



# U.S. COTTON ECONOMIC UPDATE

April 2017

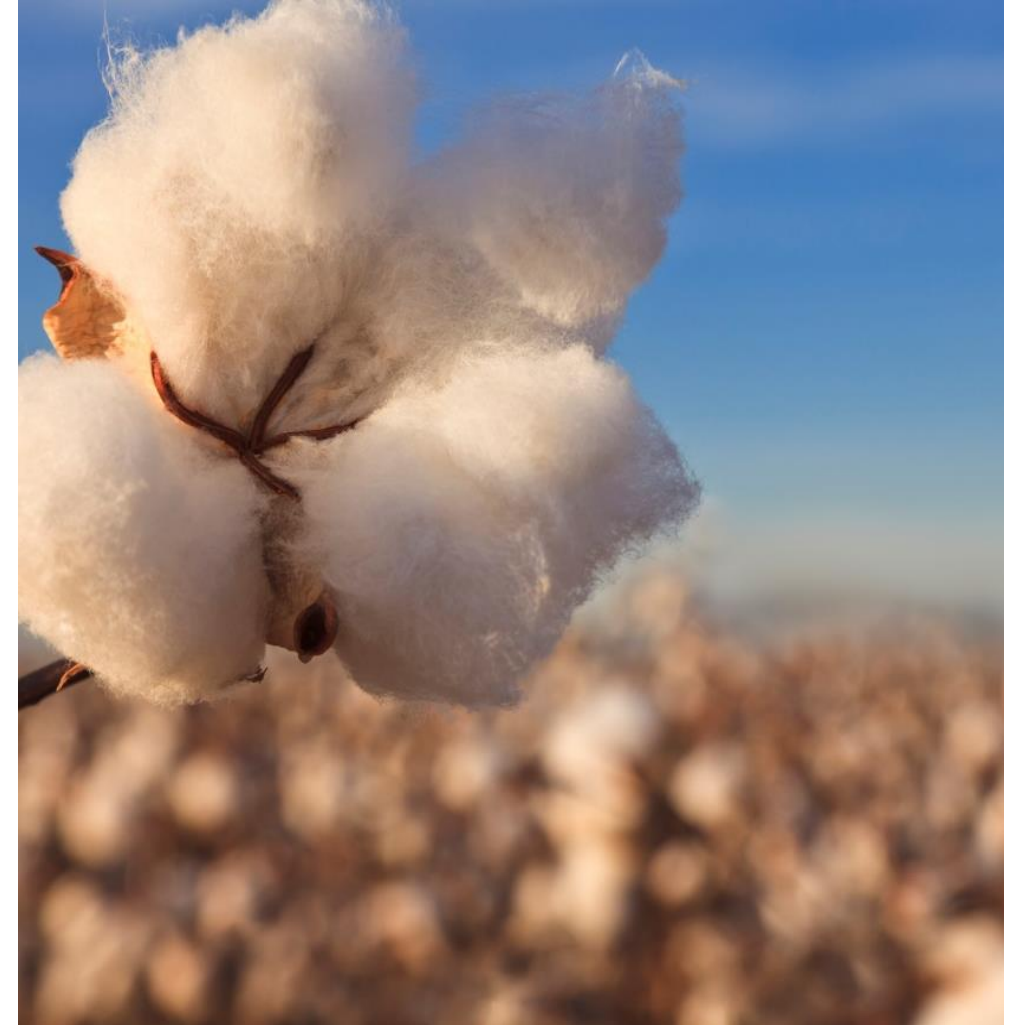


# PRESENTATION OUTLINE

**Overview & Production**

**Demand**

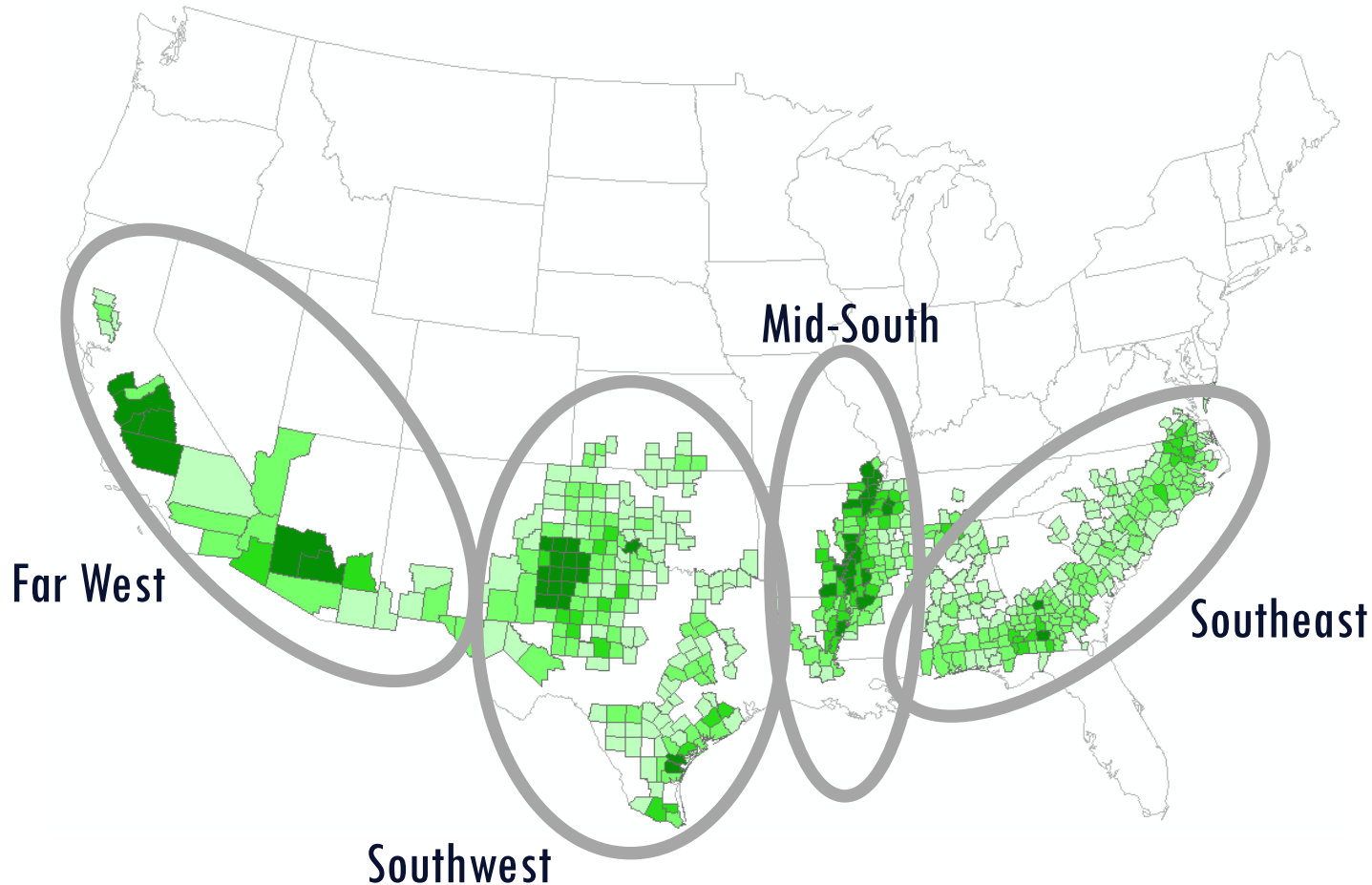
**Futures Market Factors**





# U.S. COTTON REGIONS

## U.S. Cotton Acreage



**Southeast** — mix of irrigated and dryland, primary competing crops include corn, soybeans, and peanuts

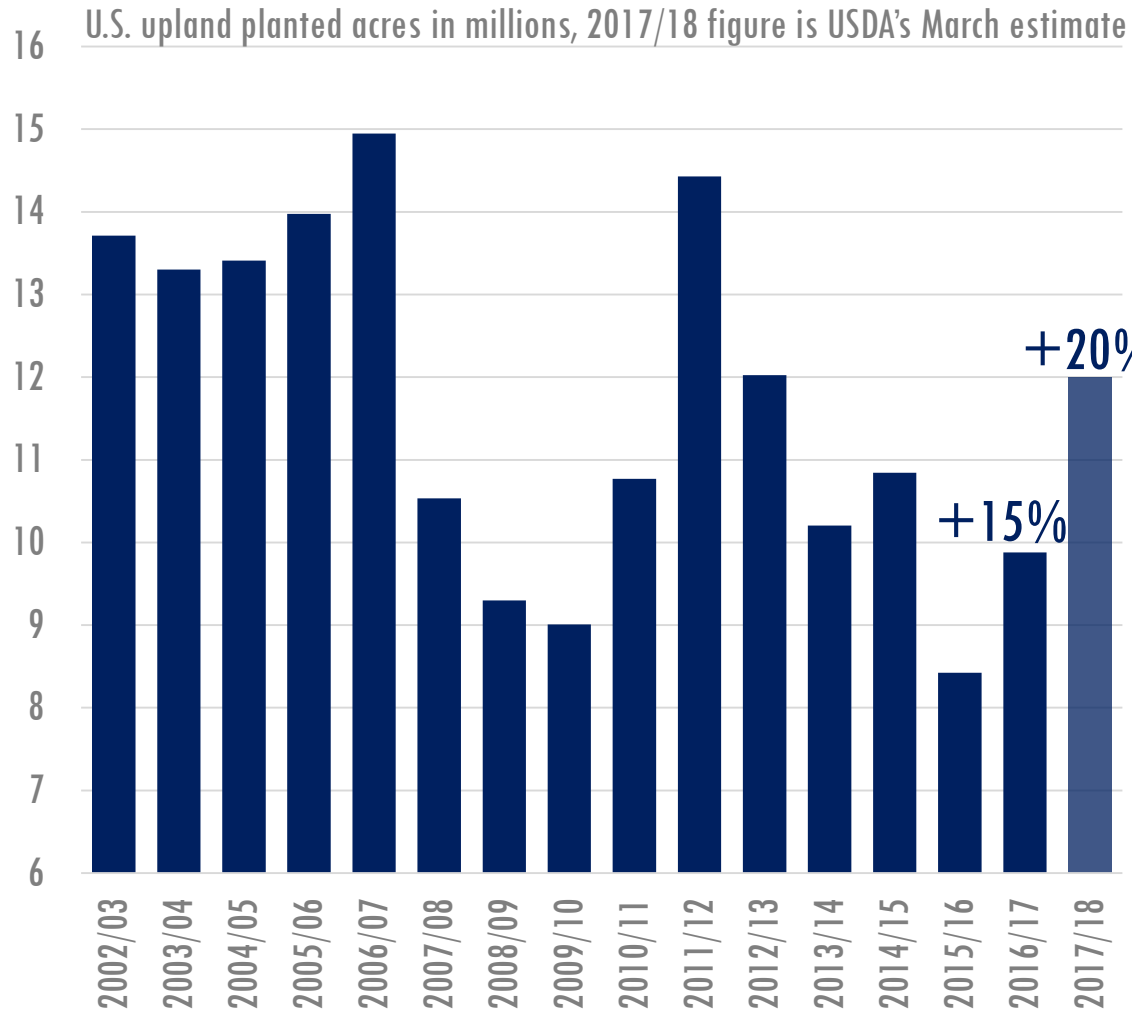
**Mid-South** — more irrigation, primary competing crops include corn and soybeans

**Southwest** — includes West Texas making it mostly dryland, yields highly variable and dependent on weather in West Texas

**Far West** — all irrigated, high yields and high quality, wide range of competing crops

# U.S. COTTON ACREAGE

Large Consecutive Increases,  
but Still Below the Average from the Early 2000s



US growers are the most responsive to changes in in cotton price relative to those for other crops

structural changes have pulled acres consistently lower in several regions

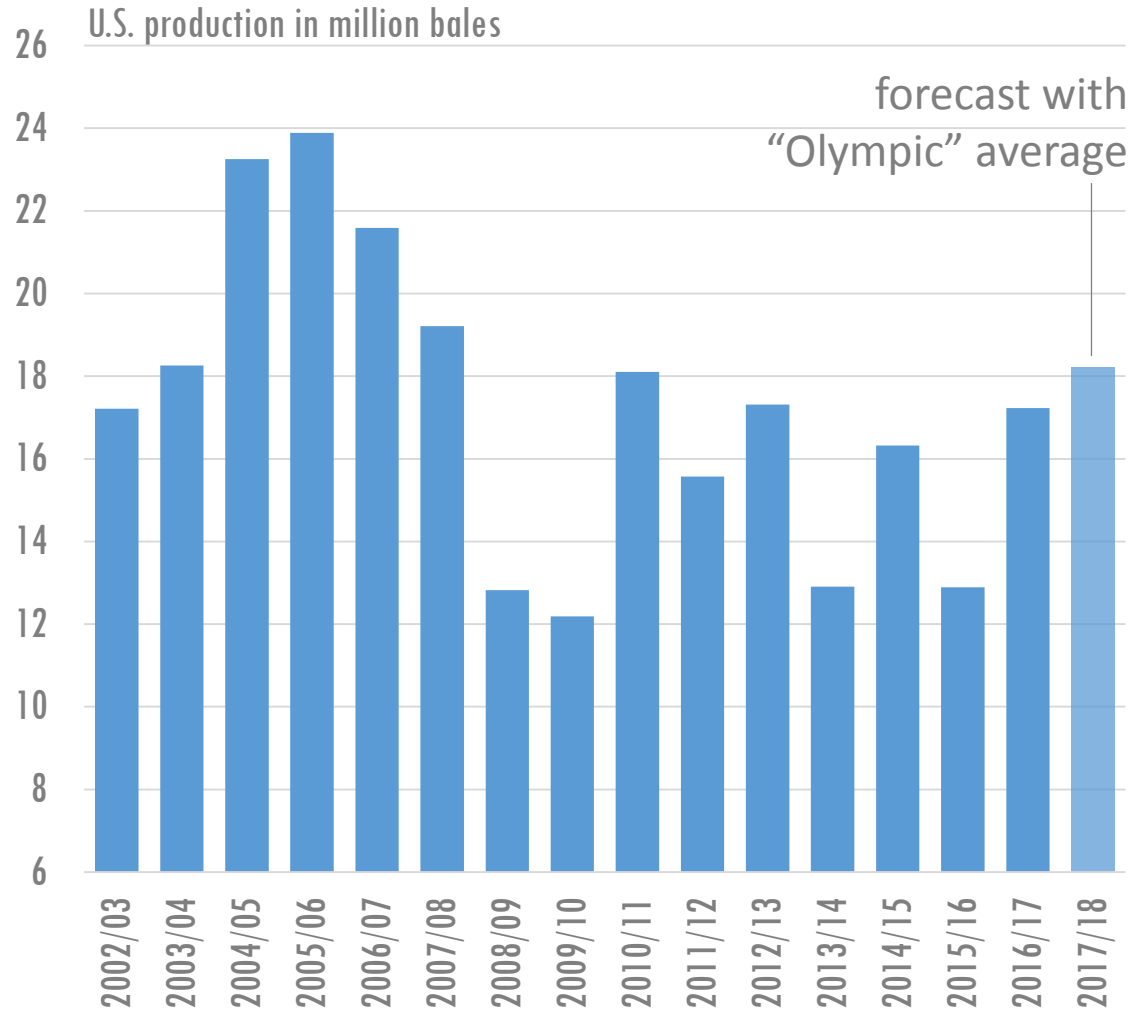
corn and soybeans expected to have record stocks in the U.S. and globally

- U.S. upland acreage up +15% last year despite low cotton prices
- U.S. upland acres forecast to increase another +20% for 2017/18



# U.S. COTTON PRODUCTION

Production Consistently  
Below the Average from the Early 2000s



production has also shifted lower over the past decade

2016/17 crop was helped by generally good weather

- yields ranked in the top 2 or 3 for all regions
- quality good — helpful for demand

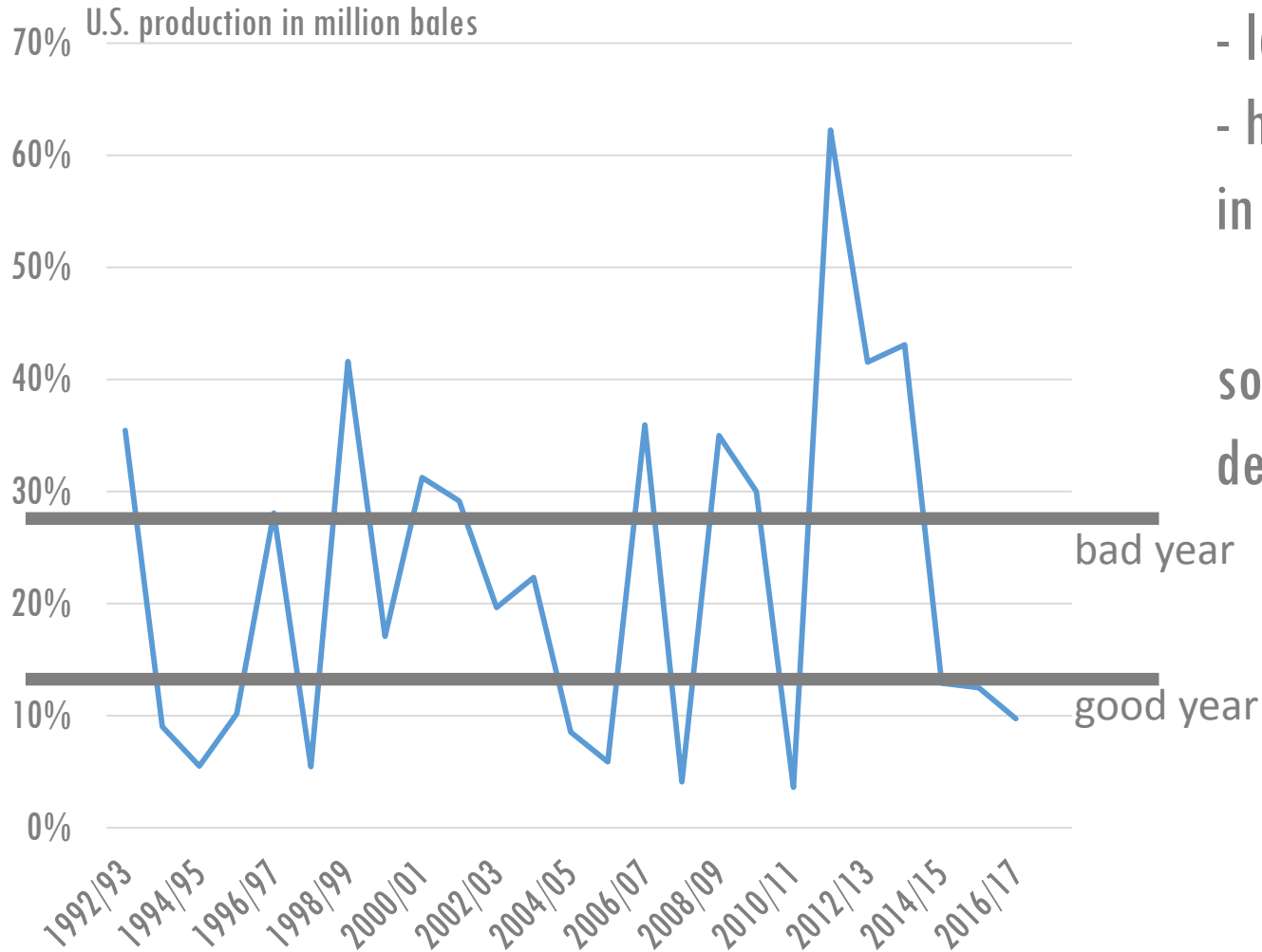
questions about the weather for 2017/18 season

- always have questions about yield
- always have questions about rainfall in West Texas



# TEXAN ABANDONMENT

Production Consistently  
Below Average in Early 2000s

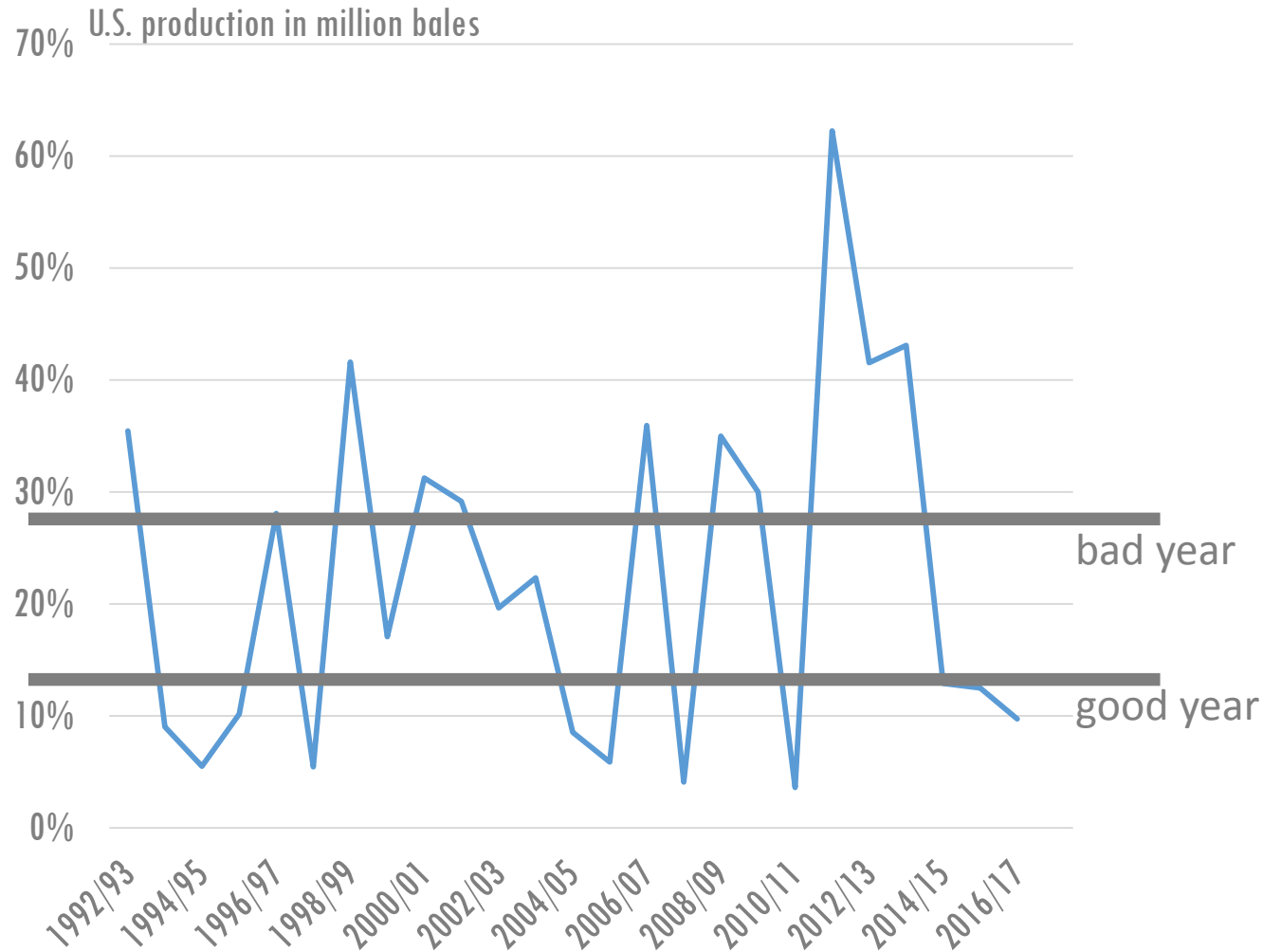


no such thing as an average year, either good or bad  
- last two years have been good  
- had very bad years with abandonment above 40%  
in the recent past

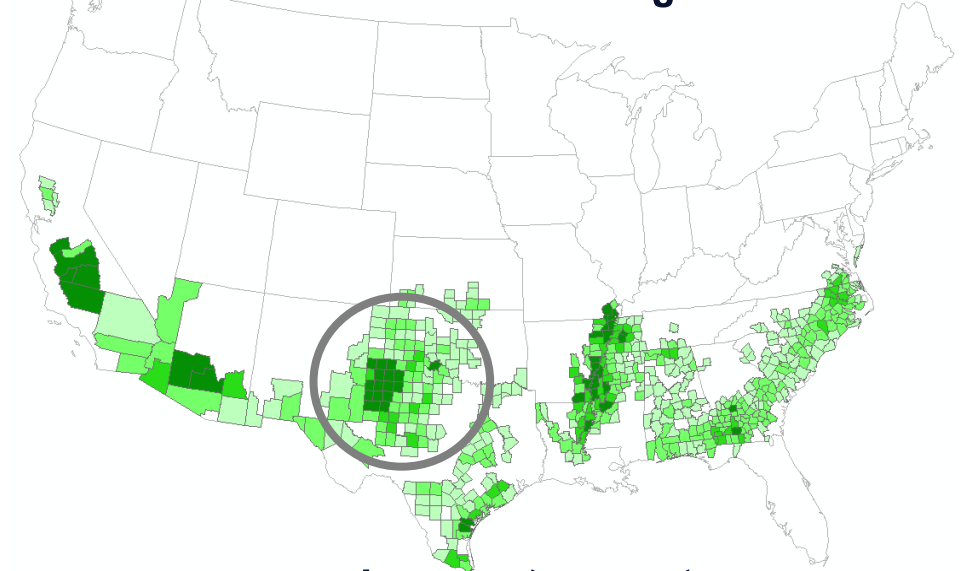
soil moisture currently pretty good in West Texas  
despite hot temperatures in recent months

# TEXAN ABANDONMENT

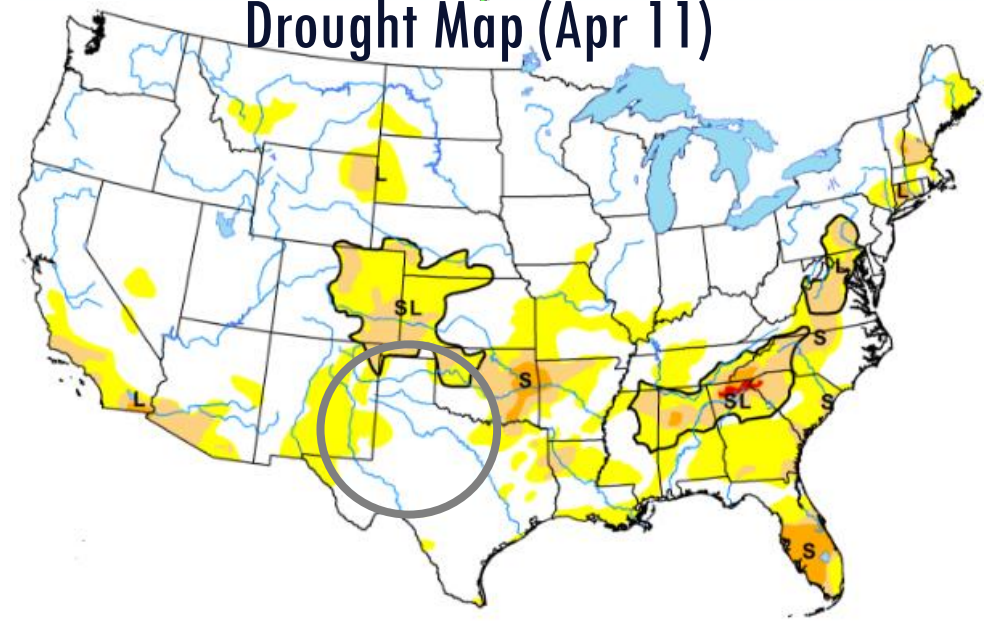
Production Consistently  
Below Average in Early 2000s



U.S. Cotton Acreage

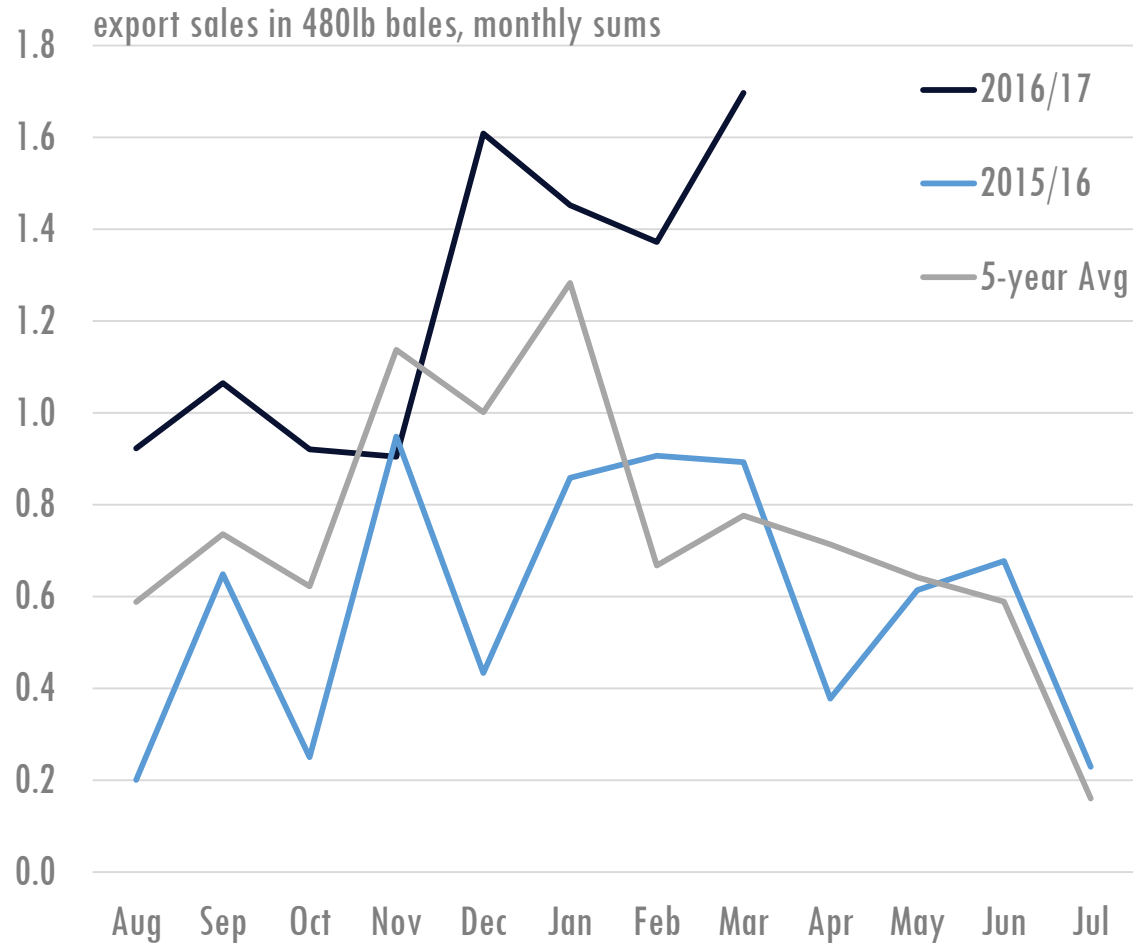


Drought Map (Apr 11)



# U.S. EXPORT SALES STRONG

## 2016/17 Volumes Well-Above 2015/16



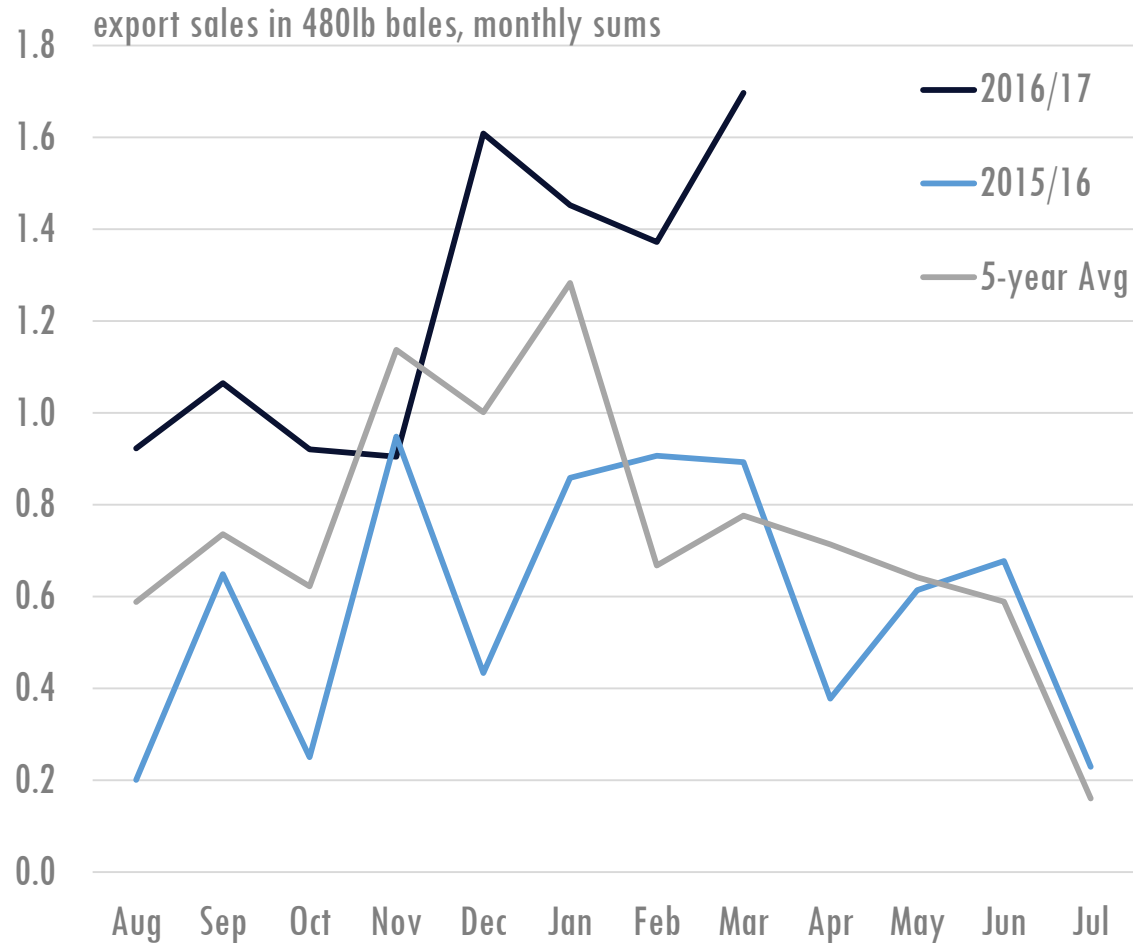
strong sales early in the crop year to Pakistan and India

strong sales throughout the crop year to China, Vietnam, & Indonesia

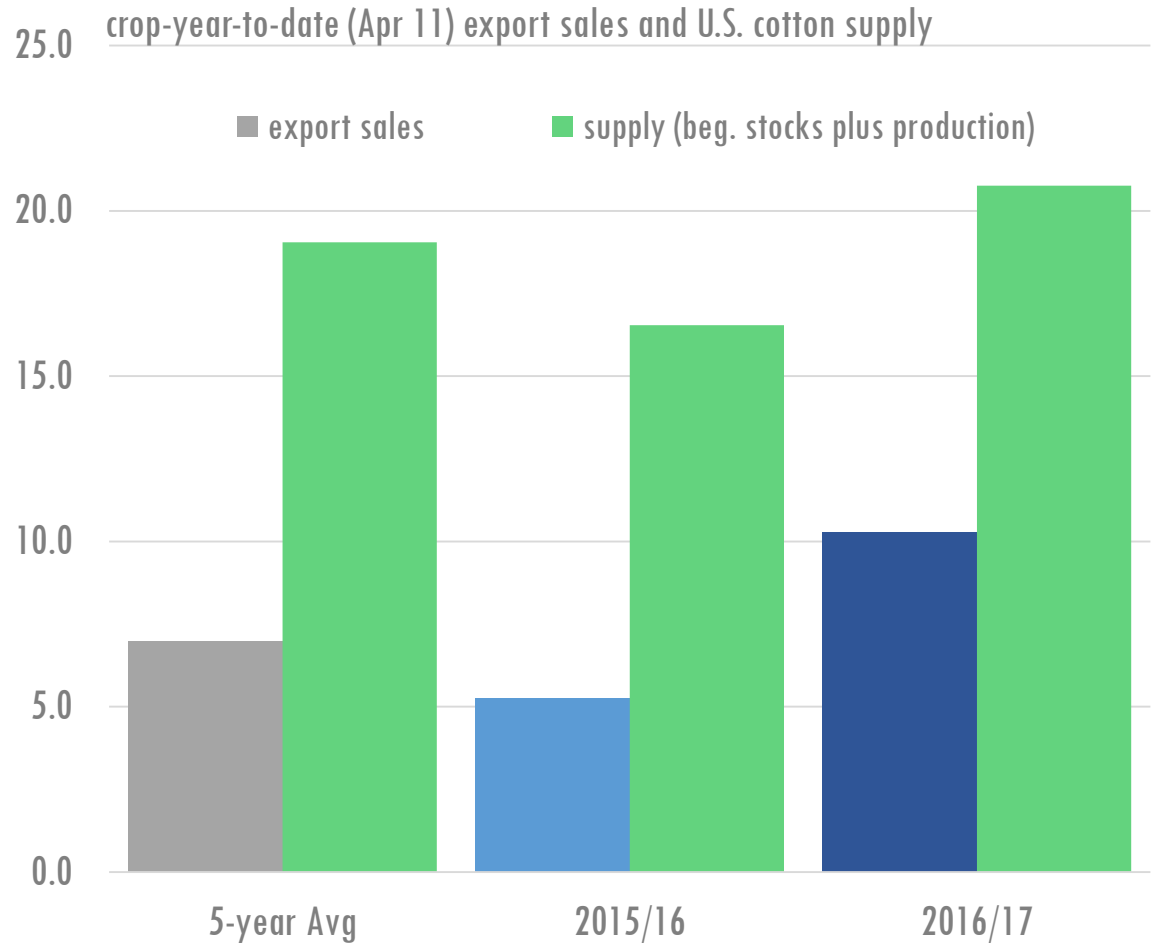


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## 2016/17 Volumes Well-Above 2015/16

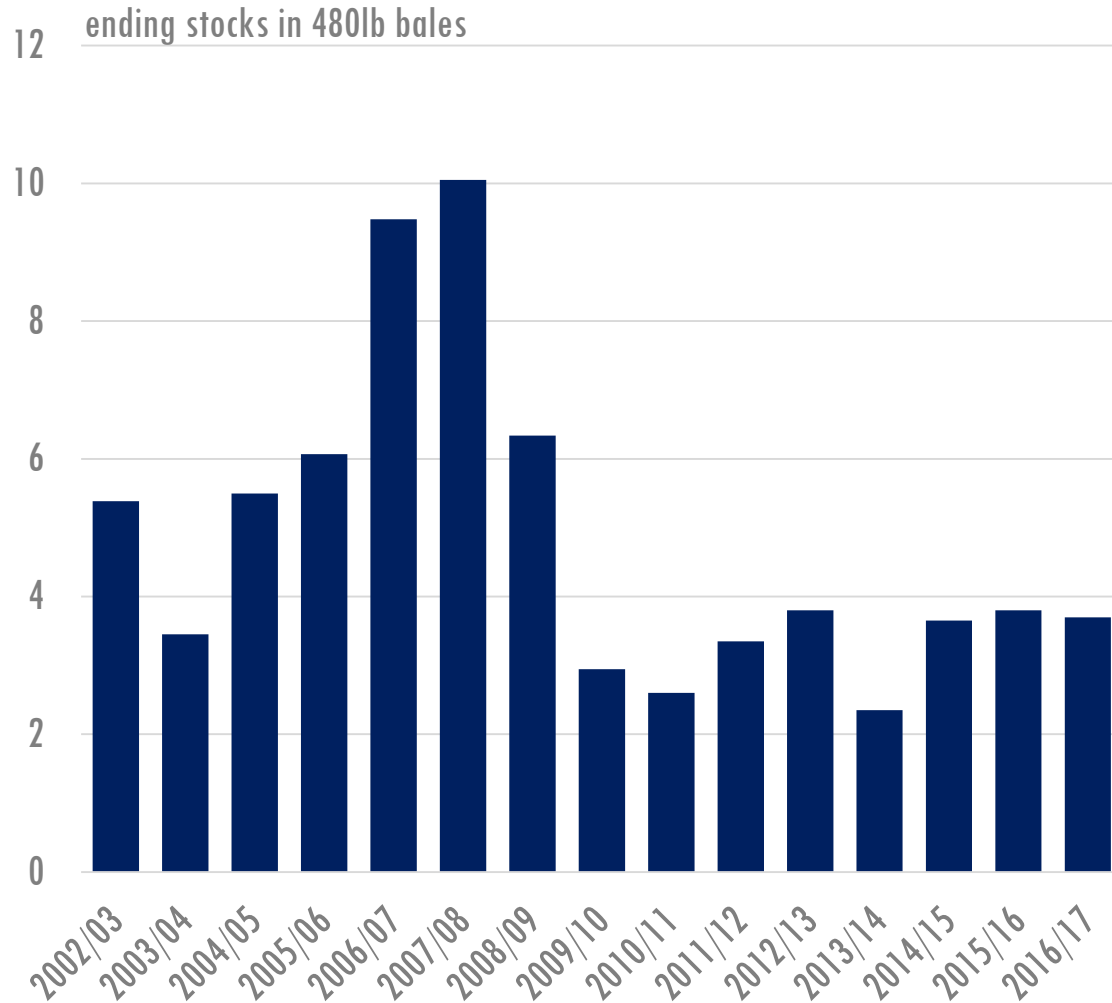


## U.S. Has More Cotton to Sell

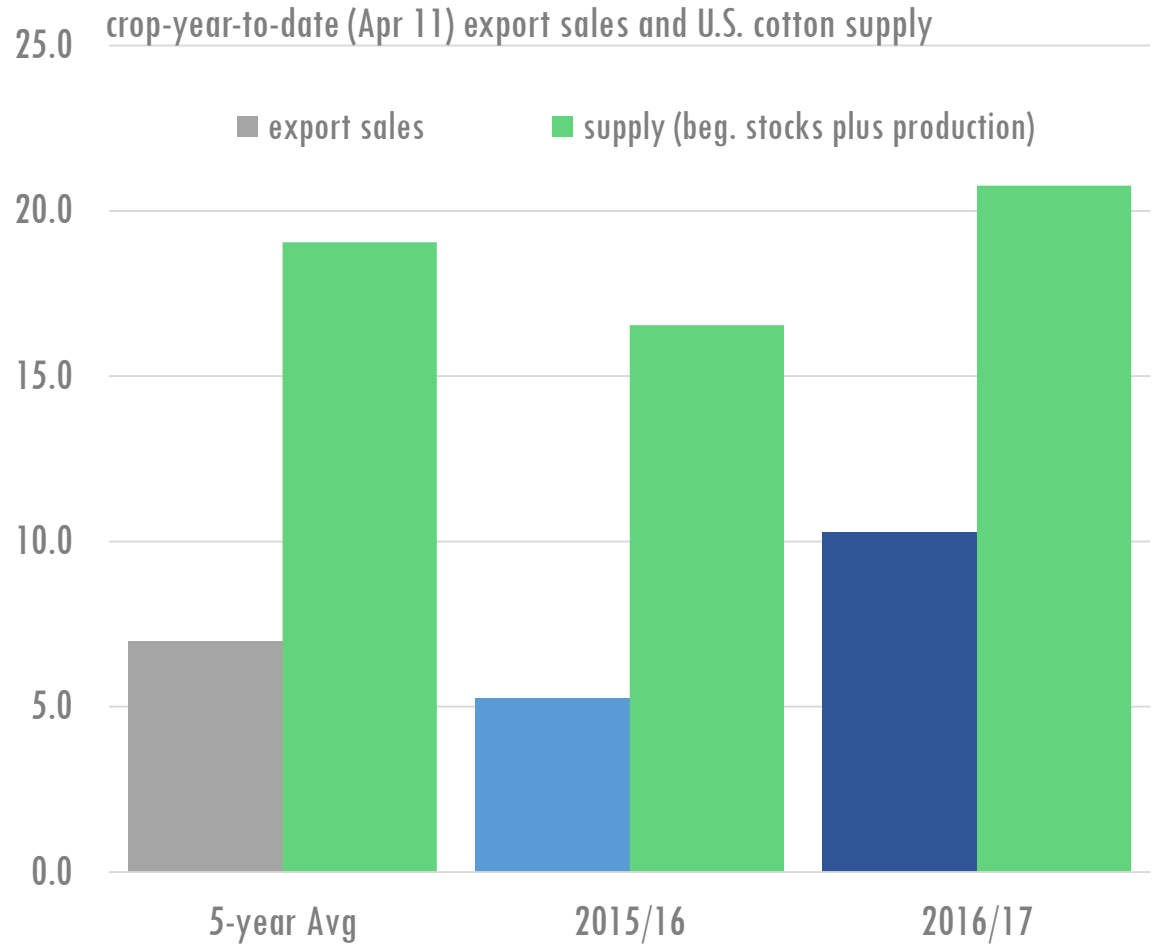


# U.S. EXPORT SALES STRONG

Ending Stocks Marginally Lower,  
but were Expected Much Higher



U.S. Has More Cotton to Sell



# ON-CALL SALES

on-call contracts lock in quantity, quality, and basis, but not total price

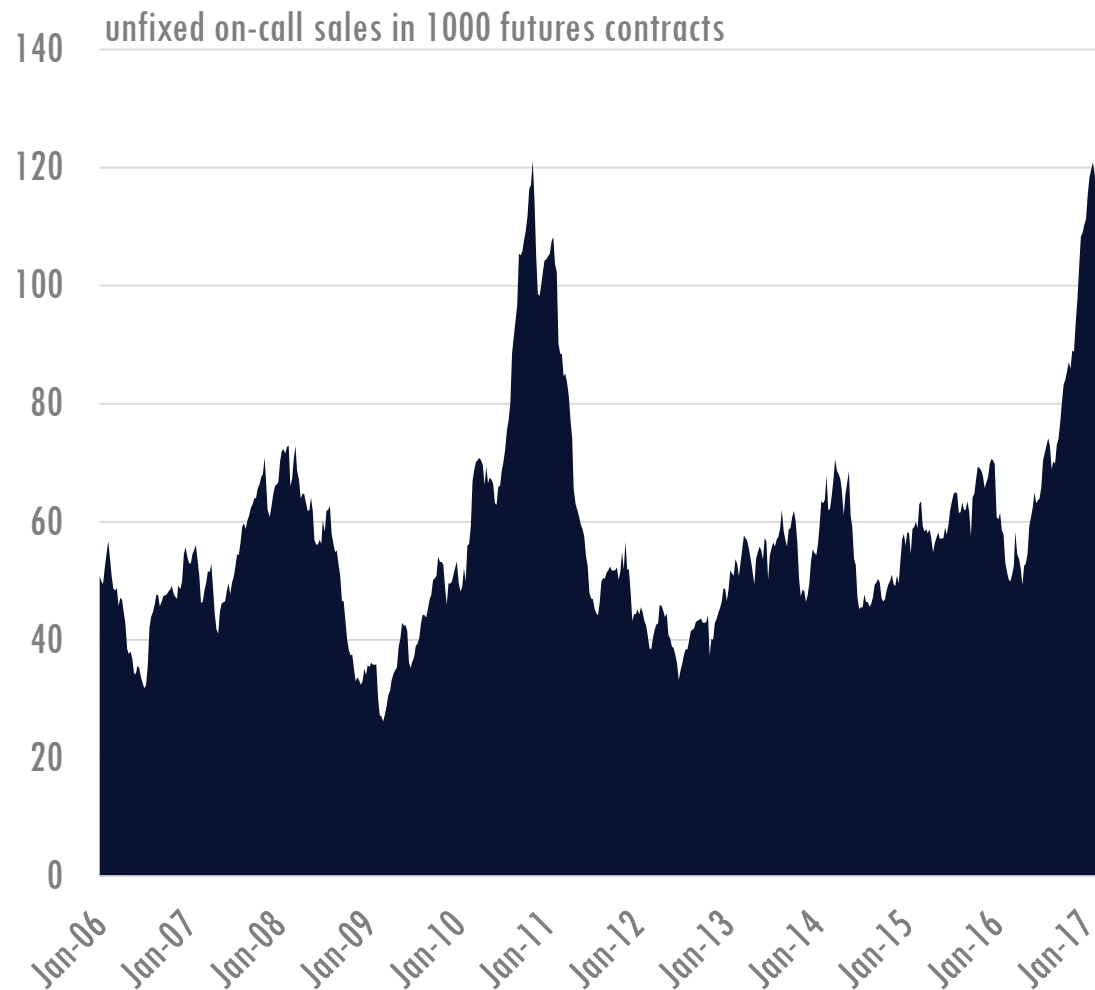
basis covers quality differences, transport, and merchant handling fee

total price determined when mill “fixes” it to current futures value

relevant to futures because unfixed contracts represent merchant (short) hedging positions

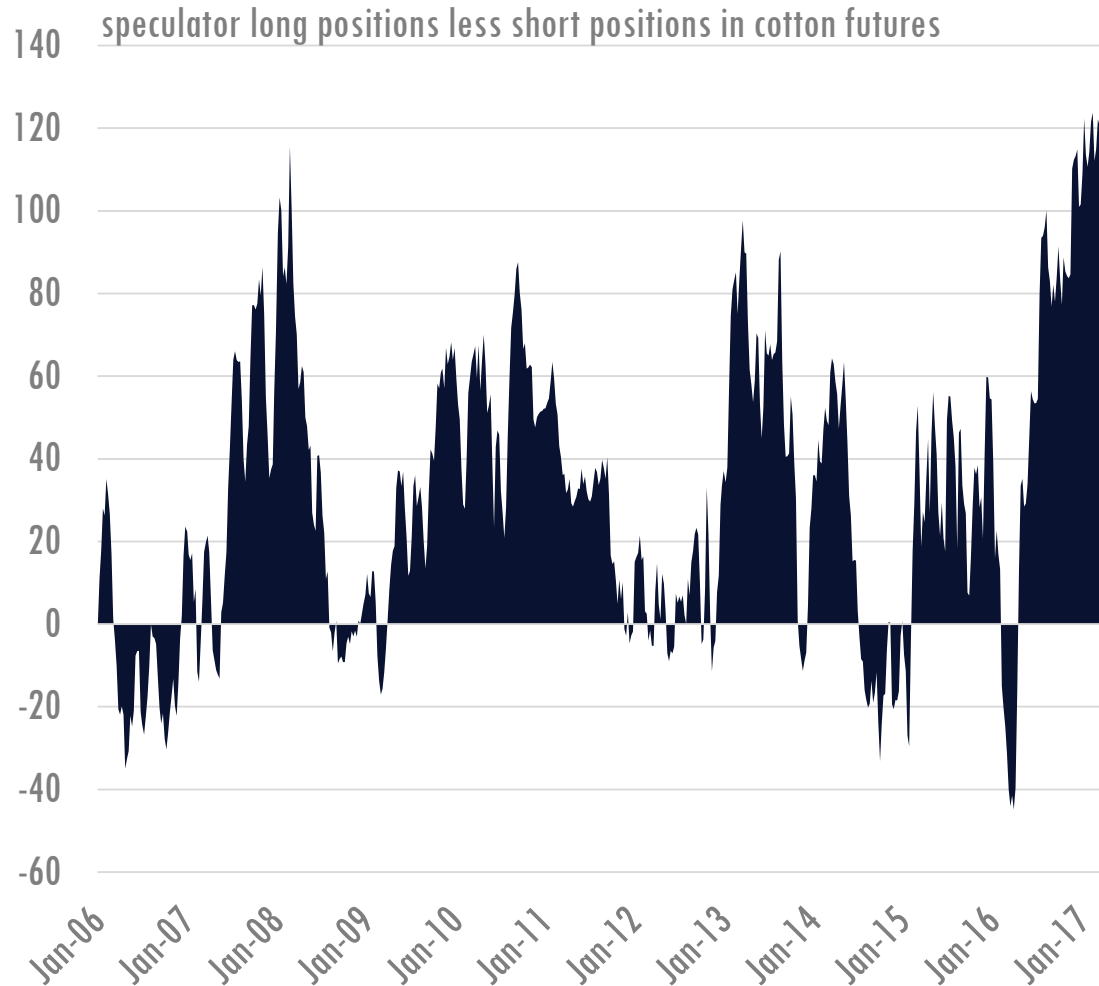
short positions exited by merchant purchasing, which can lift futures prices

## Unfixed On-Call Sales Equal Record High



# VOLUME OF UNFIXED ON-CALL SALES & SPECULATORS

## Speculator Net Long Position at a Record



futures are a zero sum game, for merchants to buy, someone has to sell

speculators have a record net long position and can sell to merchants when on-call sales are “fixed”

speculators in it to make money, may or may not be willing to sell at current prices

appears that speculators are holding onto long positions until we get a price bump or the unfixed on-call volume diminishes

# PRESENTATION SUMMARY

more acres, and another big crop likely

- weather a major question at this time of year

on-call/speculative positions should abate as we begin the new crop year

demand-side questions — will exports be strong again?







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