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United States Department of Agriculture

The World and U.S. Cotton Outlook for 2018/19

Interagency Commodity Estimates Committee

Presented by
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Agricultural Outlook Forum
February 23, 2018

USDA Cotton Outlook

- Current year review, 2017/18:
 - Broad global expansion boosts cotton consumption
 - Favorable cotton/polyester price ratio boosts consumption
 - Production continues rebound: fastest growth since 2004/05
 - Ending stocks outside China rise
 - Prices average similar to 2016/17
- Upcoming year outlook, 2018/19:
 - Global consumption rises, more slowly
 - Global production falls: mixture of yield and area declines
 - U.S. planted area up, production down
 - Ending stocks outside China rise further
 - Prices lower

2017/18

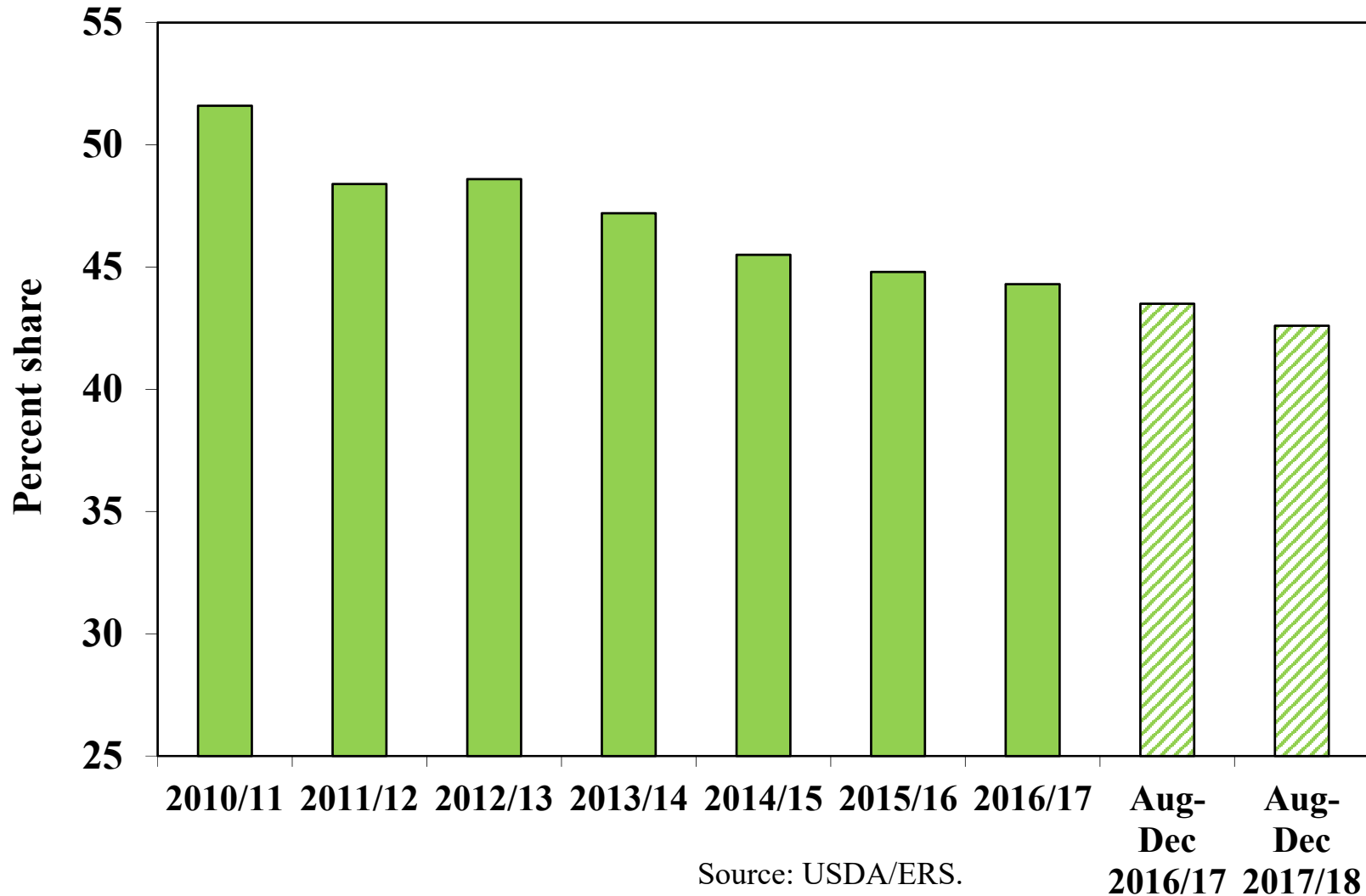
Current World Cotton Situation

Large World Consumption Increase Expected for 2017/18

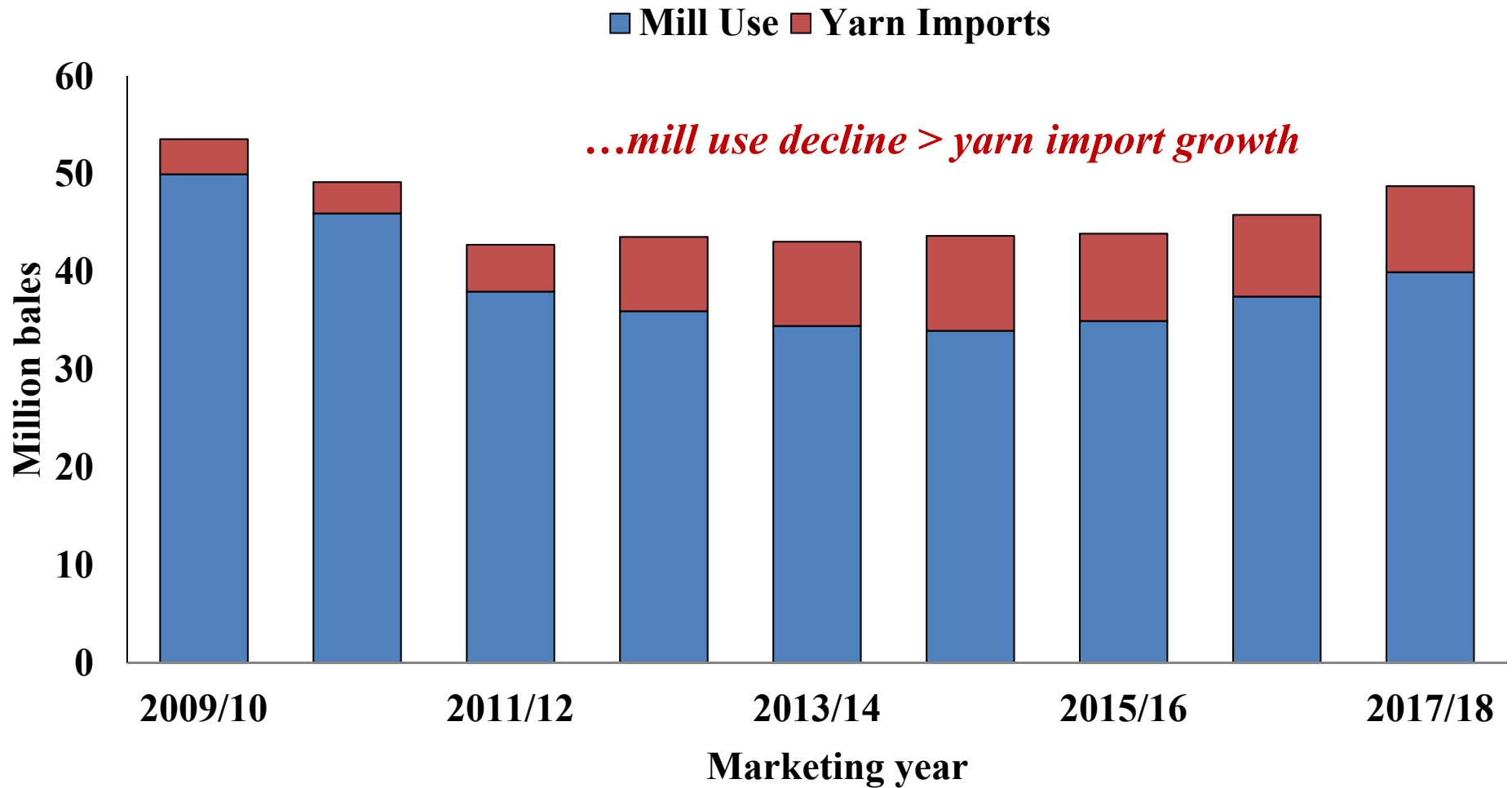
Cotton consumption estimated at 120.5 million bales.

- 5.0-percent growth expected—fastest since 2009/10.
 - 6th consecutive year of growth (longest positive run since 1980s)
- Global economic growth fastest since 2011.
 - IMF forecasts calendar 2017 and 2018 world income growth to average 3.8 percent.
- Policy changes affecting polyester production in China.
 - Cotton/polyester price ratio most favorable in 3 years.
- China Reserve sales program well established.
- Impact of past extreme cotton price volatility fading.

Cotton's Share of U.S. Textile Imports, 2010/11 to Aug-Dec 2017/18 (raw-fiber-equivalent basis)



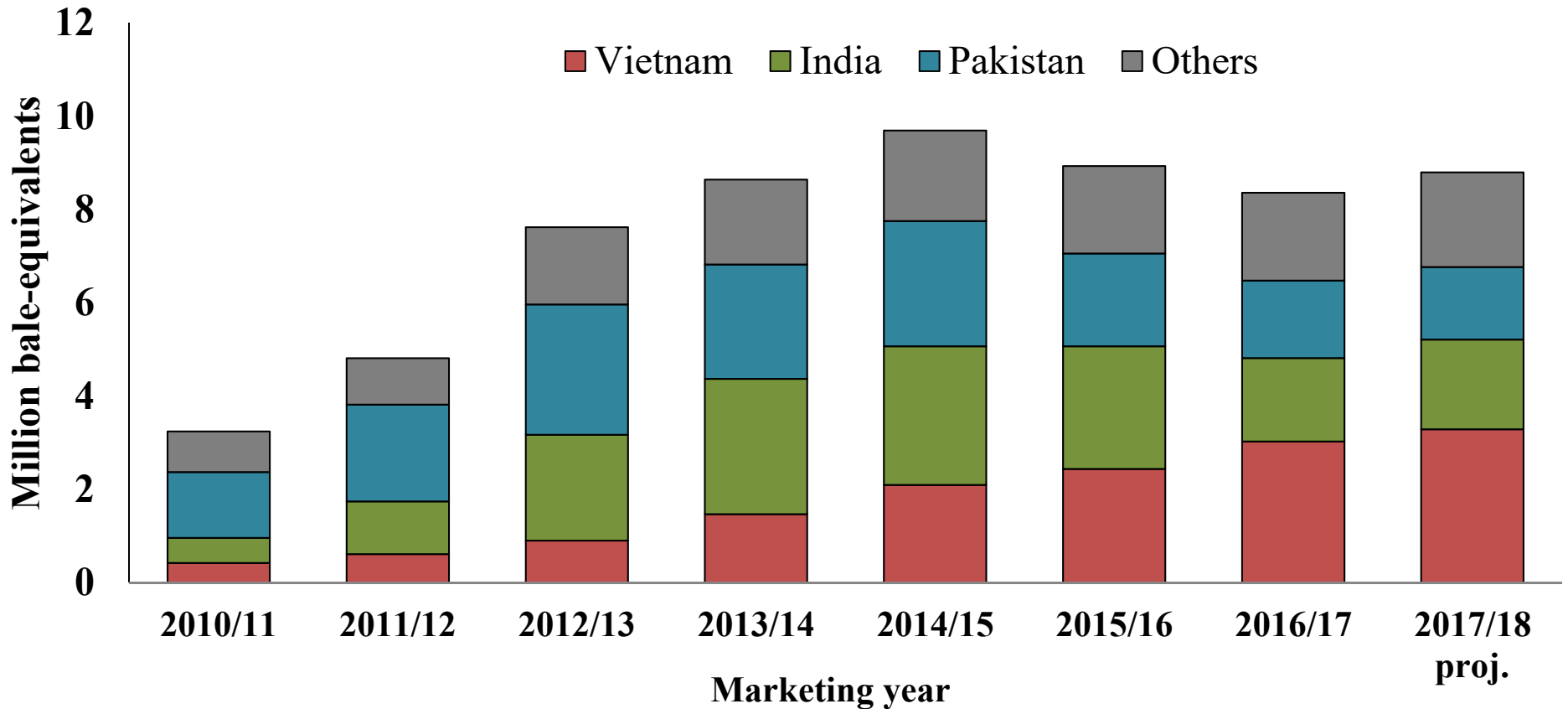
China's Mill Use: Rising, But Below Peak...



Sources: USDA and Global Trade Atlas.

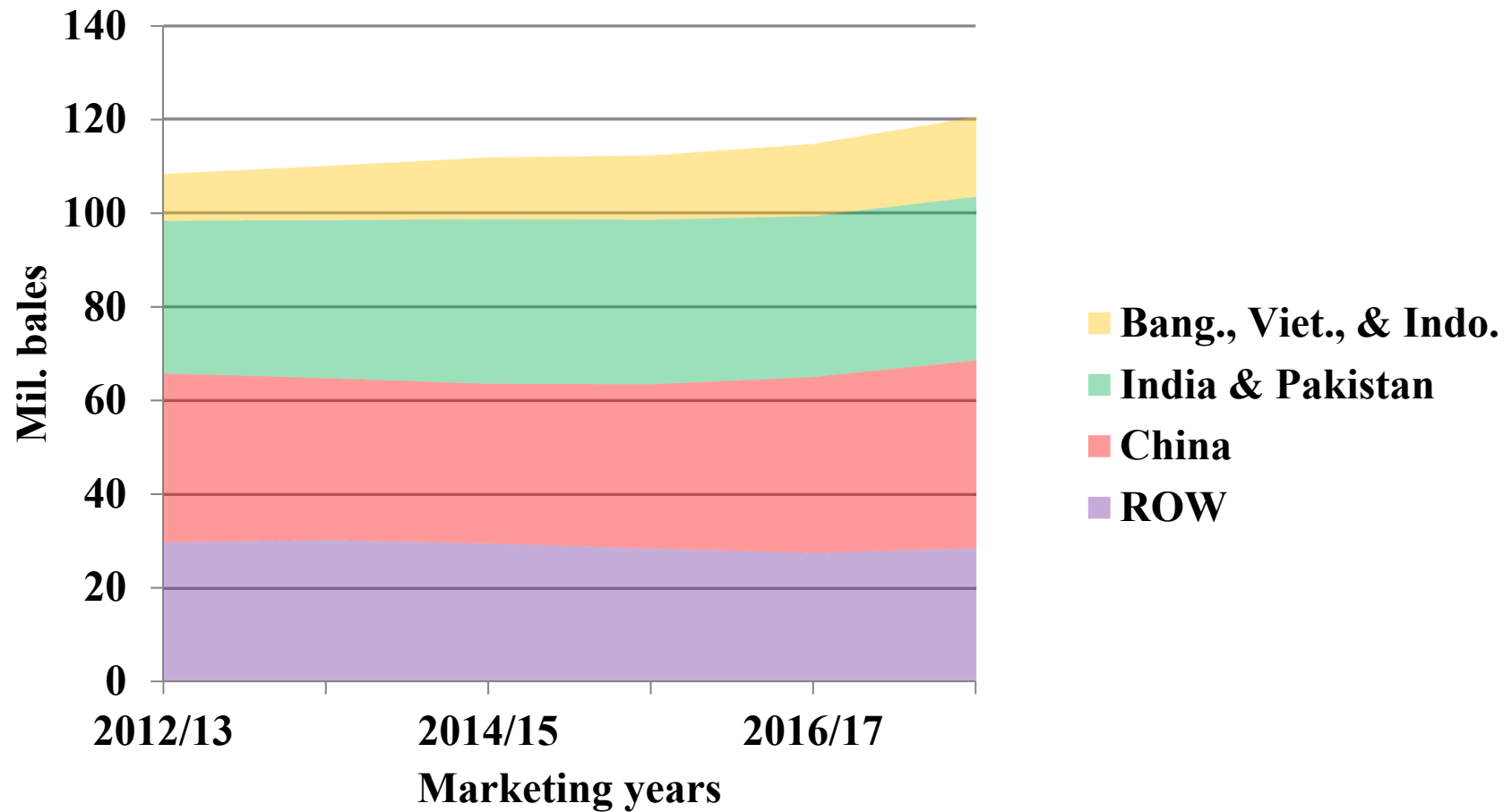
China's Cotton Yarn Imports Stabilize

Vietnam's shipments continue to grow



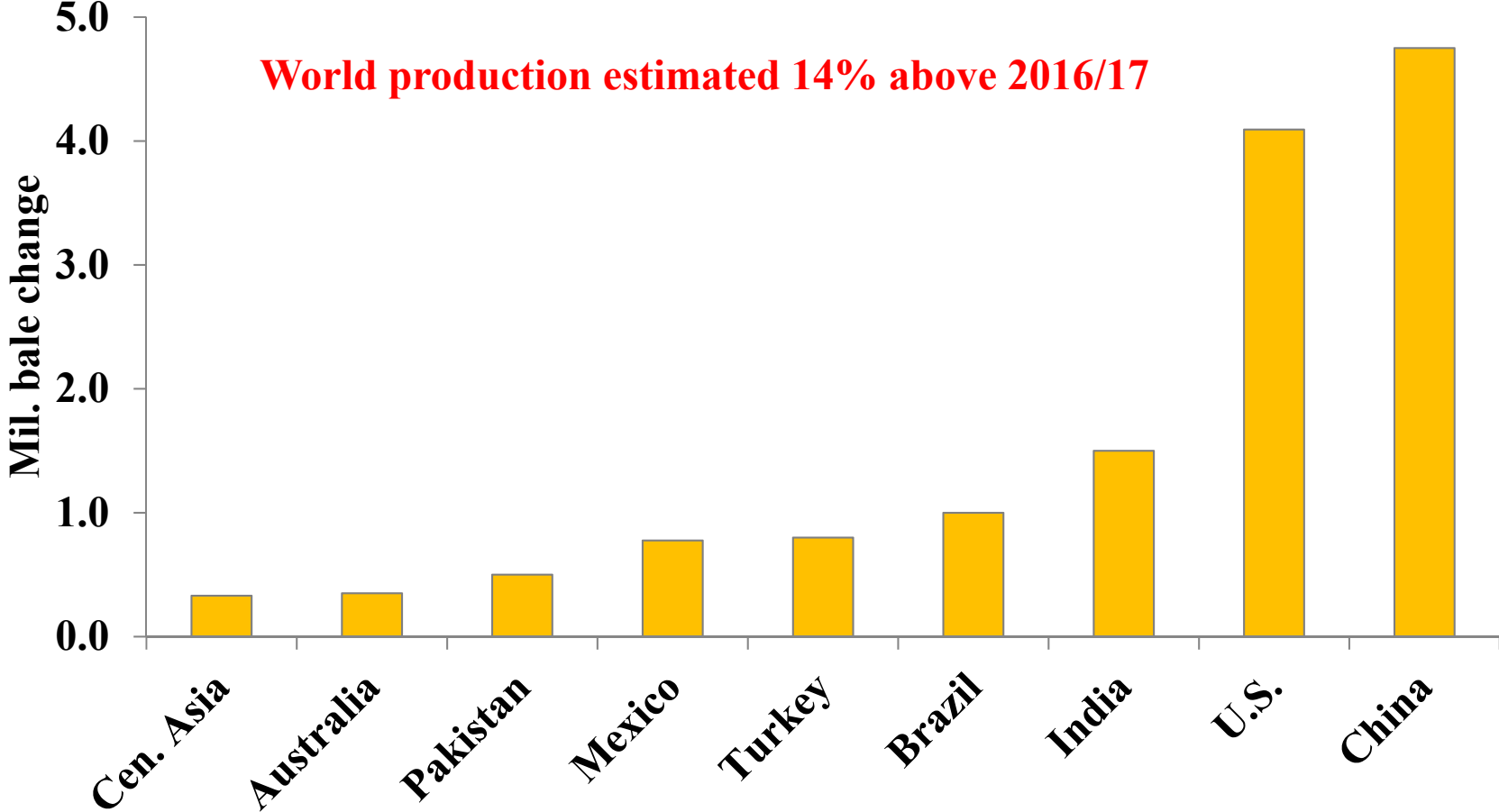
Sources: USDA and Global Trade Atlas.

New Markets Lead Global Consumption Growth, 2012-2017



Source: USDA Cotton ICEC.

Production Rises in Most Major Producing Countries in 2017/18



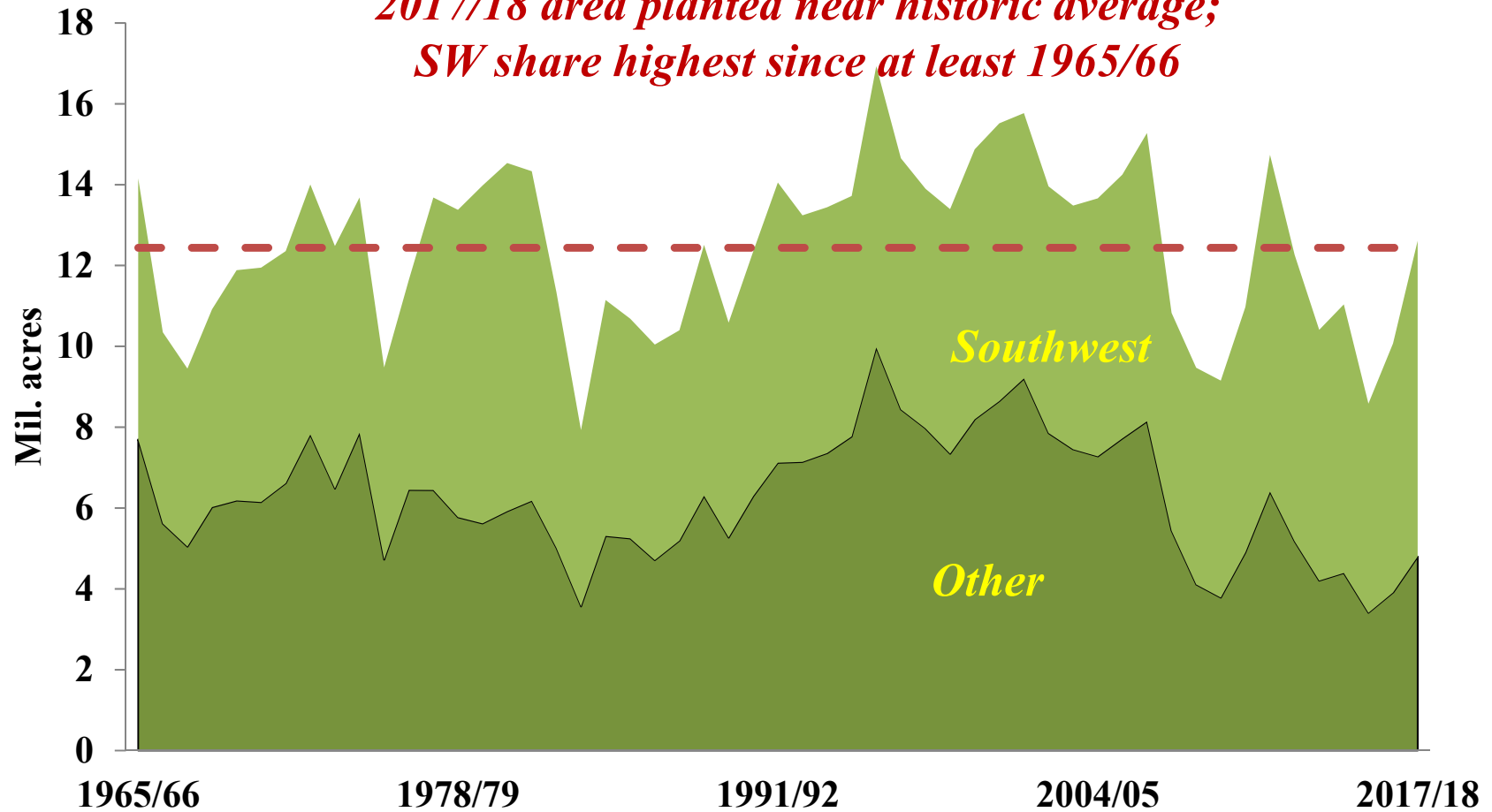
Source: USDA Cotton ICEC.

2017/18

Current U.S. Cotton Situation

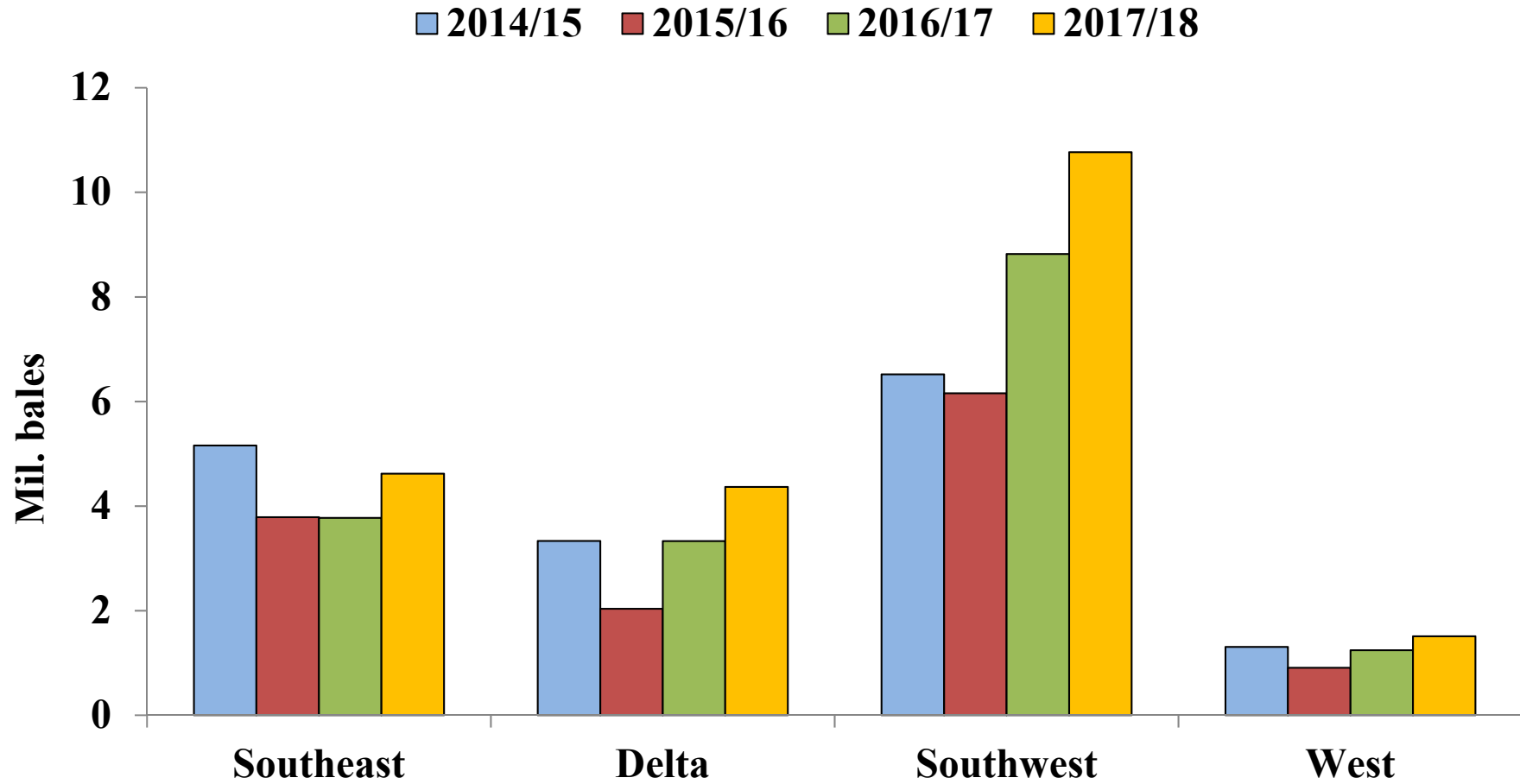
U.S. Cotton Planted Area: A Historical Perspective

*2017/18 area planted near historic average;
SW share highest since at least 1965/66*



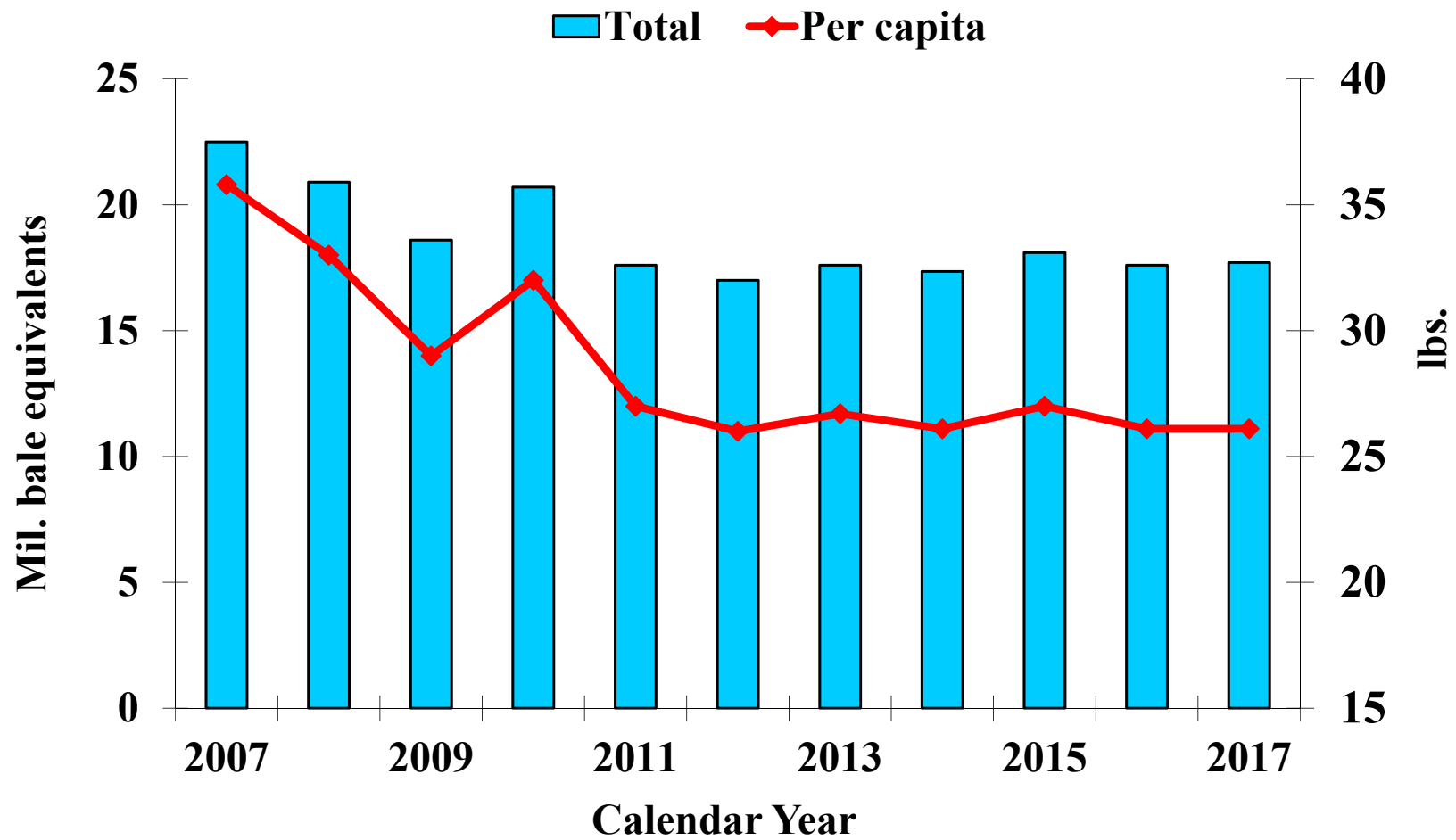
Source: USDA/NASS.

U.S. Cotton Regional Production, 2014/15 to 2017/18



Source: USDA/NASS.

U.S. Domestic Cotton Consumption: Total and Per Capita



Source: USDA/ERS.

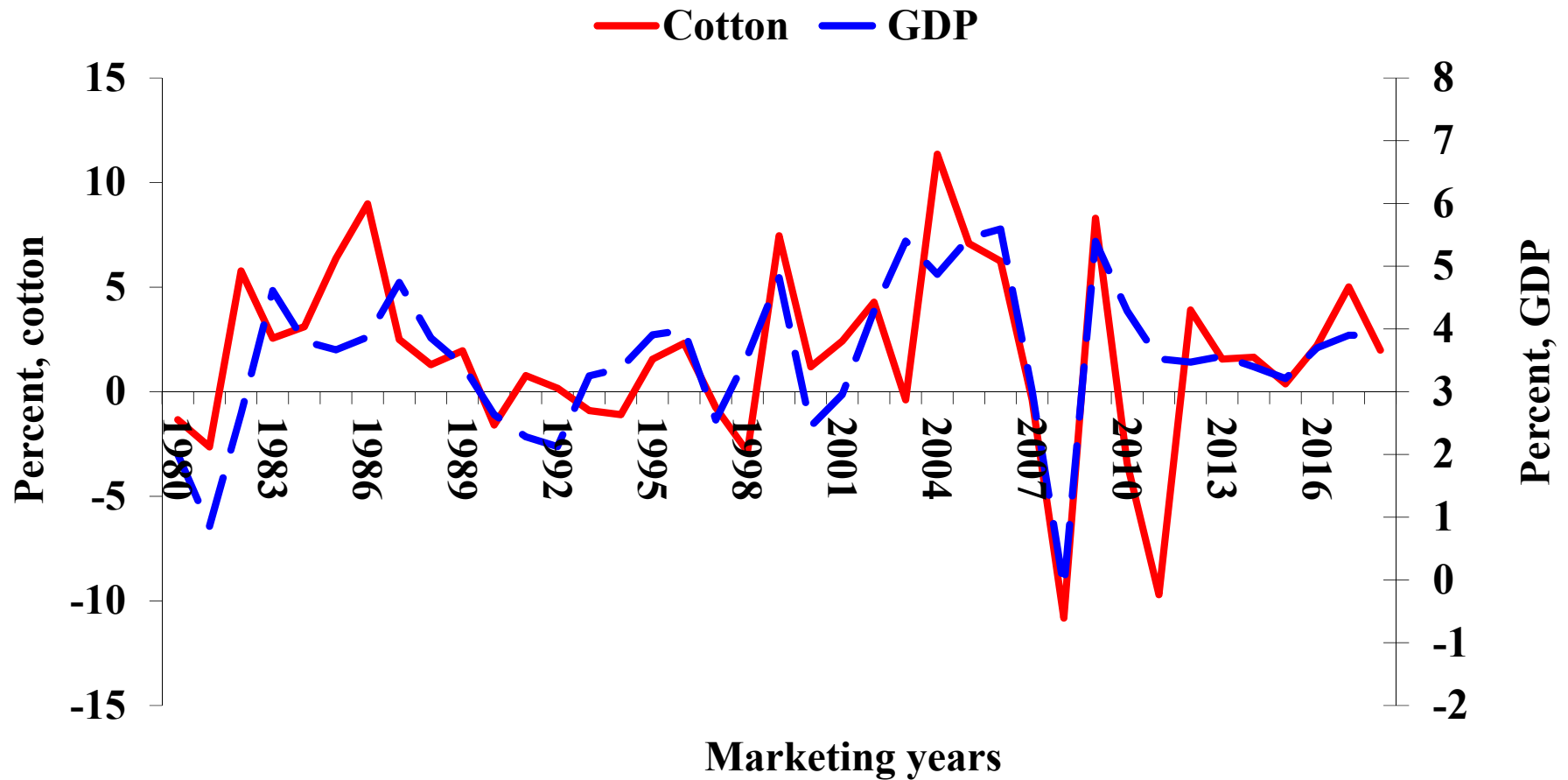
U.S. Cotton Supply and Demand

	<u>Unit</u>	<u>2016/17</u>	<u>2017/18</u>	<u>Change</u> <u>(%)</u>
Beg. Stocks	mil bales	3.8	2.8	-27.6
Production	"	17.2	21.3	23.8
Imports	"	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total supply	"	21.0	24.0	14.5
Mill use	"	3.3	3.4	3.1
Exports	"	<u>14.9</u>	<u>14.5</u>	<u>-2.8</u>
Total use	"	18.2	17.9	-1.7
Ending stocks	"	2.8	6.0	118.2
Stocks-to-use	%	15.1	33.6	122.5
Farm price	cents/lb.	68.0	69.0	1.5

2018/19

World Cotton Outlook

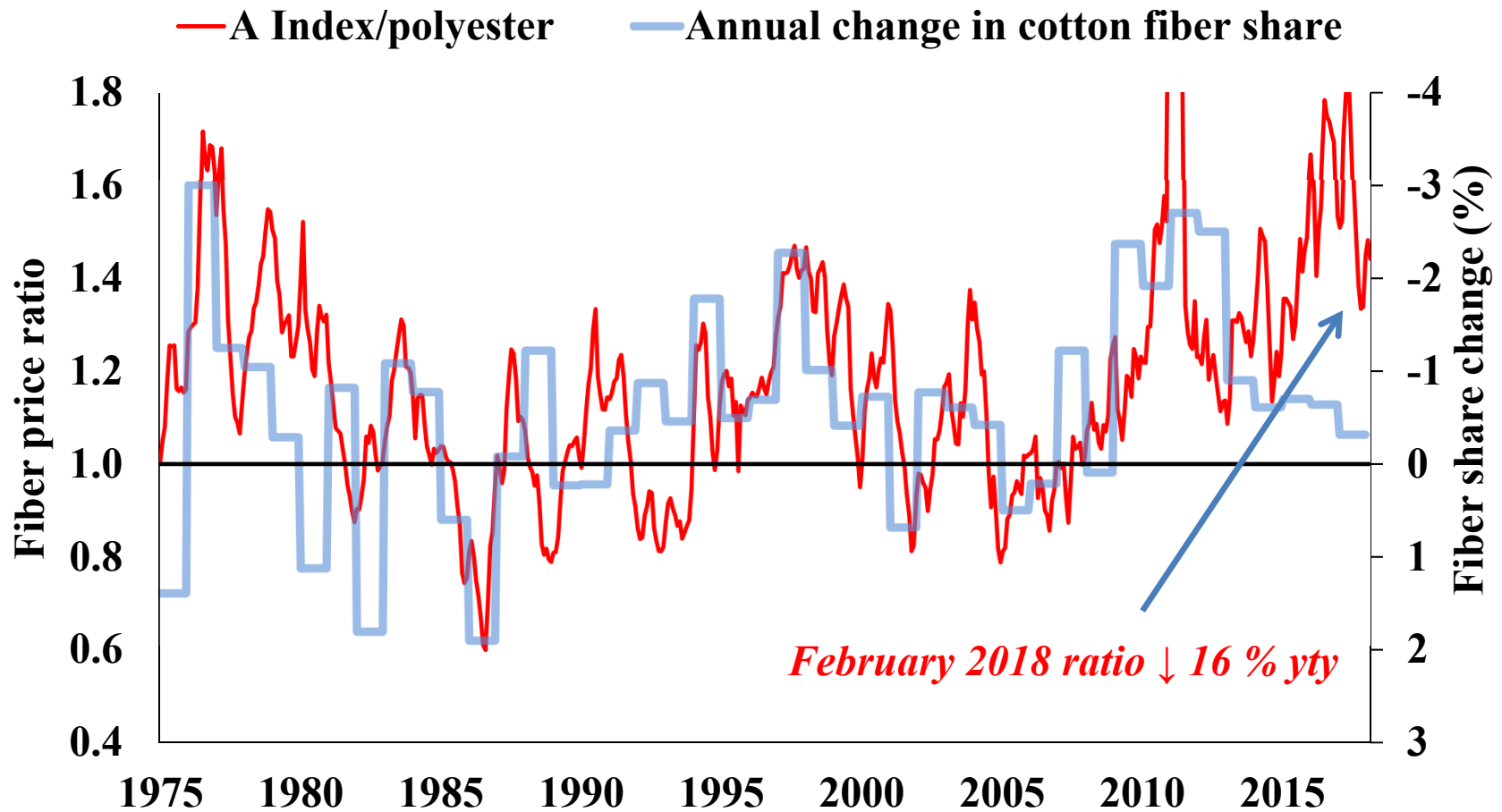
World Cotton Consumption and Economic Growth



Sources: USDA and IMF.

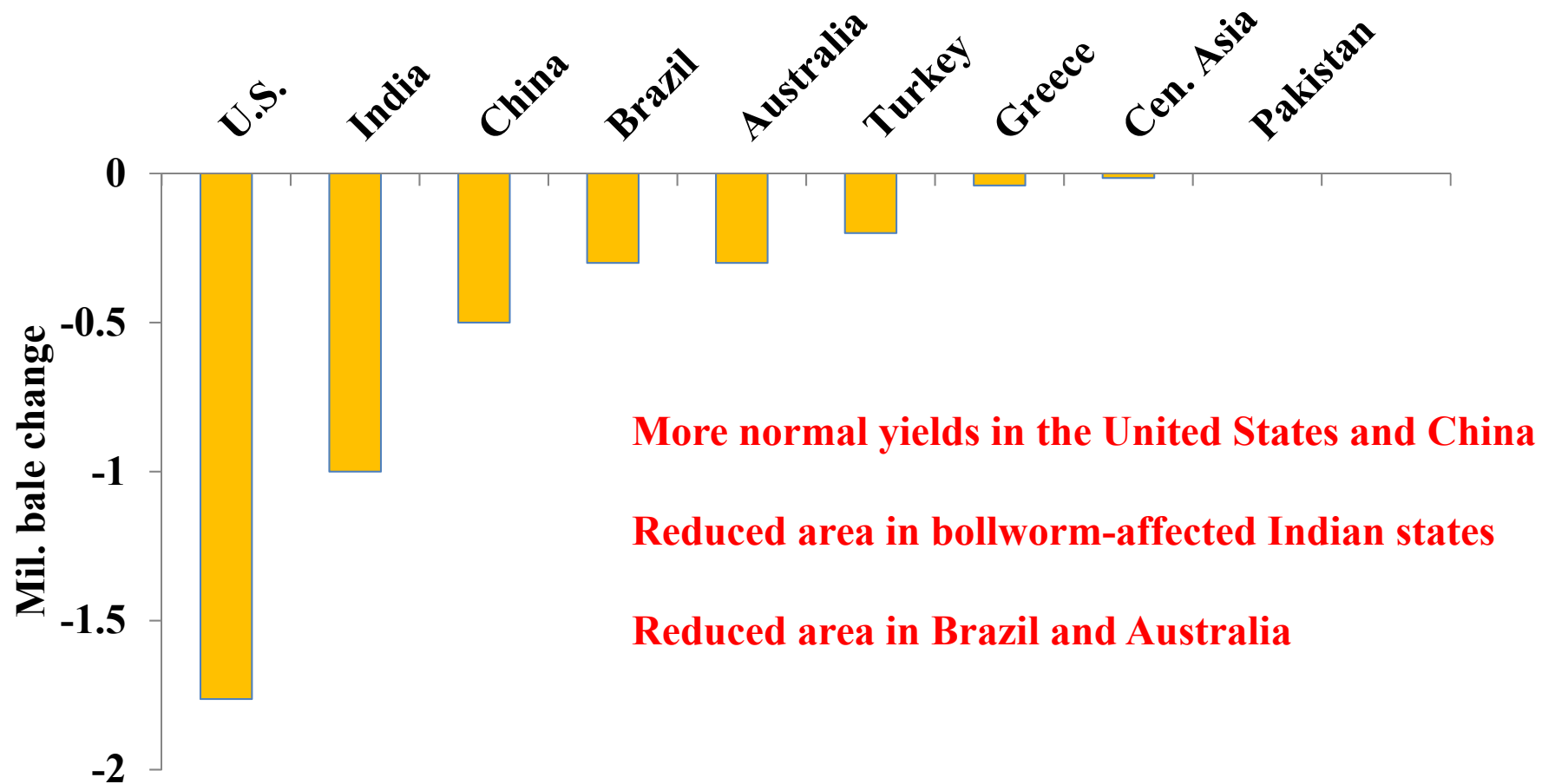
Cotton/Polyester Price Ratio

Shifts in Cotton's Favor—But Historically High



Source: USDA and ICAC.

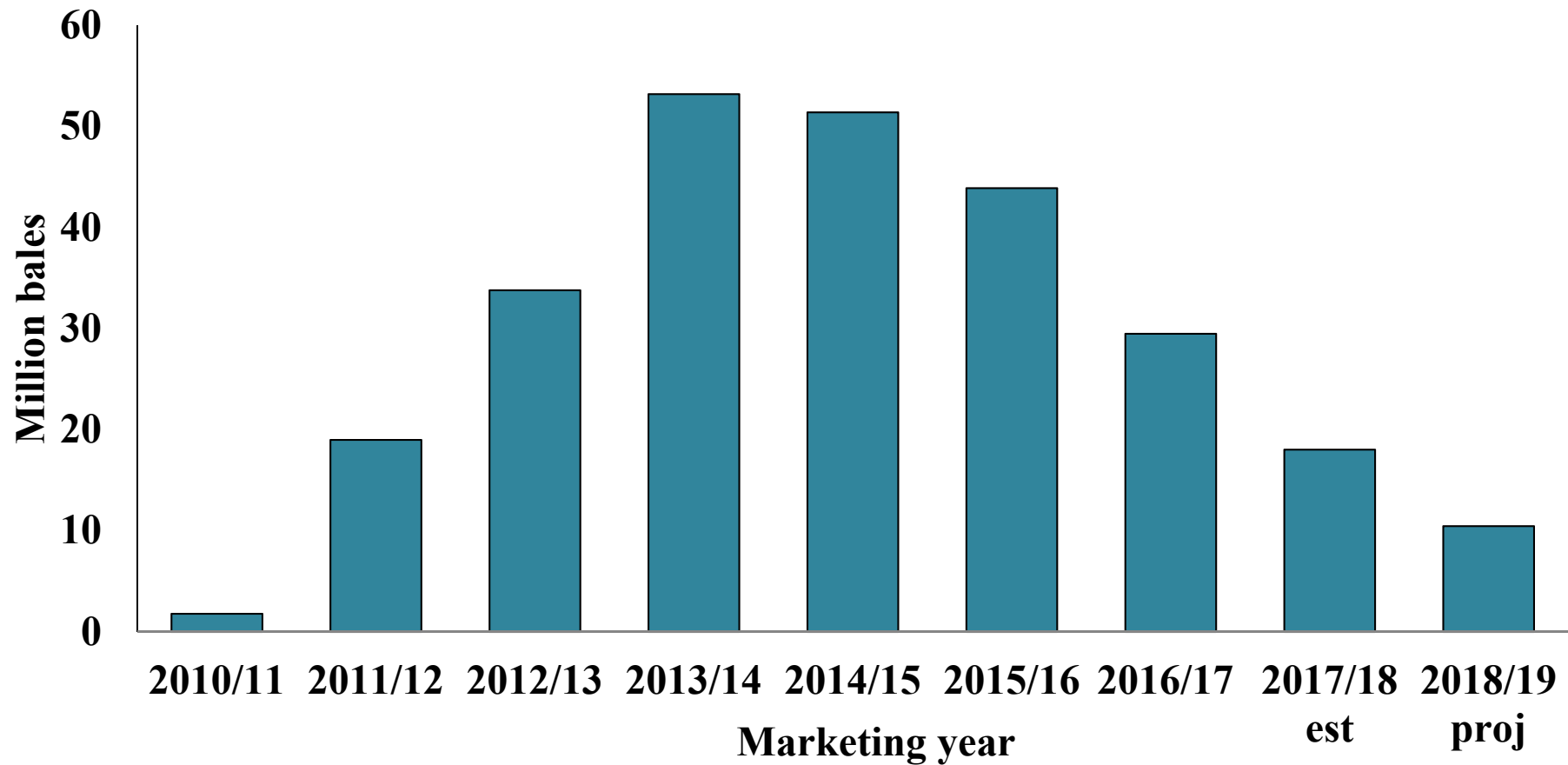
Projected Changes in World Production, 2018/19 Compared With 2017/18



Source: USDA Cotton ICEC.

China's State Cotton Reserves:

Reserve sales expected to continue in 2018/19



Source: USDA, Cotton ICEC.

China Cotton Supply & Demand Projections:

Large supply limits need for imports

	<u>Unit</u>	<u>2017/18</u>	<u>2018/19</u>	<u>Change</u> <u>(%)</u>
Beg. Stocks	mil bales	48.4	40.9	-15.6
Production	"	27.5	27.0	-1.8
Imports	"	<u>5.0</u>	<u>7.0</u>	<u>40.0</u>
Total supply	"	80.9	74.9	-7.5
Consumption	"	40.0	41.2	3.0
Exports	"	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>
Total use	"	40.1	41.3	3.1
Ending stocks	"	40.9	33.6	-17.8
Reserve stocks	"	18.0	10.5	-42.0
Stocks-to-use	%	102.0	81.3	-20.3

Source: USDA, Cotton ICEC.

Assumptions Behind 2018/19 Projections

- Constant rate of global economic growth.
 - Little change in exchange rates
 - General policy continuity
- Cotton/polyester price ratio little changed.
 - Ratio remains favorable vis-à-vis levels of last 2 years.
 - Ratio remains above 2000-08 average.
- Continuity in China Reserve sales and trade policy.
 - Continued draw-down of government-owned stocks
 - No sliding-scale import quota in calendar 2018
- Normal weather during 2018 and 2019
- Current 2017/18 estimates have minimal error

World Cotton Supply & Demand Projections:

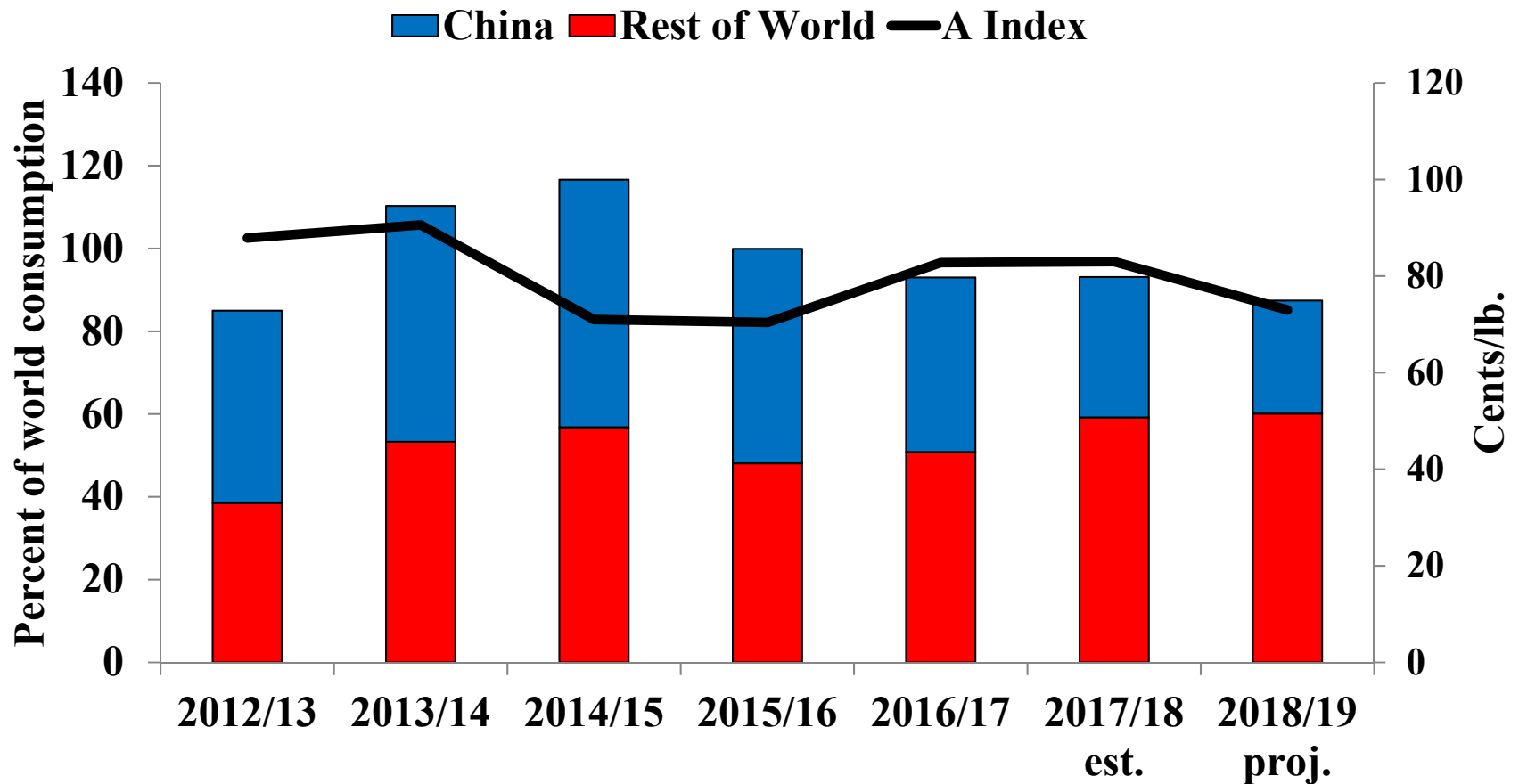
China's stocks fall more than world stocks

	<u>Unit</u>	<u>2017/18</u>	<u>2018/19</u>	<u>Change</u> <u>(%)</u>
Beg. Stocks	mil bales	87.7	88.6	1.0
Production	"	121.4	117.0	-3.6
Imports	"	<u>38.2</u>	<u>40.0</u>	<u>4.6</u>
Total supply	"	247.3	245.6	-0.7
Consumption	"	120.5	122.9	2.0
Exports	"	<u>38.2</u>	<u>40.0</u>	<u>4.7</u>
Total use	"	158.7	162.9	2.6
Ending stocks	"	88.6	82.7	-6.7
China stocks	"	40.9	33.6	-17.8
Stocks-to-consumption	%	73.5	67.3	-8.4

Source: USDA, Cotton ICEC.

Global Cotton Stocks Projected Lower...

...but stocks outside of China remain high



Source: USDA, Cotton ICEC.

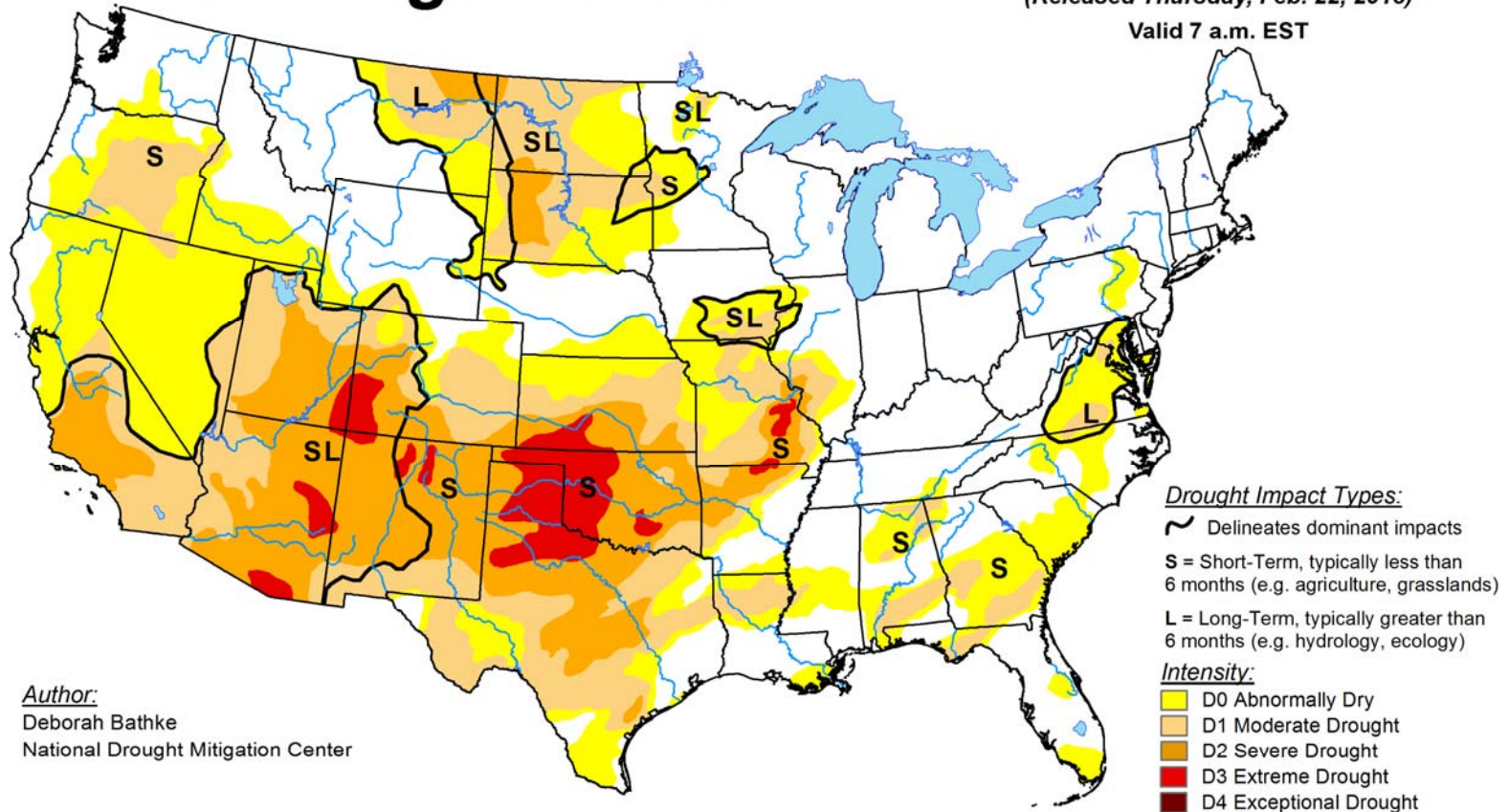
2018/19

U.S. Cotton Outlook

February Drought Conditions Worst in Southwest Since 2015

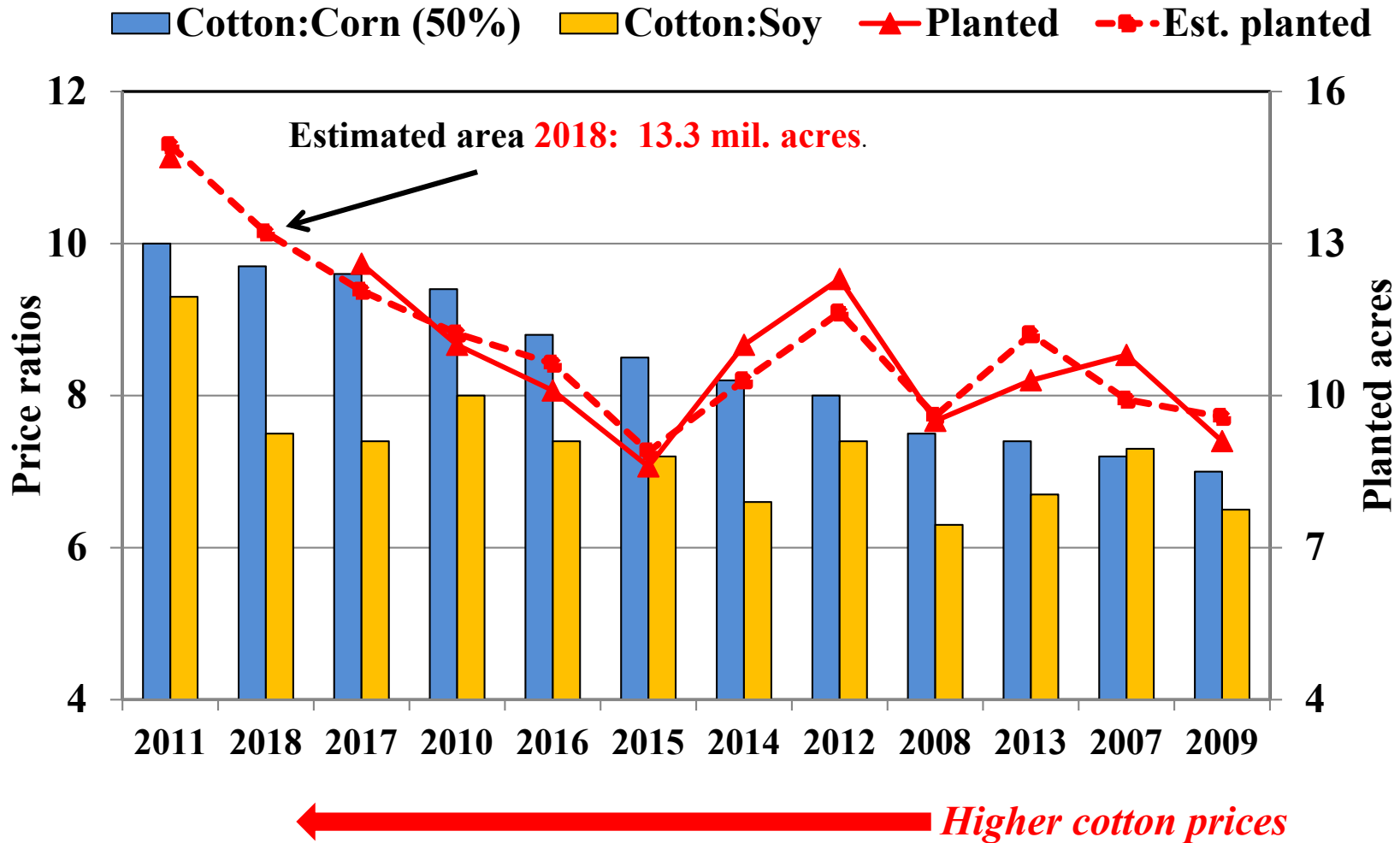
U.S. Drought Monitor

February 20, 2018
(Released Thursday, Feb. 22, 2018)
Valid 7 a.m. EST



Author:
Deborah Bathke
National Drought Mitigation Center

All-Cotton Planted Acres Based on Relative Prices, Winter Wheat Area, Texas Moisture Index, 2007-2018 proj.



Outlook for 2018 U.S. Cotton Area

- Planted acreage expected higher at 13.3 million acres.
 - Harvested area forecast at 11.3 million acres.
 - NCC survey indicated about 13.1 million acres planted.
- Cotton is priced favorably vs. competing crops as planting approaches
- Opportunity to reassign generic base acres to “seed cotton” base in 2018/19 also supportive of higher area
- Soil moisture in Texas is at a level associated with higher abandonment

U.S. Cotton Area, Yield, and Production

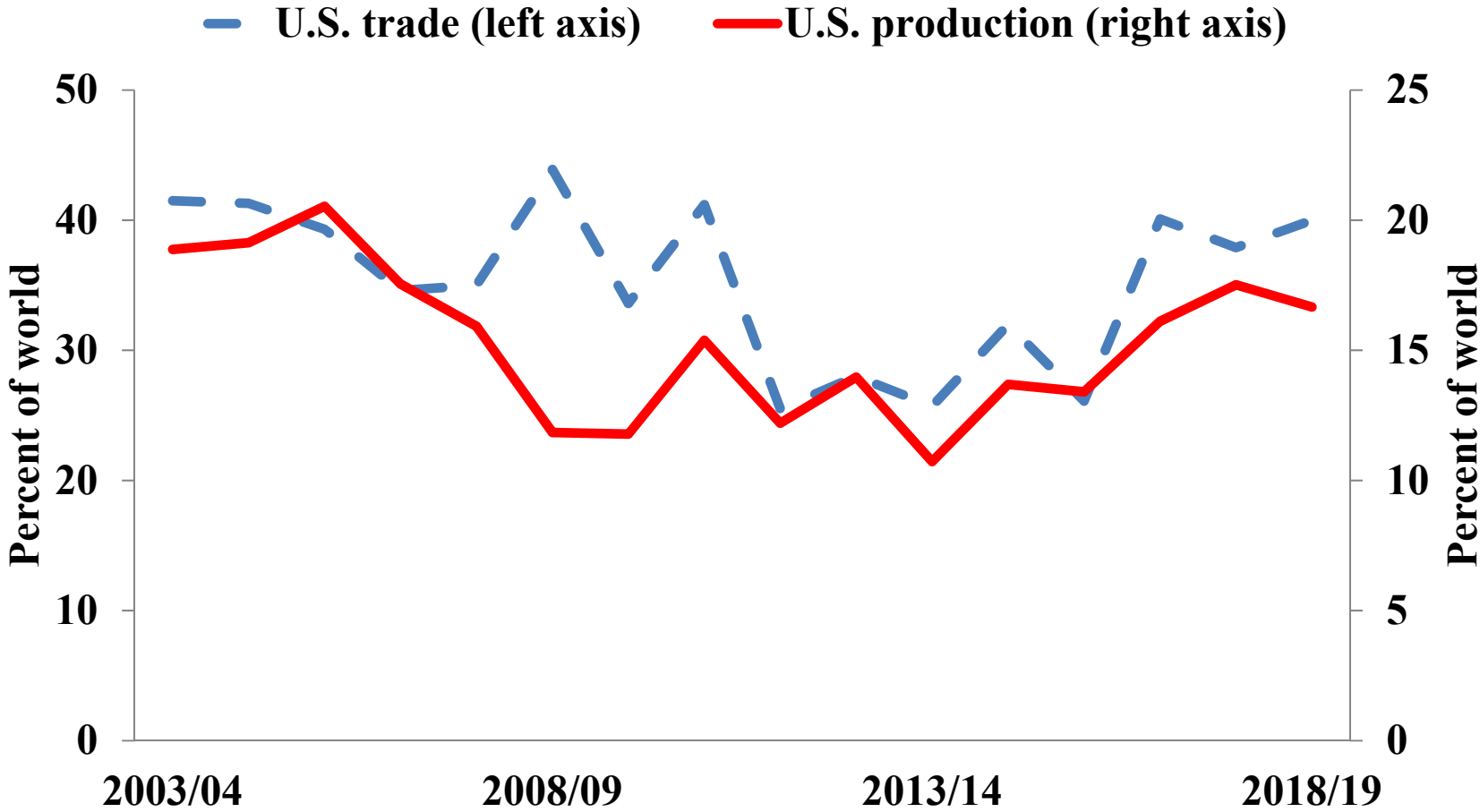
Key Factors Include Crop Conditions & Abandonment

Southwest expected to account for 60% of area

	<u>Unit</u>	<u>2017/18</u>	<u>2018/19</u>	<u>Change(%)</u>
Planted area	Mil. acres	12.61	13.30	5.5
Harvested area	"	11.35	11.30	-0.4
Abandonment rate	%	10.0	15.0	50.0
Yield/harvested acre	Lbs.	899	828	-7.9
Production	Mil. bales	21.26	19.50	-8.3

Source: USDA, Cotton ICEC.

U.S. Share of World Trade Rises in 2018/19



Source: USDA Cotton ICEC.

U.S. Cotton Supply & Demand Projections:

Exports Rise, But Stocks Unchanged

	<u>Unit</u>	<u>2017/18</u>	<u>2018/19</u>	<u>Change</u> <u>(%)</u>
Beg. Stocks	mil bales	2.75	6.00	118.2
Production	"	21.26	19.50	-8.3
Imports	"	<u>0.01</u>	<u>0.01</u>	<u>0.0</u>
Total supply	"	24.02	25.51	6.2
Mill use	"	3.35	3.40	1.5
Exports	"	<u>14.50</u>	<u>16.00</u>	<u>10.3</u>
Total use	"	17.85	19.40	8.7
Ending stocks	"	6.00	6.00	0.0
Stocks-to-use	%	33.6	30.9	-8.0
Farm price	cents/lb.	69.0	63.0	-8.7

Source: USDA, Cotton ICEC.

Revisiting the Assumptions Behind 2018/19 Projections

- Constant rate of global economic growth.
 - Little change in exchange rates
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Thank You!