

2005 Southern Regional Outlook Conference

**Atlanta, Georgia
September 26-28, 2005**

Cotton Market Situation and Outlook

**John R.C. Robinson
Associate Professor and Extension
Economist-Cotton Marketing**

**Department of Agricultural Economics
Texas Cooperative Extension
Texas A&M University
College Station, Texas**

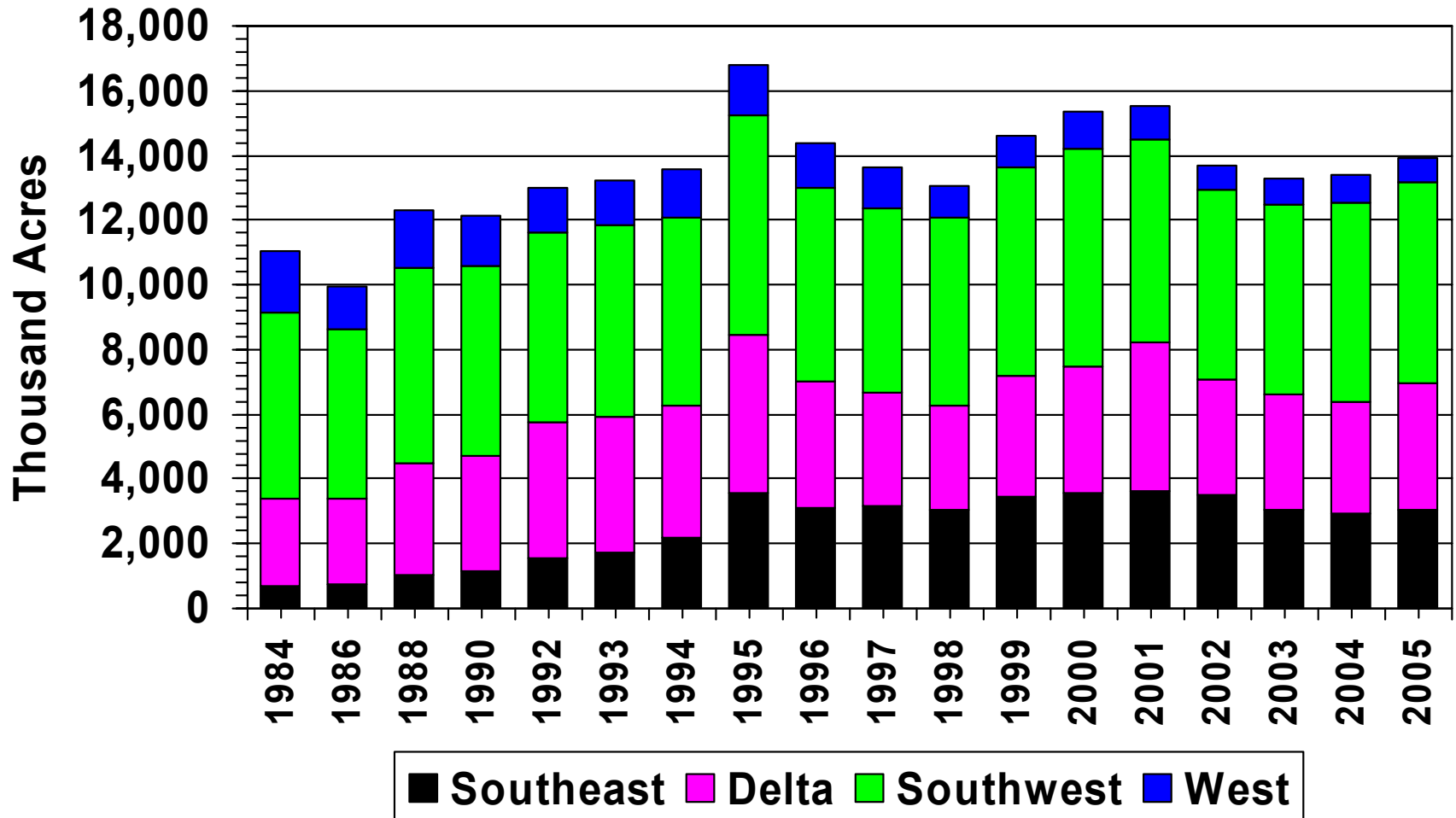
Newsletter Correction/Update

- **The sentence that Hurricane Rita potential damage to Delta cotton “which presently does not appear to be happening” is not correct, at least in current speculative perception**
- **Dec05 closed Tuesday at 5409 for +2.83 gain**
- **Also, notable typo... change “lower” to “higher”**

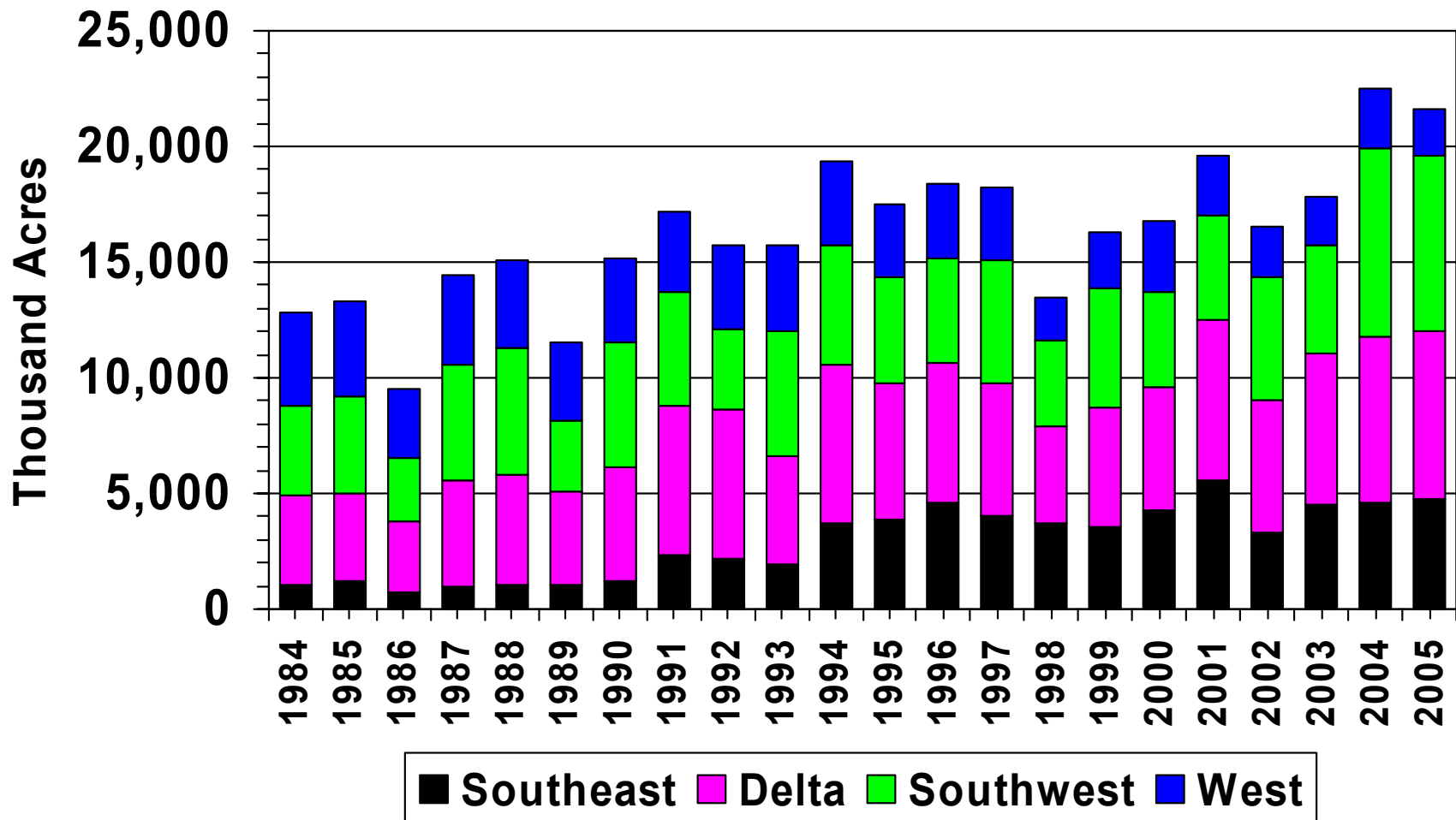
Contents

- **U.S. and World Situation**
- **2005/06 and 2006/07 Price Outlook**
- **Emerging Issues**

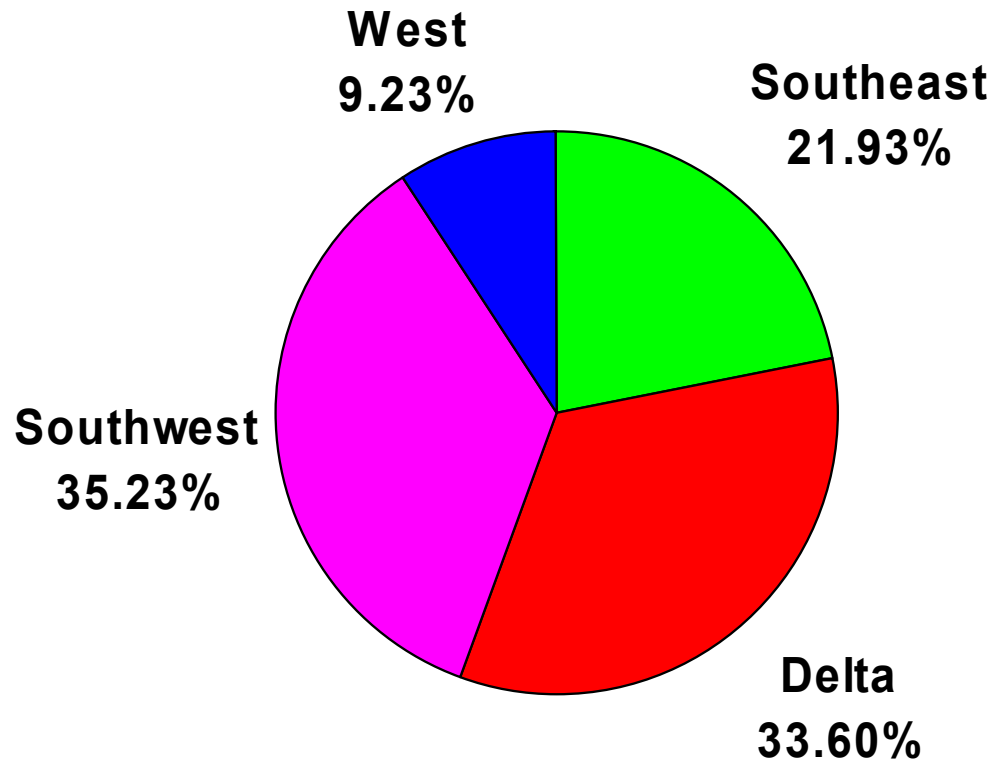
U.S. Upland Cotton: Planted Acreage by Region, 1984 - 2005



U.S. Upland Cotton: Production by Region, 1984 - 2005



U.S. Upland Cotton Production by Region, 2005



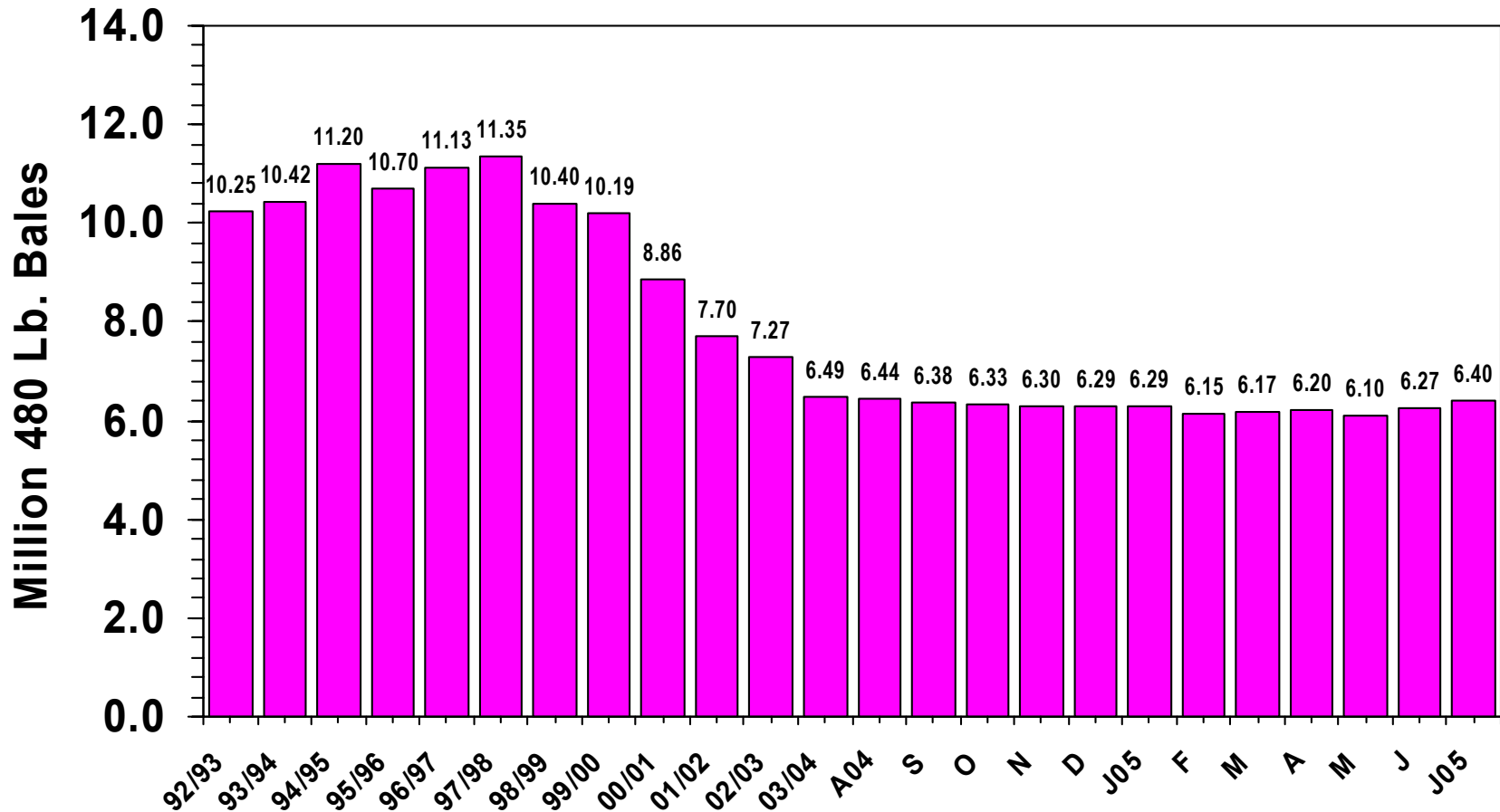
Average All U.S. Cotton Planted, Harvested Acreage, Yield Per Acre and Production

Crop Year	Planted (000 Acs)	% Acres Lost	Harvested (000 Acs)	Yield (Lbs.)	Production (000 Bales)
1995	16,931	-5.46	16,007	537	17,900
1996	14,653	-12.04	12,889	706	18,942
1997	13,898	-3.55	13,405	673	18,793
1998	13,393	-20.22	10,685	626	13,918
1999	14,874	-9.74	13,425	607	16,968
2000	15,517	-15.89	13,052	632	17,188
2001	15,769	-12.31	13,828	705	20,303
2002	13,958	-11.04	12,417	665	17,209
2003	13,480	-10.96	12,004	730	18,255
2004	13,659	-4.41	13,057	855	23,251
2005	14,180	-3.60	13,670	782	22,280
Avg. 25 Yrs.	13,043	-8.65	11,915	647	16,161
Avg. 7 Yrs.	14,491	-9.84	13,065	711	19,351

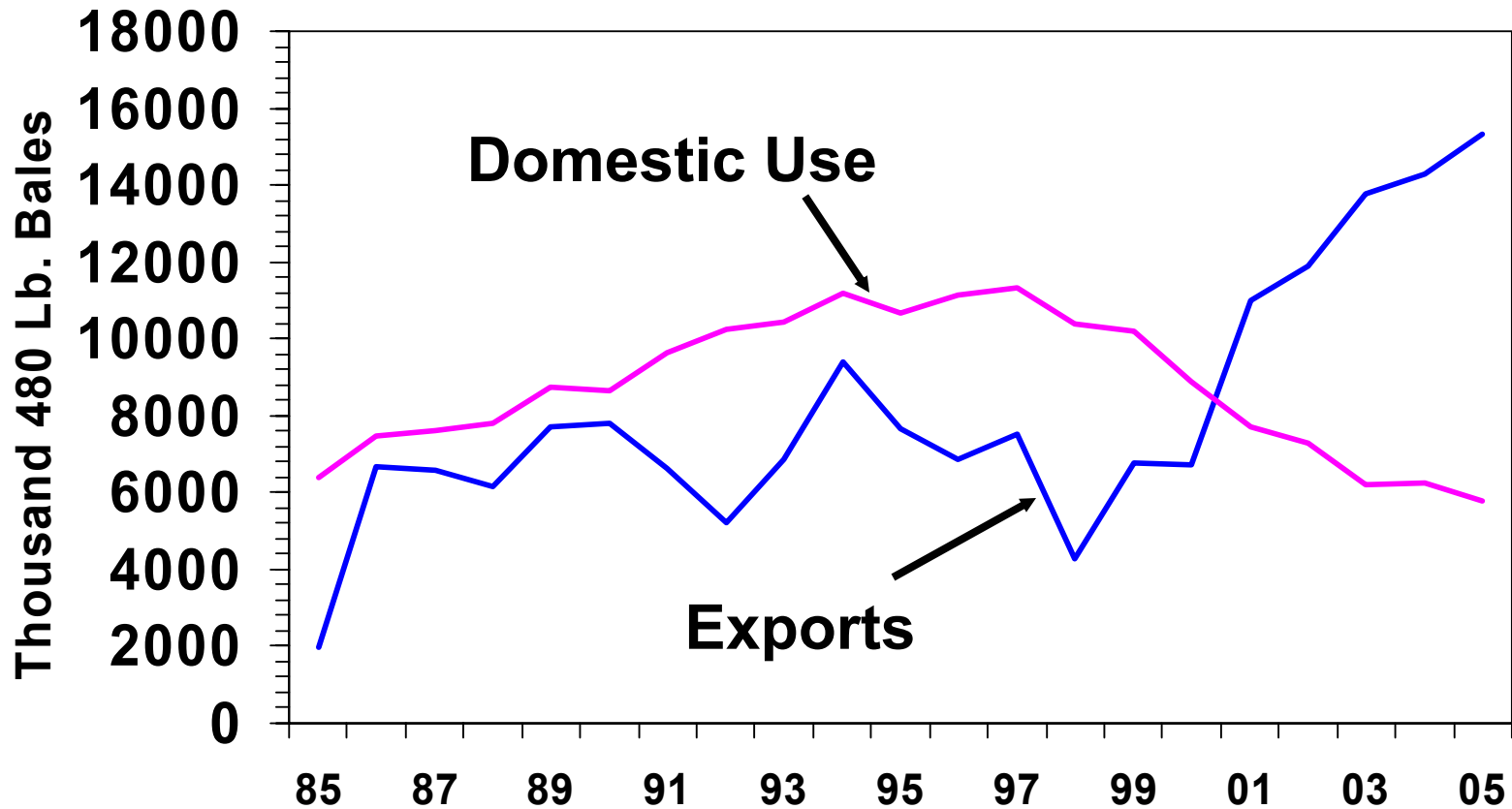
U.S. Yield Expectations

Average U.S. Cotton Yield	
6-Year Average	697.5 Lbs/Ac
5-Year Average	715.6 Lbs/Ac
4-Year Average	736.5 Lbs/Ac
3-Year Average	747.0 Lbs/Ac

Seasonally Adjusted Monthly and Annual U.S. Consumption



U.S. Cotton Domestic Use vs. U.S. Exports 1985/86 – 2005/06

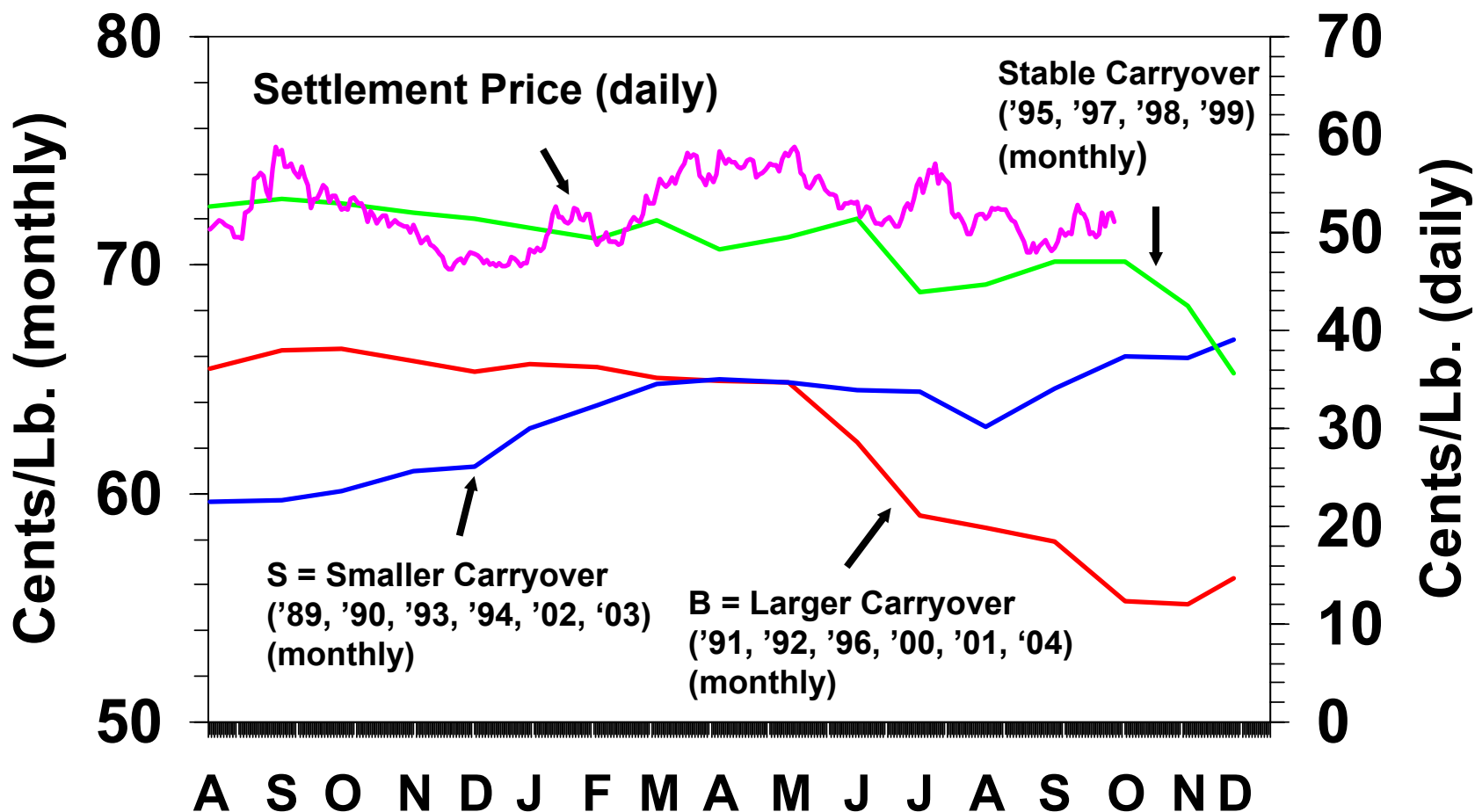


Cotton Supply/Demand Estimates

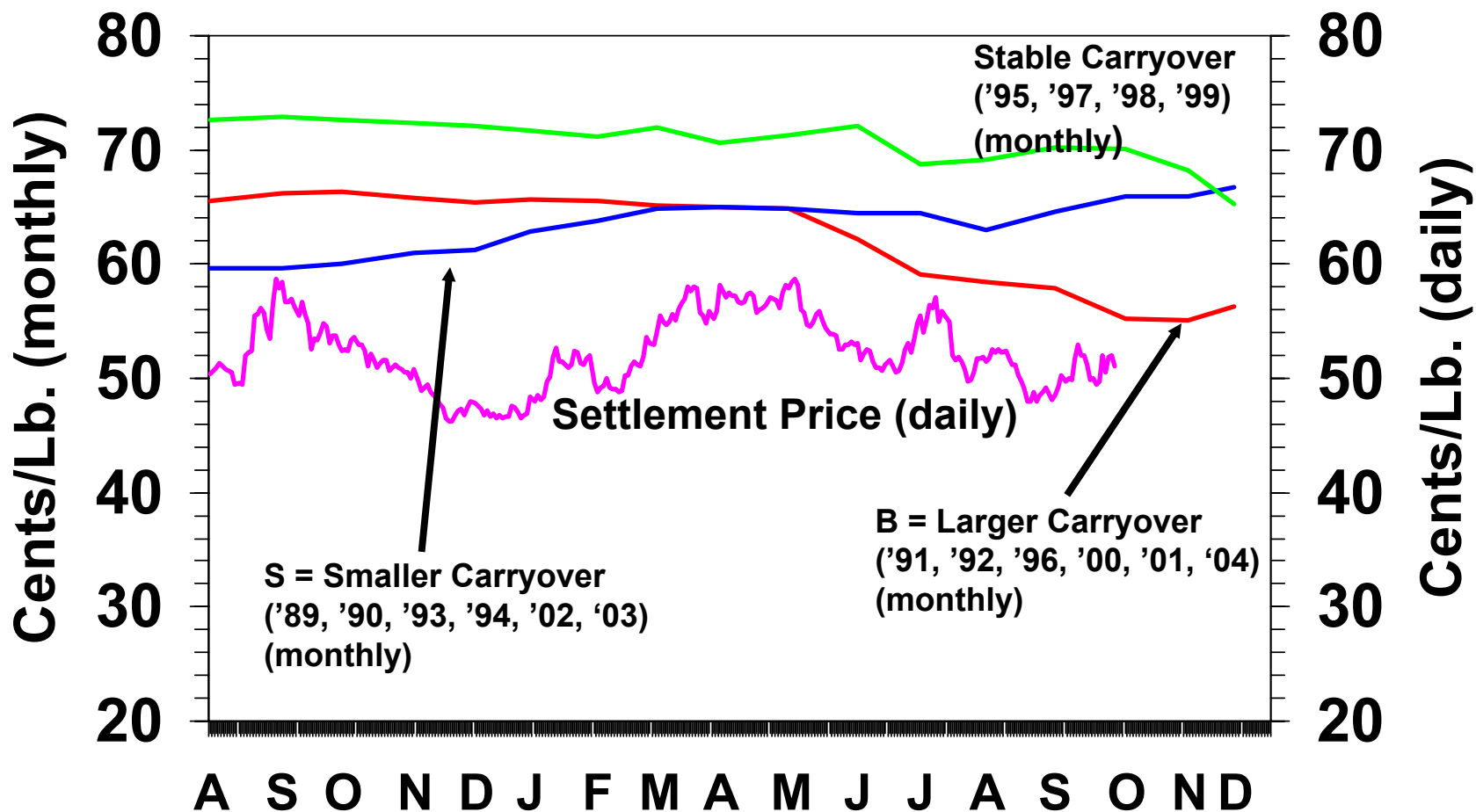
	World			Foreign			U.S.		
	2004/05	2005/06	2006/07	2004/05	2005/06	2006/07	2004/05	2005/06	2006/07
Supply	<i>(USDA September)</i>		<i>(Possible Scenario)</i>	<i>(USDA September)</i>		<i>(Possible Scenario)</i>	<i>(USDA September)</i>		<i>(Possible Scenario)</i>
Planted Acreage	---	---	---	---	---	---	13.66	14.03	13.7
Harvested Acreage	---	---	---	---	---	---	13.06	13.67	12.6
Acreage (mil. ac.)	---	---	---	---	---	---			
Yield (lbs./ac.)	---	---	---	---	---	---	855.00	782.00	745.6
Beginning Stks.	40.18	50.62	51.20	36.67	44.87	44.20	3.51	5.75	7.00
Production	120.23	111.53	109.54	96.98	89.25	90.00	23.25	22.28	19.5
Imports	<u>33.07</u>	<u>39.18</u>	<u>39.17</u>	<u>33.04</u>	<u>39.14</u>	<u>39.14</u>	<u>0.03</u>	<u>0.04</u>	<u>0.03</u>
Total Supply	193.48	201.34	199.91	166.69	173.26	173.34	26.79	28.08	26.57
Disappearance									
Mill Use	108.14	112.20	112.08	101.88	106.40	106.40	6.26	5.80	5.7
Exports	34.96	38.69	37.92	20.66	23.39	22.92	<u>14.30</u>	<u>15.30</u>	<u>15.0</u>
Total Domestic Use	---	---	---	---	---	---	20.56	21.10	20.7
Unaccounted	-0.26	-0.77	0.00	-0.73	-0.74	0.00	0.47	-0.03	0.0
Ending Stks.	50.62	51.20	49.90	44.87	44.20	44.02	5.75	7.00	5.88
Ending Stks./Use	46.8%	45.6%	44.5%	44.0%	41.5%	41.4%	28.0%	33.2%	28.4%

Note: Foreign and World numbers may not compare precisely to USDA reports due to rounding error.

December 2005 Futures Settlement vs. December Futures Average Monthly Price for Stable, Larger, and Smaller Carryover Season



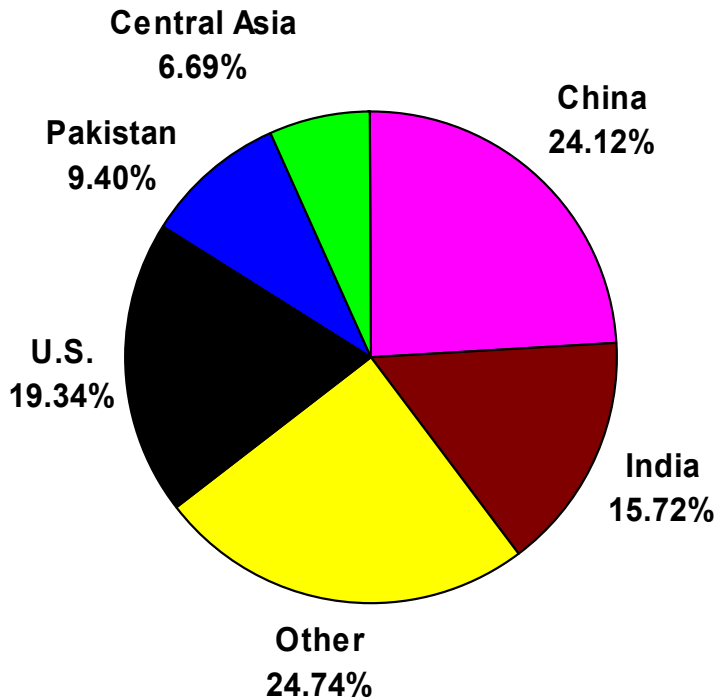
December 2005 Futures Settlement vs. December Futures Average Monthly Price for Stable, Larger, and Smaller Carryover Season



Major World Cotton Producers

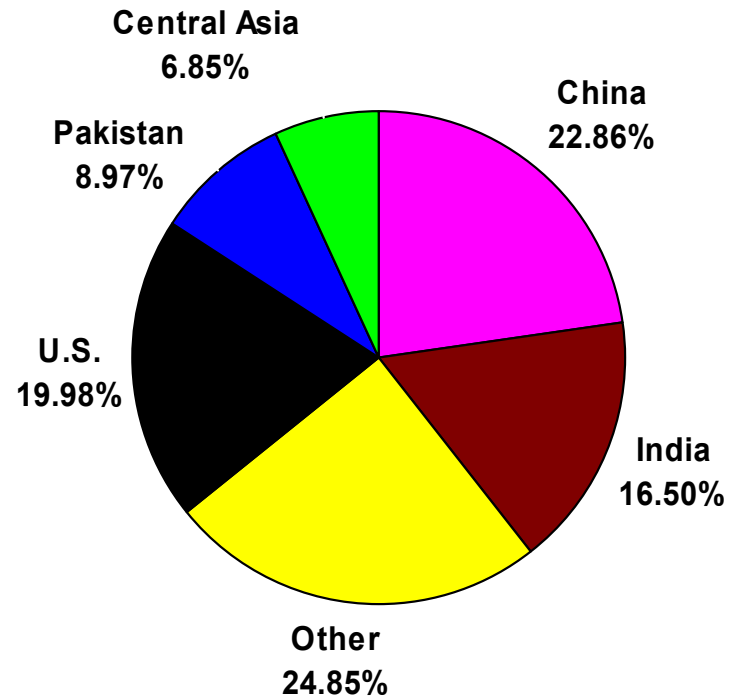
Percent of Production

(Million 480 Lb. Bales)



2004/05

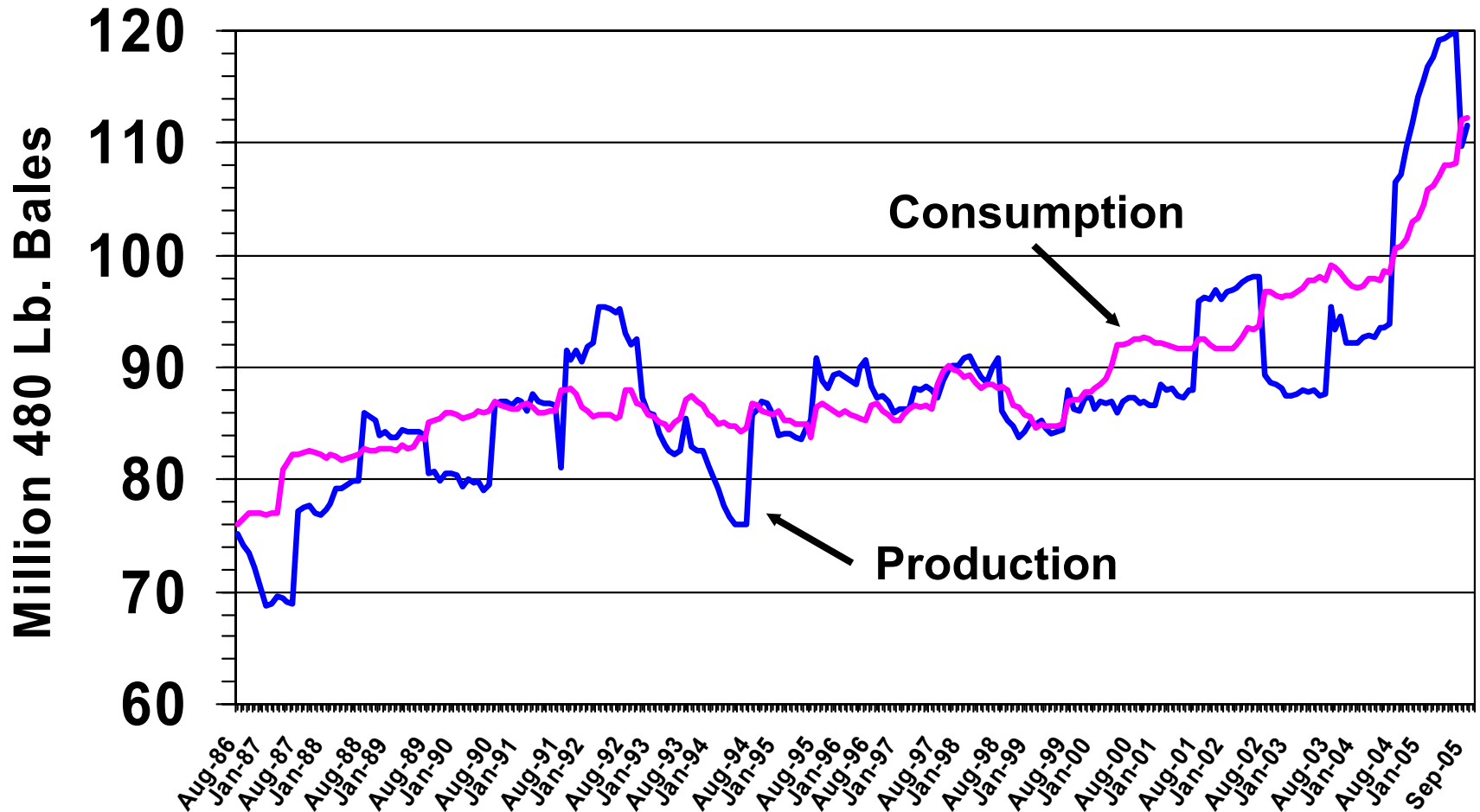
Total Production = 120.23



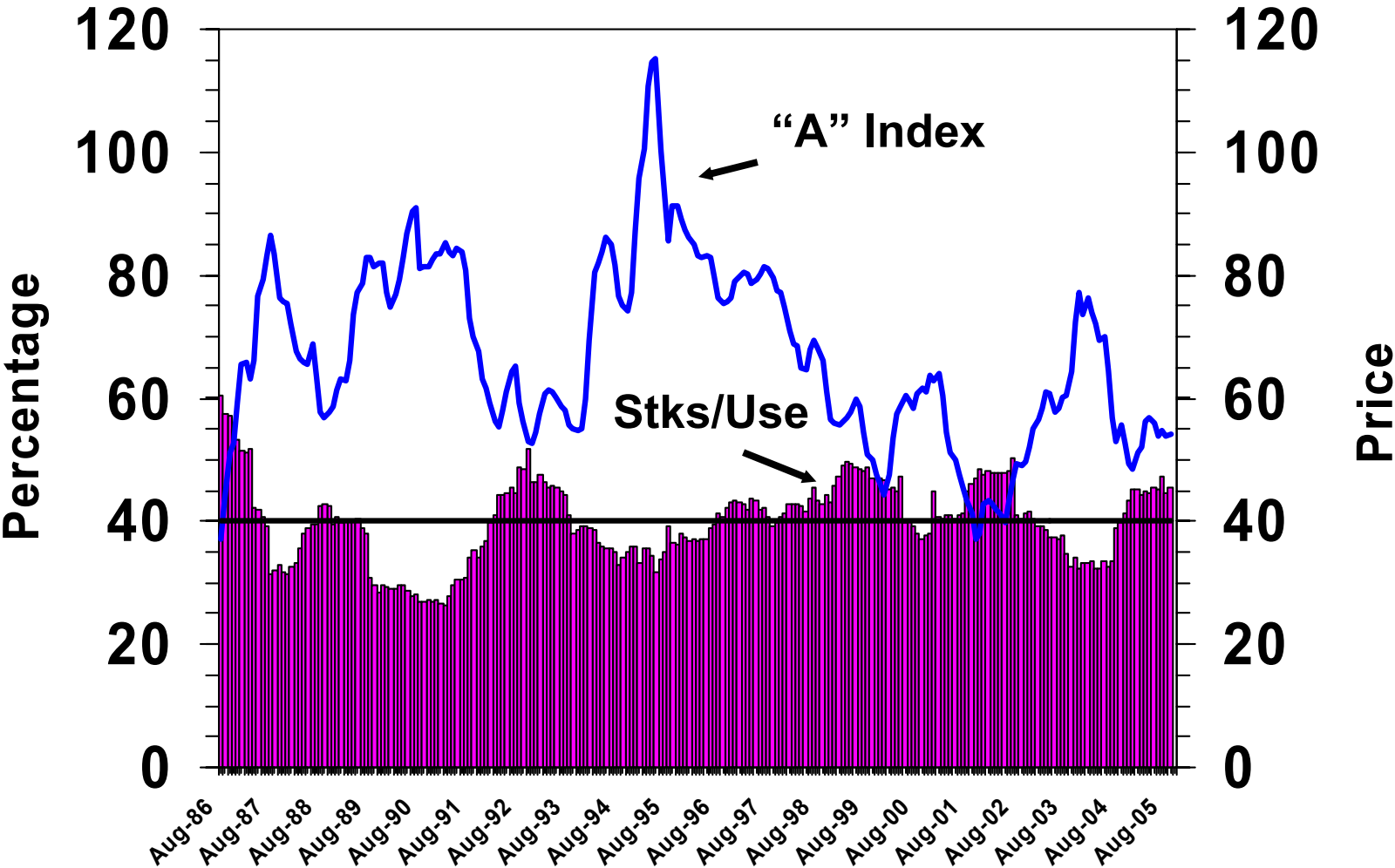
2005/06

Total Production = 111.53

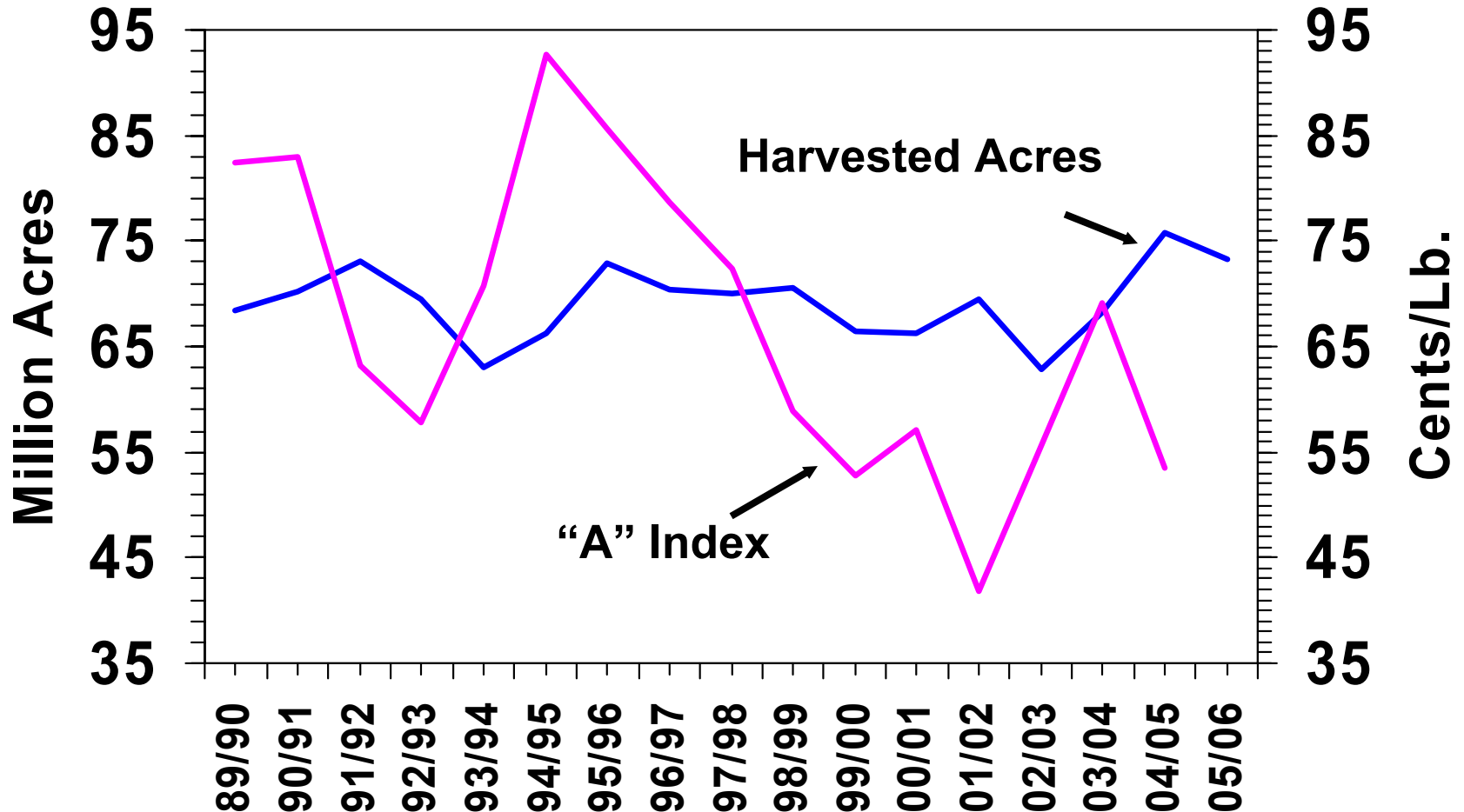
Cotton: World Production and Consumption, August 1986 – September 2005



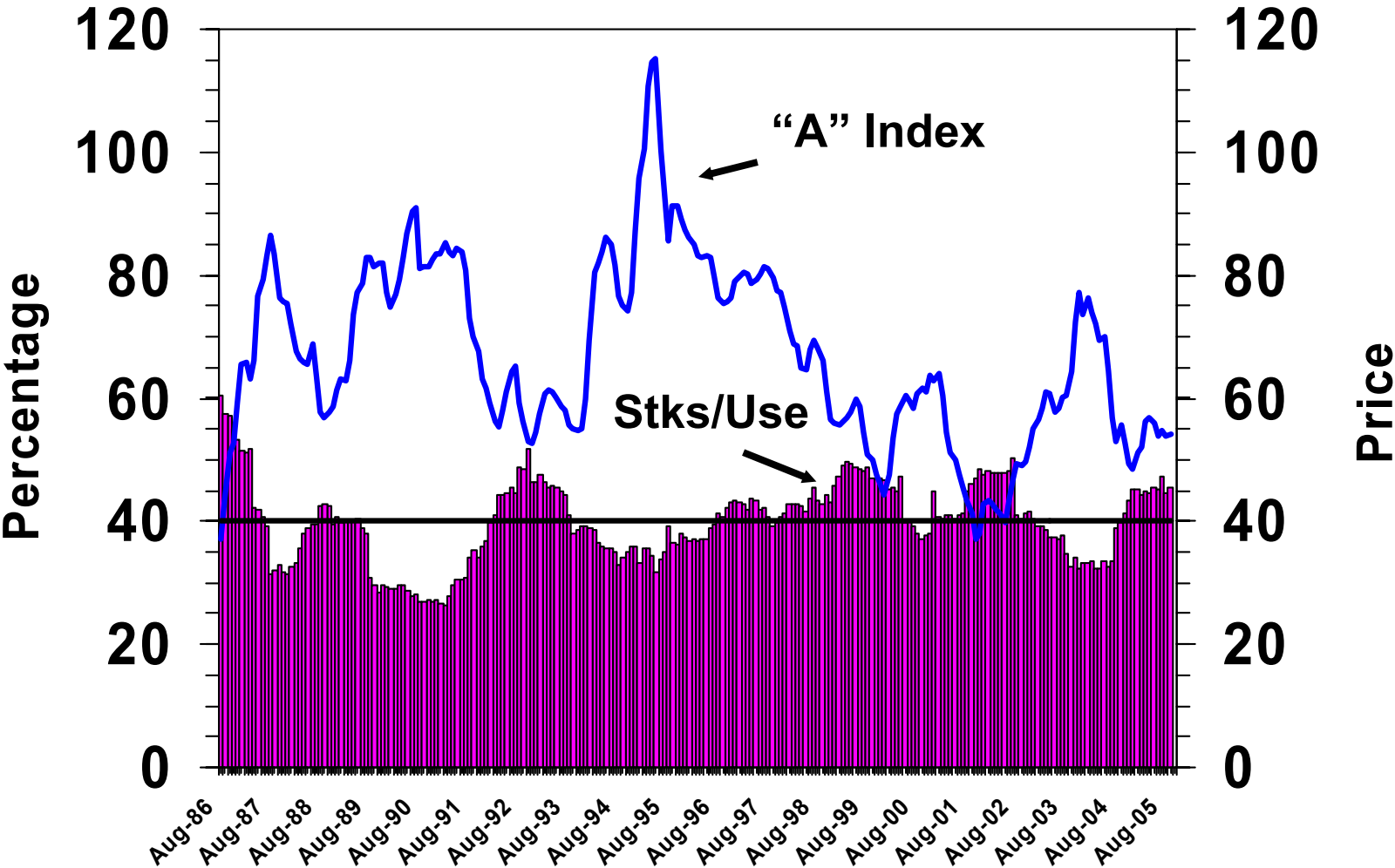
Cotton: “A” Index and World Stocks/Use, August 1986 – September 2005



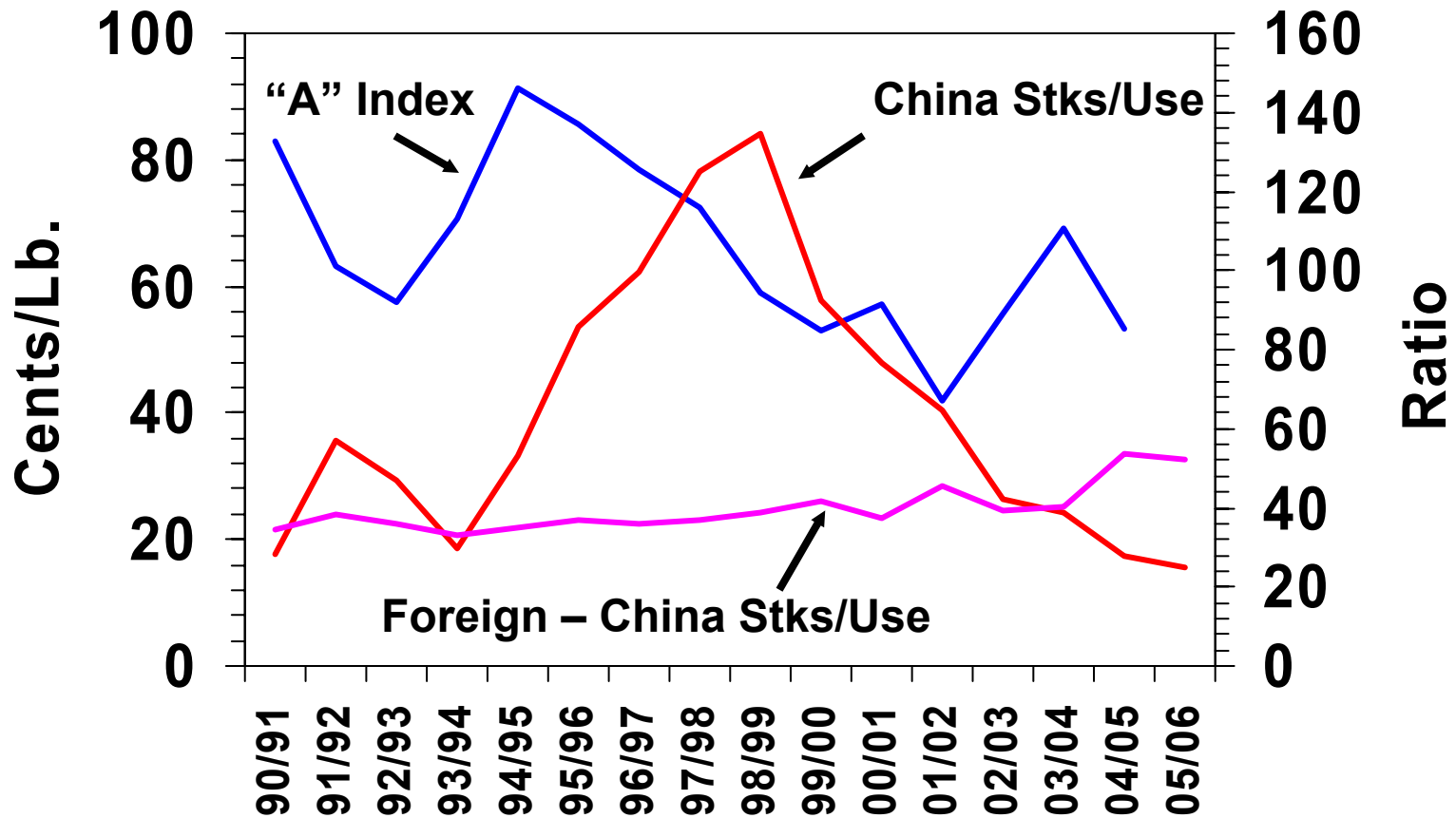
Sidebar: A-Index has to Drop <50 Cents to Affect Foreign Acreage



Cotton: “A” Index and World Stocks/Use, August 1986 – September 2005



Cotton: “A” Index vs. China Ending Stocks-to-Use and Foreign Minus China Ending Stocks-to-Use



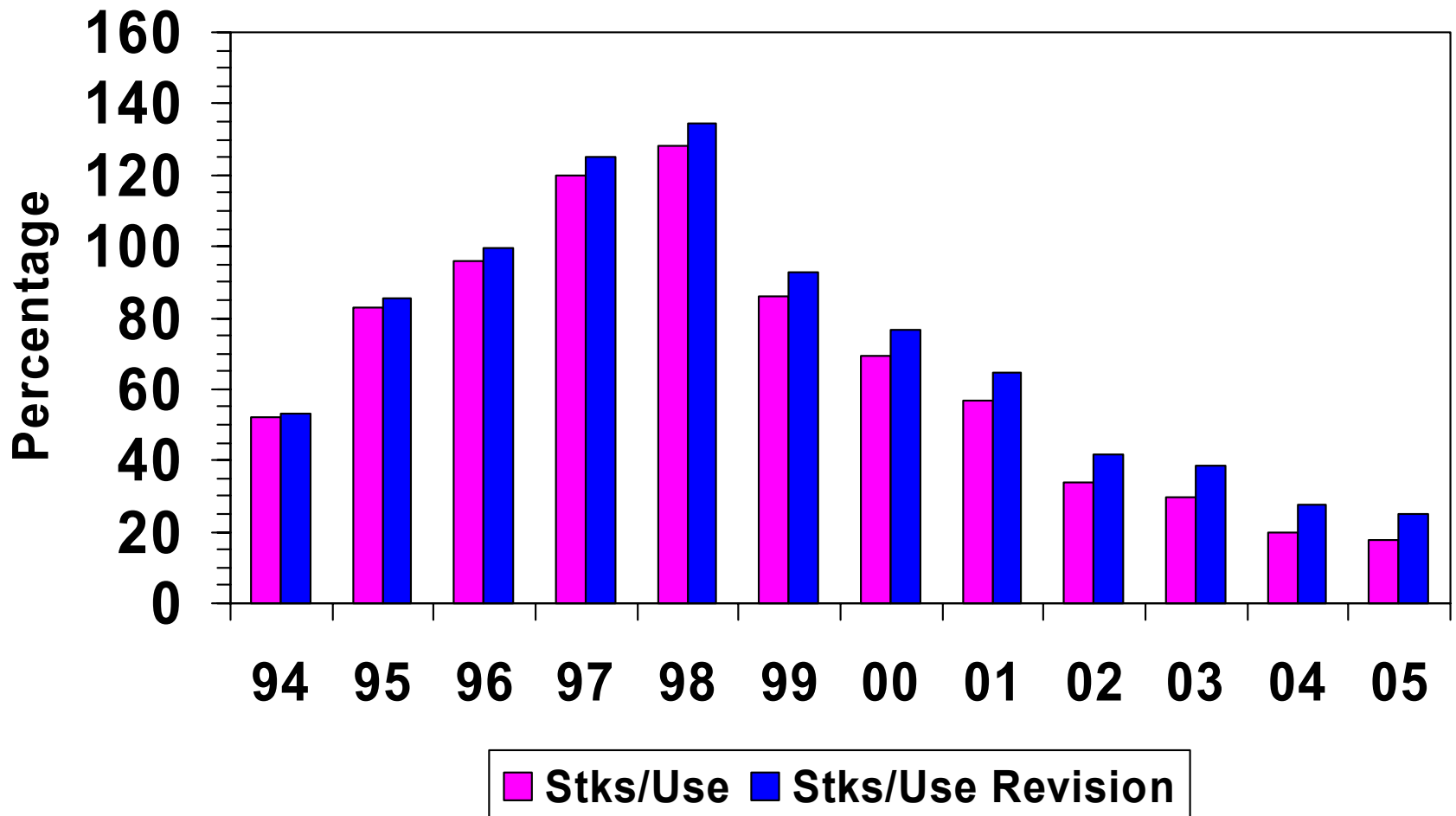
Chinese Cotton Belt



China Cotton Supply and Demand (Million Bales)

	<u>2000/01</u>	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Beg. Stocks	21.28	18.37	17.17	12.85	12.41	10.51
Production	20.30	24.40	22.60	22.30	29.00	25.50
Imports	<u>0.23</u>	<u>0.45</u>	<u>3.13</u>	<u>8.83</u>	<u>6.39</u>	<u>14.30</u>
Supply	41.81	43.22	42.90	43.98	47.80	50.31
Use	23.50	26.25	29.90	32.00	38.00	41.00
Exports	<u>0.44</u>	<u>0.34</u>	<u>0.75</u>	<u>0.17</u>	<u>0.03</u>	<u>0.03</u>
Total Use	23.94	26.59	30.65	32.17	38.03	41.03
Ending Stocks	18.37	17.17	12.85	12.41	10.51	10.04

China Cotton % Stocks/Use Revision from 1994/95 to 2004/05 by USDA



Futures Prices
September 26, 2005
10:30 a.m.

<u>Year</u>	<u>December</u>	<u>Year</u>	<u>July</u>
2005	51.25	2006	54.45
2006	56.00	2007	58.10

Implications

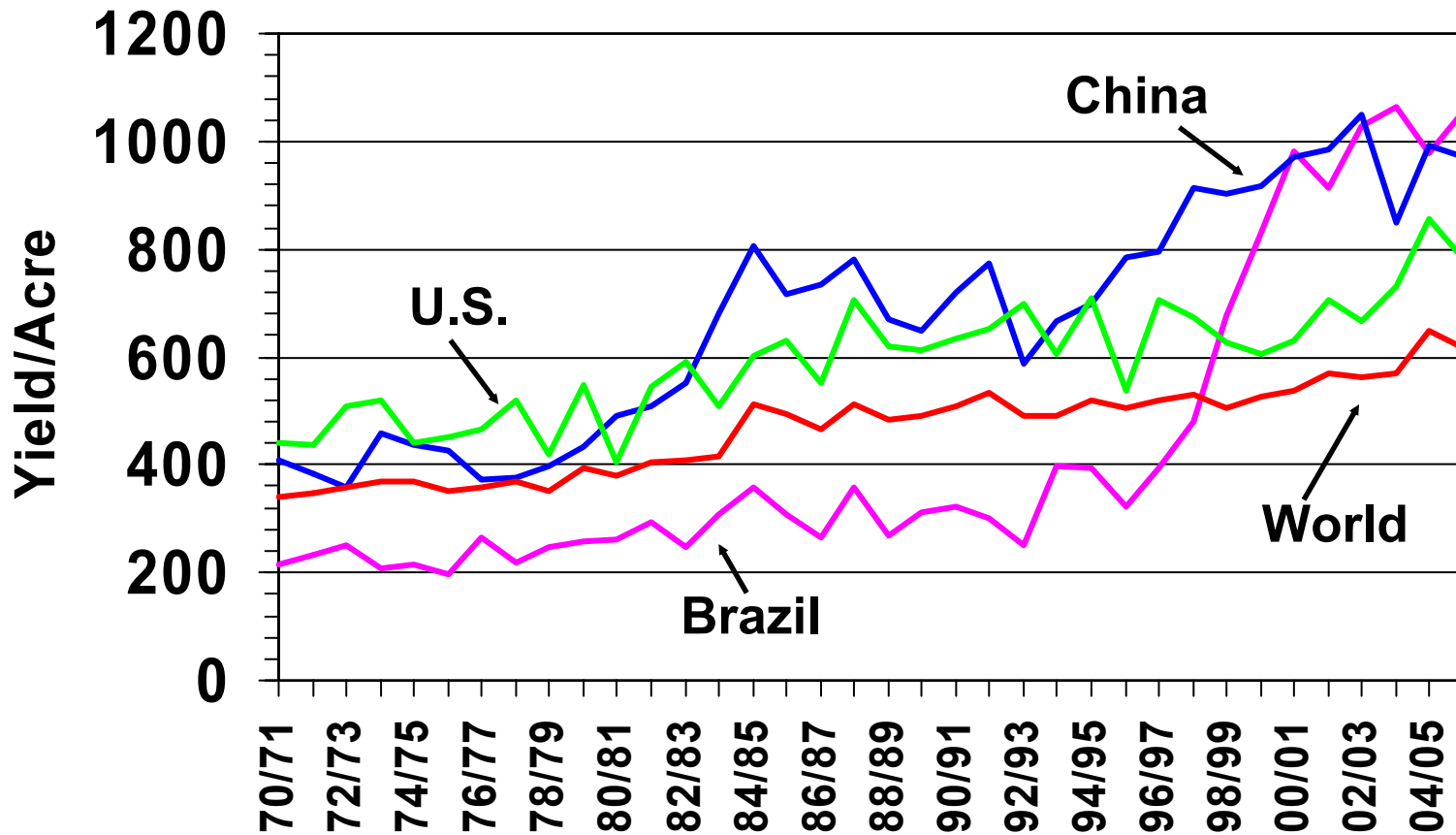
- 1. Slightly Higher market in 2006**
- 2. U.S. export dependent**
- 3. U.S. with decreasing carryover**

Cotton Supply/Demand Estimates

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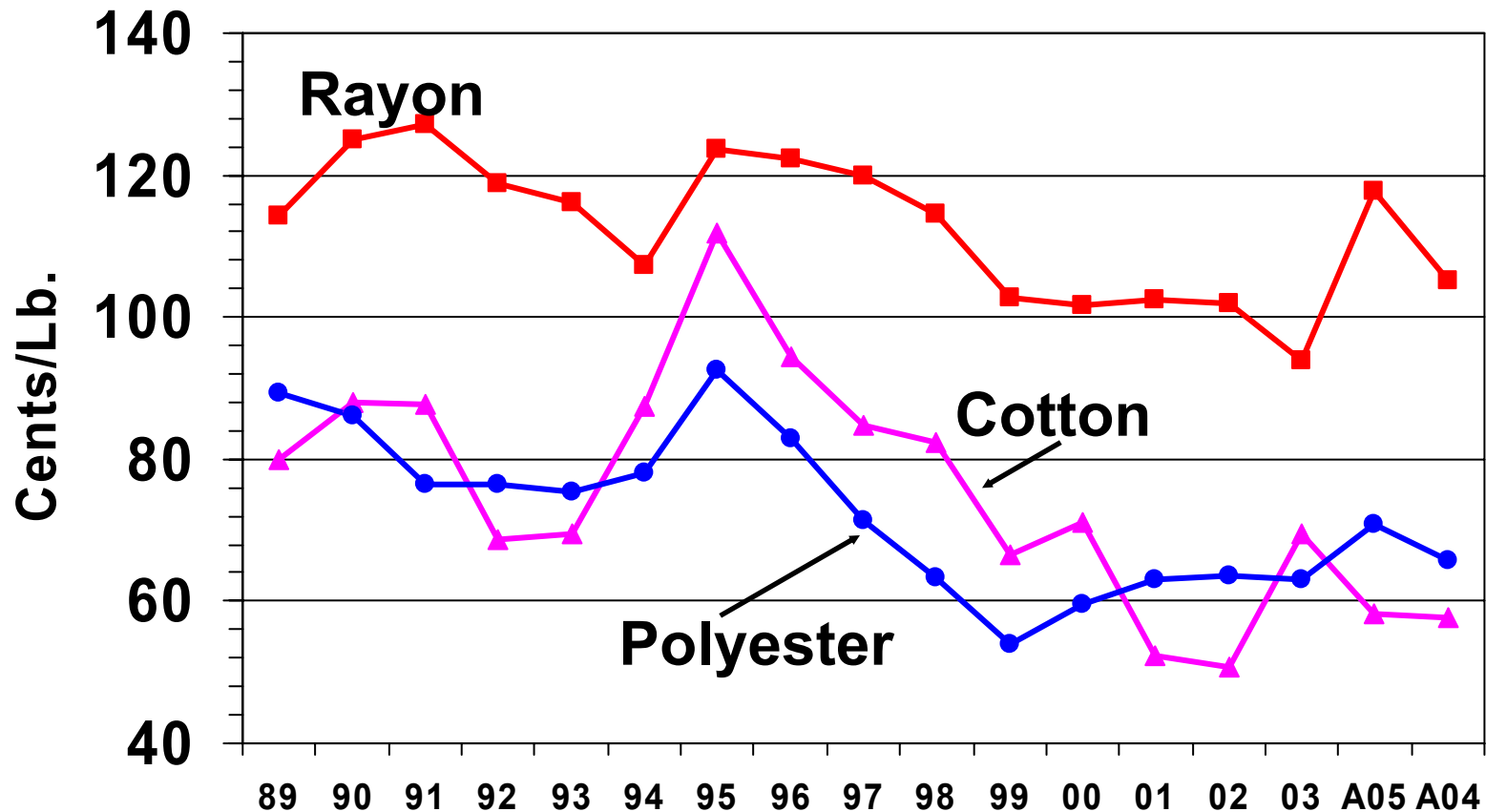
Note: Foreign and World numbers may not compare precisely to USDA reports due to rounding error.

Emerging Issue: Potential for Increased Foreign Productivity Cotton Yields

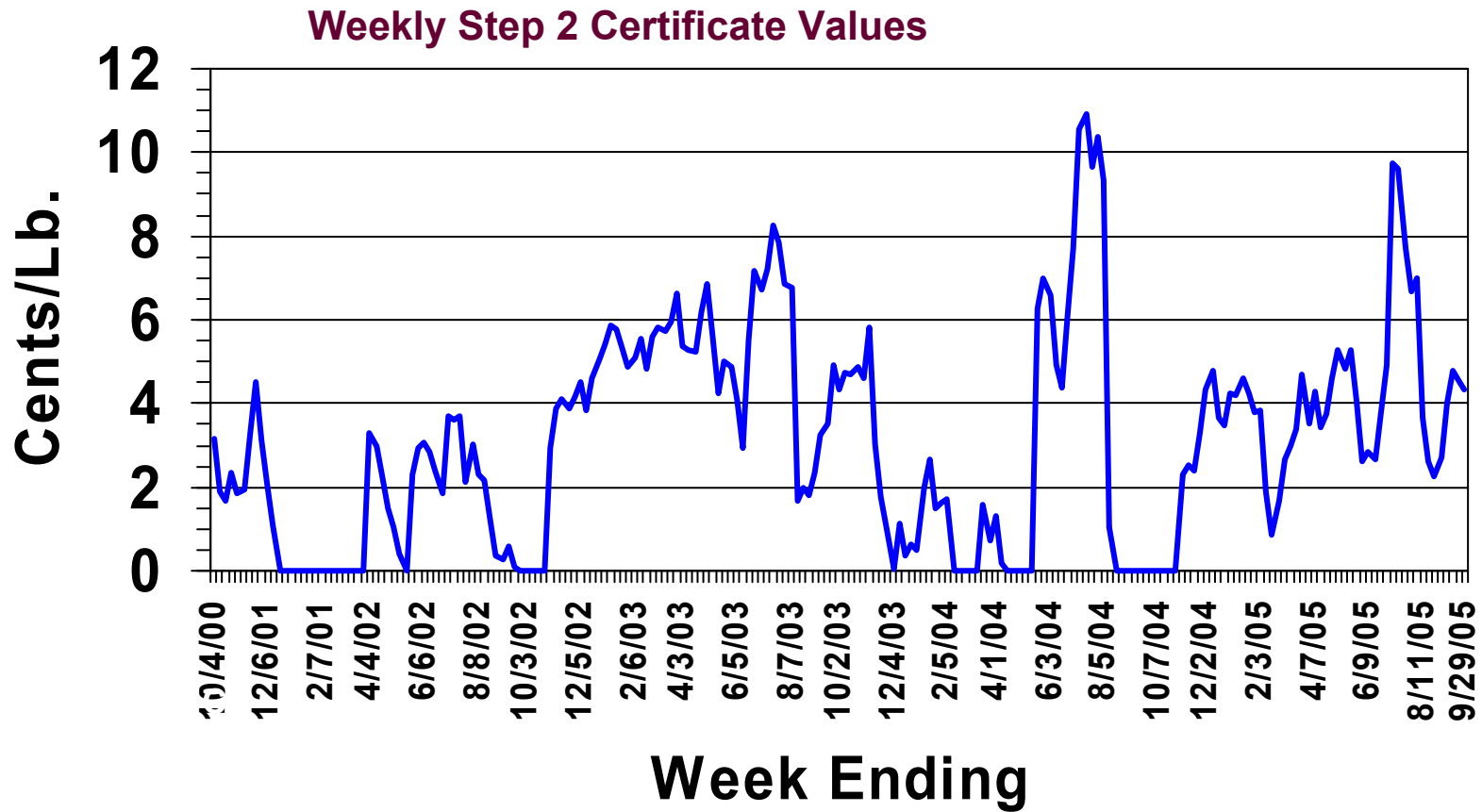


Emerging Issue: Impact of High Oil Prices

- Higher farm costs versus higher relative cost of synthetic fiber
- How does higher energy cost affect cotton versus corn/soybeans

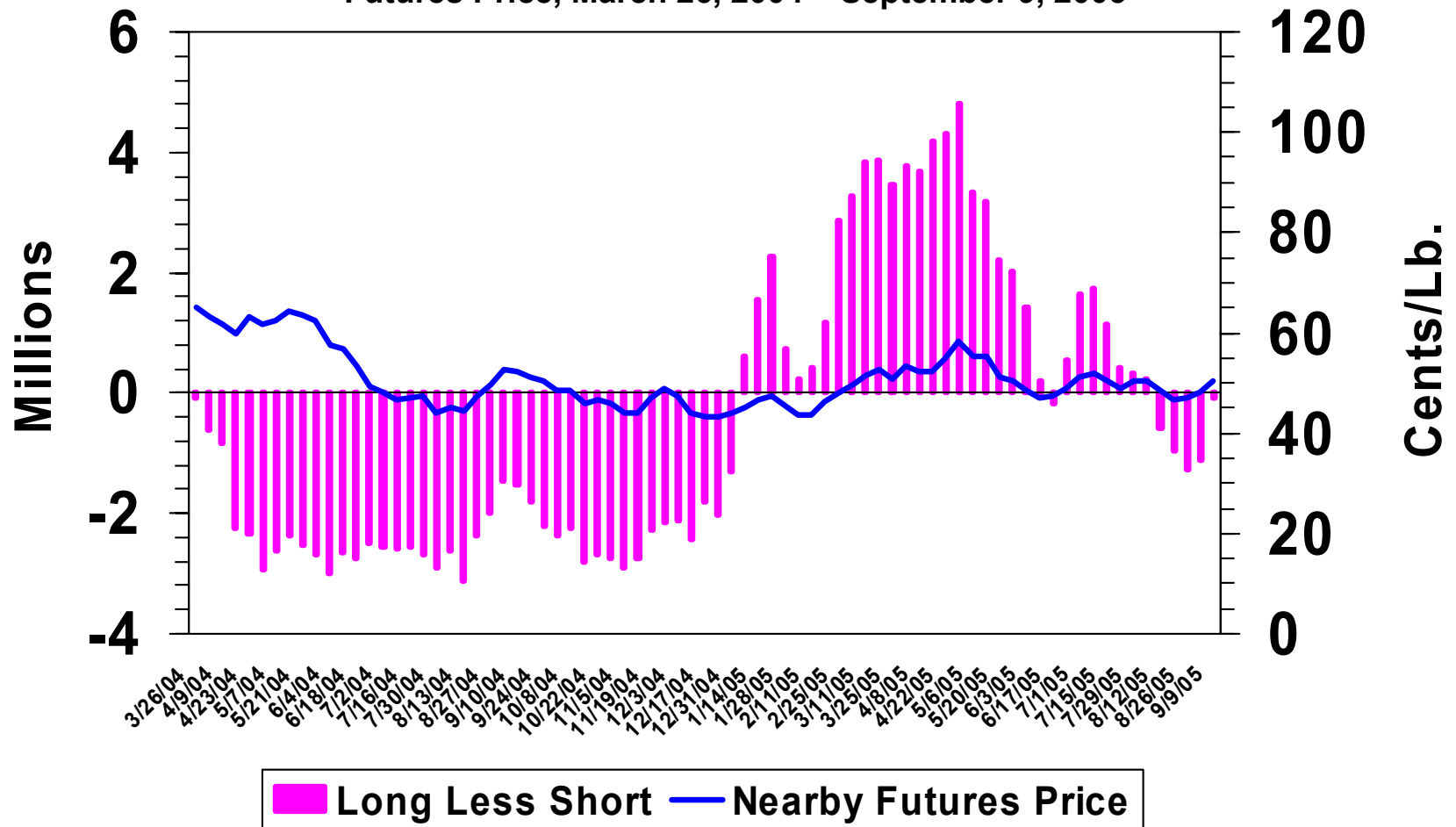


Emerging Issue: Impact of Losing Step 2 Export Subsidy:



Emerging Issue: Increasing Influence of Speculative Traders

Net Bale Commitments of Speculative Traders in Cotton Futures and Average Nearby Futures Price, March 26, 2004 – September 9, 2005





World Cotton Prices: “A” Index, Nearby Futures, AWP, and U.S. Loan Rate

