

Cotton Situation & Outlook for 2001*

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Our best pre-harvest opportunities for pricing 2000 cotton occurred first near planting (March), followed by a May weather spike that pushed futures prices to sixty four cents per pound. Subsequently, prices strengthened into harvest with mid-November prices uncharacteristically peaking around 67 cents per pound. Since November 2000 cotton prices have floated down from \$0.67 to \$0.59 per pound. Currently, March '01 futures prices for the recently harvested (**2000**) crop were at **\$.5950** (\$/lb) and new crop (**December 2001**) futures were at **\$0.6150** at this writing. It is important to note that throughout the life of the present "Freedom to Farm" farm bill March pre-harvest has consistently presented some of the best prices of the marketing year. Will we see this again in 2001? With the Adjusted World Price (AWP) near the national loan rate (\$0.52) Loan Deficiency Payments, which have become an important source of safety net income for this crop, have not been significant recently. Further, one can only "pop" what one grows. Southern yields and quality continued to suffer in 2000, though yields rebounded from 1999 in most regions. However, low prices, and lower than desired yield and quality continue to plague us.

Table 1. U. S. and S. C. Upland Cotton Harvested Acres, Yield and Production, 1990-99 average and 2000 Marketing Year Estimates. ^{1/}

Item	Units	Year	U. S.	So. Carolina
<i>Acres Harvested</i>	<i>Thou. Ac.</i>	1990-99 Avg.	14,050	257
	"	2000	15,540	300
<i>Yield</i>	<i>Lbs/Ac</i>	1990-99 Avg.	645	615
	"	2000	631	629
<i>Production</i>	<i>Thou. Bales</i>	1990-99 Avg.	17,160	328
	"	2000	17,220	380

^{1/} U. S. & S. C. data are from USDA-NASS and USDA-WAOB.

A continued increase in US cotton plantings and a higher yield in 2000 provided a slightly larger than average US production. Higher carry-in stocks and continued lackluster demand are affecting this market. Globally the picture is brighter with stocks are significantly lower (2000 ending stocks at 37 mbls as opposed to 45 mbls just two years ago.) Import trade is expected slightly higher in all major importer markets except Turkey and some Latin American markets. China continues as a net exporter, but virtually neutral. Much of the world's drawdown in stocks has come from Chinese reductions. Many expect China to weigh as a net importer, which could dramatically affect this market over the next 18 to 36 months. Will the global situation improve? Let's hope so.

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U.S. Cotton Market Conditions for the 2000-01 Crop

U. S. cotton production is currently forecast at 17.22 million bales (Mbl). This is basically an average crop for the 1990's with 17.16 Mbl produced on average since 1990 (Table 1). The projected yield of 631 pounds per acre for upland cotton is also below the 90's average of 645 pounds per acre.

While domestic mill usage is projected to decrease slightly relative to 2000, exports are projected to increase for the 2000 crop (Table 2). On the domestic side, mill usage is projected to take 9.8 million bales in the 00-01 market year. This will be the smallest domestic use since 1991. An export of 7.3 mbles is a healthy level of exports if we can achieve it. Recent export trends have been on a slower pace but many expect a spring pick up in export offtake. China remains the real wildcard.

Table 2. U. S. Cotton Supply and Use, 1995-2000. ^{1/2/3/}

Item/Mkt. Year^{2/}	Units	1995	1996	1997	1998	1999	2000
Acres Harvested	Mill Ac	16.01	12.87	13.27	10.68	13.42	13.41
Yield	Lb/Ac	537	707	680	625	607	604
Carry-In	Mill Bales	2.65	2.61	3.97	3.89	3.94	3.94
Production	Mill Bales	17.9	18.94	18.79	13.92	16.97	16.88
U. S. SUPPLY	Mill Bales	20.96	21.95	22.78	18.25	21.00	20.89
US Mill Use	Mill Bales	10.6	11.13	11.35	10.40	10.24	10.20
Exports	Mill Bales	7.68	6.87	7.5	4.34	6.75	6.20
OFF-TAKE	Mill Bales	18.28	17.99	18.85	14.75	16.99	16.40
U. S. END STOCKS ^{3/}	Mill Bales	2.61	3.97	3.89	3.94	3.92	4.50
U. S. FARM PRICE	\$/Lb	0.75	0.69	0.648	0.602	0.45	0.47
World End Stocks	Mill Bales	33.81	38.25	43.87	44.89	41.16	37.39

1/ Source: USDA-WAOB Estimate Feb 2001

2/ Marketing year 2000-01 estimates are current projections for August 1, 2000 to July 31, 2001

3/ Includes "unaccounted for" stocks

With 2000 off-take projected at a lackluster (but improving) 17.10 Mbl, ending stocks are projected 4.10 Mbl. This accounts for the current \$0.56 \$/lb price. Should you sell any unsold 00-01 crop now or hold out? Current prices reflect a market consensus that has accounted the sluggish off-take. It's likely that any further increase in price will have to come from increased exports. Exports are weak currently -- but can they improve to push us back to upper sixty's cotton? I think it highly unlikely in the short run. Holding out for \$0.60 cash cotton price would appear to be betting on a long shot. There is evidence that prices rally into mid march rather consistently in recent years. My call would be to hold another few weeks and be ready to accept the mid-march market and sell any remaining 2000 crop. Call options can be purchased relatively cheaply to re-open the top if better times come along (which could happen in weather risky may & June 2001.) I'd chose July or October call options if I were to follow this strategy.

S.C. Cotton Considerations

South Carolina acreage was initially projected to increase dramatically in 2000 with USDA March 2000 planting intentions estimating 360,000 acres would be planted to cotton in the state. However, aberrant weather (extreme drought in many areas) at planting prevented 60,000 planned acres from being planted. It is important to note that if 2001 intentions are similar then SC acres could be up 20 percent next year. However, planting breakeven analysis would suggest that 650

pound cotton clearly beats loan rate soybeans but is at a basic breakeven with 70 bushel corn at \$2.60 per bushel.

Prospects for 2001-02

Any strength in the remaining 2000 crop market will lend support to 2001 crop prices. The size of the 2001 U.S. crop will be the primary market mover as we go from planting until harvest. My guess at the size of the 2001 U.S. crop is that it will be large in the 19-20 Mbl range. This is production level is set assuming the following:

- 1 . U.S. plantings at 16 million acres (ma) in 2000. This is based on a assumed five percent increase in plantings beltwide because price plus pop keeps cotton RELATIVELY strong with a return to more normal yields;
- 2 . Harvested acres will be 14.75 million acres. This is the 16 ma planted adjusted downward by a five year average abandonment of 1.25 million acres; and,
- 3 . U.S. average yield for 2000 assumed to be 645 pounds per acre (lb/ac). This is the 1990-99 average.

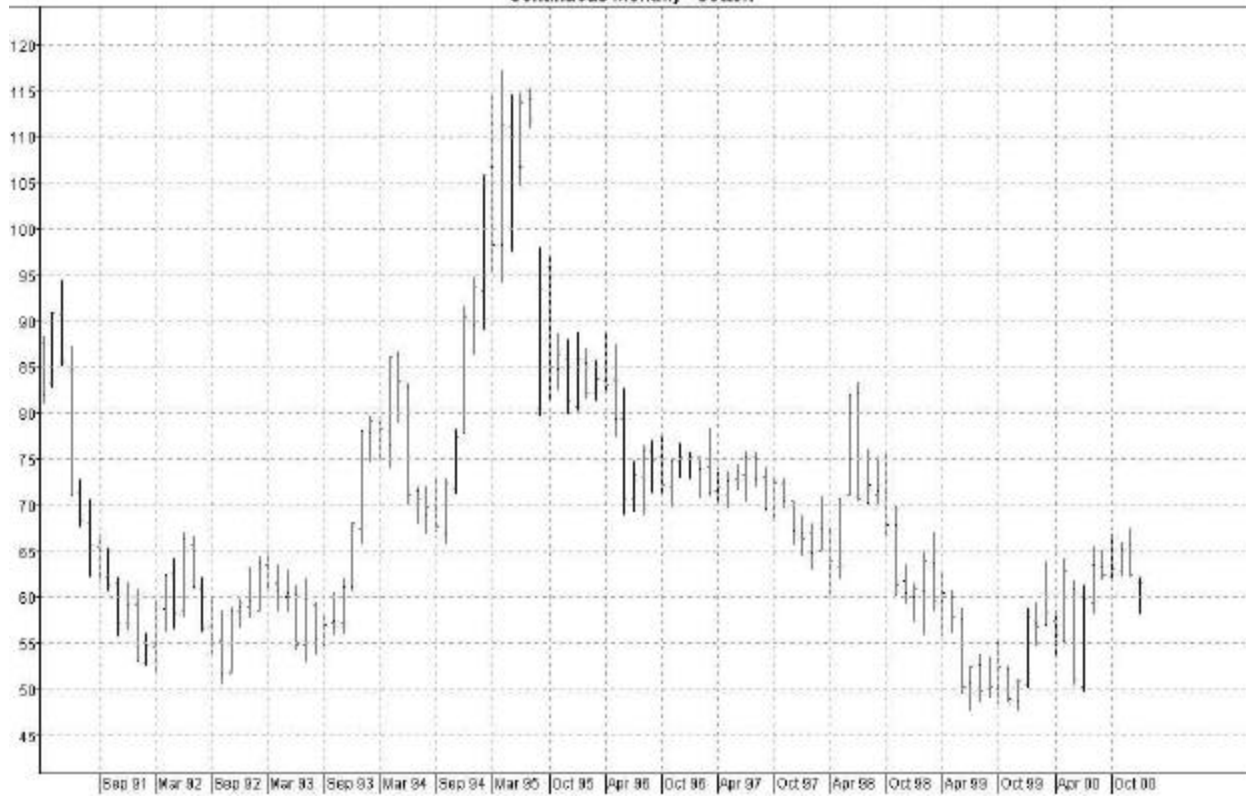
Needless-to-say, with world market conditions and global prices as they are, one should expect flat world production in 2001 and global stocks continuing to reduce. This, one would hope, lead to U. S. stocks reducing and a bit of a price recovery.

In short, I'd not be too aggressive in selling forward next year's crop at current levels. I do find it difficult to expect prices above the 65-70 cent range in absence of a true weather event in the US or major Chinese imports. One might consider covering some production with put options to place a floor under this market. A put would assure an approximate floor of \$0.55 /lb while leaving open the potential to gain on further market price strength OR weakness. This combined with an LDP payment of 4 -6¢ would get us near the 60¢ we need at minimum. Any further unpriced crop could be priced later. All of the crop could thus be priced for a minimum of the current level or better later. This presumably would cover a significant amount of cash costs we'll commit on the covered portion of the 2001 crop. And, hopefully we will see higher price levels later.

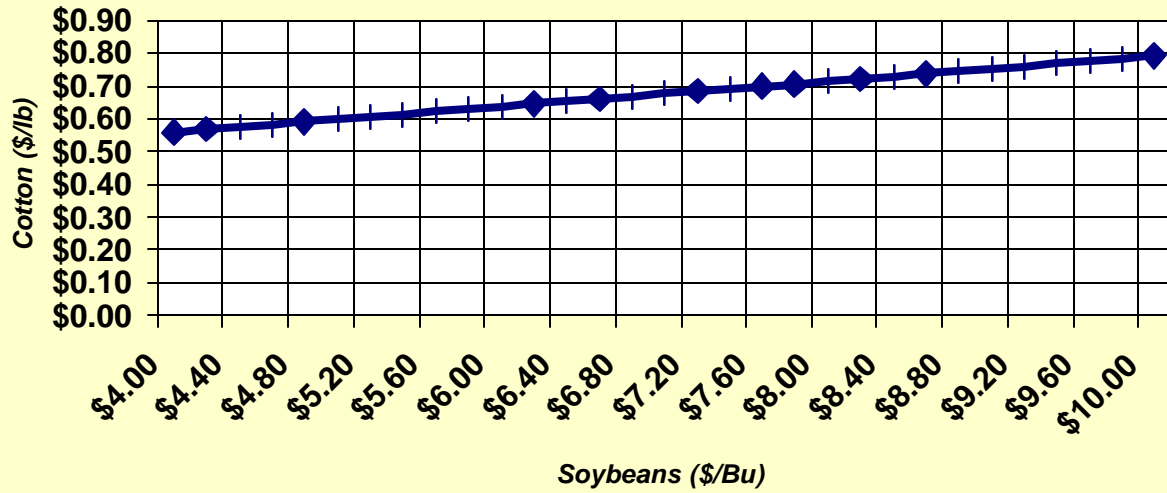
Continuous Weekly - Cotton



Continuous Monthly - Cotton

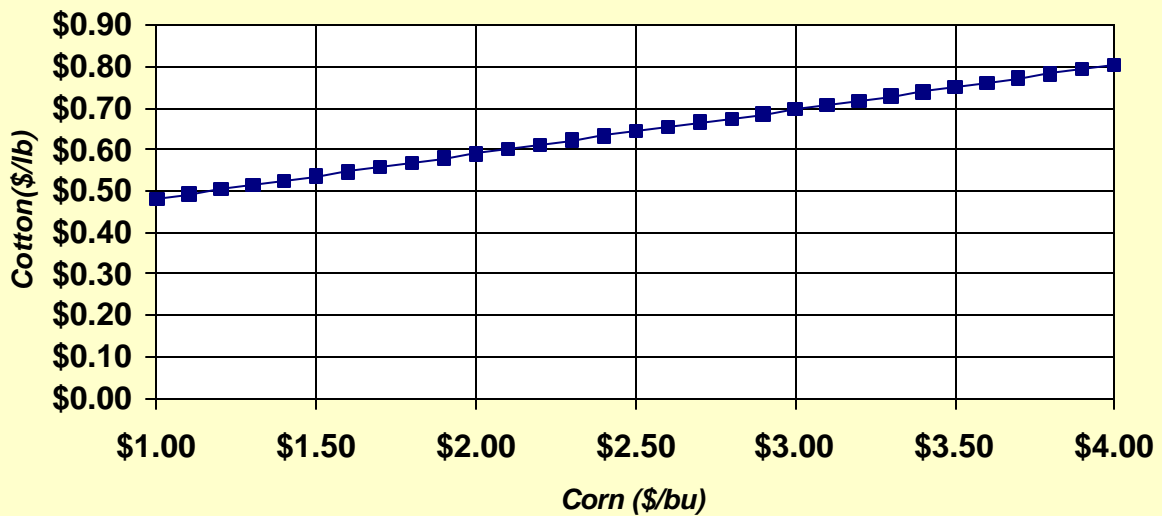


Cotton to Soybeans Breakeven Price Line*



- Assumes 650# cotton at a variable cost of \$389/acre and 25 bushel soybeans at \$125 variable cost/acre.

Cotton to Corn Breakeven Price Line *



- Assumes 650# cotton at a variable cost of \$389/acre and 70 bushel corn at \$146 variable cost/acre.