

1994 Cotton Management Economic Notes

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Prices Leveling Off?

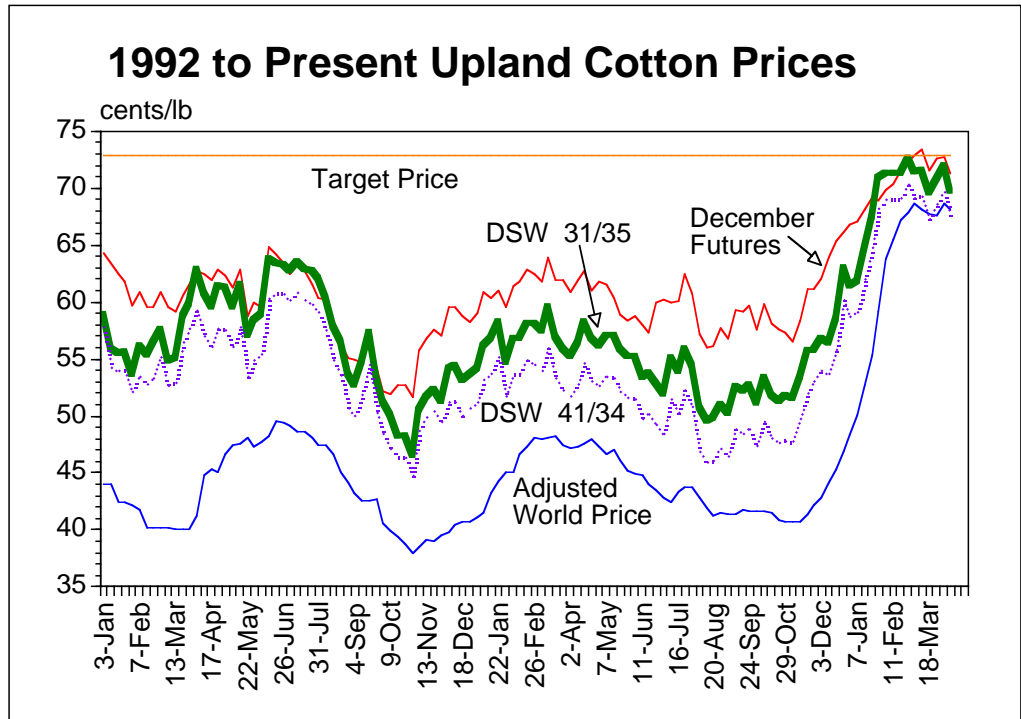
Cotton prices appear to be leveling off after five months of consecutive price increases. The "bull run" started at the end of last October and didn't run out of steam until mid-March. Foreign supply and demand factors have been

the driving force behind the bull market. As shown in the accompanying figure, the Adjusted World price is closer to the December Futures than it has been in over two years. During most of 1992 and 1993, the Adjusted World price was about 15 cents/lb. below the December Futures, reflecting a glut of cotton on the World market and large Foreign cotton stocks-to-use ratios. The two markets now differ by as little as 3 to 4 cents/lb. Prices appear to be leveling off just shy of the target price. This is not surprising since most regions of the US are still capable of expanding acreage by choosing not to participate in farm programs. Desert Southwest (DSW) prices are currently much closer to De-

cept for the Delta. All cotton plantings for 1994 are expected to total 13.8 million acres, 3 percent above last year and 5 percent more than 1992. Upland acreage for Arizona is estimated 5 percent below last year at 300,000 acres, down for the 3rd consecutive year. Upland peaked in 1991 at 360,000 acres after hitting a low of 250,000 in 1986. Acreage for all cotton peaked at over 633,000 in 1981.

Planting Intentions

Planting intentions released on March 31 indicate that all regions of the US intend to increase plantings from last year, ex-



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ELS planting intentions are estimated at 177,000 acres, 93 percent of 1993 and only 67 percent of 1992 acreage. AZ acreage is estimated at 48,000 for 1994, down for the 5th year

| Recent Prices | April 13, 1994 | |
|---------------------|----------------|-------------------|
| | Upland (¢/lb) | Pima (ELS) (¢/lb) |
| Spot - uncompressed | 73.59 | 94.00 |
| Target Price | 72.90 | 102.00 |
| Loan Rate | 50.00 | 85.03 |
| Dec '94 Futures | 72.85 | |

Note: Upland Spot for Desert SW grade 31-3, staple 35; add 300 points for compressed bales; Pima Spot for grade 03, staple 46, 4/1/94; 1994 Phoenix Base loan rates without discounts or premiums for quality.

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Estimated To-Date Production Costs

\$/lint lb (April 30)

The following table gives estimated production costs/lb to-date. These costs include both growing and fixed or ownership costs and are based on the displayed target yields. Producers with higher yields will have lower costs/lb if input costs are the same. Growers with lower yields will have higher costs/lb.

| County | Target Yield | Growing Costs | | Fixed Cost | All Costs To Date |
|----------|--------------|---------------|---------|------------|-------------------|
| | | April | To Date | | |
| Yuma | 1,250 | .01 | .07 | .26 | .33 |
| La Paz | 1,300 | .01 | .07 | .30 | .37 |
| Mohave | 1,000 | .02 | .07 | .22 | .29 |
| Maricopa | 1,200 | .01 | .06 | .23 | .29 |
| Pinal | 1,200 | .02 | .09 | .30 | .39 |
| Pima | 1,100 | .01 | .09 | .24 | .33 |
| Cochise | 660 | .07 | .22 | .43 | .65 |
| Graham | 1,000 | .07 | .13 | .32 | .45 |
| Greenlee | 900 | .03 | .10 | .33 | .43 |

Note: Based on Wade, Daugherty, et al., "1994-95 Arizona Field Crop Budgets", Various Counties, Arizona Cooperative Extension, Tucson, March, 1994.

in a row after reaching a peak of 245,000 acres in 1989. ELS planting intentions are lower for both California and Arizona, down 12 and 16 percent respectively. But plantings intentions are up 7,000 acres or 23 percent for Texas, and flat for New Mexico.

"Capitalism" in China

On April 11 the Chinese government announced that it is raising the state purchase price for cotton by 21.2 percent to encourage production. Last year insect and weather problems caused China's production to drop from 22 to 17 million bales. China recently purchased 233,200 bales from Calcot to help make up for its production shortfall. Foreign supply and demand factors were driving factors behind the recent "bull run" and they will also determine what direction prices will go from here. This month's global cotton stocks were revised lower again as lower production more than offset a slight reduction in use, according to the April 12, World Agricultural Supply and Demand Estimates.

World production for 93/94 is projected at 76.75 million bales, 1 percent below March estimates and the smallest crop since 1986/87. Several countries had downward production revisions again, most notably were India and Paraguay. Global consumption was revised downward to 84.81 million bales for 93/94 as textile activity slows in Pakistan and a number of FSU countries. Last month the National Cotton Coun-

cil projected that foreign cotton consumption will outstrip demand by 11.2 million bales this year, enhancing export opportunities for the US.

US supply and demand estimates changed favorably last month with a modest increase in use. Total use estimates for 93/94 increased by 1 percent to 16.9 million bales. The crop continues to be forecasted at 16.18 million bales. This season's ending stocks for August 1 are projected at 4.0 million bales.

Prospects for the upcoming 94/95 crop will be the primary driving force in the market over the next few months. The first estimates of the 94/95 crop are scheduled for release next month, on May 10.

U.S. COTTON SUPPLY AND USE ESTIMATES

| ITEM | Year Ending | | 1993/94 | |
|------------------------------------|-------------|-------|---------|-------|
| | 91/92 | 92/93 | Feb | Apr* |
| Upland: Million acres | | | | |
| Planted | 13.80 | 12.98 | 13.25 | 13.44 |
| Program | 10.63 | 10.72 | 11.45 | |
| Harvested | 12.72 | 10.88 | 12.60 | 12.79 |
| Yield/harvested acre | 650 | 693 | 602 | 607 |
| Million 480-lb. bales | | | | |
| Beginning Stocks | 2.26 | 3.58 | 4.46 | 4.66 |
| Production | 17.22 | 15.71 | 15.79 | 16.18 |
| Total Supply | 19.49 | 19.29 | 20.25 | 20.84 |
| Mill Use | 9.54 | 10.19 | 10.14 | 10.20 |
| Exports | 6.35 | 4.87 | 6.15 | 6.70 |
| Total Use | 15.89 | 15.06 | 16.29 | 16.90 |
| Ending Stocks | 3.58 | 4.46 | 4.03 | 4.00 |
| Percent | | | | |
| Stocks-to-Use Ratio | 22.5 | 29.6 | 24.8 | |
| Foreign Stocks-to Use Ratio | 48.9 | 44.8 | 38.1 | |
| ELS: 1,000 acres | | | | |
| Planted | 250 | 263 | 190 | |
| Program | 25 | 109 | 91 | |
| Harvested | 244 | 260 | 189 | |
| Yield/harvested acre | 784 | 938 | 987 | |
| 1,000 480-lb. bales | | | | |
| Beginning Stocks | 82 | 121 | 206 | |
| Production | 398 | 508 | 385 | |
| Total Supply | 480 | 629 | 591 | |
| Mill Use | 65 | 60 | 65 | |
| Exports | 298 | 332 | 350 | |
| Total Use | 363 | 392 | 415 | |
| Ending Stocks | 121 | 206 | 166 | |
| Percent | | | | |
| Stocks-to-Use Ratio | 33.3 | 52.6 | 40.0 | |

Source: USDA, ERS, "World Agricultural Supply and Demand Estimates", April 12, 1994, Washington D.C. **NOTE: *April estimates are for all cotton.**

