

1st Quarter 2018 Cotton Economic Report

Despite catastrophic weather events, the US cotton yield showed a modest year-over-year increase in 2017. Current price levels indicate that growers will continue to invest in cotton rather than alternative crops, while China's impact on the 2018 market remains unknown..

Certainly, the 2017/2018 US cotton crop was no different than in years past, as the USDA surveyed the farming community early in 2017 to gauge their planting intentions. By year's end, US farmers had planted 12.6 M acres of cotton in 2017.

It's important to note that this past year's cotton planting represents 47 percent more acres than the 2015 plant. Projections by the Cotton Grower publications—based on early surveys for 2018 plantings—show a modest increased acreage planned for the new year in the US of about 2.8 percent.

In 2017, weather certainly had an effect on the crop as well as prices. Hurricane Harvey alone reduced the south Texas cotton crop by approximately 500,000 bales. Not too long after Harvey, Hurricane Irma powered through Florida and Georgia, impacting a portion of Georgia's crop and that of other southern states, to a lesser degree. During these weather events, speculation and uncertainty increases the volatility of cotton prices. Following Irma, the weather cooperated across the Southern states of the US and the crop finished with a yield of 21.3 million bales. This finish represents an increase of 4.1 million bales over the 2016/2017 crop.

With the increased production, most consumers anticipated lower prices. However, US cotton prices have risen to just under \$.80/lb. The A Index, which is representative of the

global price of cotton, has increased to just under \$.90/lb.

So, with rising stocks globally—with the notable exception of the Chinese market—once again, one would assume some softening of cotton prices. As has been the case over the past 10 years, the degree of China's participation in the cotton market is an unknown entering 2018. If China were to import close to their average for the past few years of approximately 5 million bales, US reserves will more than double from 2.8 million to 5.7 million bales.

However, as noted earlier, should China decide to once again build its cotton reserves, this level of purchasing could impact not only the US reserves but those of other cotton-growing countries such as India and Pakistan, a dynamic that would keep cotton prices at higher levels.

Global mill-use for cotton is expected to grow in 2018 to 120.8 million bales, a 6 million-bale increase from the prior year. It's interesting to note that the forecasted global consumption of cotton closely mirrors the 2017/2018 global crop of 121 million bales.

There is also a delicate balance between the price for cotton and planting intentions for US farmers. Alternative crops such as wheat, soybeans, peanuts, or corn could take acreage away from cotton if cotton prices aren't sufficient for their 2018 investment. The current price levels for cotton are considered to be in a place that motivates cotton farming rather than growing alternative crops.