

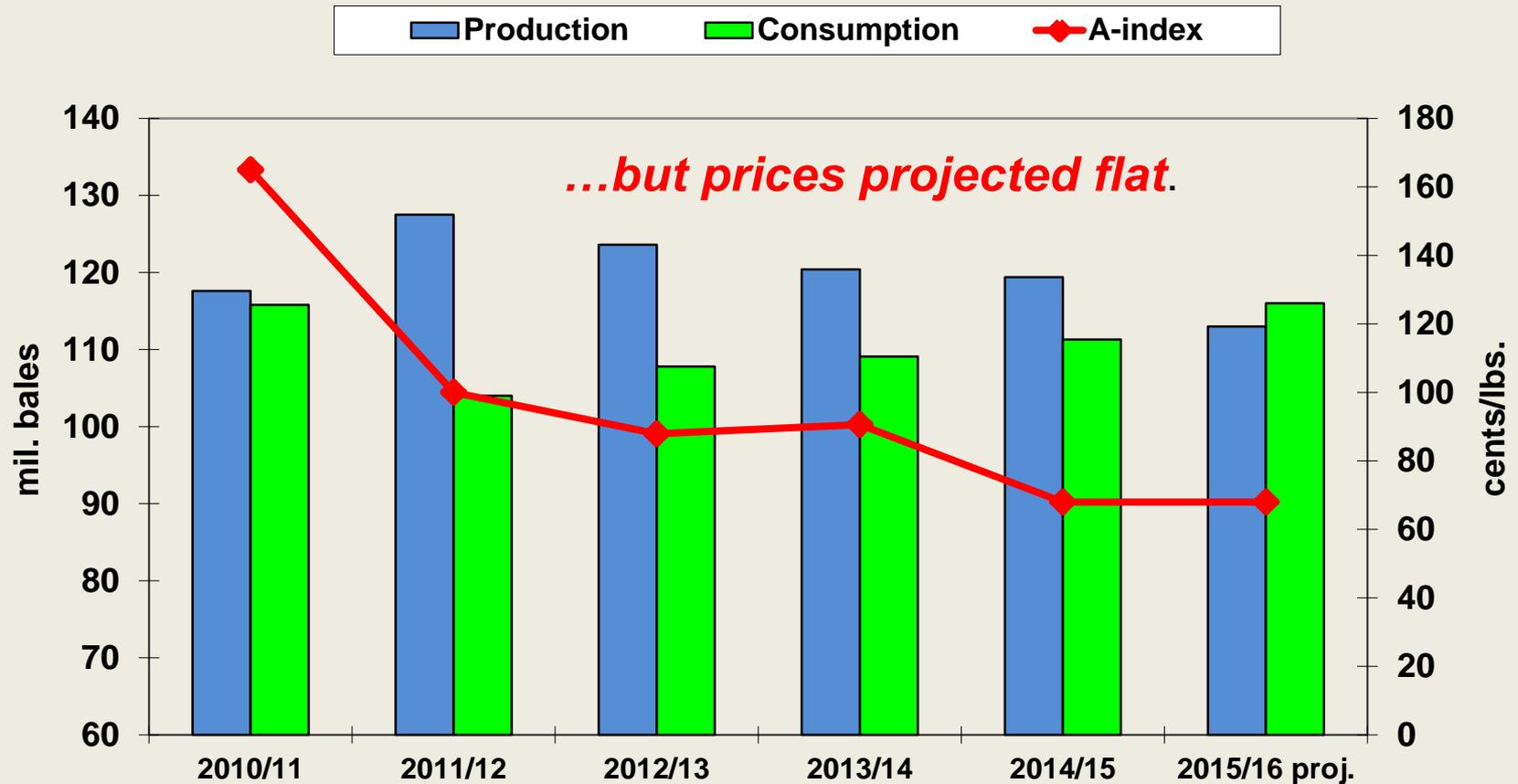
The World and U.S. Cotton Outlook for 2015/16

USDA

Interagency Cotton Estimates Committee

February 20, 2015

2015/16 World Consumption to Exceed Production for the First Time in 6 Years...

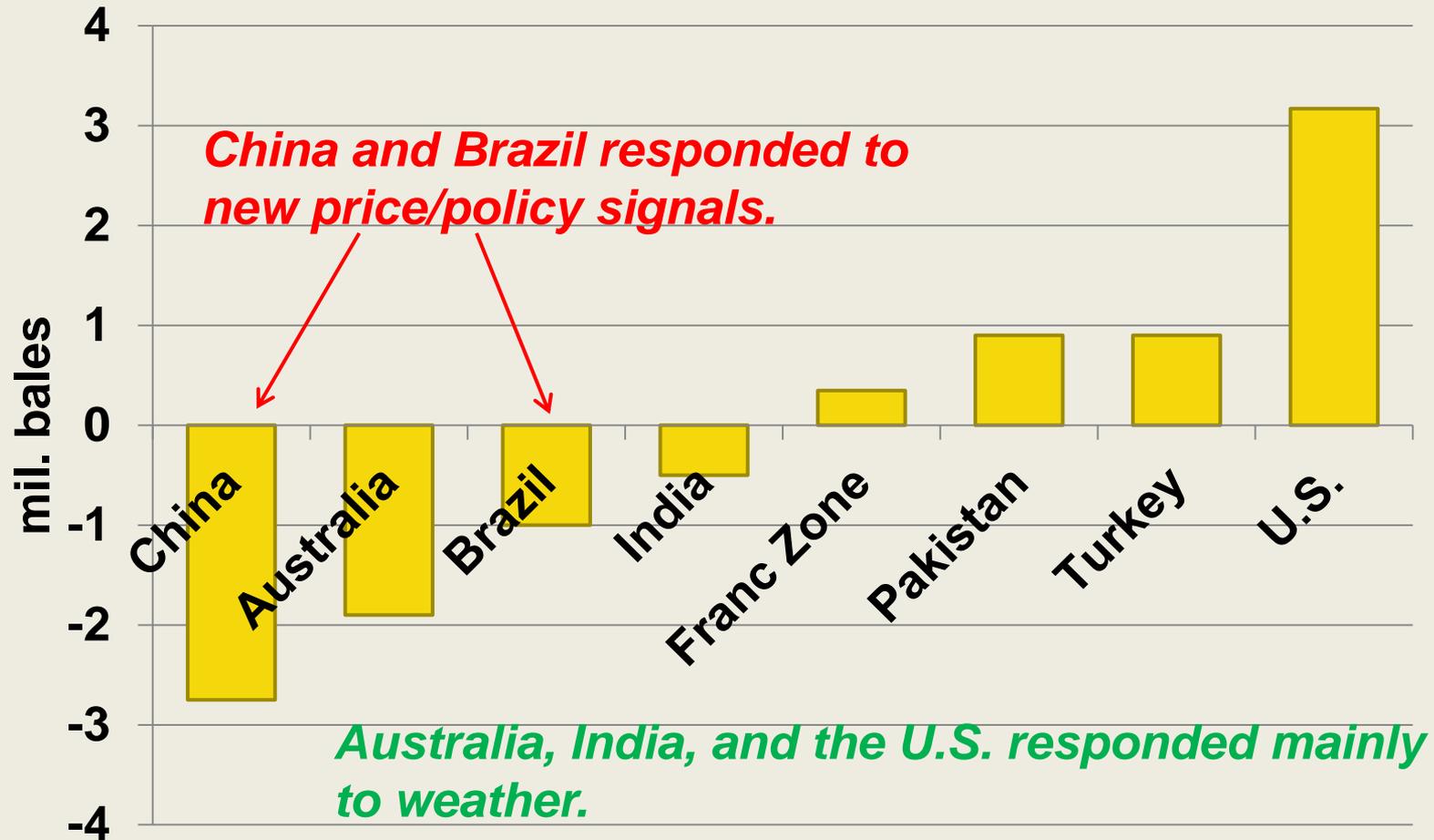


Stocks Adjustment is the Primary Issue

- **China's stocks rose to an estimated 63 million bales at the end of 2013/14 (= almost 2 years' consumption).**
- **China announced new policies in early 2014, attempting to reverse the process of stock accumulation.**
- **The global outlook can best be understood as the process by which supply and demand readjust to work off surplus stocks.**
- **Have to understand both the response mechanisms and the barriers to response.**

World and China Situation, 2014/15

Marginal Decrease in World Production, 2014/15



China's Policies Still Unfolding

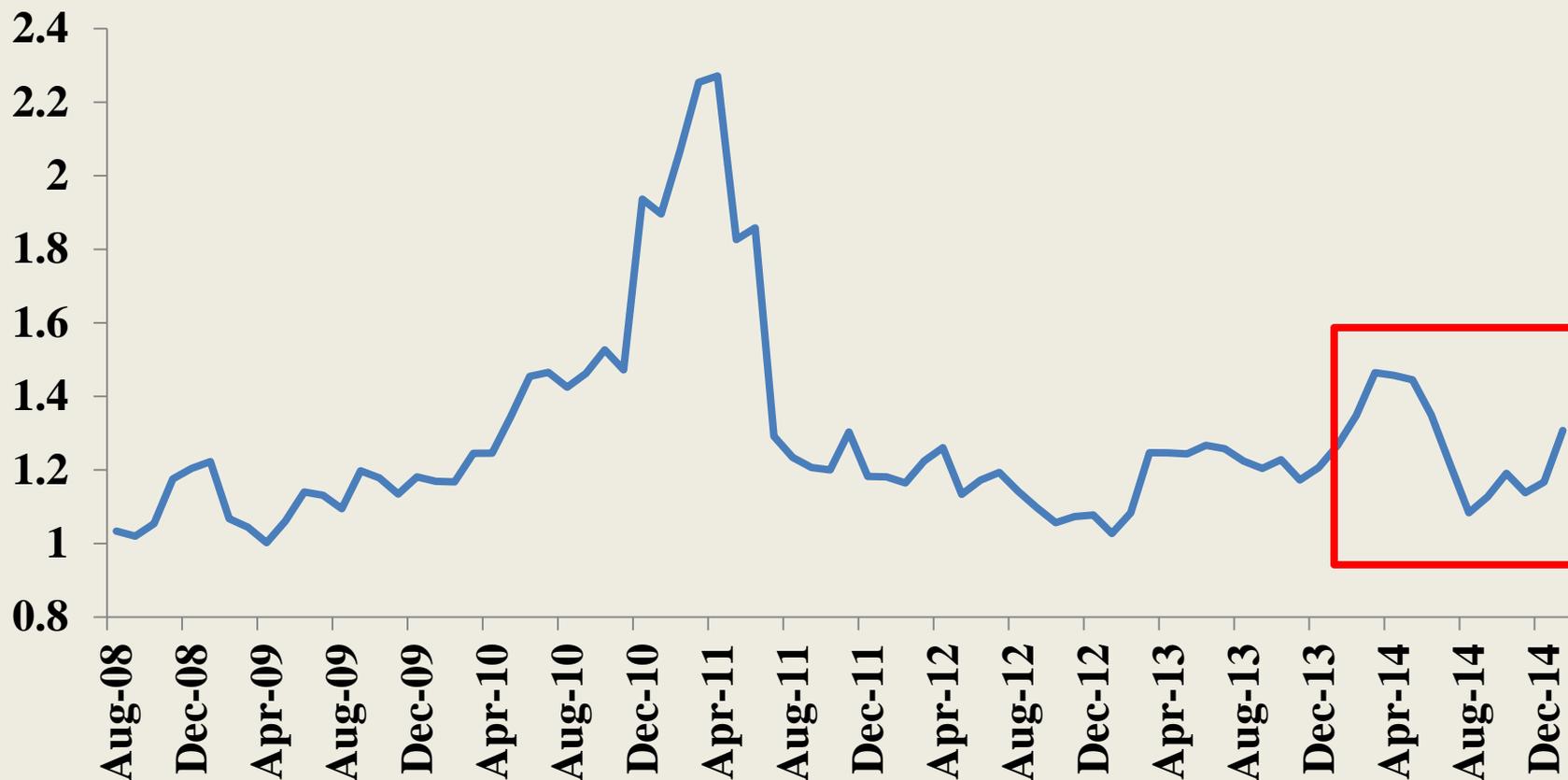
- **New income-support system favors Xinjiang; some details still unclear about what producers will actually receive.**
- **Severe import restrictions are assumed, based on strong statements by officials – imports reduced by about half.**
- **Reserve sales policy unclear.**
- **USDA anticipates that China will try to maintain internal prices between 13,000-14,000 RMB/ton (\$0.94-\$1.02/lb.)- premium of China to world prices will decline.**

2014/15 World Consumption Expected to Grow 2 Percent

- **Slightly above long-run average despite sharply lower prices.**
- **Macroeconomic estimates favorable, but...**
- **Polyester prices have fallen nearly as much as cotton prices.**

World Cotton Prices Relative to Polyester Stable, Despite Lower Cotton Prices

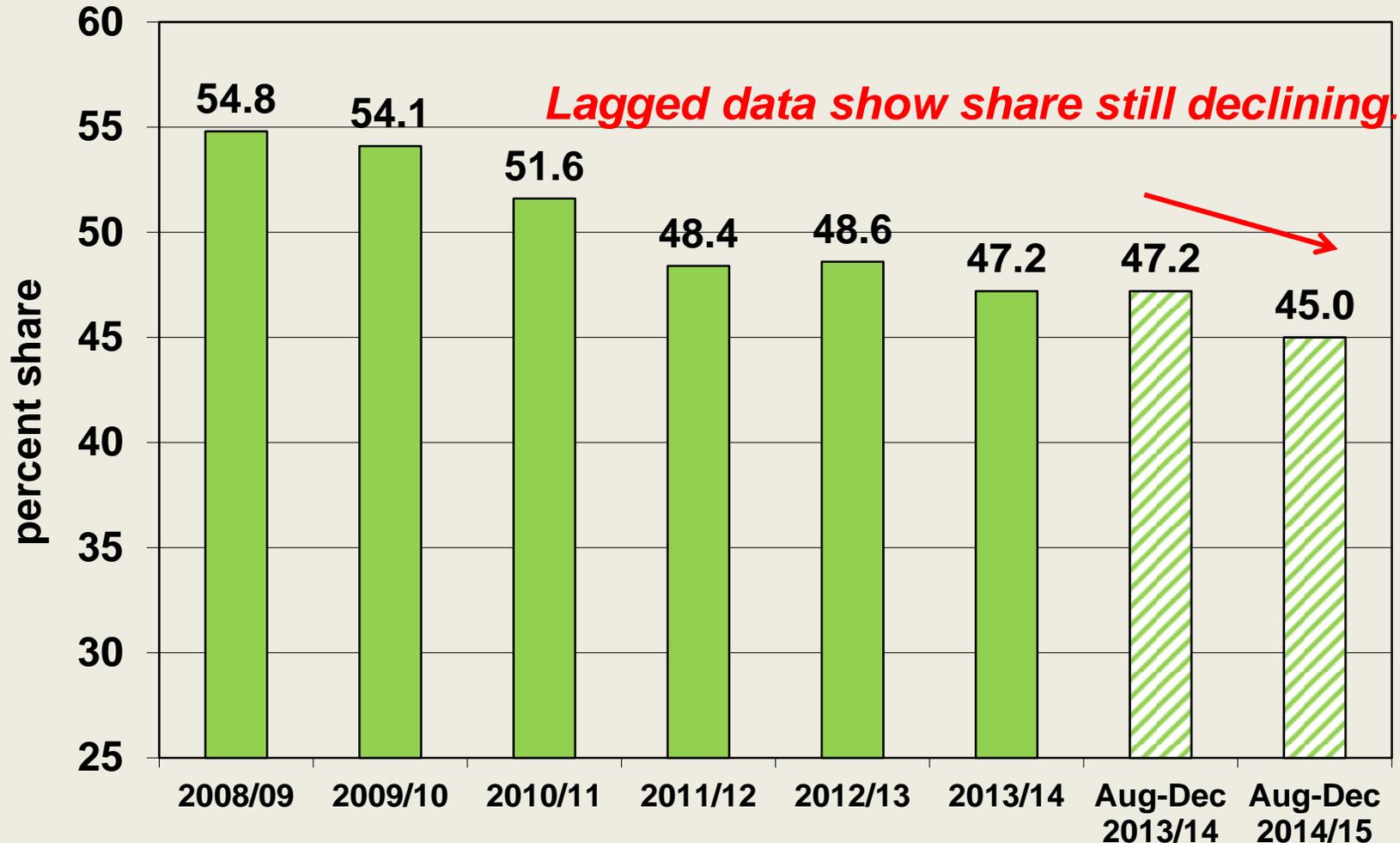
Cotton/polyester price ratio: Aug. 2008-Jan. 2015



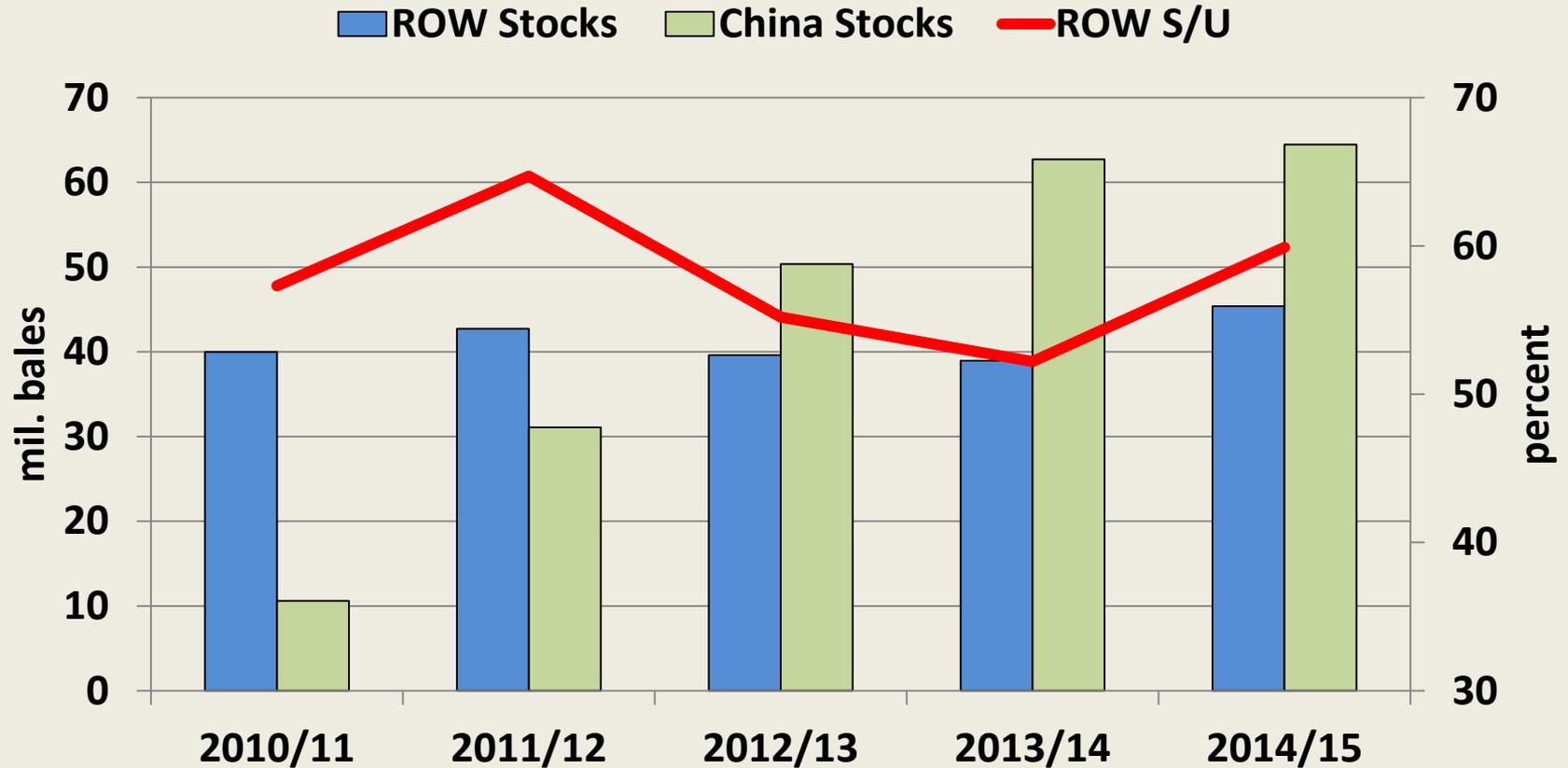
Sources: cncotton.com (polyester), Cotlook Ltd. (cotton, A Index)

Cotton's Fiber Share Has Not Recovered,

(U.S. textile imports, raw fiber equivalent basis)



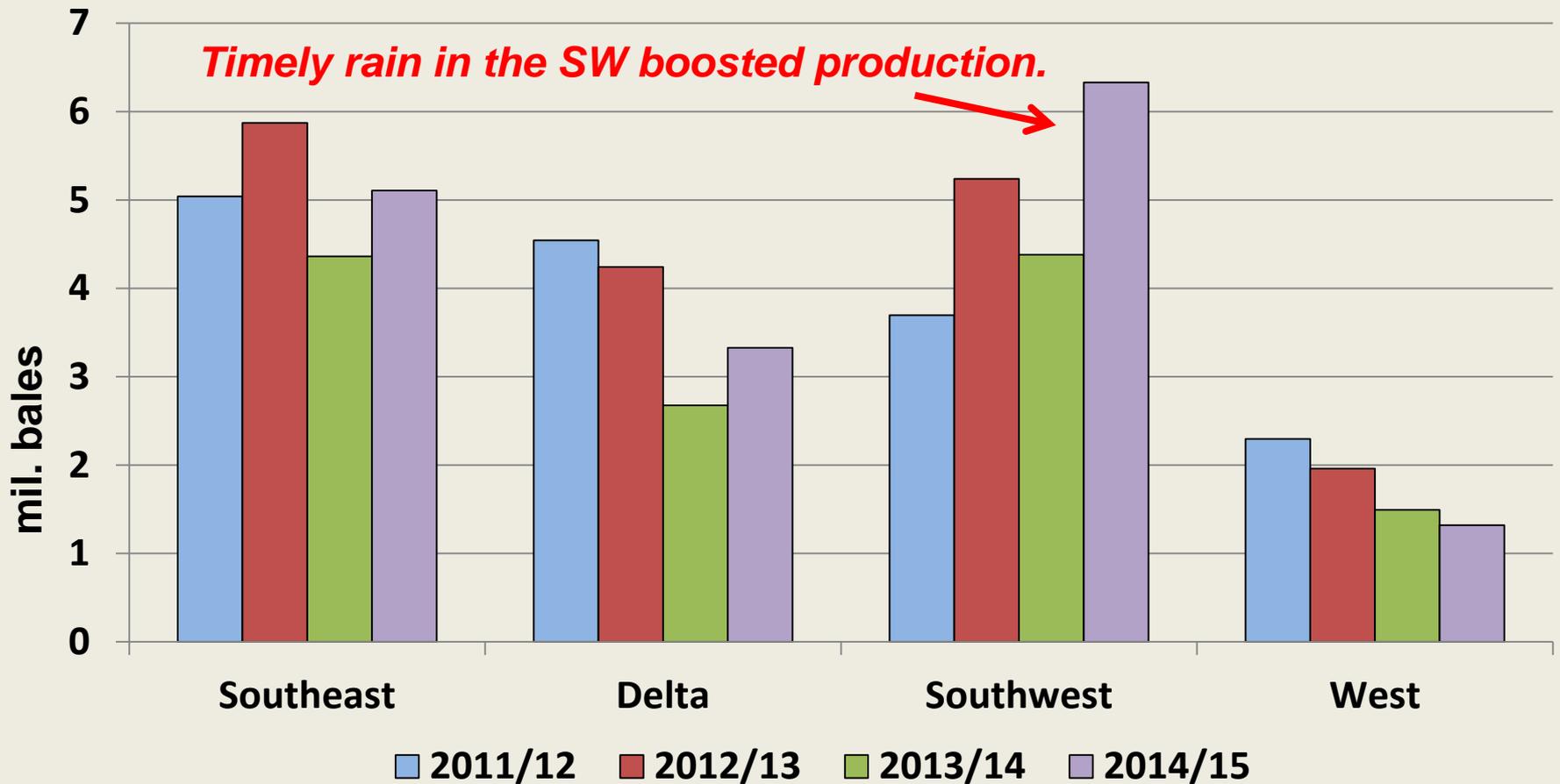
Large Production & China Import Restrictions Force Stocks into Rest-of-World



India's stocks estimated to rise nearly 3.5 mil. bales.

U.S. Situation, 2014/15

U.S. Added 3.2 Million Bales of Production in 2014/15



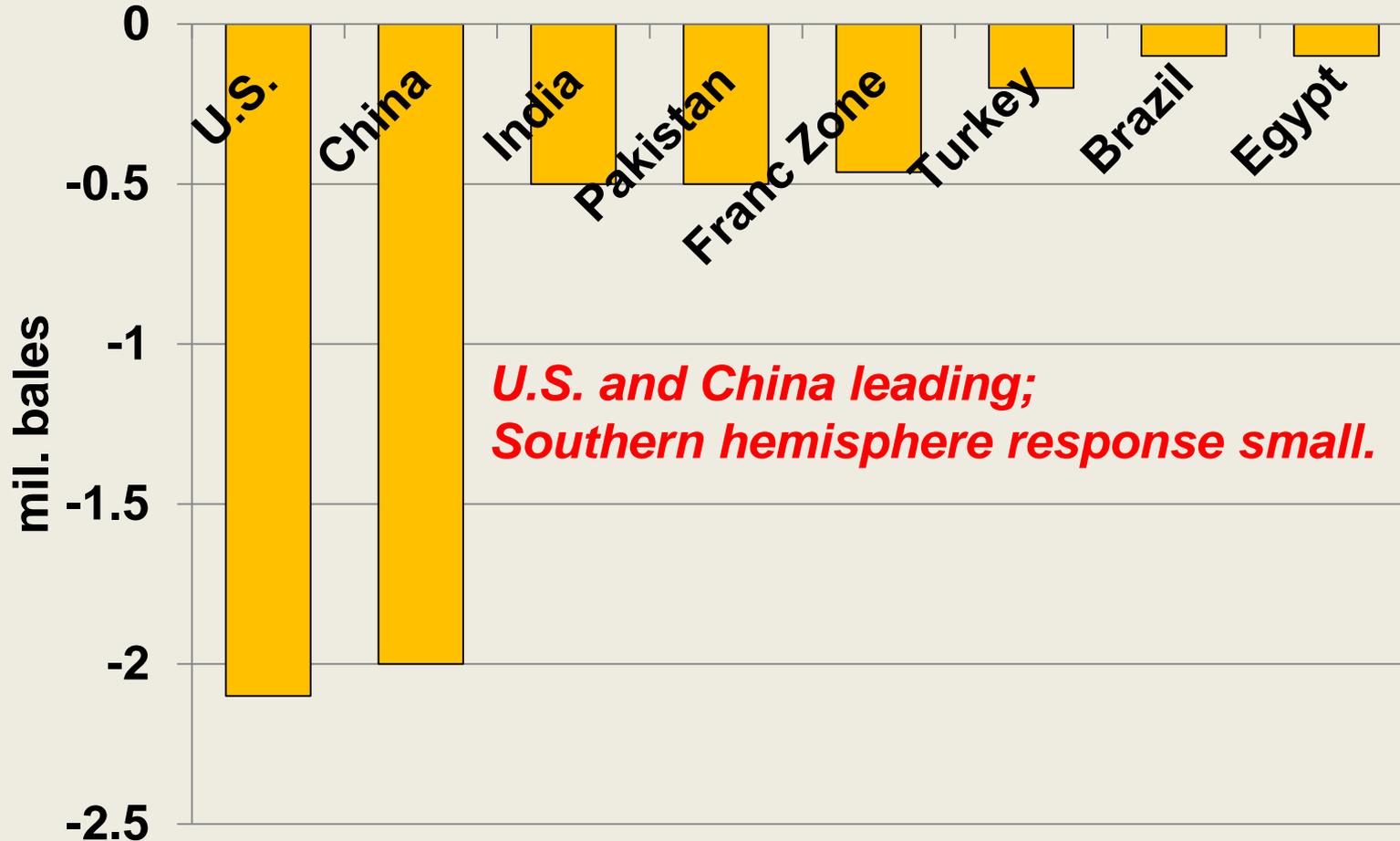
U.S. Cotton Supply & Demand, 2014/15

	Unit	2013/14	2014/15	Change (%)
Beg. Stocks	mil bales	3.8	2.5	-35.5
Production	"	12.9	16.1	24.6
Imports	"	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total supply	"	16.7	18.5	10.9
Mill use	"	3.6	3.7	2.8
Exports	"	<u>10.5</u>	<u>10.7*</u>	<u>1.6</u>
Total demand	"	14.1	14.4	1.9
Ending stocks	"	2.5	4.2	71.4
Stocks-to-use	%	17.4	29.3	68.4
Farm price	cents/lb.	77.9	61.0	-21.7

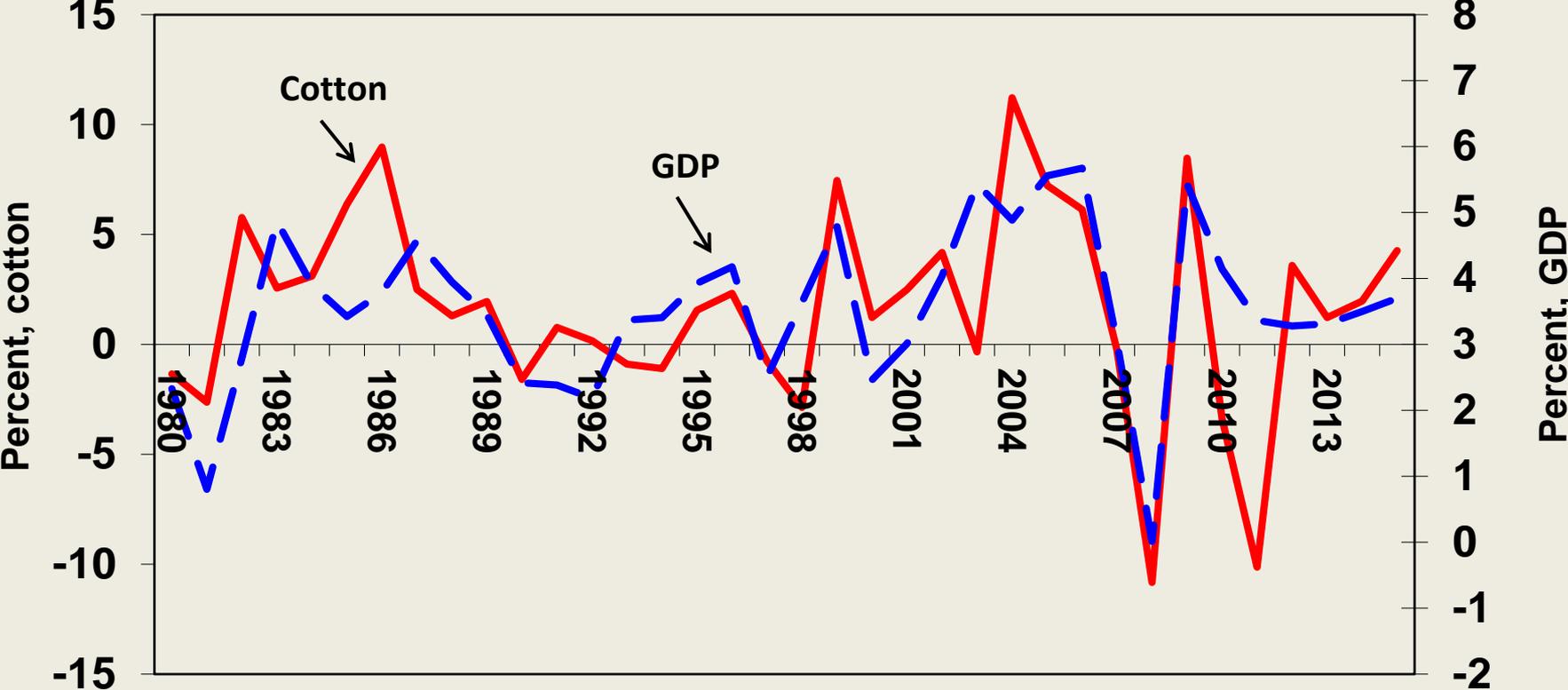
*** U.S. share of world trade rising from 26 to 31 percent.**

World and China Outlook, 2015/16

Global Production Projected Down 6.4 mil. bales



World Cotton Consumption to Rise 4 %, *on GDP Growth and Lagged Response to Low Prices*

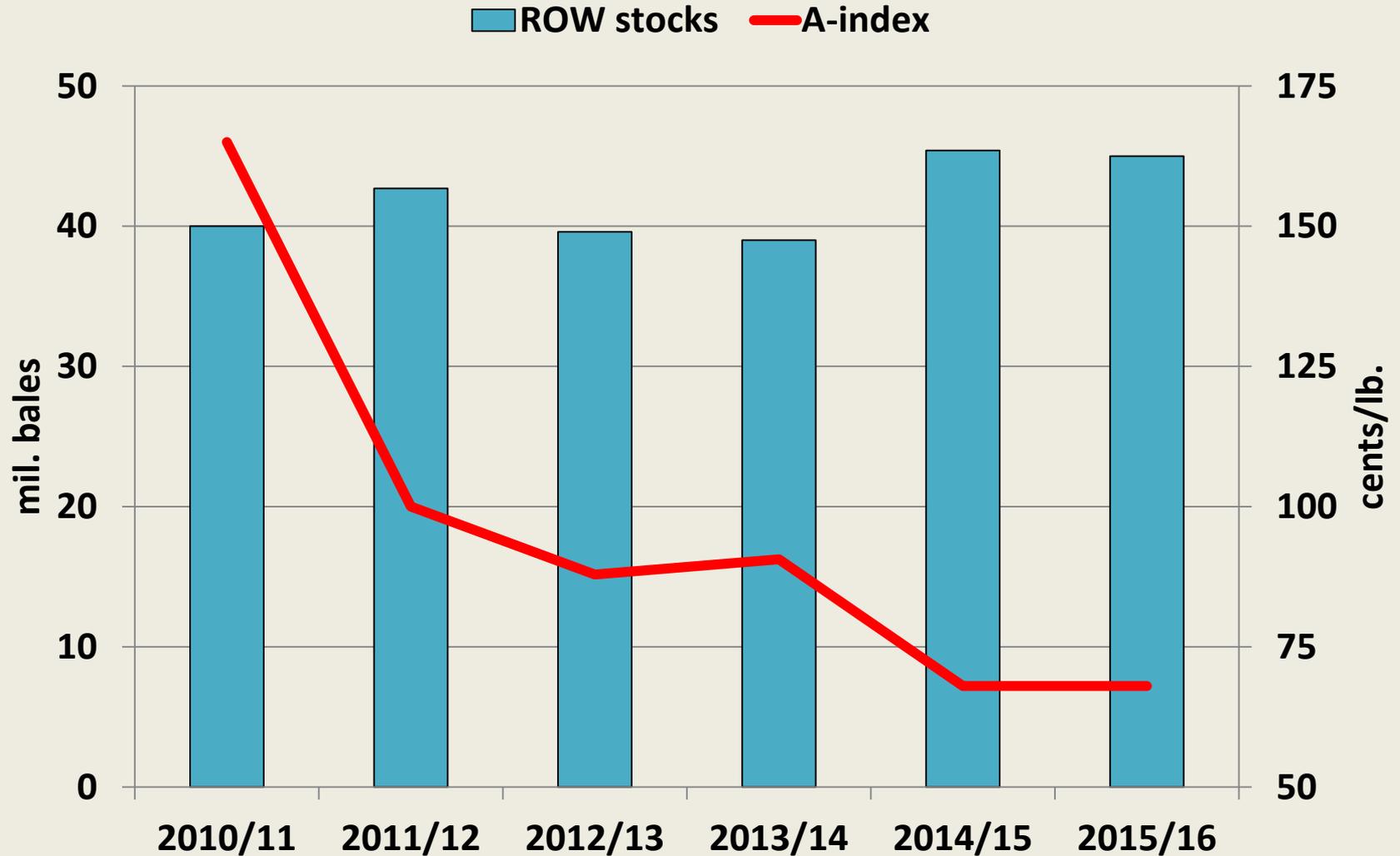


Sources: USDA and International Monetary Fund.

Path of World Cotton Consumption Unclear

- **Are macro projections too optimistic?**
- **Will polyester prices rise or fall?**
- **Will the relative stability of cotton prices benefit consumption?**
- **Will recent increases in spinning capacity outside China provide a boost?**
- **Are there underlying permanent changes in fiber use/preference by manufacturers and consumers?**

Stocks Outside China and A-Index



U.S. Outlook, 2015/16

Factors Affecting U.S. Area and Production

- Planted area expected to fall 12 percent to 9.7 million acres (NCC survey 9.4), due mainly to lower prices.**
- Prices of alternative crops also falling – may cause cotton to retain some area.**
- However, government program safety net no longer provides counter-cyclical price protection.**
- Currently projecting historical average abandonment of about 13 percent.**

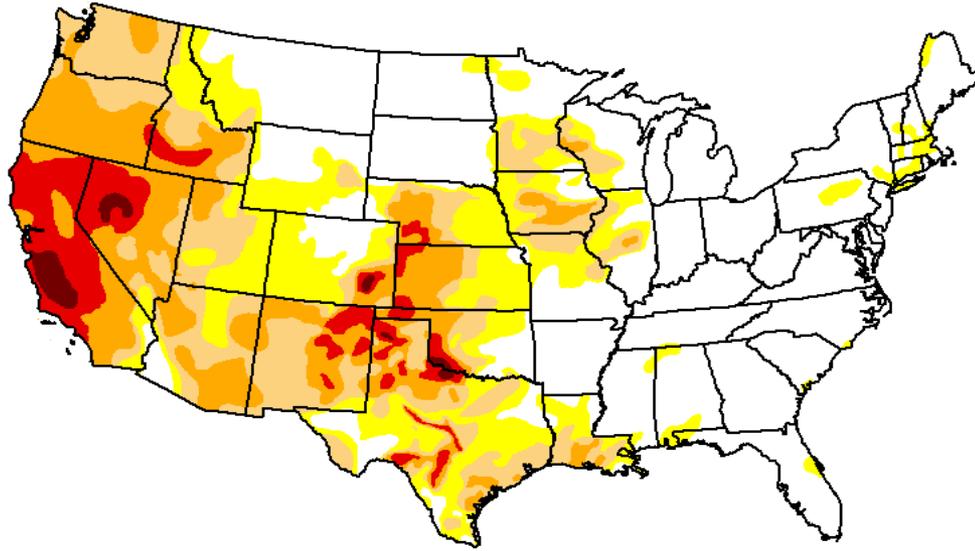
U.S. Cotton Area, Yield, and Production

(Abandonment key; range of 3%-36% since 2010)

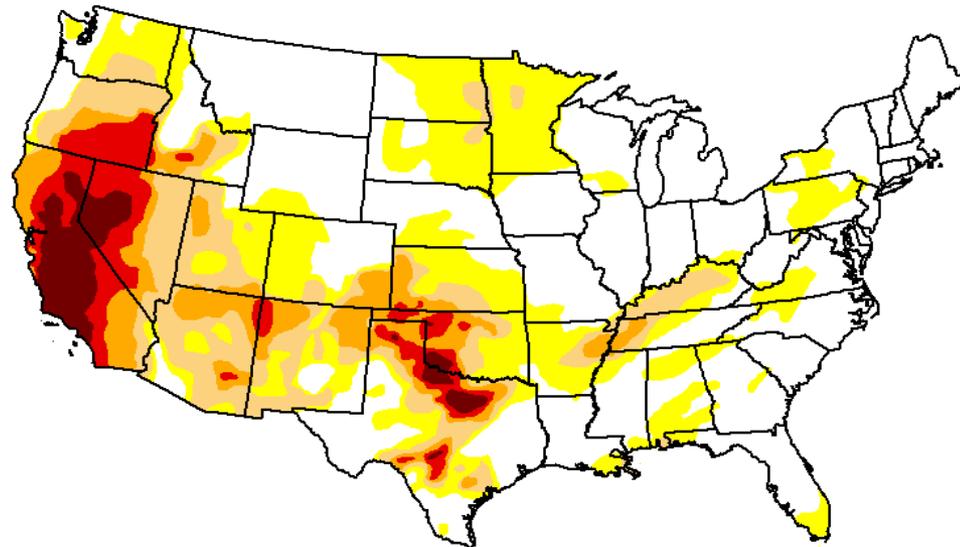
	<u>Unit</u>	<u>2014/15</u>	<u>2015/16</u>	<u>Change(%)</u>
Planted area	mil. acres	11.0	9.7	-11.8
Harvested area	"	9.7	8.4	-13.4
Abandonment rate	%	12.1	13.4	10.7
Yield/harvested acre	lbs./acre	795	800	0.6
Production	mil. bales	16.1	14.0	-13.0

Drought Persists in Texas High Plains; Worsens in California

February 11, 2014



February 10, 2015



U.S. Cotton Supply & Demand, 2015/16

	Unit	2014/15	2015/16	Change (%)
Beg. Stocks	mil bales	2.5	4.2	71.4
Production	"	16.1	14.0	-12.9
Imports	"	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total supply	"	18.5	18.2	-1.8
Mill use	"	3.7	3.8	2.7
Exports	"	<u>10.7</u>	<u>10.2</u>	<u>-4.7</u>
Total demand	"	14.4	14.0	-2.8
Ending stocks	"	4.2	4.3	2.4
Stocks-to-use	%	29.3	30.8	5.1
Farm price	cents/lb.	61.0	60.0	-1.6

Key Variables that Could Change the Outlook

- **A more aggressive program of stocks disposal by China.**
- **Greater world area response to low prices than currently anticipated.**
- **Weather and growing conditions.**
- **Macroeconomic growth.**
- **Changes in polyester prices in either direction.**