

Cotton Situation & Outlook for 1999

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Our best opportunities for pricing 1998 cotton occurred near planting with futures prices near seventy-seven cents per pound. Since September, 1998 cotton prices have floated down from \$0.75 to \$0.60 per pound. Currently, March '99 futures prices for the recently harvested (**1998**) crop were at **\$0.60** (\$/lb) and December, 1999 futures were at **\$0.6450** at this writing. However, futures price for the **1999** crop was trading at **\$0.7450** on the December 1999 contract last May. It appears we passed up one good opportunity to price this year's crop at higher prices. Will we have the opportunity to price at those levels again?

In spite of a reduction in US cotton plantings & yield in 1998, higher world stocks and significantly weaker demand are affecting this market. Globally, stocks are higher, trade is expected lighter in all markets except Europe and selected Asian markets. China has reduced importation to near zero. On net, we're expecting near two million bales less in world exports from all sources. Even with reduced global production, world stocks by a projected to remain the same. Will the situation improve before it's over? Let's hope so.

Table 1. U. S. and S. C. Upland Cotton Harvested Acres, Yield and Production, 1990-97 average and 1998 Marketing Year Estimates. ^{1/}

Item	Units	Year	U. S.	So. Carolina
<i>Acres Harvested</i>	<i>Thou. Ac.</i>	1990-97 Avg.	13,010	236
	“	1998	10,390	285
<i>Yield</i>	<i>Lbs/Ac</i>	1990-97 Avg.	653	642
	“	1998	621	600
<i>Production</i>	<i>Thou. Bales</i>	1990-97 Avg.	17,590	319
	“	1998	13,450	350

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

The 1998 U. S. and South Carolina Crop

U. S. cotton production is currently forecast at 13.45 million bales (Mbl). This is a 24 percent reduction from the 17.59 Mbl production grown on average since 1990 (Table 1). The projected yield of 621 pounds per acre for upland cotton is also below the 90's average of 653 pounds per acre.

In the Southeastern States (Alabama, Florida, Georgia, N. C. and S. C.), cotton acreage stabilized at slightly more than 2,800,000 acres harvested. The 1998 harvested yield in the region was down approximately 100 pounds per acre from 1997 levels. South Carolina's production was set at 350,000 bales, down 60,000 bales from 1997 based on 600 pounds per acre on 280,000 harvested acres.

1998-99 Cotton Utilization

While domestic mill usage is projected to decrease slightly relative to 1997, exports are projected to be down significantly for the 1998 crop (Table 2). On the domestic side, mill usage is projected to take 10.6 million bales in the 1998-99 market year.

Table 2. U. S. Cotton Supply and Use, 1994-98. ^{1/2/3/}

Item/Mkt. Year^{2/}	Units	1994	1995	1996	1997	1998
Acres Harvested	Mill Ac	13.32	16.01	12.87	13.27	12.87
Yield	Lb/Ac	708	537	707	680	621
Carry-In	Mill Bales	3.53	2.65	2.61	3.97	3.89
Production	Mill Bales	19.66	17.9	18.94	18.79	13.45
U. S. SUPPLY	Mill Bales	23.21	20.96	21.95	22.78	17.74
US Mill Use	Mill Bales	11.2	10.6	11.13	11.35	10.60
Exports	Mill Bales	9.4	7.68	6.87	7.5	4.6
OFF-TAKE	Mill Bales	20.69	18.28	17.99	18.85	14.9
U. S. END STOCKS^{3/}	Mill Bales	2.65	2.61	3.97	3.89	2.8
U. S. FARM PRICE	\$/Lb	0.72	0.75	0.69	0.648	0.665
World End Stocks	Mill Bales	28.89	36.16	36.4	41.13	39.32

1/ Source: USDA-WAOB Estimate Dec. 12, 1998;

2/ Marketing year 1998-99 estimates are current projections for August 1, 1998 to July 31, 1999;

3/ Includes "unaccounted for" stocks;

Export prospects for U. S. cotton remain sluggish. Production problems that plagued competitors ability to export and turned some into marginal importers have abated. Chinese imports are currently set at 0.65 Mbls which is well below the 3.61 Mbls imported in 1996. This, along with generally weak Asian & Latin American economies, is pressuring export estimates. Will these markets recover? Let's hope so. But, in the mean time let's prepare for the alternative.

With 1998 off-take projected at a weak 14.90 Mbl, ending stocks are projected 2.80 Mbl. This accounts for the current \$0.60 \$/lb price. Should you sell any unsold 98 crop now or hold out for \$1.00 cotton? 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 EXTREMELY weak currently -- but can they improve to push us to \$1.00 cotton? I think it highly unlikely. Holding out for \$1.00 cotton would appear to be betting on an extreme long shot. My call would be to accept the current market & sell any remaining 1998 crop. Call options can be purchased relatively cheaply to re-open the top if better times come along. I'd chose July or October call options. This would carry us through the "weather rally" months.

Prospects for 1999

Any strength in the remaining 1998 crop market will lend support to 1999 crop prices. The size of the 1999 crop will be the primary market mover as we go from planting until harvest. My guess

at the size of the 1999 U.S. crop is that the crop will return to a “more average” 16.25 Mbl range. This is production level is set assuming the following:

- 1 . U.S. plantings at 13 million acres (ma) in 1999. This is based on a assumed continued yet only slight decline in plantings beltwide;
- 2 . Harvested acres will be 12 ma. This is the 13 ma planted adjusted downward by a five year average abandonment of slightly over 1 million acres; and,
- 3 . U.S. average yield for 1999 assumed to be 650 pounds per acre (lb/ac). This is the 1990-97 average.

Needless-to-say, with world market conditions and prices as they are, one should expect less production in 1999 and global stocks reducing. This one would hope lead to world and U. S. stocks reducing and a bit of a price recovery.

In short, I'd not be aggressively selling forward next year's crop at current levels. One might consider covering some production with put options to place a floor under this market. A Dec. '99 \$0.61 put option is currently trading at around 195 points at this writing. This would assure an approximate floor of \$0.56 /lb while leaving open the potential to gain on further price strength. This combined with an LDP payment of 10 ¢ would get us near the 70¢ 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 1999 crop. And, hopefully we will see higher price levels later.

U.S. Cotton Supply & Utilization, 1998 and 1990-97 Averages

Item (Units)	1990 (90-91)	1991 (91-92)	1992 (92-93)	1993 (93-94)	1994 (94-95)	1995 (95-96)	1996 (96-97)	Estimated	Projected	Recent Average 1990-97	Recent Std Dev 1990-97	Percent 1998 of Average
								1997 (97-98)	1998 (98-99)			
Setaside (MA)	2.0	1.2	1.7	1.4	1.7							
Planted (MA)	12.3	14.1	13.2	13.44	13.72	16.93	14.63	13.81	12.87	14.02	1.36	92%
Harvested (MA)	11.7	13.0	11.1	12.78	13.32	16.01	12.87	13.27	10.39	13.01	1.44	80%
Yield (Lbs/Ac)	634	652	699	606	708	537	707	680	621	653	60	95%
Carry In (MBls)	3.00	2.30	3.70	4.66	3.53	2.65	2.61	3.97	3.89	3.30	0.80	118%
Production (MBls)	15.50	17.60	16.20	16.13	19.66	17.90	18.94	18.79	13.45	17.59	1.52	76%
Total Supply (MBls)	18.51	19.97	19.90	20.80	23.21	20.96	21.95	22.78	17.74	21.01	1.58	84%
Mill Use (MBls)	8.66	9.60	10.30	10.42	11.20	10.60	11.13	11.35	10.60	10.41	0.91	102%
Exports (MBls)	7.80	6.60	5.20	6.86	9.40	7.68	6.87	7.50	4.30	7.24	1.20	59%
Total Use (MBls)	16.45	16.30	15.50	17.28	20.60	18.28	17.99	18.85	14.90	17.66	1.63	84%
Ending Stks (MBls)	2.30	3.70	4.70	3.53	2.65	2.61	3.97	3.89	2.80	3.42	0.82	82%
Stks to Use (%)	14%	23%	30%	20%	13%	14%	22%	21%	19%	20%	6%	96%
Price (\$/Lb)	\$0.671	\$0.581	\$0.549	\$0.584	\$0.720	\$0.754	\$0.693	\$0.648	\$0.665	\$0.650	\$0.073	102%
Loan Rate (\$/Lb)	\$0.503	\$0.508	\$0.524	\$0.524	\$0.500	\$0.500	\$0.500	\$0.500	\$0.500	\$0.507	\$0.010	99%
Price/Loan (%)	133%	114%	105%	112%	144%	151%	139%	130%	133%	128%	17%	104%

Source: USDA, WAOB, WASDE-345-13, December 12, 1998 and previous USDA data.

South Carolina Cotton Acreage, Yield & Production 1990-97

Year	Acres Planted (ac)	Acres Harvested (ac)	Yield (lb/ac)	Production (bales)
1990	155,000	154,000	452	145,000
1991	211,000	210,000	786	344,000
1992	197,000	192,000	565	226,000
1993	202,000	198,000	495	204,000
1994	225,000	223,000	846	393,000
1995	348,000	342,000	528	376,000
1996	284,000	282,000	774	455,000
1997	290,000	285,000	691	410,000
90-97 Average	239,000	235,750	642	319,125
1998	285,000	280,000	600	350,000

Source: USDA-NASS, Crop Production Dec 12, 1998

World Cotton Supply, Trade and Ending Stocks, 1996-98

	1996	1996 (%)	Est. 1997	1997 (%)	Proj. 1998	1998 (%)
Production (Mill. Bales)						
WORLD	89.56		91.39		84.20	
U.S.	18.94	21.1%	18.79	20.6%	13.45	16.0%
MAJOR EXPORTERS						
Pakistan	7.32	8.2%	7.00	7.7%	7.50	8.9%
India	13.92	15.5%	12.26	13.4%	13.00	15.4%
Central Asia	6.57	7.3%	7.21	7.9%	6.62	7.9%
Africa Fr. Zone	3.67	4.1%	4.32	4.7%	4.29	5.1%
Australia	2.79	3.1%	3.06	3.3%	3.30	3.9%
Argentina	1.49	1.7%	1.35	1.5%	1.50	1.8%
OTHER	34.86	38.9%	37.40	40.9%	34.54	41.0%
Exports (Mill. Bales)						
WORLD	26.83		26.51		24.59	
U.S.	6.87	25.6%	7.50	28.3%	4.30	17.5%
MAJOR EXPORTERS						
Pakistan	0.12	0.4%	0.30	1.1%	0.20	0.8%
India	1.19	4.4%	5.68	21.4%	0.40	1.6%
Central Asia	6.03	22.5%	3.69	13.9%	5.33	21.7%
Africa Fr. Zone	3.31	12.3%	2.71	10.2%	3.79	15.4%
Australia	2.38	8.9%	0.90	3.4%	2.90	11.8%
Argentina	1.33	5.0%	1.33	5.0%	0.90	3.7%
OTHER	5.60	20.9%	4.05	15.3%	6.77	27.5%
Imports (MMT)						
WORLD	29.09		26.74		25.19	
MAJOR IMPORTERS						
Brazil	2.43	8.4%	1.85	6.9%	1.45	5.8%
Mexico	0.95	3.3%	1.60	6.0%	1.45	5.8%
China	3.61	12.4%	1.83	6.8%	0.65	2.6%
Europe	6.22	21.4%	6.22	23.3%	6.30	25.0%
Selected Asia	8.31	28.6%	7.61	28.5%	7.61	30.2%
Turkey	1.36	4.7%	1.45	5.4%	0.90	3.6%
OTHER	6.21	21.3%	6.18	23.1%	6.83	27.1%
Ending Stocks (Mill. Bales)						
WORLD	37.84		41.13		39.32	
U.S.	3.97	10.5%	3.89	9.5%	2.80	7.1%
MAJOR EXPORTERS						
Pakistan	1.82	4.8%	1.49	3.6%	1.57	4.0%
India	4.56	12.1%	4.27	10.4%	4.70	12.0%
Central Asia	1.47	3.9%	1.92	4.7%	2.06	5.2%
Africa Fr. Zone	0.49	1.3%	0.80	1.9%	0.96	2.4%
Australia	0.95	2.5%	1.09	2.7%	1.27	3.2%
Argentina	1.04	2.7%	1.05	2.6%	1.18	3.0%
MAJOR IMPORTERS						
Brazil	0.96	2.5%	1.16	2.8%	1.16	3.0%
Mexico	0.28	0.7%	0.51	1.2%	0.57	1.4%
China	14.76	39.0%	16.86	41.0%	15.01	38.2%
Europe	1.88	5.0%	2.05	5.0%	2.21	5.6%
Selected Asia	1.88	5.0%	1.75	4.3%	1.70	4.3%
Turkey	0.56	1.5%	0.61	1.5%	0.61	1.6%
OTHER	3.22	8.5%	3.68	8.9%	3.52	9.0%

Source: USDA, WAOB, WASDE-345-25, December 12, 1998.