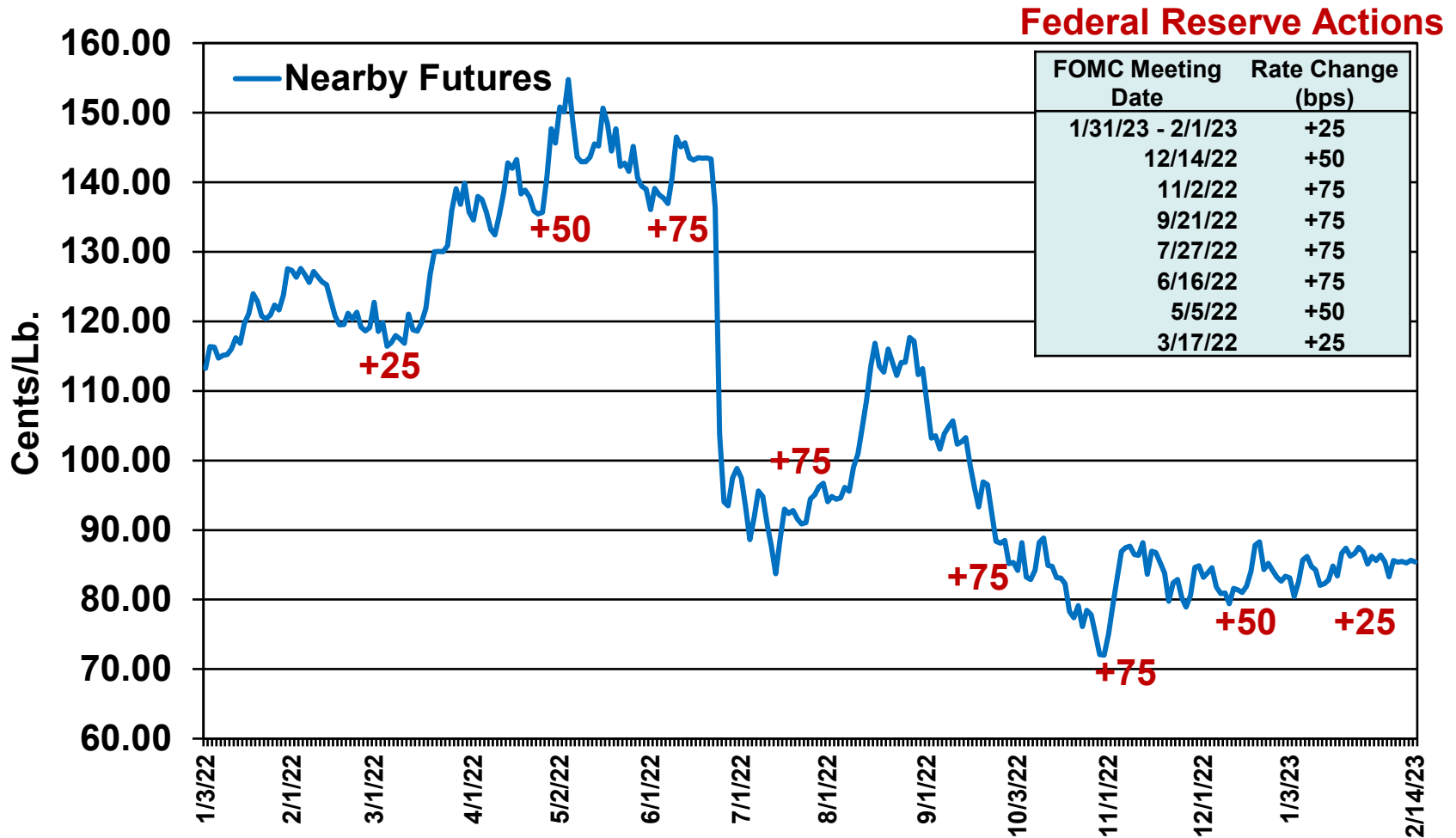
Source: Advance Monthly Sales for Retail and Food Services; Report 448: Clothing and Clothing Access. Stores: U.S. Total Seasonally Adjusted, January 18, 2023

[https://www.census.gov/econ/currentdata/?programCode=MARTS&startYear=1992&endYear=2022&categories\[\]=448&dataType=SM&geoLevel=US&adjusted=1¬Adjusted=1&errorData=0](https://www.census.gov/econ/currentdata/?programCode=MARTS&startYear=1992&endYear=2022&categories[]=448&dataType=SM&geoLevel=US&adjusted=1¬Adjusted=1&errorData=0)

Monthly Year-Over-Year U.S. Inflation Rate

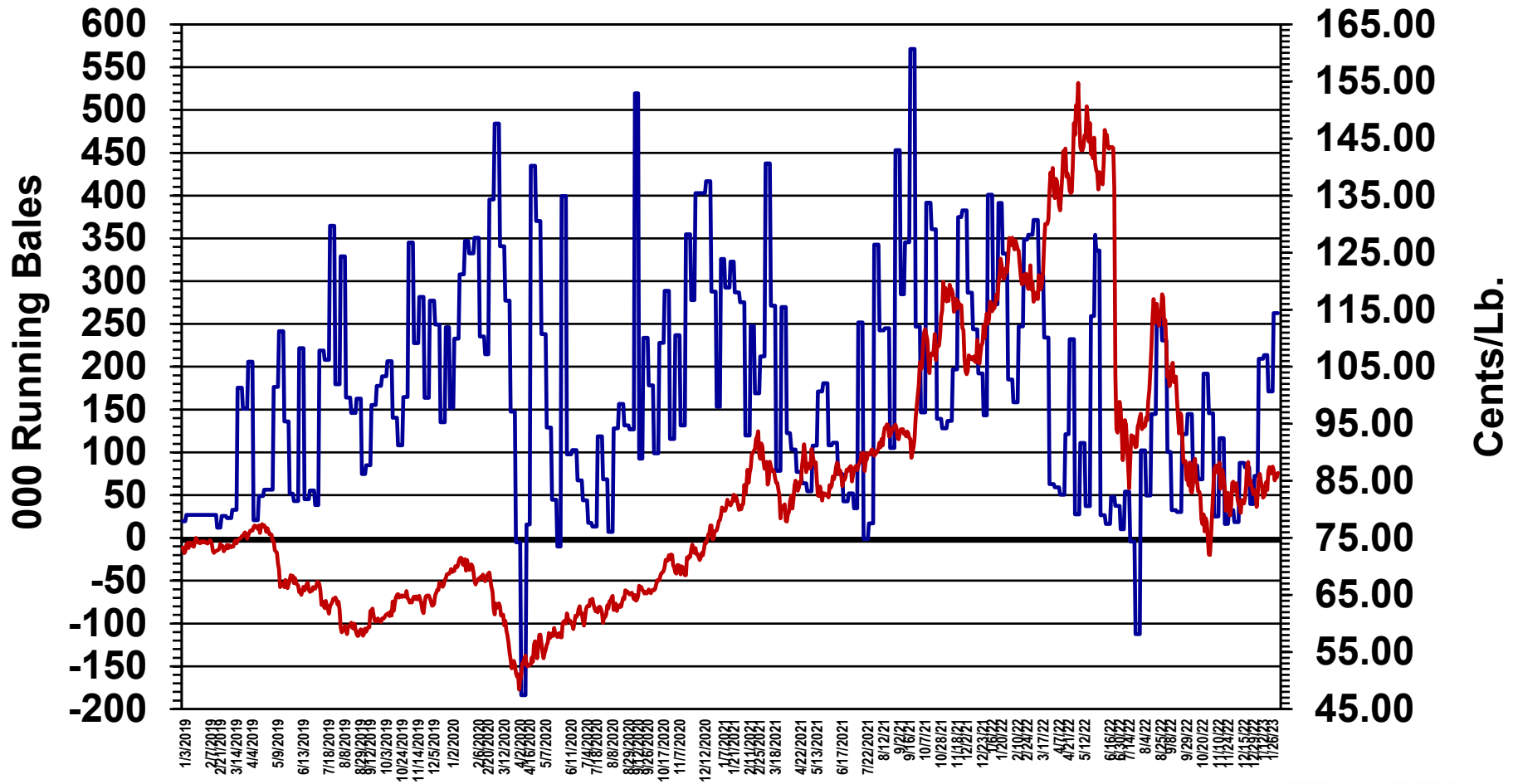


Nearby Futures vs. Federal Reserve Rate Hikes



U.S. 2022/2023 Upland Cotton Net Export Sales and Nearby ICE Futures

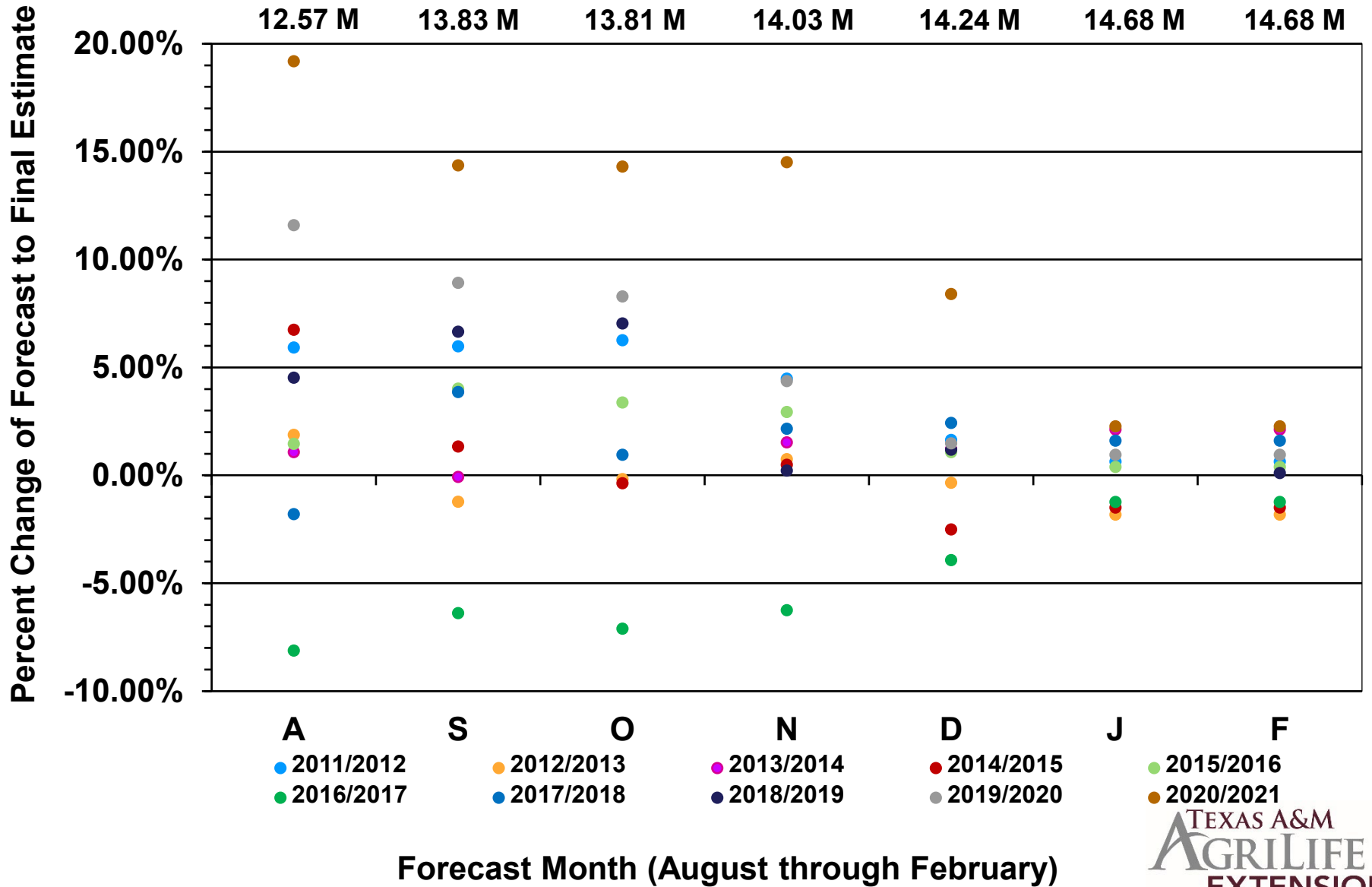
January 3, 2019 – February 2, 2023



— Net Export Sales — ICE Futures

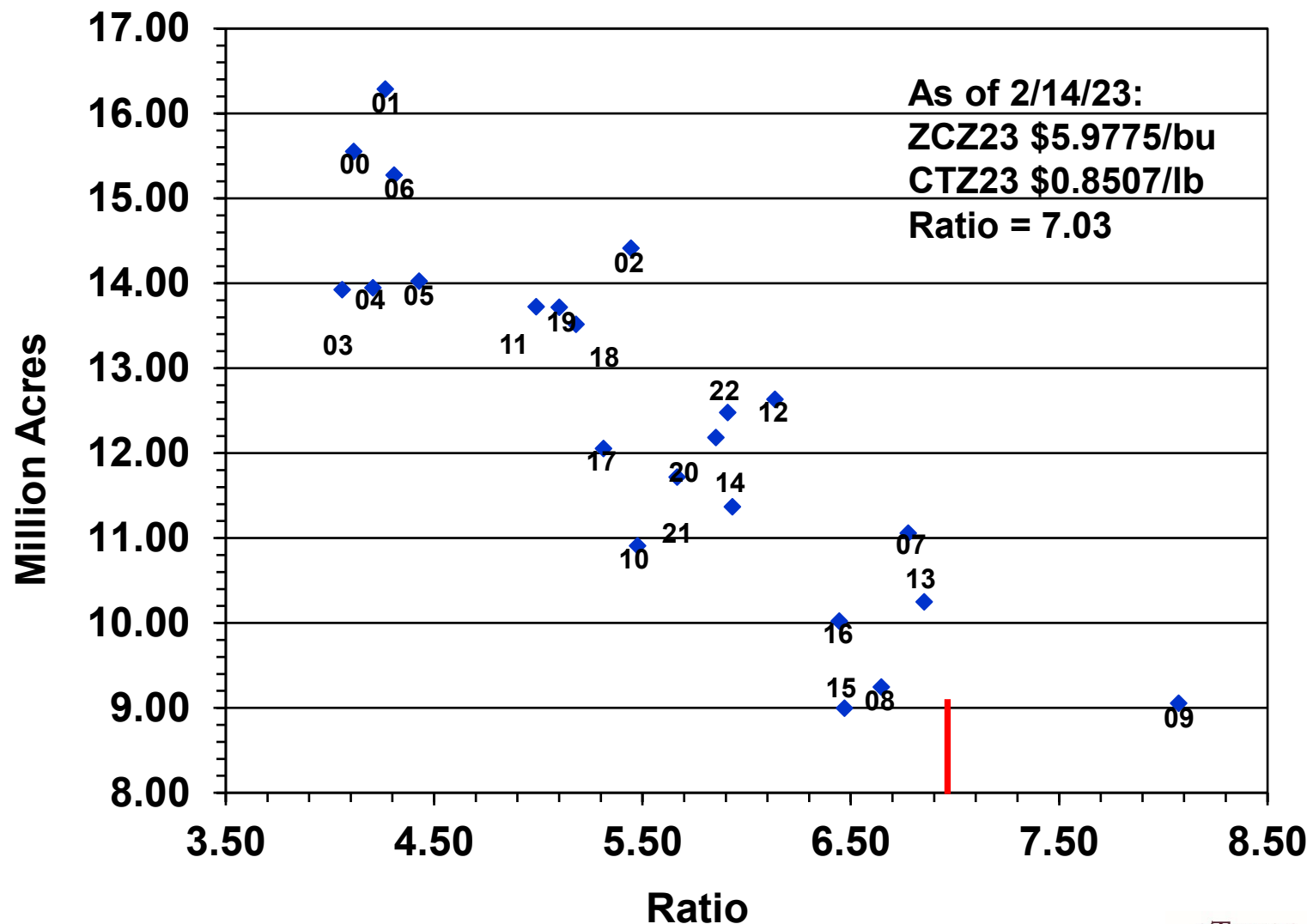
Supply Influences: Old Crop

Historical Percent Change of August-February Monthly Forecasts of U.S. Cotton Production From the Final Estimate



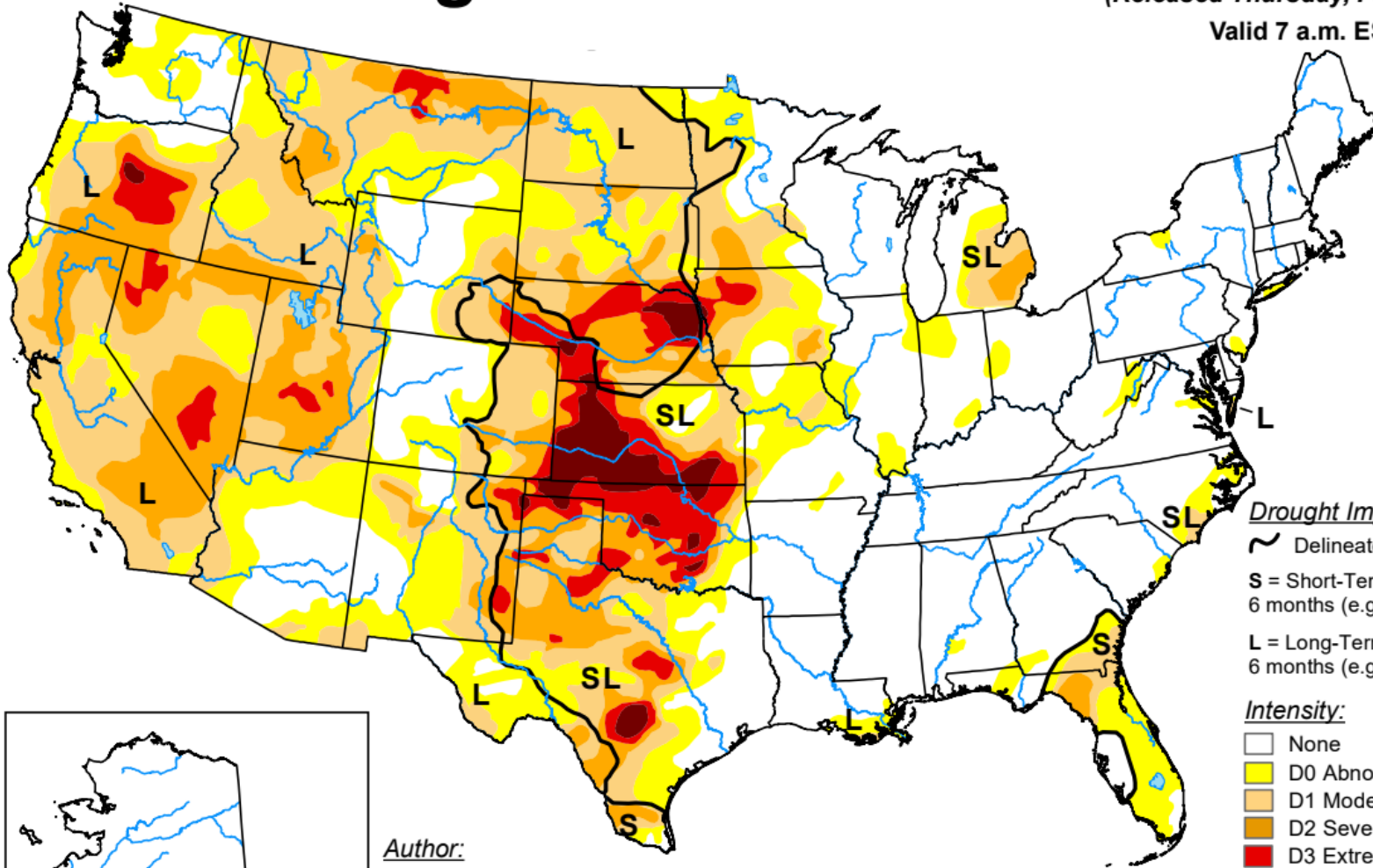
Supply Influences: New Crop

Expect Fewer Cotton Acres Planted



U.S. Drought Monitor

February 7, 2023
(Released Thursday, Feb. 9, 2023)
Valid 7 a.m. EST



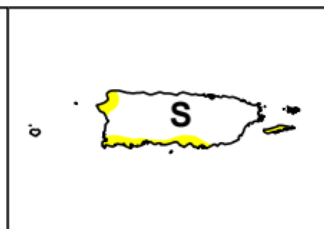
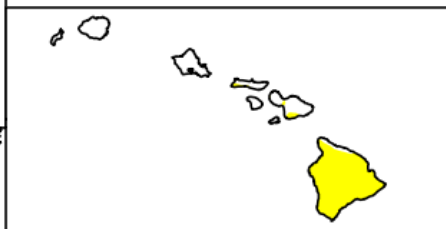
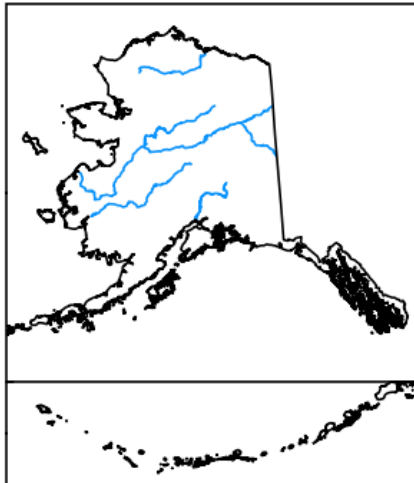
Drought Impact Types:

- ~ 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:

- None
- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

Author:
Brian Fuchs
National Drought Mitigation Center



The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. For more information on the Drought Monitor, go to <https://droughtmonitor.unl.edu/About.aspx>



droughtmonitor.unl.edu

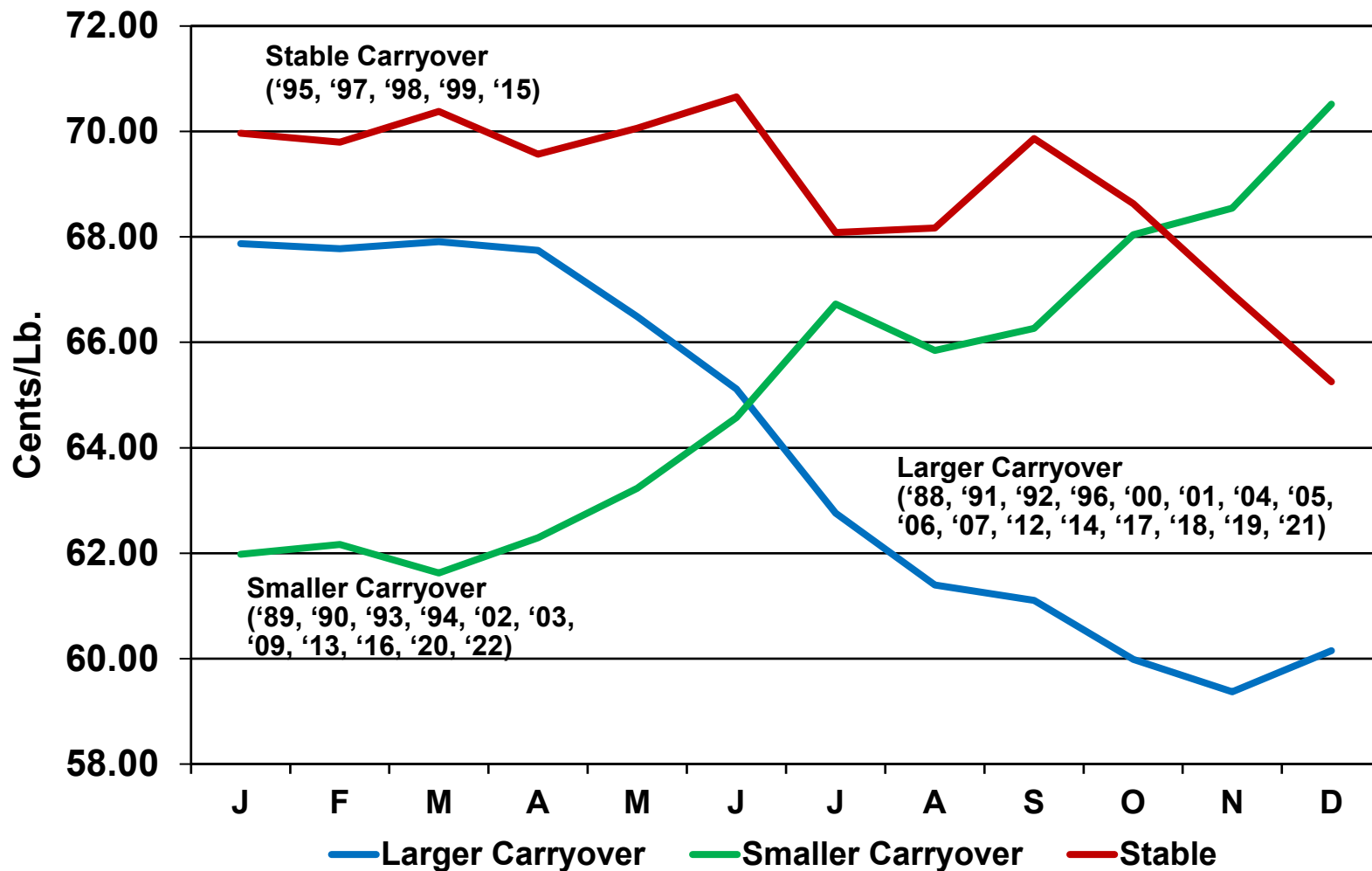
Continued Tightness in 2023

- A dry start to 2023 suggests potentially tight supplies
- *Especially* if we have a major decline in 2023 planted acres
- This may be offset by shrinking demand, but it's still a very uncertain picture

Weather Market Milestones

- 1. Cotton Grower Survey: 11.5 million**
- 2. National Cotton Council's planting intentions survey: 11.4 million**
- 3. USDA's Prospective Plantings report on March 31**
- 4. USDA's Planted Acre report on June 30**

December Futures Average Monthly Price for Stable, Larger and Smaller Carryover Season



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“Cotton Spin” Column, Southwest Farm Press

<http://southwestfarmpress.com/author/john-robinson>

The Cotton Marketing Planner Newsletter

<http://agrilife.org/cottonmarketing/>

Twitter: @aggie_prof

Facebook: <https://www.facebook.com/AgriLifeMasterMarketer>

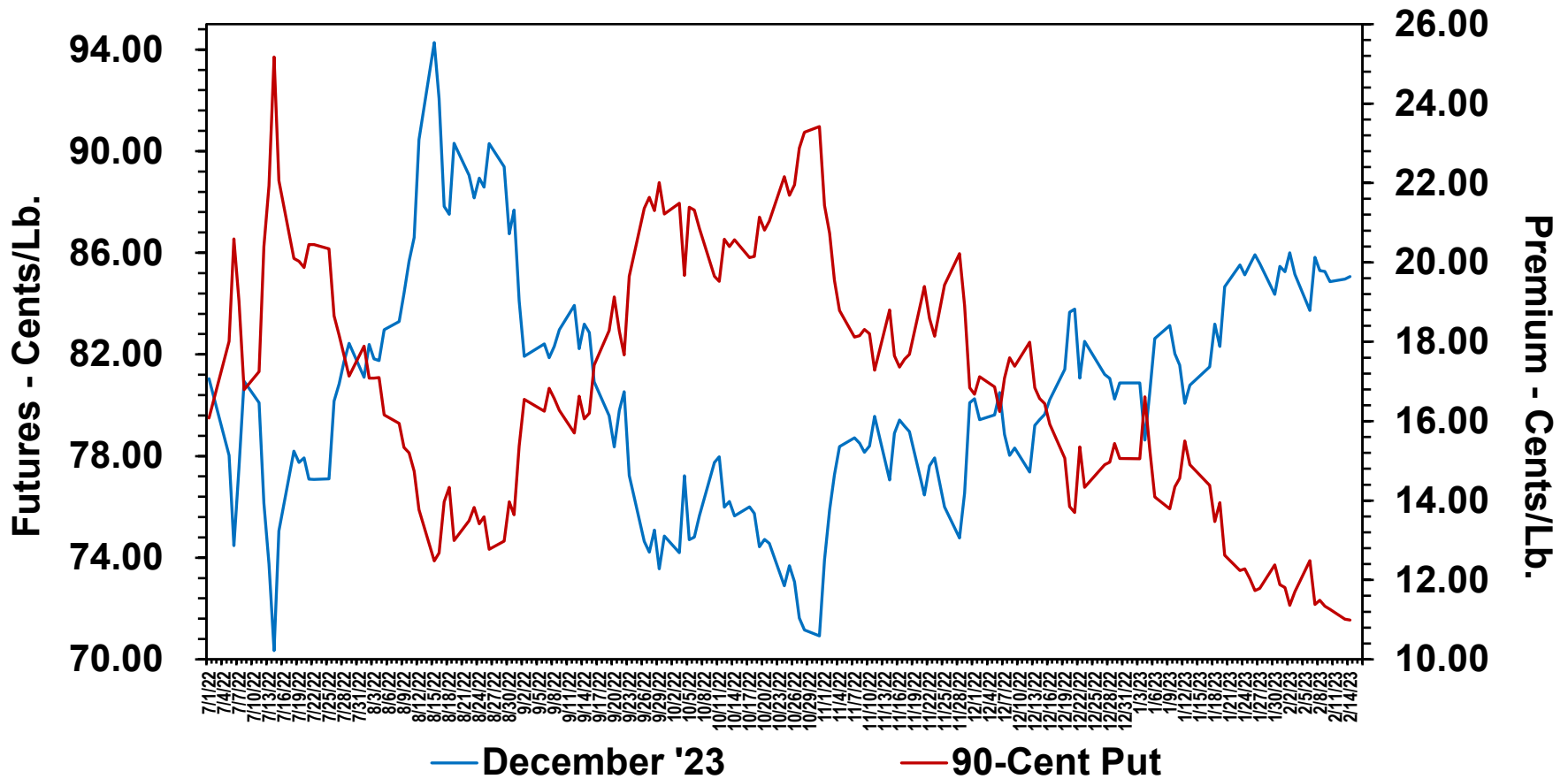
Marketing Thoughts: Old Crop

- Old crop prices may or may not rally above the current 80s equilibrium
- Consider buy/sell call options
 - Buy a 90¢ May'23 call for around 5¢
 - Sell a 100¢ May'23 call for around 2.5¢
 - Net cost of a 90:100 call spread is 2.5¢
 - Risk the 2.5¢ net cost for a possible 7.5¢ gain

Marketing Thoughts: New Crop

- **New crop prices may rally in-season into the 90s**
- **Currently limited forward contract offerings from merchants**
- **Consider buy/sell put options**
 - Buy a 95¢ Dec'23 put when they are cheaper (i.e., after a market rally into the 90s)
 - Maybe sell an 80¢ Dec'23 put
 - Try for a 3:1 risk/reward

Dec'23 Futures Settlement Price vs. December 90¢ Put Option Premium



Daily
July 1, 2022 – February 14, 2023