

1995 Cotton Management Economic Notes

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Another US Production Record

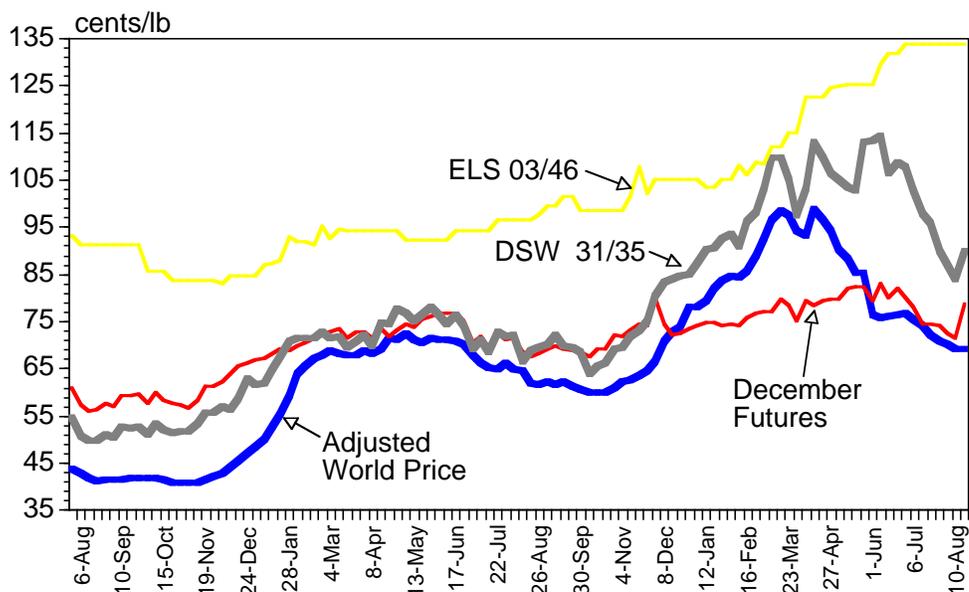
The August 11 US and World Supply and Demand Report forecasts another record for US crop production at 21.81 million bales, up 11 percent from last year. The August crop report carries more weight than prior yield estimates since it is the first report of the year in which an objective yield survey of boll counts is combined with a crop condition score. Production was estimated 300,000 bales more or 1 percent higher than in the July report. The August estimate is 4 percent higher than USDA's June estimate. Every region is anticipating a larger crop this year with Southeastern States' post the largest gain of almost 1 million bales or a 27 percent increase. Increases for other regions are near 7 to 8 percent above 1994 production.

In spite of a 1 percent higher US yield estimate, the August report

was not as bearish as some analysts expected. The forecast for US exports was raised 2.5 percent or 200,000 bales to 7.7 million bales. Marginally better prospects for foreign demand along with a weaker outlook of foreign production signaled for higher exports. The US is expected to capture 28 percent of the world trade in cotton for 1995/96, well above the average of 22 percent for the last ten years. In 1994/95 the



August 93 to Present Selected Cotton Prices



Recent Prices

	August 21, 1995	
	Upland (¢/lb)	Pima (ELS) (¢/lb)
Spot - uncompressed	98.75	133.75
Oct '95 Futures	82.75	
Dec '95 Futures	80.55	
Dec '96 Futures	76.25	
Adj. World Price	68.99	

Note: Upland Spot for Desert SW grade 31-3, staple 35, add 300 points for compressed bales, Pima Spot for grade 03, staple 46, 8/10/95. Adj. World Price for 8/17/95.

US captured a remarkable 33 percent of world trade. Challenges for US exports this year compared to last year include lower imports from our largest customer, China, and higher exports from a host of competitors like Argentina, India, Pakistan, Turkey, West Africa, Australia, Greece, and Paraguay.

As shown in the above graph of cotton prices, December 1995 Futures have been trading between 72 to 82 cents/lb. After falling almost 10¢/lb. from the first of June, prices have been remarkably bullish in the last week. As of

US COTTON SUPPLY AND USE ESTIMATES

ITEM	Year Ending		1995/96	
	93/94	94/95	Jun.	Aug.*
Upland:				
Million acres				
Planted	13.25	13.55	16.01	16.46
Program	11.44	11.62	11.36	11.36
Harvested	12.59	13.16	14.97	15.61
Yield/harvested acre	601	705	661	660
Million 480-lb. bales				
Beginning Stocks	4.46	3.30	1.63	2.42
Production	15.76	19.32	20.61	21.45
Total Supply	20.22	22.64	22.26	23.87
Mill Use	10.33	11.15	11.52	11.42
Exports	6.70	9.18	8.18	7.42
Total Use	17.03	20.33	19.70	18.84
Ending Stocks	3.29	2.42	2.65	5.17
Percent				
Stocks-to-Use Ratio	19.3	11.9	13.4	27.5
Foreign Stocks-to Use Ratio	35.3	37.7	37.8	38.4
ELS:				
1,000 acres				
Planted	190	169	188	190
Program	89	84	32	32
Harvested	189	166	186	188
Yield/harvested acre	967	974	1,000	916
1,000 480-lb. bales				
Beginning Stocks	206	227	75	34
Production	381	338	388	358
Total Supply	587	568	468	402
Mill Use	70	100	85	85
Exports	300	424	330	280
Total Use	370	524	415	365
Ending Stocks	207	34	43	27
Percent				
Stocks-to-Use Ratio	55.9	6.5	10.4	7.4

Source: USDA, ERS, "World Agricultural Supply and Demand Estimates", August 11, 1995, Washington D.C.

August 21, prices have finished up the 200 point daily limit three days in a row. While acknowledging recent insect pressures in Mississippi, Texas, and even in China, fundamental traders (traders that buy and sell strictly on supply and demand) argue that an ending stock estimate of 4.2 to 4.4 million bales doesn't warrant 83¢ cotton. Foreign production is still a big question and recent weather and insect reports over the wire for the largest producer of China have been bullish for the market.

USDA's ending stock estimate for 1995/96 Upland stood at 2.42 million bales in June and the December Futures was hovering near 83¢. Since then their estimate has been steadily revised upward to 5.17 million bales for their August estimate, precipitating a price drop from the 1st of June through early-August. The US

stocks-to-use ratio of 27.5 percent is almost double the 13.4 percent estimate for June.

ELS production is estimated 6 percent higher than last years crop at 358 thousand bales. Acreage is up 21,000 acres but expected yield is down 6 percent to 916 lbs/acre. Arizona's production is estimated at 78,000 bales, using a yield of 788 lbs./acre. The estimated stock-to-use ratio for ELS has fallen from June to August, whereas the Upland ratio has almost doubled during this period. Consequently, ELS prices increased in June and July while Upland spot prices dropped significantly. Ending stocks of 27,000 bales for 1995/96 are below last years level. But a 30 percent drop in export volume and lower domestic mill use make for an ending stocks-to-use ratio for 1995/96 that is higher than for 1994/95.

Cotton Consumption and Fiber Competition

Cotton mill use has eased through the late spring and summer months. But for the eleven months from August 1994 to June 1995, cotton mill use totaled 10.45 million bales compared to 9.60 million a year earlier. Cotton's share of fiber use on the cotton system during this period averaged 76.9 percent compared with 76 percent in 1993/94. Consumer demand remains strong for denim, and houseware products.

The calendar year textiles trade deficit continues to climb, and cotton accounts for the largest amount. Cotton accounts for 1.1 billion lbs. of the textile deficit (58 percent) or the equivalent of more than 2 million bales of raw cotton. Given the rise in textile imports and strong domestic mill use, US consumption of cotton for 1995 is likely to surpass 1994. In 1994, US per capita consumption exceeded 30 lbs./person, the largest since 1946.

During July the average price for mill-delivered cotton was \$1.00/lb, down from \$1.18 in June and up from \$.76/lb. one year ago. July was the first month that mill-delivered prices fell since October 1994. With cotton prices relatively high, is cotton still competitive with manmade fibers? Polyester staple prices are at their highest level since January 1965. Rayon prices are also quite high. In July, mill-delivered rayon staple reach \$1.25/lb., well above the \$1.02/lb. reported one year ago. All of the manmade fiber prices are relatively high now, keeping cotton fairly competitive. Some analysts anticipate further price increases in manmade fibers, making cotton even more competitively priced.

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