

2nd Qtr. 2017 Cotton Economic Forecast

Thus far in 2017, cotton prices have increased versus year ago or even two years ago prices, but are very comparable to 2014 prices. So the question becomes, why have cotton prices increased in 2017?

As is usually the case, the answer comes back to supply and demand, or is it supply and perceived demand? We will try to answer that question here.

First, let's consider where most people go to see what the current market price for cotton is. There are 2 primary indexes that many people use to see what current cotton prices are. They are the "A" Index and the NYCE Index.

- The "A" Index is the proxy for the world price of cotton based on an average of the lowest 5 prices for 19 of the principal global growing regions of upland cotton.
- NYCE is the trading index for US grown upland cotton.

During the 1st Qtr. of 2017, we have seen prices on the A Index increase by 25% against the same period a year ago. The NYCE prices have increased by a similar percentage vs. the same period a year ago and by 11% in 2017. The increases in price are generally seen as a positive as the higher prices motivate farmers to plant more cotton versus alternative crops. This increase in price is driven by increased consumption of cotton globally which has exceeded cotton production over the past 12 months reducing global reserves by 7%.

In the US, the USDA has projected a 21.5% increase in cotton acreage for 2017 which is a direct result of current cotton prices vs. alternative agricultural products such as corn, soybeans and peanuts. Farmers are motivated globally to grow more cotton evidenced further by planned plantings increasing

by 10% in India and a 3% increase in China.

Recent hedging activity has also played a part in the higher prices shorting the market and now canceling contracts for physical purchase of the cotton. These bales are purchased against the July contract which ends Friday, May 26th and then rolls to the December contract. These cancellations puts cotton back into inventory which increases US supply and coupled with the higher number of acres planted should bring some normalcy back to the cotton market.

According to Dr. O. A. Cleveland in a recent Cotton Grower article, "U.S. plantings will likely exceed USDA's estimate of 12.2 million acres and will continue to increase out to at least 2020. " Farmers recognize the global demand for cotton as a natural fiber is increasing and are responding to that demand. The quality of the U.S. crop and the proven U.S. export system will continue to drive demand for the foreseeable future.