

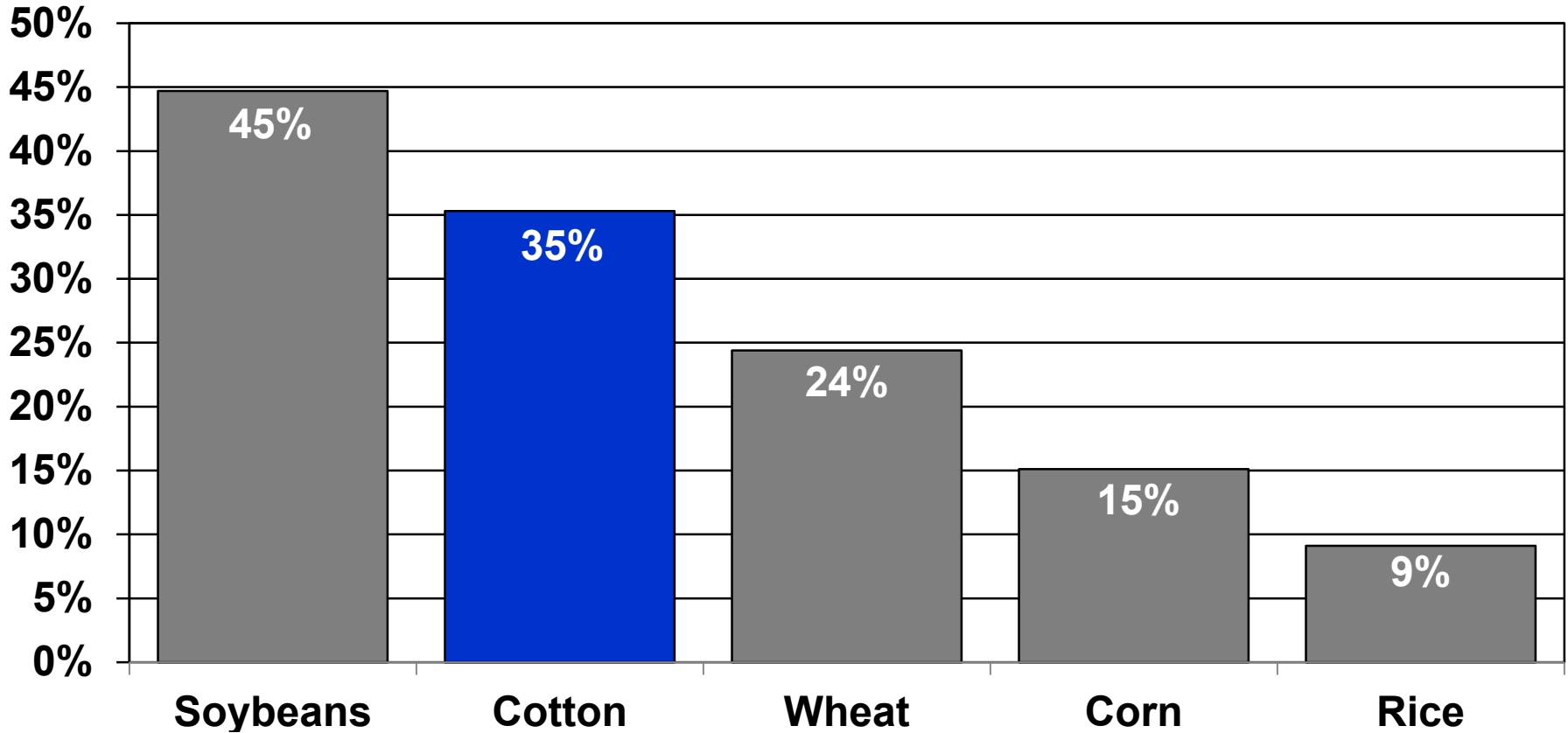
# Cotton Fundamentals and Outlook

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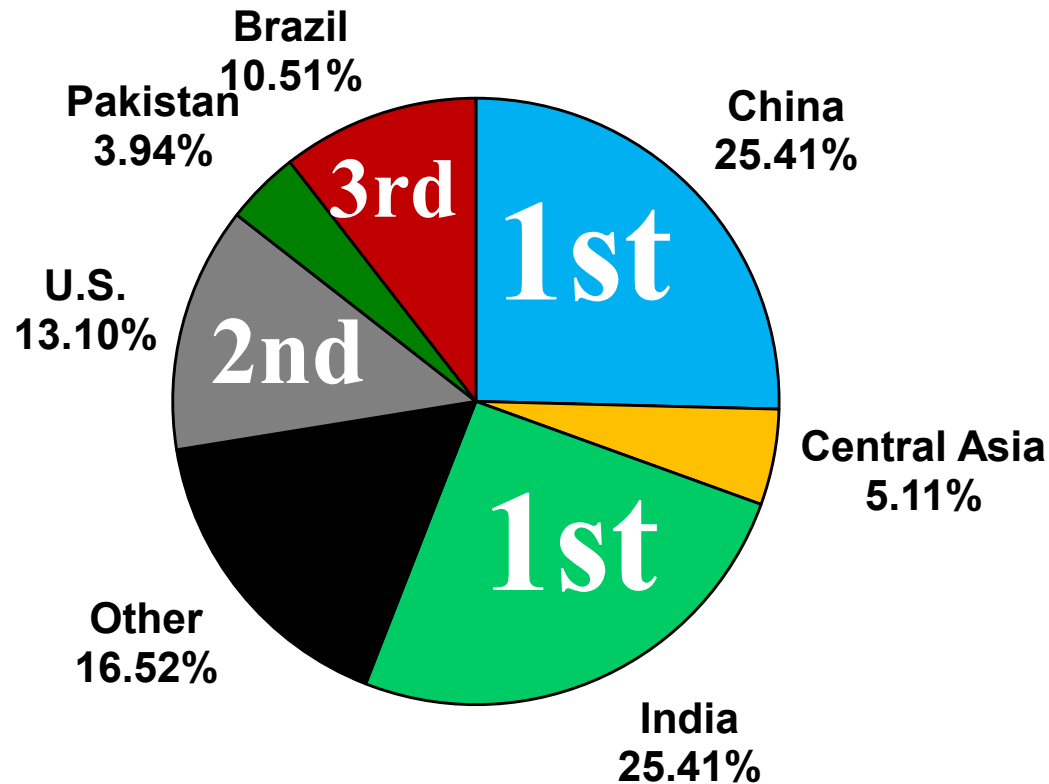
# Cotton is a Global Commodity

Percentage of annual U.S. production that is exported (average 2016/17-2020/21)



Source: USDA/FAS

# Major World Cotton Producers

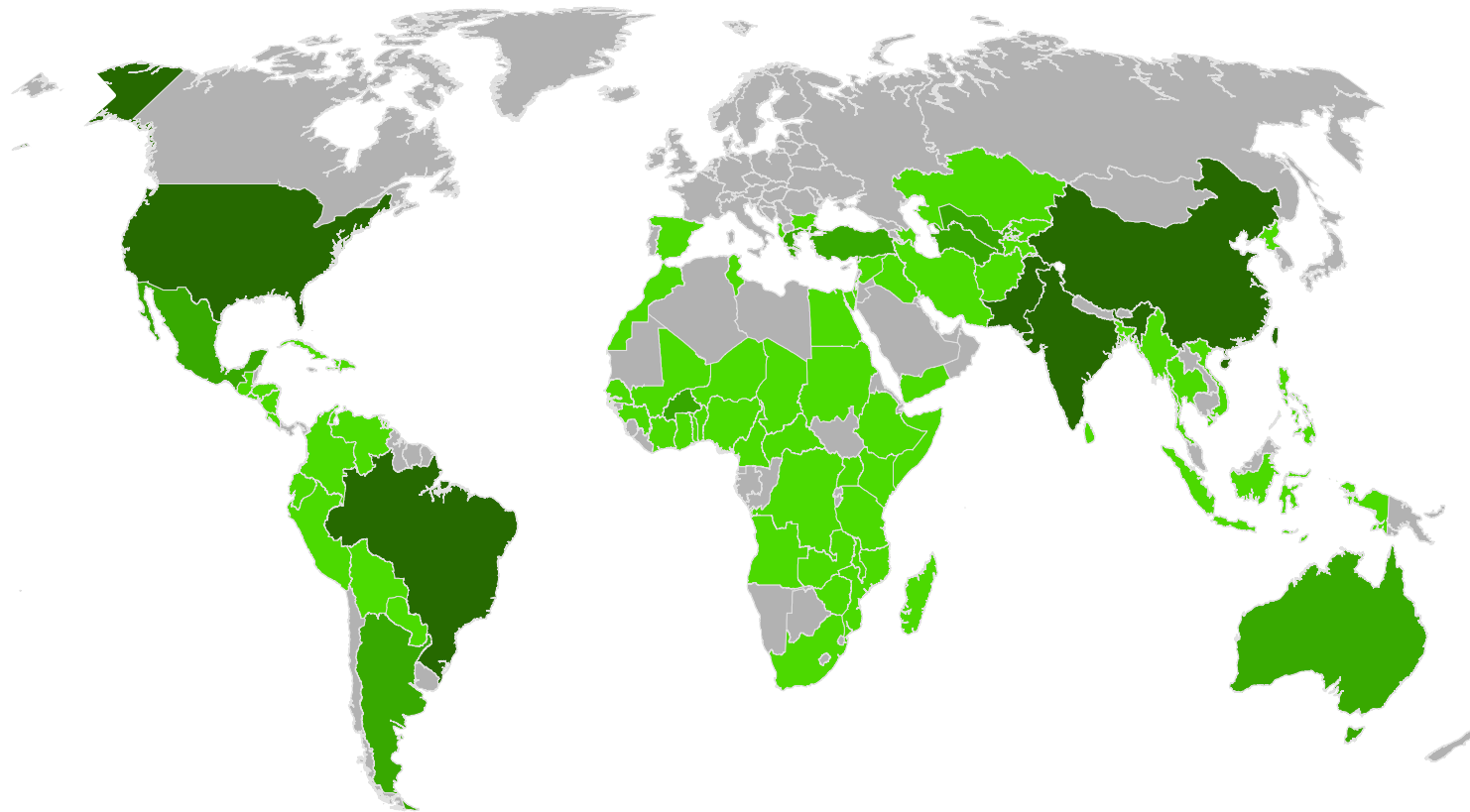


2020/21

Total Production = 114.14  
Million 480-Lb. Bales

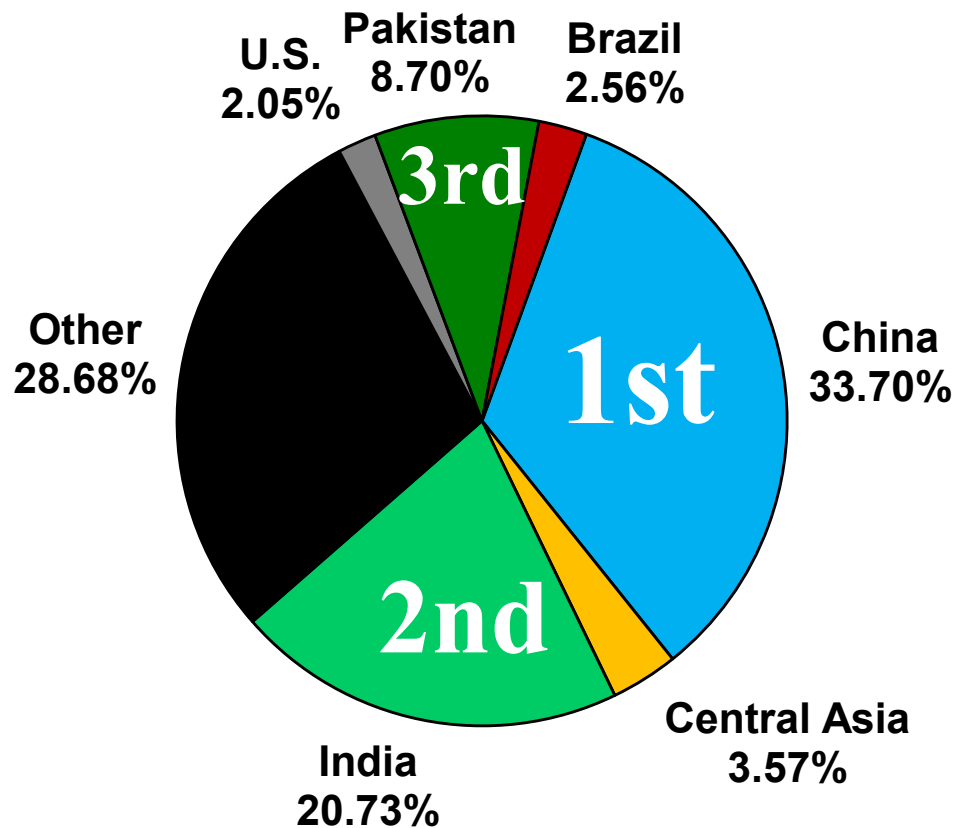
# Global Cotton Production

480lb bales (average 2010/11 to 2014/15)



Source: USDA

# Major World Cotton Consumers

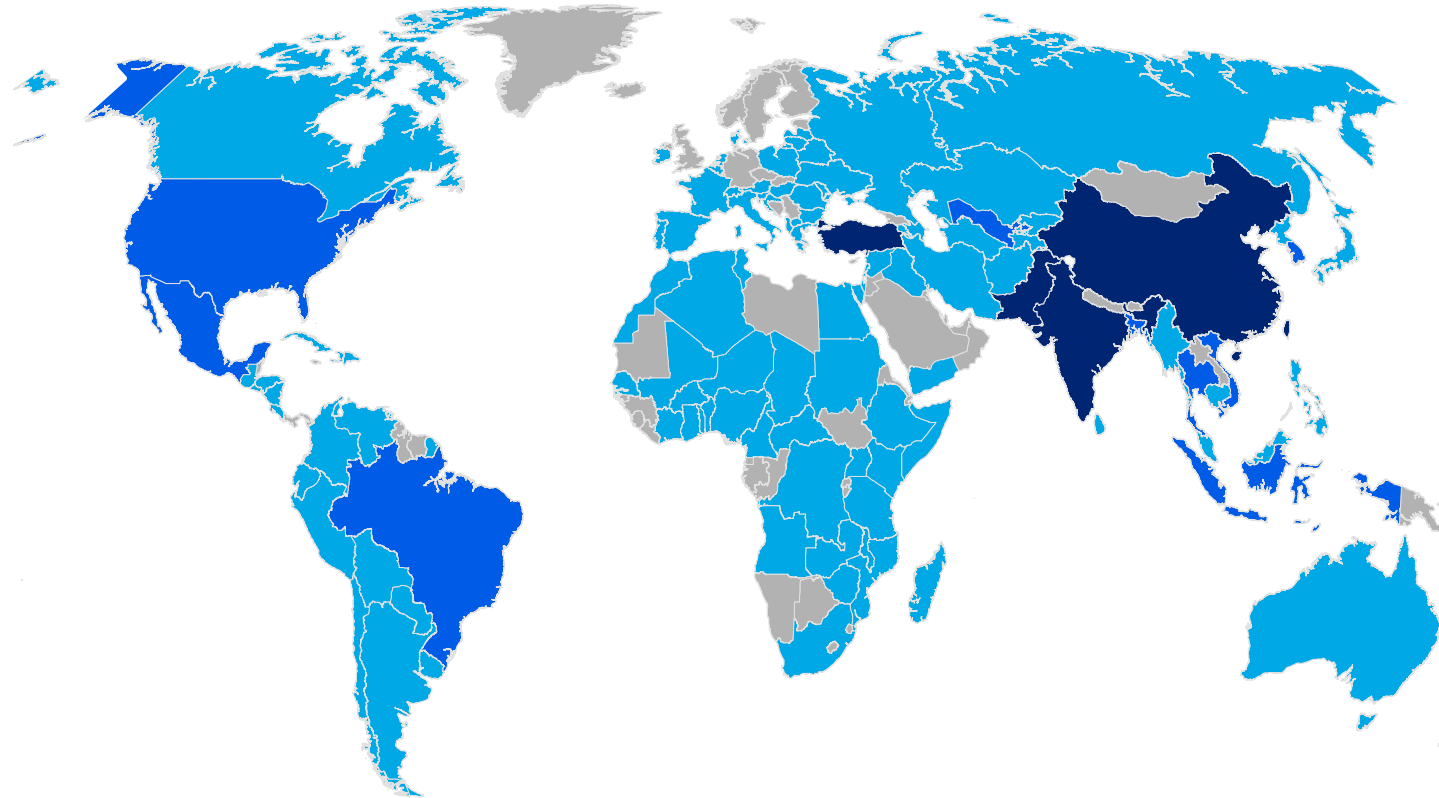


2020/21

Total Domestic Use = 117.21  
Million 480-Lb. Bales

# Global Cotton Mill-Use

480lb bales (average 2014/15 to 2018/19)



Source: USDA

# Global Market

- **Cotton growers in major exporting countries respond to price signals.**
  - **More so in developed, commercial exporters (U.S., Brazil, Australia)**
  - **Less in developing countries**
- **Cotton exporters are also influenced by exchange rates and changing economic conditions.**

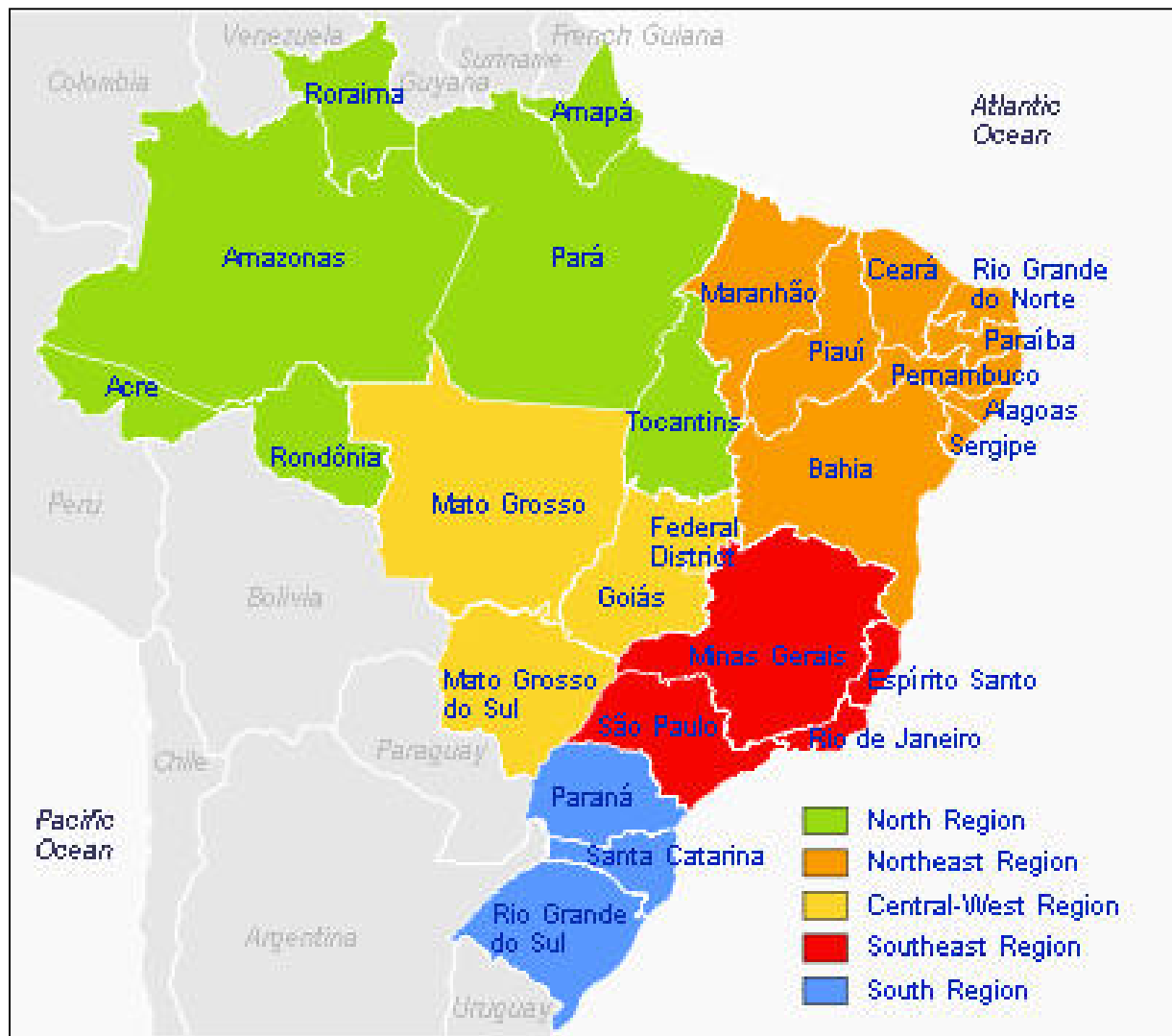
# Brazil

**2020/21  
Production:**

**12.0 million  
bales**

**2020/21  
Consumption:**

**3.0 million  
bales**



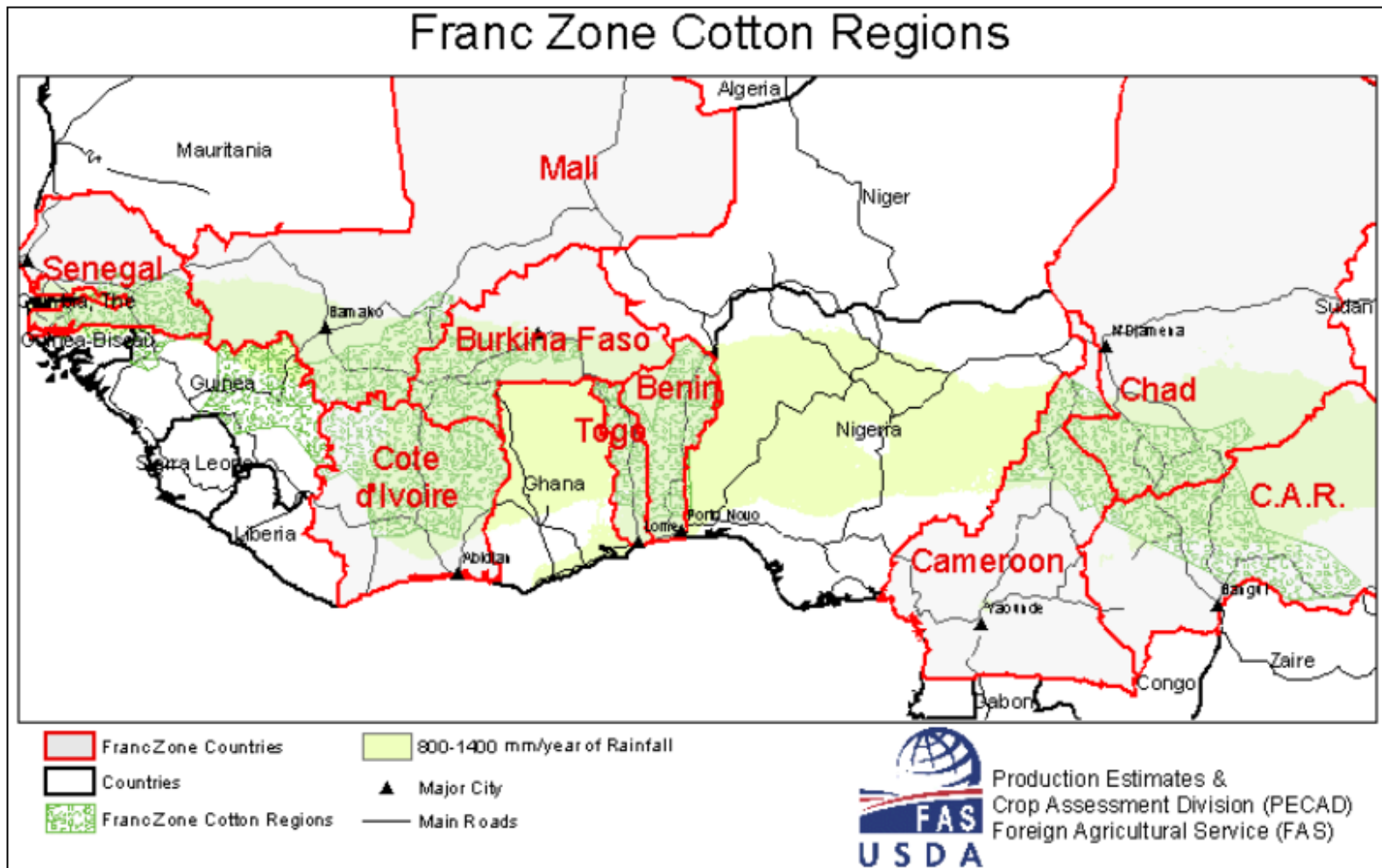


# Australia



**2020/21 Production and Consumption:**  
**2.6 million bales      0.04 million bales**

# West African Cotton Belt



**2020/21 Production and Consumption:**  
**4.77 million bales    0.14 million bales**

# Make a New Plan, Stan

**2020/21  
Production  
(480 bales)**

**Pakistan:  
4.50 million**

**Central Asia:  
5.83 million**

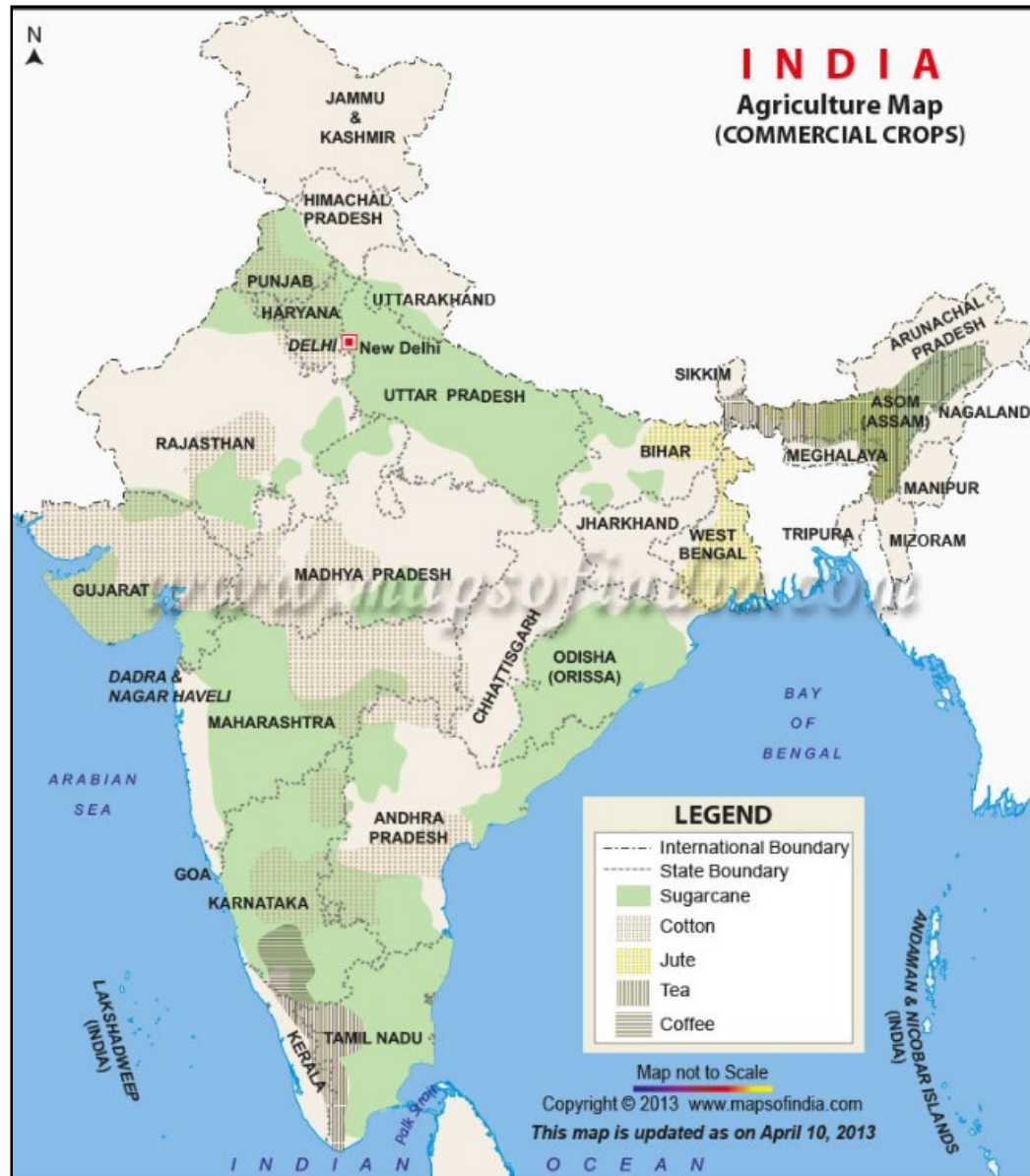
**(Pakistan and  
Central Asia  
consume 10.2M  
and 4.19M bales,  
respectively)**



# India

**2020/21  
Production:  
29.0 million bales**

**2020/21  
Consumption:  
24.3 million bales**



# Chinese Cotton Belt

Production Share in 2019/20 (%)	
Xinjiang	85.25
Shandong	4.07
Hebei	3.64
Hubei	2.46
Hunan	1.39
Anhui	0.95
Gansu	0.56
Henan	0.46
Jiangsu	0.27
<u>Other</u>	<u>0.95</u>
<b>Total China</b>	<b>100.00</b>



Source: USDA/FAS China Attache Gain Report #CH2020-0047, April 2020.

**2020/21 Production: 29.00 million bales**  
**2020/21 Consumption: 39.50 million bales**  
**2020/21 Net Deficit: 10.50 million bales**

WASDE - 609 - 27

**World Cotton Supply and Use 1/  
(Million 480-Pound Bales)**

2020/21 Proj.		Beginning Stocks	Production	Imports	Domestic Use	Exports	Loss /2	Ending Stocks
World	Jan	99.28	112.87	43.55	115.73	43.56	0.09	96.32
	Feb	98.92	114.14	43.92	117.21	43.90	0.14	95.74
World Less China	Jan	62.38	85.37	33.05	77.23	43.43	0.09	60.04
	Feb	62.03	85.14	32.92	77.71	43.78	0.14	58.46
United States	Jan	7.25	14.95	3/	2.40	15.25	-0.04	4.60
	Feb	7.25	14.95	3/	2.40	15.50	0.01	4.30
Total Foreign	Jan	92.03	97.91	43.54	113.33	28.31	0.13	91.72
	Feb	91.67	99.19	43.91	114.81	28.40	0.13	91.44
Major Exporters 4/	Jan	40.48	57.17	1.71	32.88	24.31	0.02	42.15
	Feb	40.13	56.75	1.51	33.18	24.35	0.02	40.83
Major Importers 8/	Jan	49.07	37.58	39.33	76.53	2.58	0.11	46.76
	Feb	49.07	39.28	39.90	77.71	2.63	0.11	47.80

# Fundamental Tightening of Old Crop Balance Sheet

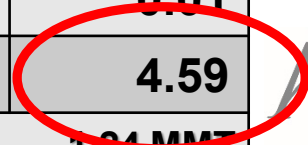
Longer term trends in cotton prices are highly influenced by Ending Stocks variable changes (either monthly or year-over-year).

# U.S. Cotton Balance Sheet

	2018/19	2019/20	2020/21
	<i>Area Million Acres</i>		
Planted	14.10	13.74	12.09
Harvested	9.99	11.61	8.70
	<i>Pounds</i>		
Yield/Harvested Acre	882	823	825
	<i>Million 480 Pound Bales</i>		
Beginning Stocks	4.20	4.85	7.25
Production	18.37	19.91	14.95
Imports	0.00	0.00	0.00
Supply, Total	22.57	24.77	22.21
Domestic Use	2.98	2.15	2.40
Exports, Total	14.84	15.53	15.50
Use, Total	17.81	17.68	17.90
Unaccounted	-0.09	-0.16	0.01
Ending Stocks	4.85	7.25	4.59
February 9, 2021 WASDE			1.24 MMT

???

?



# **Demand Influences on the Cotton Market**

- **U.S. Economic Indicators**
- **U.S. Exports**
- **Emerging Foreign Issues**
- **Speculative Money Flows**

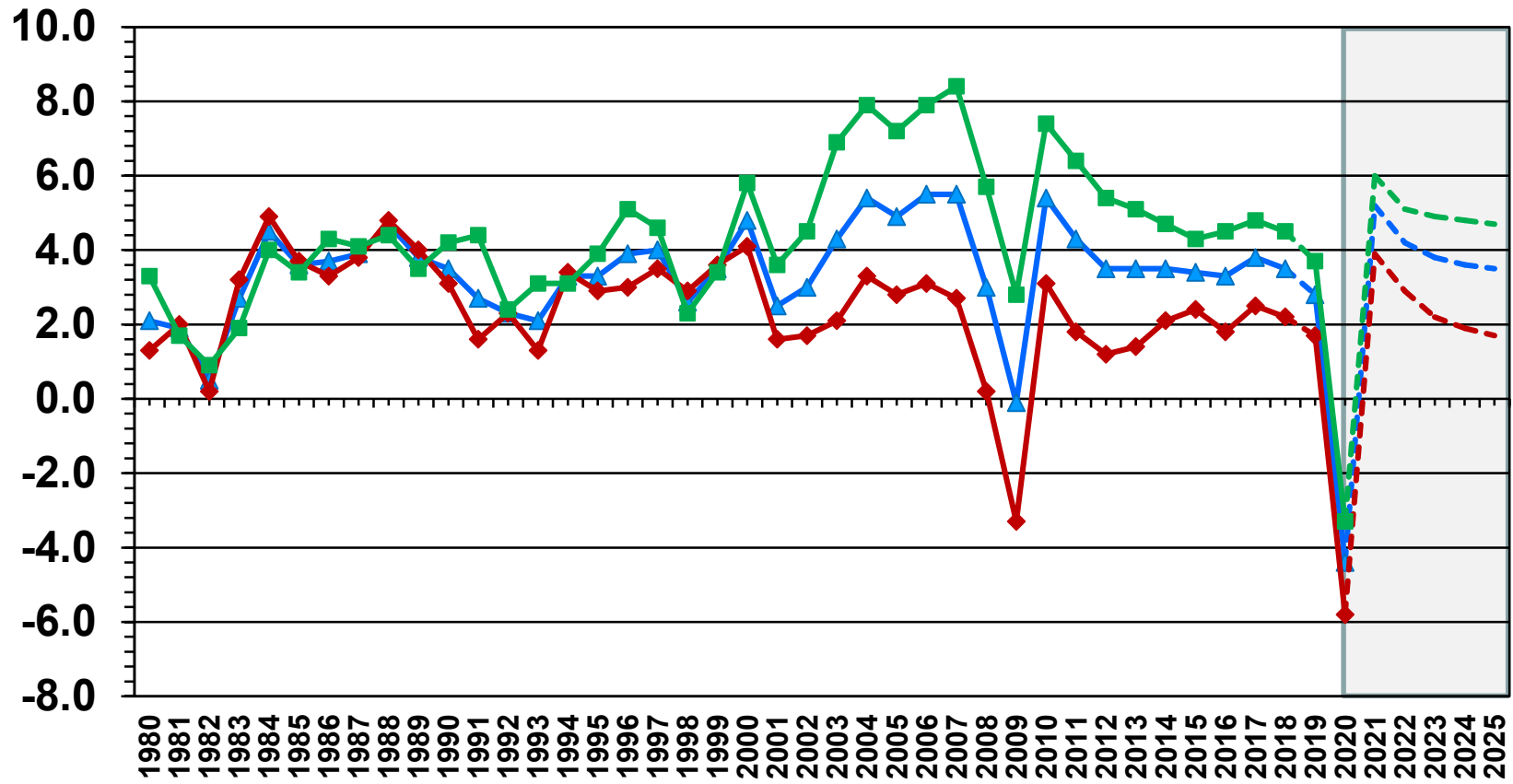


# Global Economic Growth

## IMF Projects Sharp V-shaped Recovery

Real GDP Growth, 1980 - 2025

Percent Change



▲ World    ◆ Advanced Economies    ■ Emerging Market and Developing Economies

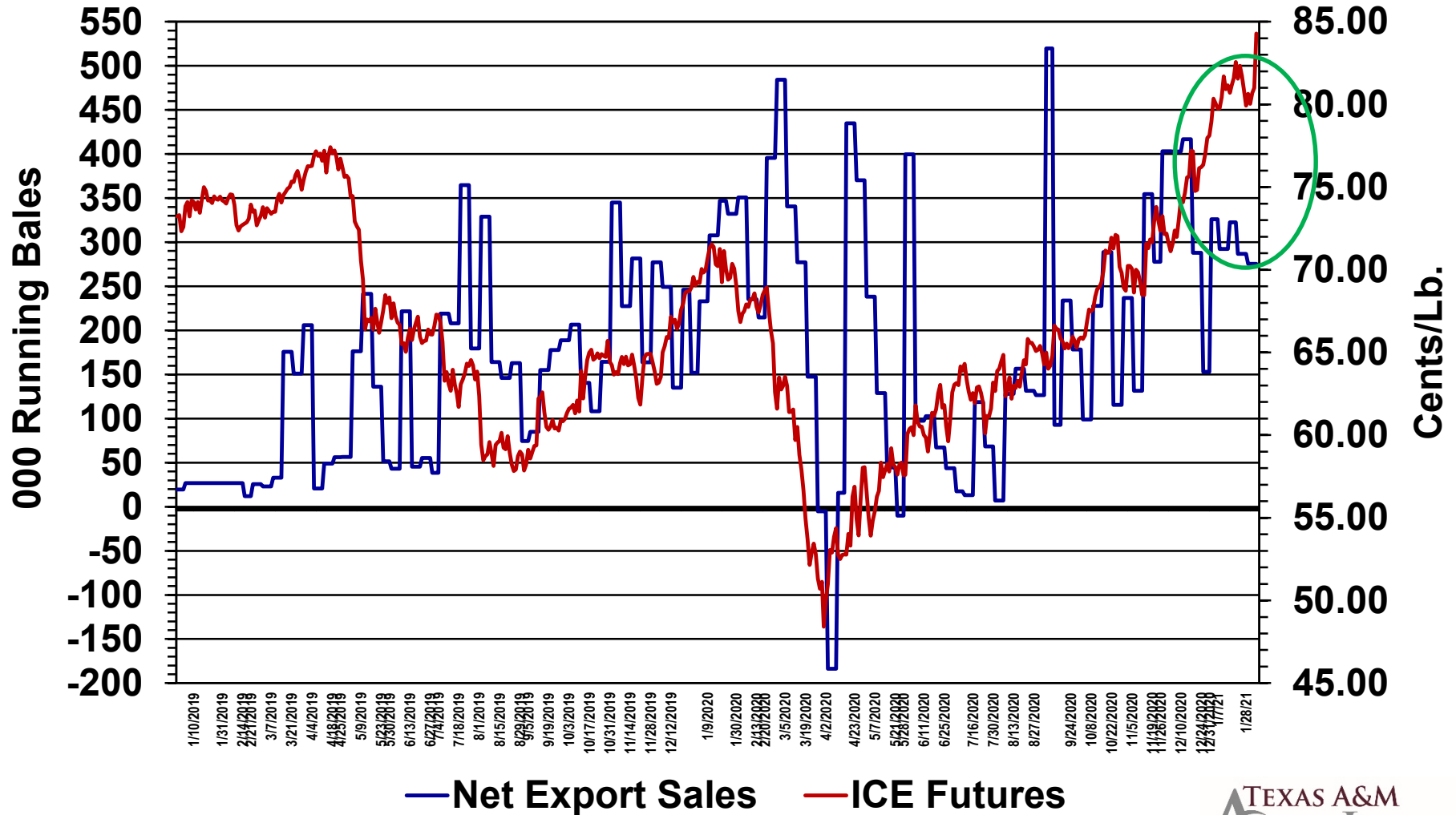
World Economic, Outlook, October 13, 2020 <http://www.imf.org>

[http://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/OEMDC/ADVEC/WEOWORLD](http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD)

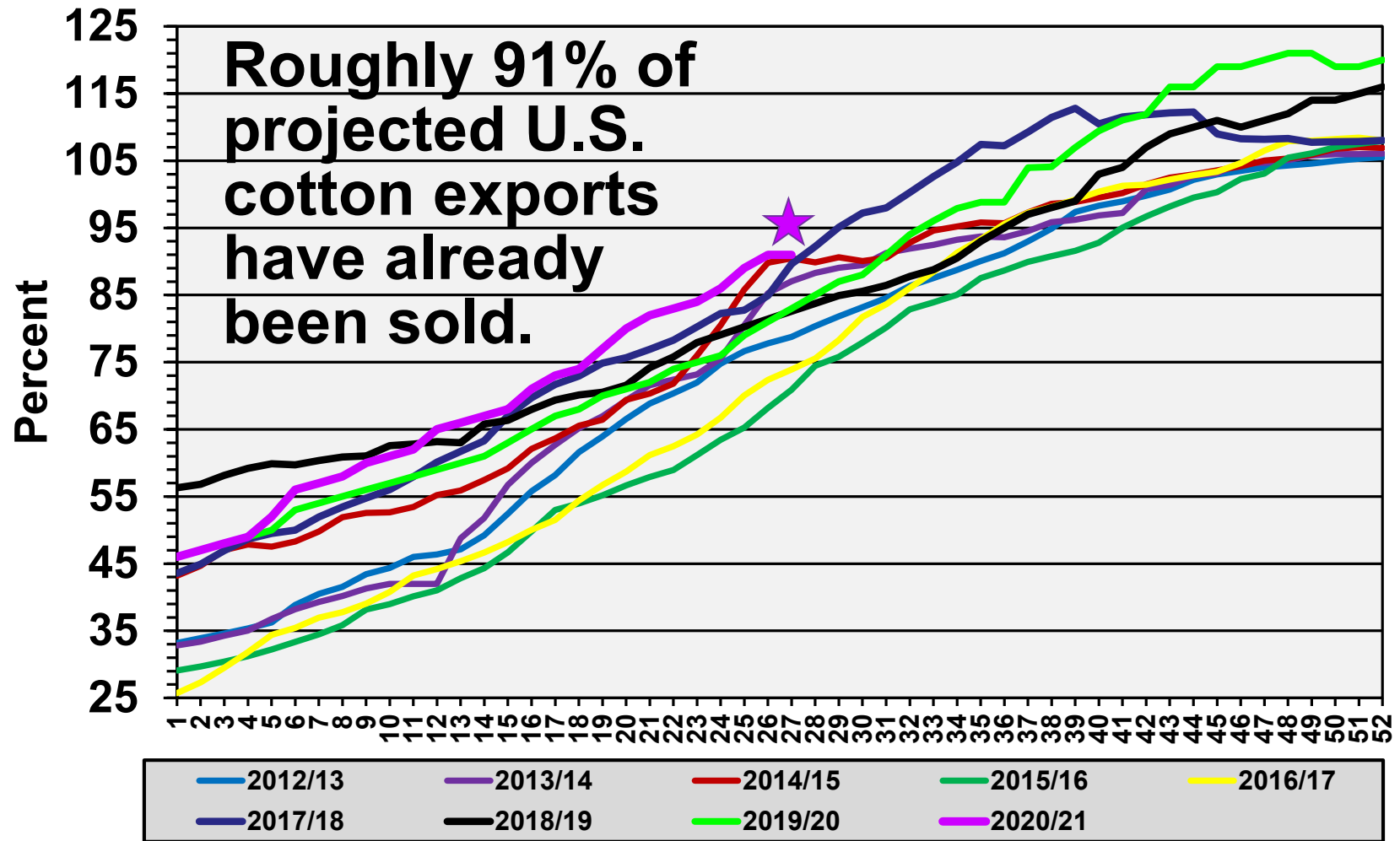


# Strong Recent U.S. Upland Weekly Net Export Sales

January 3, 2019 – February 4, 2021

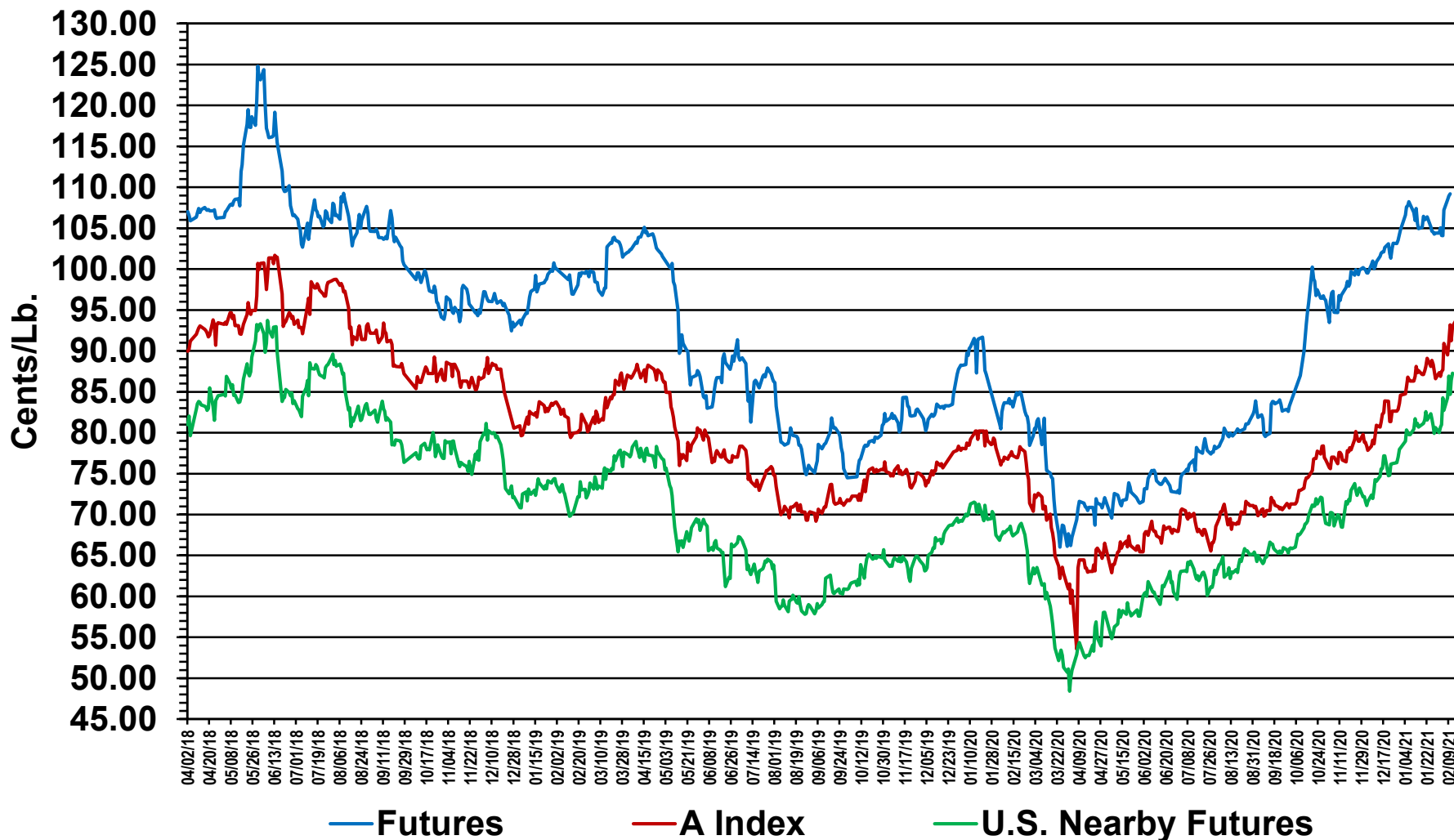


# Cotton Export Total Commitments as a Percent of U.S. Cotton Exports, by Week



Source: USDA/OCE/FAS

# Cotton: China Futures Price, A-Index, and ICE Futures



— Futures — A Index — U.S. Nearby Futures

April 2, 2018 – February 12, 2021

Source: CotLook; <http://www.usforex.com/forex-tools/historical-rate-tools/historical-exchange-rates/>  
[http://english.czce.com.cn/enportal/MarketData/HistoricalData/H690305index\\_1.htm](http://english.czce.com.cn/enportal/MarketData/HistoricalData/H690305index_1.htm)

AMS/USDA

TEXAS A&M  
AGRI LIFE  
EXTENSION

# **Issues Affecting U.S. Exports:**

- **Timing of Pandemic Recovery?**
- **Chinese Reserve Purchases?**
- **Chinese Commercial Mill Demand?**
  1. **From Economic Recovery**
  2. **From Restructuring to avoid Xinjiang Sanctions????**

# Chinese Cotton Industry Restructuring?



NEWS

≡ NATIONAL REVIEW

WORLD

## U.S. Bans Cotton, Other Products from Xinjiang, Citing Forced Uyghur Labor

By BRITTANY BERNSTEIN | September 14, 2020 2:37 PM

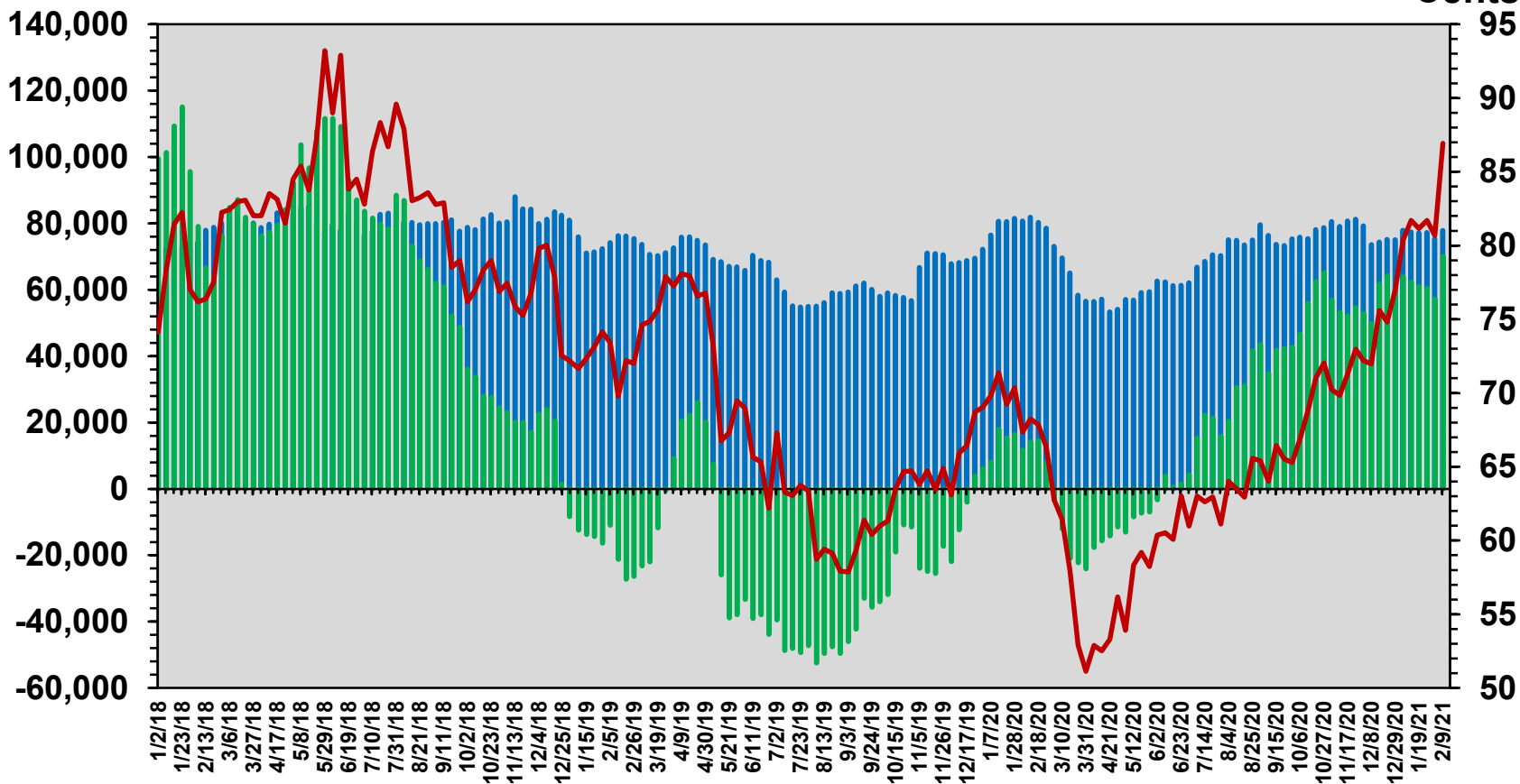
The Department of Homeland Security announced Monday that U.S. Customs and Border Patrol agents would begin turning away products sourced from forced labor in the Xinjiang region of China, where more than a million Muslims, mostly of the Uyghur minority, have been imprisoned in concentration camps.

# Another Major Influence on ICE Futures: Speculative Index Funds and Hedge Funds

- Responsible for roughly half of the rally in ICE futures since June
- Every 10,000 contract increase in Hedge Funds is roughly one cent increase in nearby ICE futures → potentially three more cents

No. of Contracts

Cents/Lb.



Index Funds

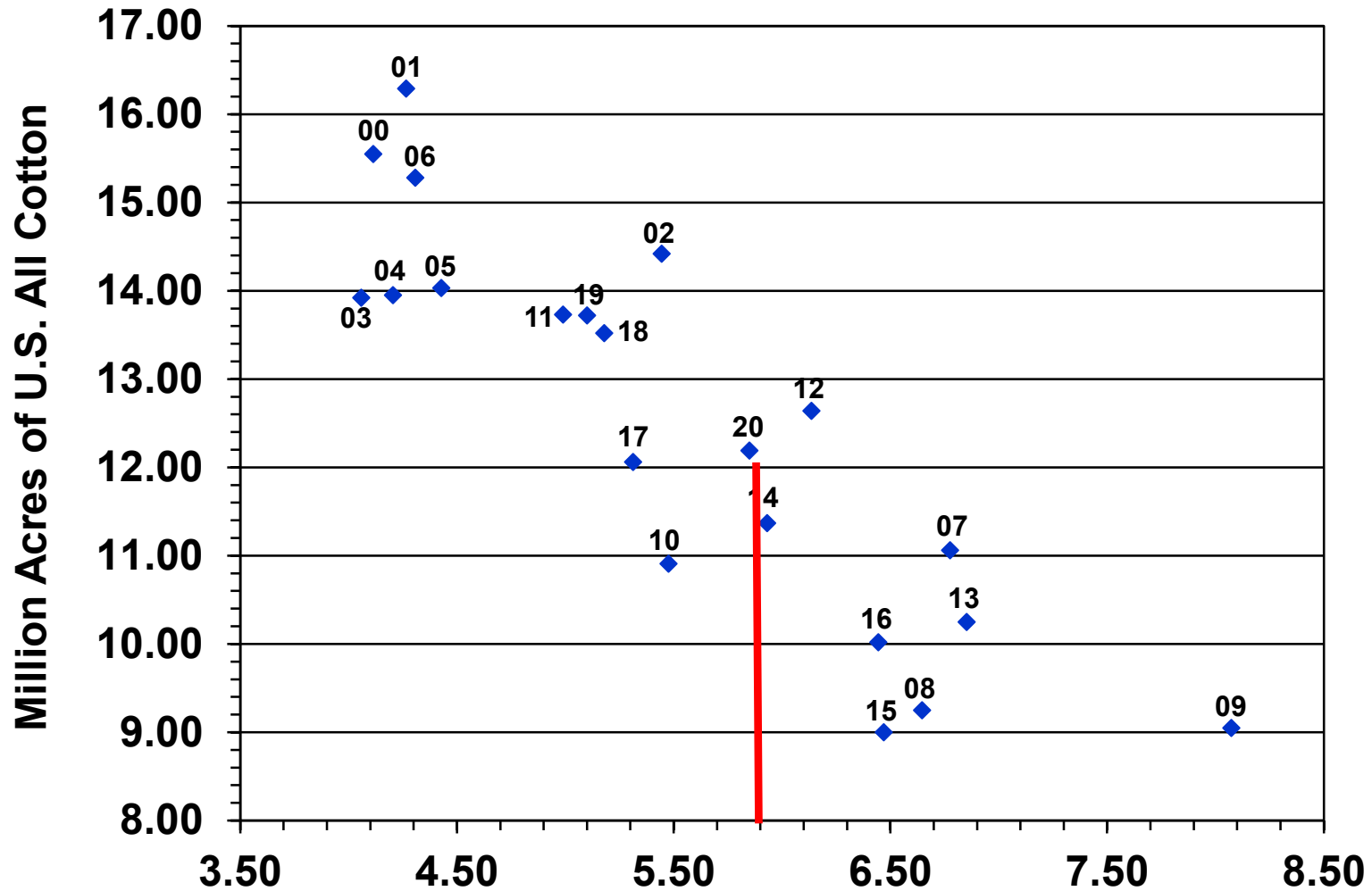
Hedge Funds

Nearby Futures

# New Crop Influences

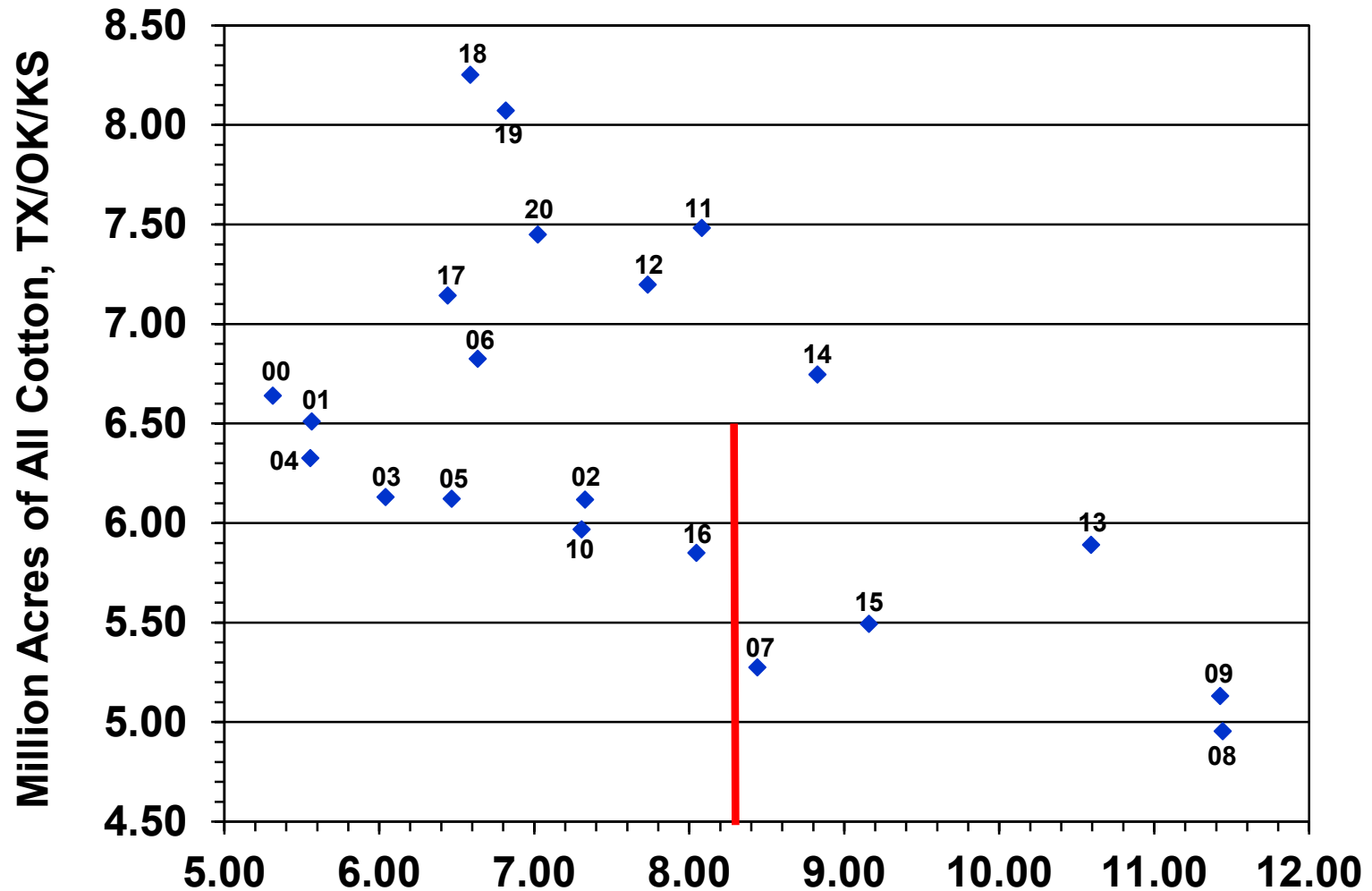


# Feedgrain Prices Suggest Lower U.S. All Cotton Plantings



ZCZ21/CTZ21 Ratio = 5.9 as of January 19

# Hard Red Winter Wheat Prices are Also Competitive in Southern Plains



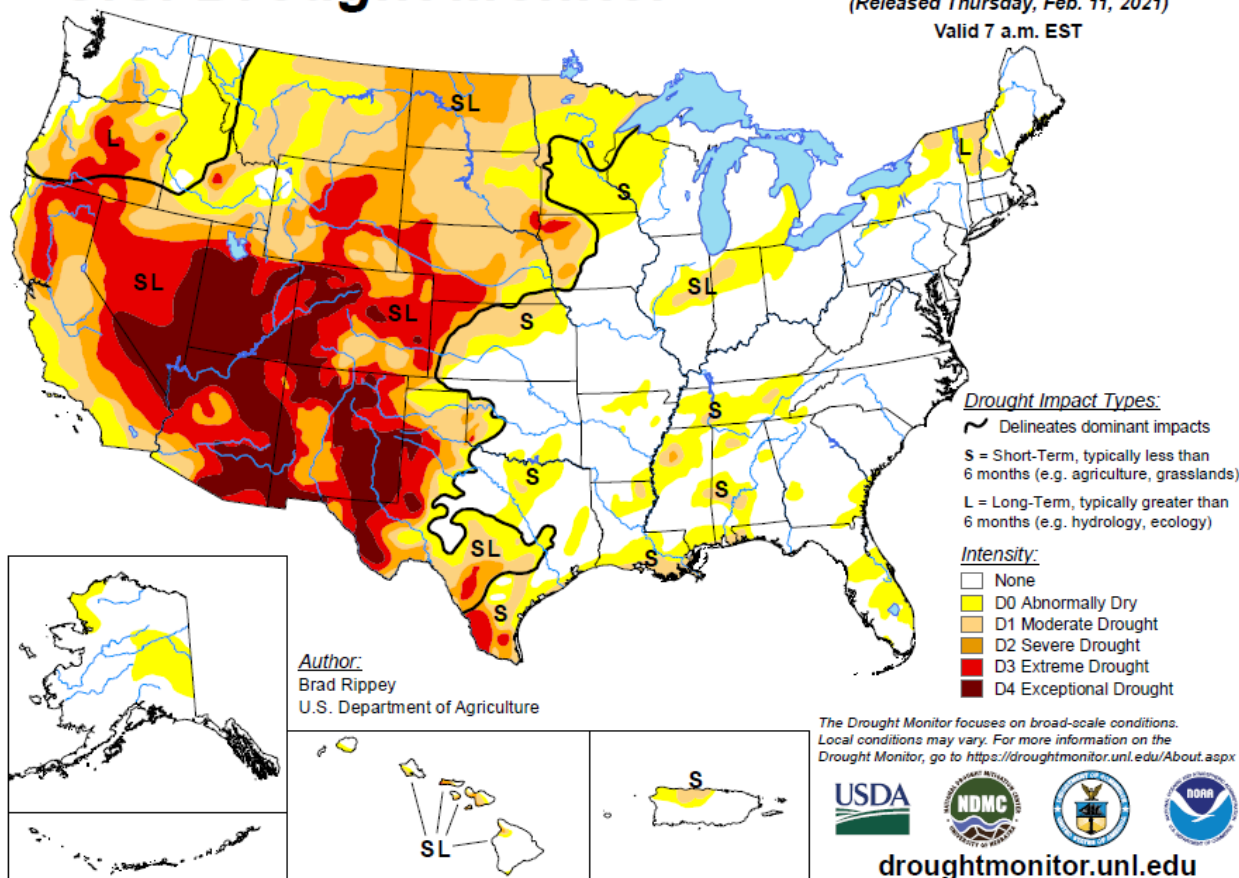
KEN21/CTZ21 Ratio is 8.3 as of January 19  
1999/2001 – 2019/2020

# New Crop Influences

- Bad 2020 production experiences 
- Drought and upper 70s insurance price 

## U.S. Drought Monitor

February 9, 2021  
 (Released Thursday, Feb. 11, 2021)  
 Valid 7 a.m. EST

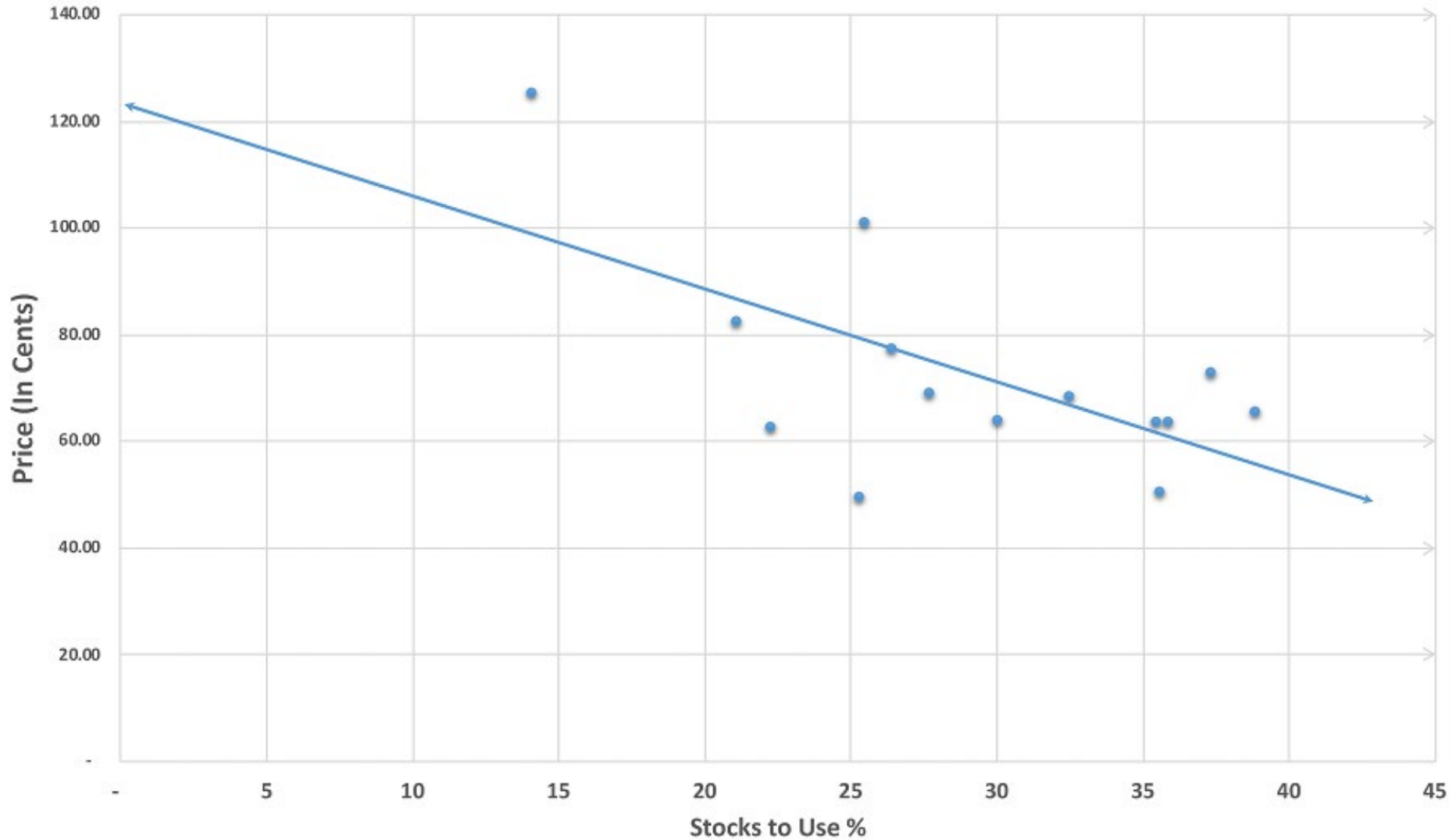


Income

Higher prices  
 carry-in, less 18  
 days of ending

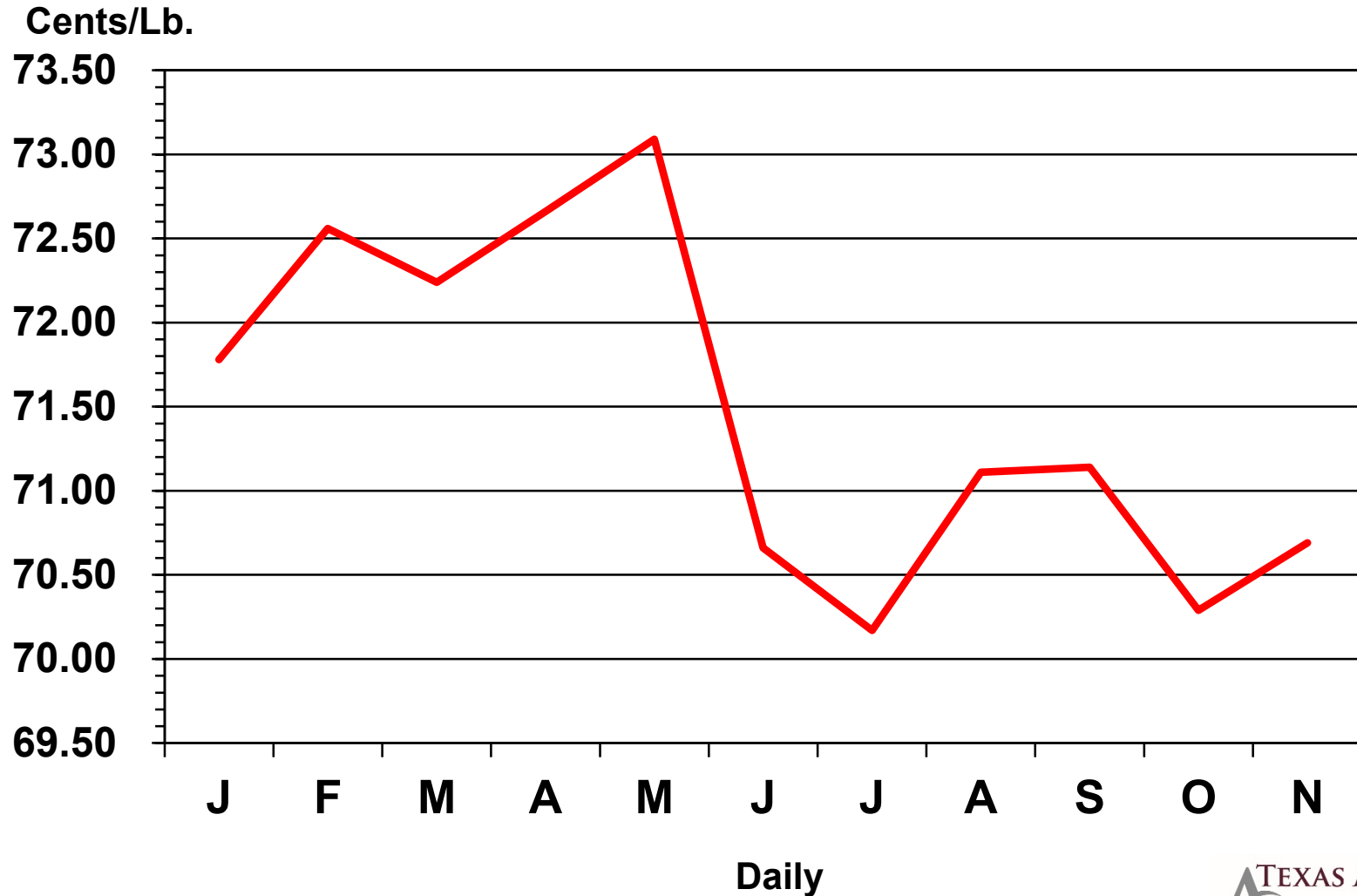
avg. Dec'21  
 180 lbs per pound!!!

Price and Stocks to Use Relation  
 $PRICE = 82.7241 - .6585(STU) + 42.3164(SPIKE) + 9.46E-5(HEDGE)$



**Avg. Dec futures price in October, as influenced by stocks-to-use, etc.  
For a 1% drop in STU, average prices rise 0.66 cents, all other things equal.**

# Seasonal Pattern of ICE Dec. Cotton Contracts Following La Niña Winters<sup>1</sup>



<sup>1</sup>Averaged across Dec'96, Dec'00, Dec'09, Dec'12, Dec'17, and Dec'18

# Outlook Summary

- **Mar'21, May21, and Jul'21 ICE futures may range in mid+ 80s; Dec'21 may range between 75 and 85 cents per pound**
- **Fundamental tightness in U.S., and speculative-fueled “commodity wave”**
- **Will higher U.S. prices squelch demand for our exports?**

# Different Ways of Doing the Same Thing

## CORE POSITION

## COST SAVING MEASURES

Cash Contract  
with Merchant  
Buy Call



Also Sell Call

Buy Put  
Hold Cash Open



Also Sell Put



Also Sell Call

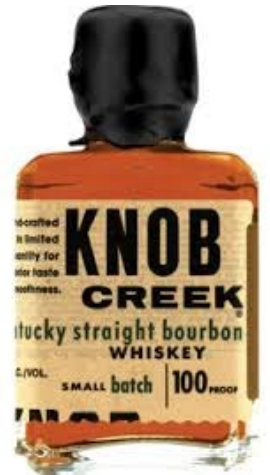
Sell Futures  
Buy Call



Also Sell Call

# “Straight Futures” Hedging: Sell Dec. ‘21 Futures When the Price Is High Enough

- On February 12th, you could sell Dec. ‘21 Futures @ 83.89¢
- Assume 5¢ basis (decent quality)
- Effective Floor Price is Futures less Expected Basis, i.e., you avoid option premiums
- Will receive floor price (subject to basis risk) regardless of how low or how high Dec’21 moves
- Fully exposed to margin risk (cash flow and stomach lining)





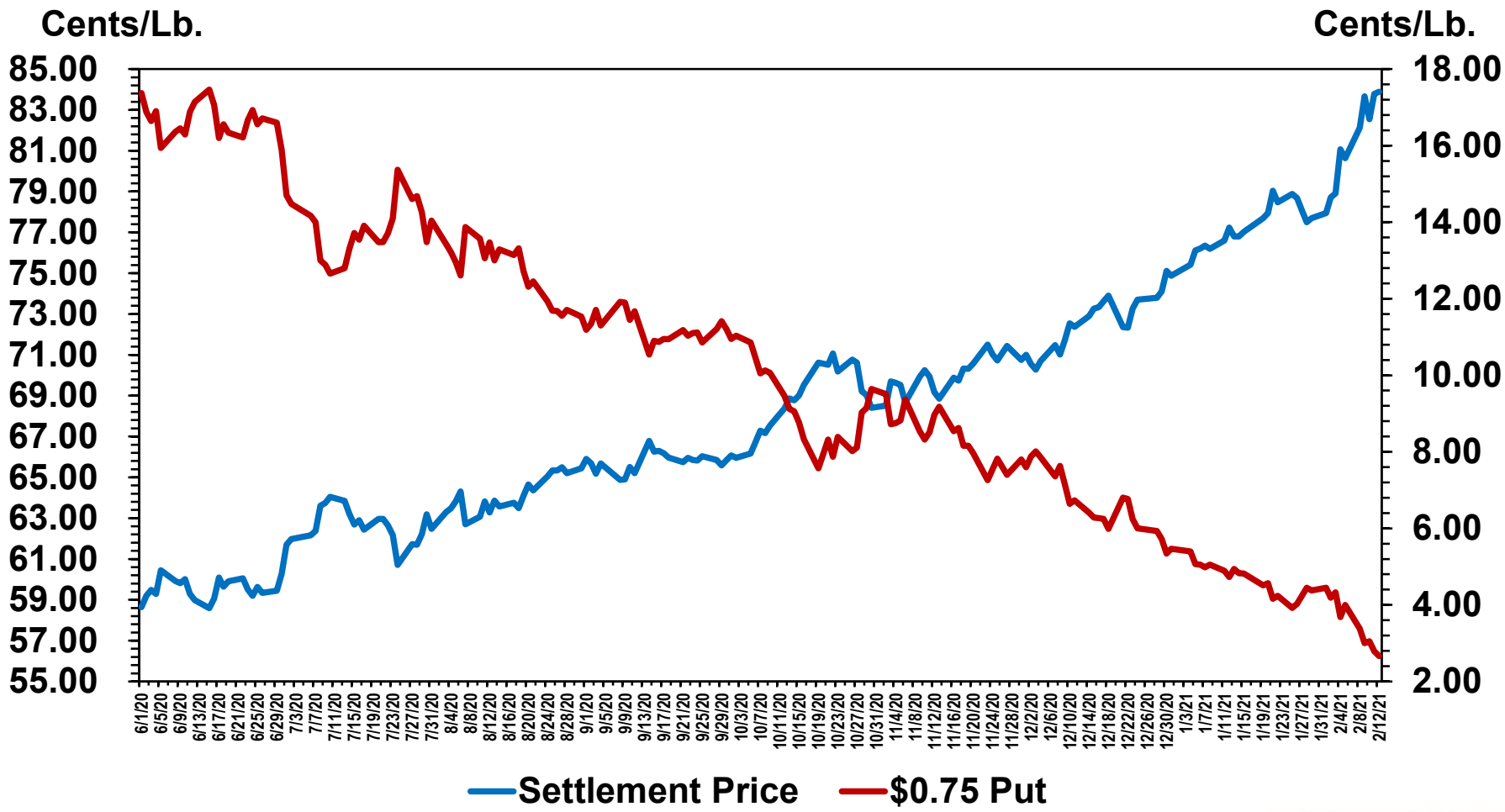
# **Futures Hedge Summary**

- **Protects against lower prices by “Locking In” price – for good or bad**
- **Gives up potential to benefit from favorable price move**
- **If basis widened, you’d lock in a lower price than previously planned (basis risk)**
- **Can involve substantial margin calls, as in 2008 and 2010**

# **Options: More Flexibility, At a Cost**

- **An option is a contract giving the holder the right (but not the obligation) to buy a futures contract (Call Options) or sell a futures contract (Put Options) at a specified futures price.**
- **With options on futures contracts, the specified futures price is called a “Strike Price”.**
- **With option contracts, you’re buying the right to hedge with futures while avoiding the major disadvantages.**
- **How much would you be willing to pay for this?**

# December 2021 Futures Settlement Price vs. December 75¢ Put Option Premium



## CONTACT INFO

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Cotton: [jrcr@tamu.edu](mailto:jrcr@tamu.edu)

**“Cotton Spin” Column, Southwest Farm Press**

<http://southwestfarmpress.com/author/john-robinson>

**The Cotton Marketing Planner Newsletter**

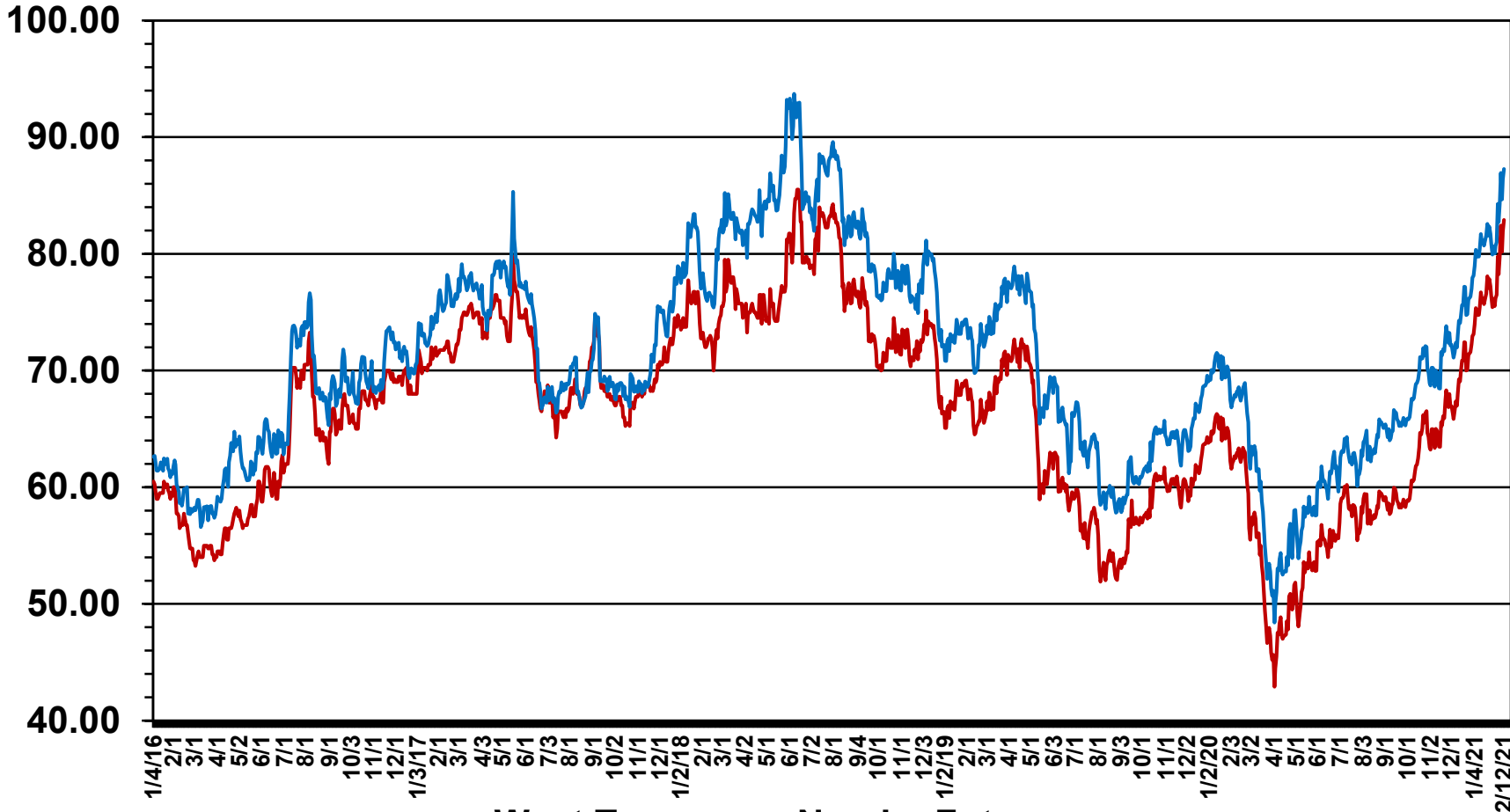
<https://cottonmarketing.tamu.edu/>

**Twitter:** @aggie\_prof

**Facebook:** <https://www.facebook.com/AgriLifeMasterMarketer>

# West Texas Cash Price vs. Nearby Futures Settlement Price

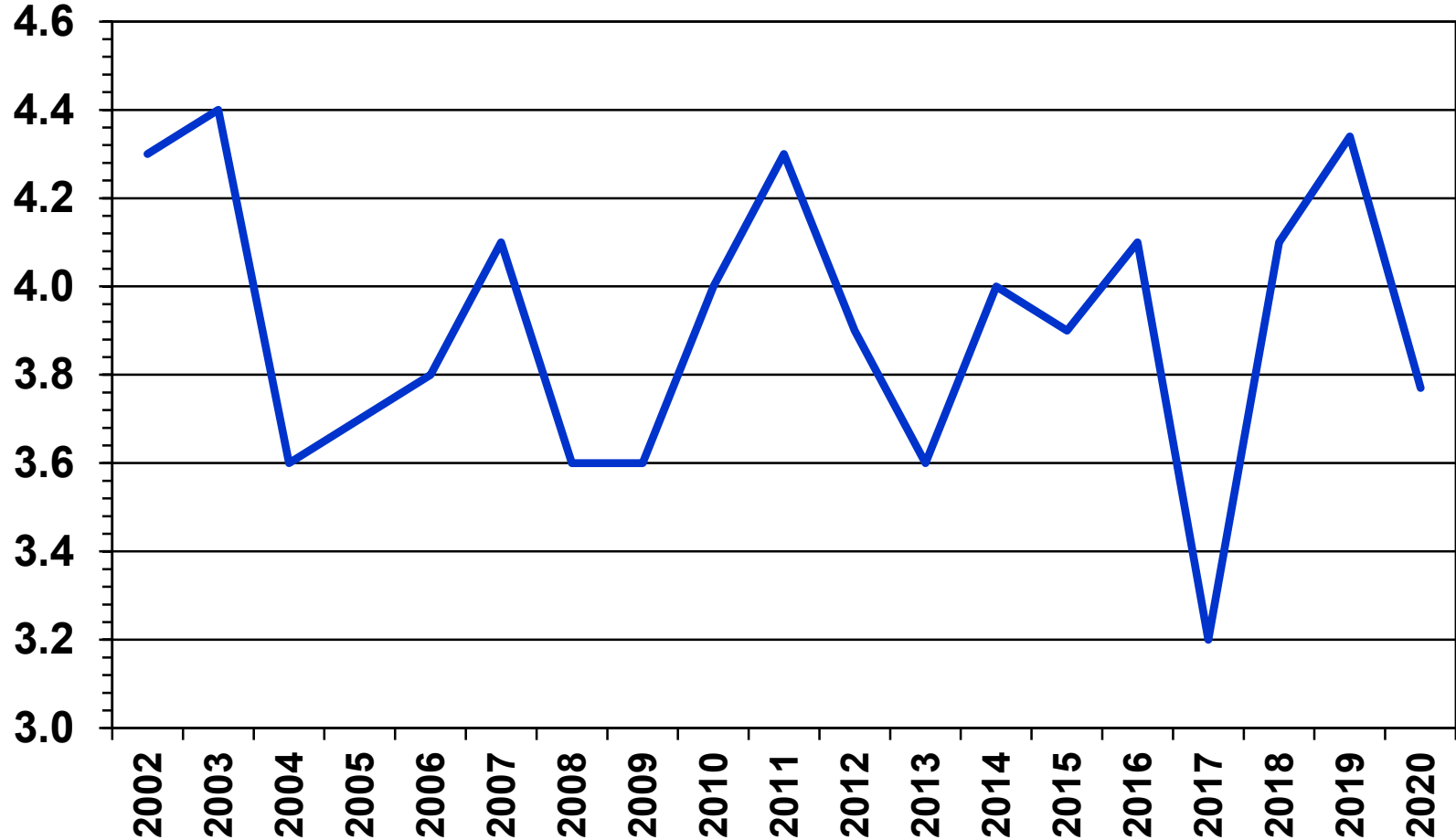
Cents/Lb.



— West Texas — Nearby Futures

# Lubbock Classing Office Seasonal Average Micronaire

Percentage Distribution



Source: USDA/AMS  
2020 as of Week Ending February 11, 2021