

Cotton Market Outlook

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ICE Cotton Futures Today

Contract	Last	Change	Open	High	Low
CTH21 (Mar '21)	90.91s	+1.96	89.00	90.91	89.00
CTK21 (May '21)	92.41s	+1.93	90.83	92.55	90.83
CTN21 (Jul '21)	93.08s	+1.87	91.58	93.20	91.58
CTV21 (Oct '21)	88.37s	+1.31	86.90	88.37	88.37
CTZ21 (Dec '21)	86.59s	+1.09	85.60	86.65	85.59
CTH22 (Mar '22)	85.43s	+0.88	84.64	85.43	84.62

Dec '21



WASDE - 609 - 27

World Cotton Supply and Use
(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

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

???

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Demand Influences on the Cotton Market

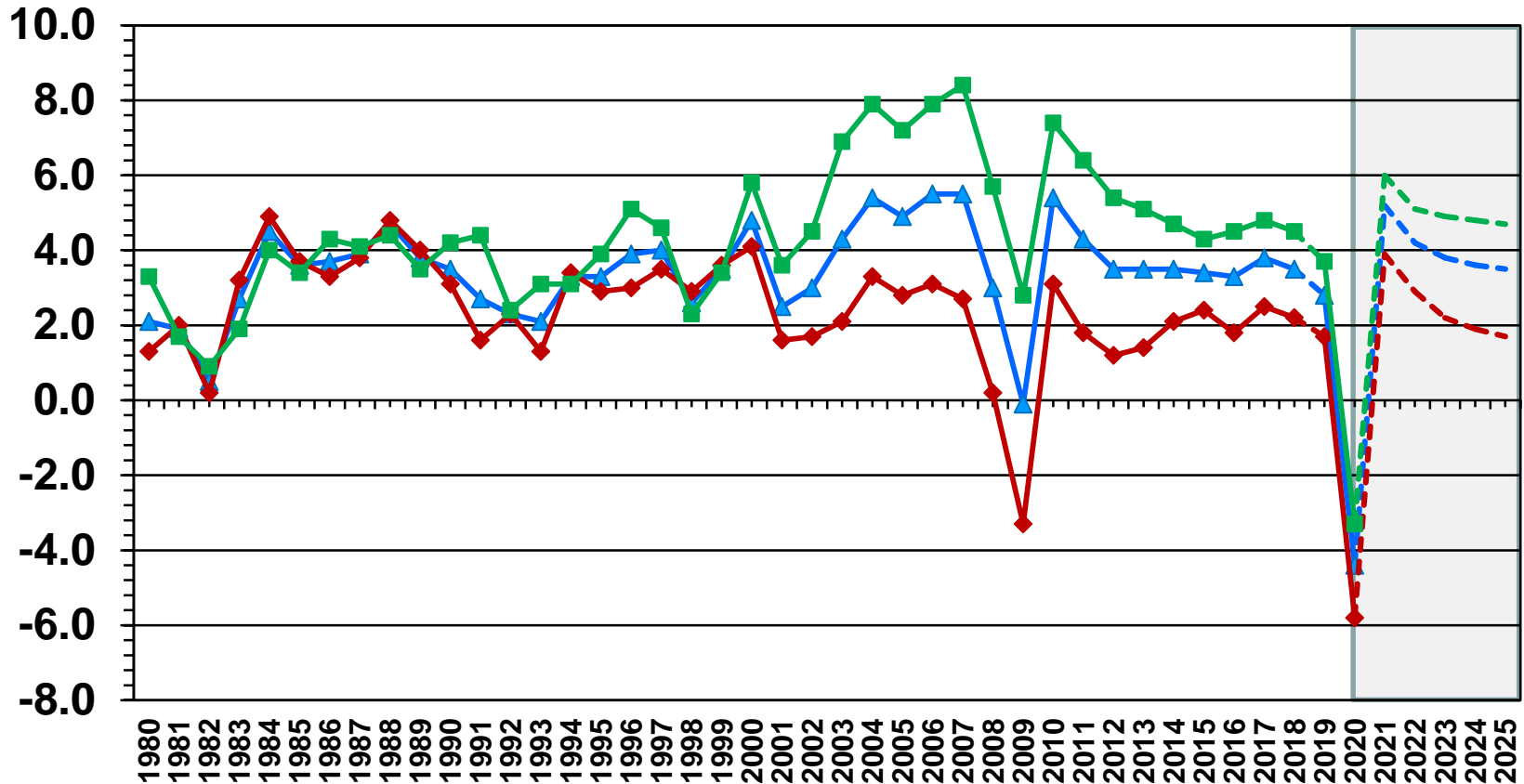
- **U.S. Economic Indicators**
- **U.S. Exports**
- **Emerging Foreign Issues**
- **Speculative Money Flows**

Global Economic Growth

IMF Projects Sharp V-shaped Recovery

Real GDP Growth, 1980 - 2025

Percent Change



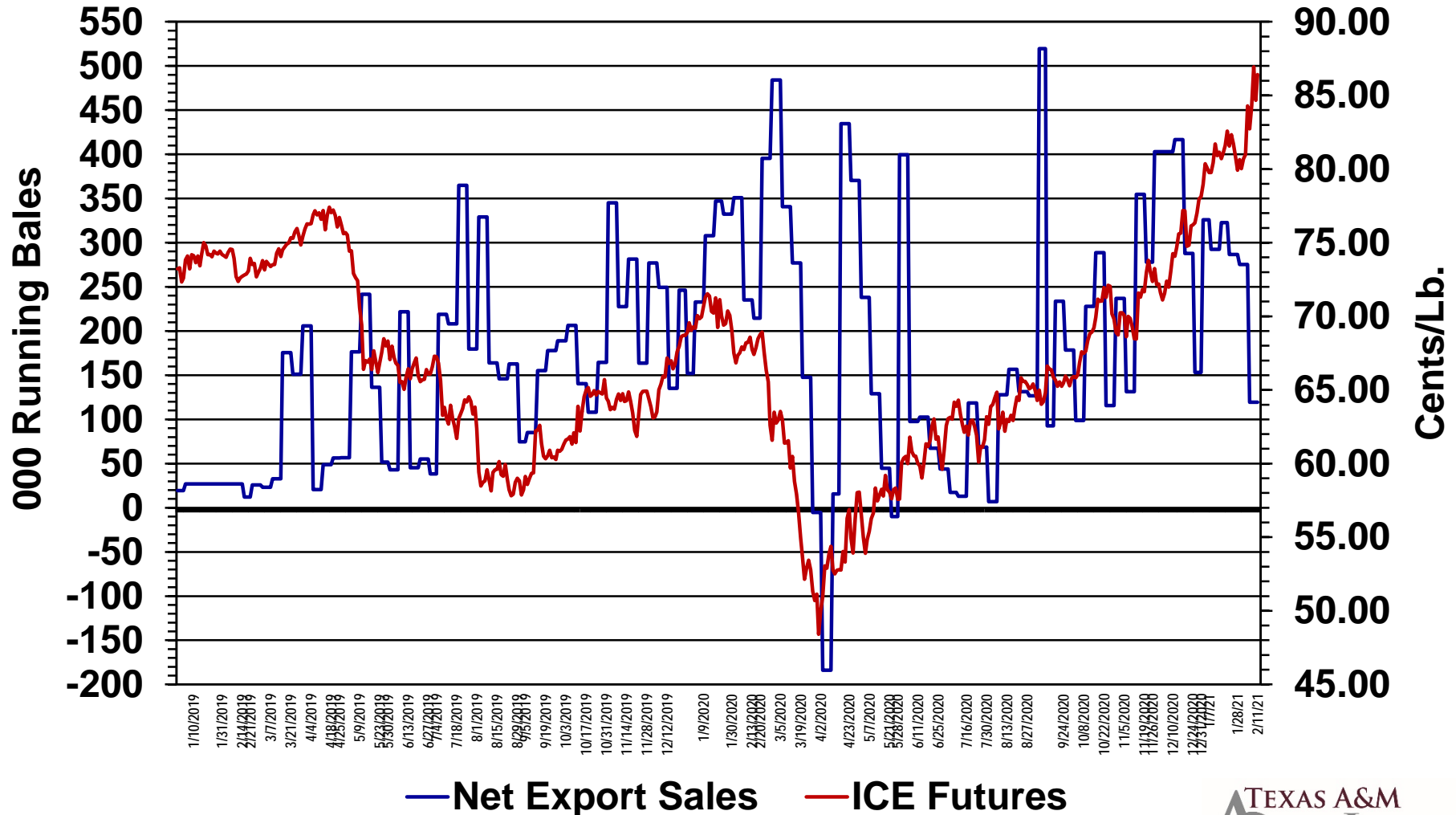
▲ World ◆ Advanced Economies ■ Emerging Market and Developing Economies

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

http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

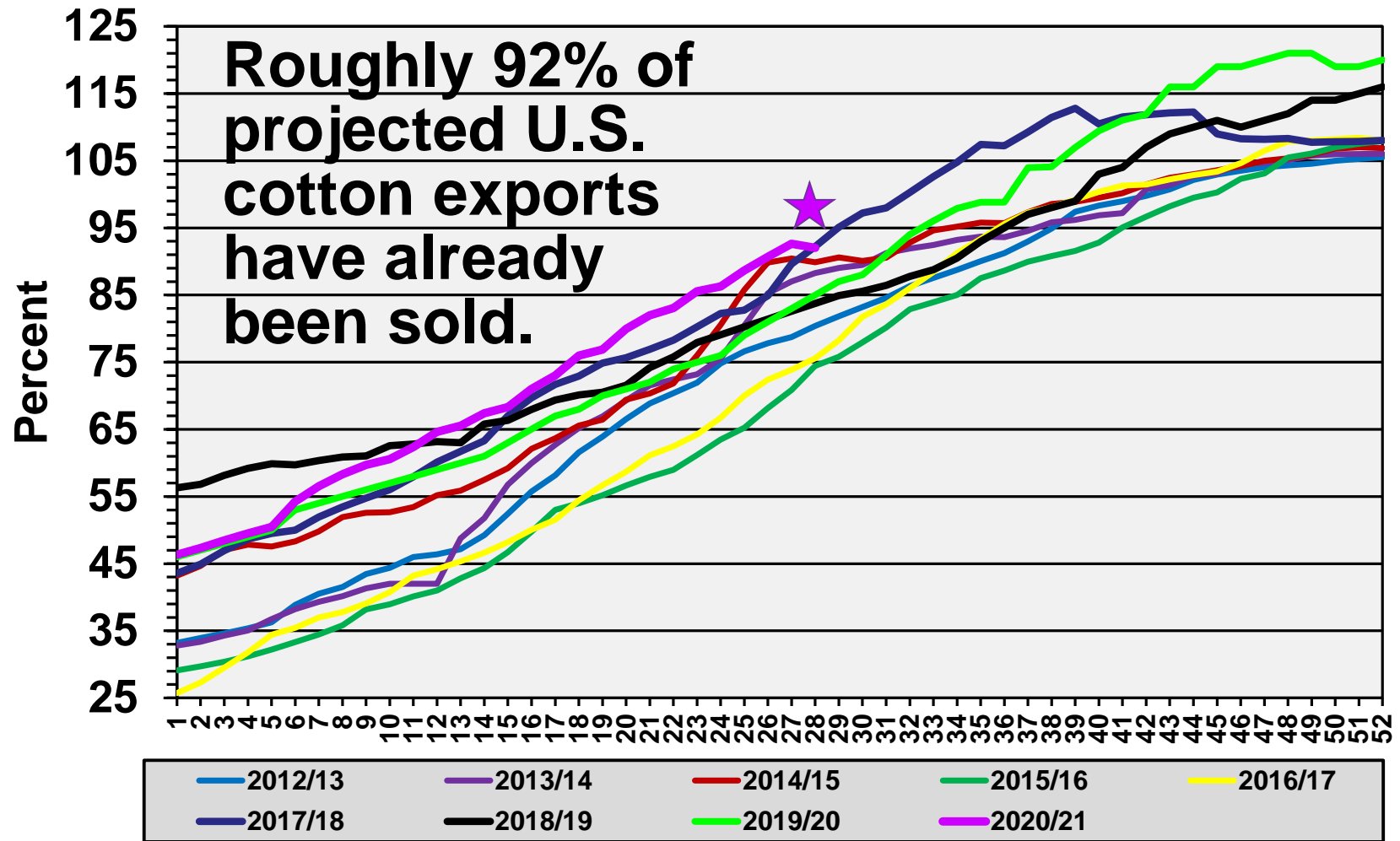
Strong Recent U.S. Upland Weekly Net Export Sales

January 3, 2019 – February 11, 2021



— Net Export Sales — ICE Futures

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



Source: USDA/OCE/FAS

Issues Affecting U.S. Exports:

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

Chinese Cotton Industry Restructuring?



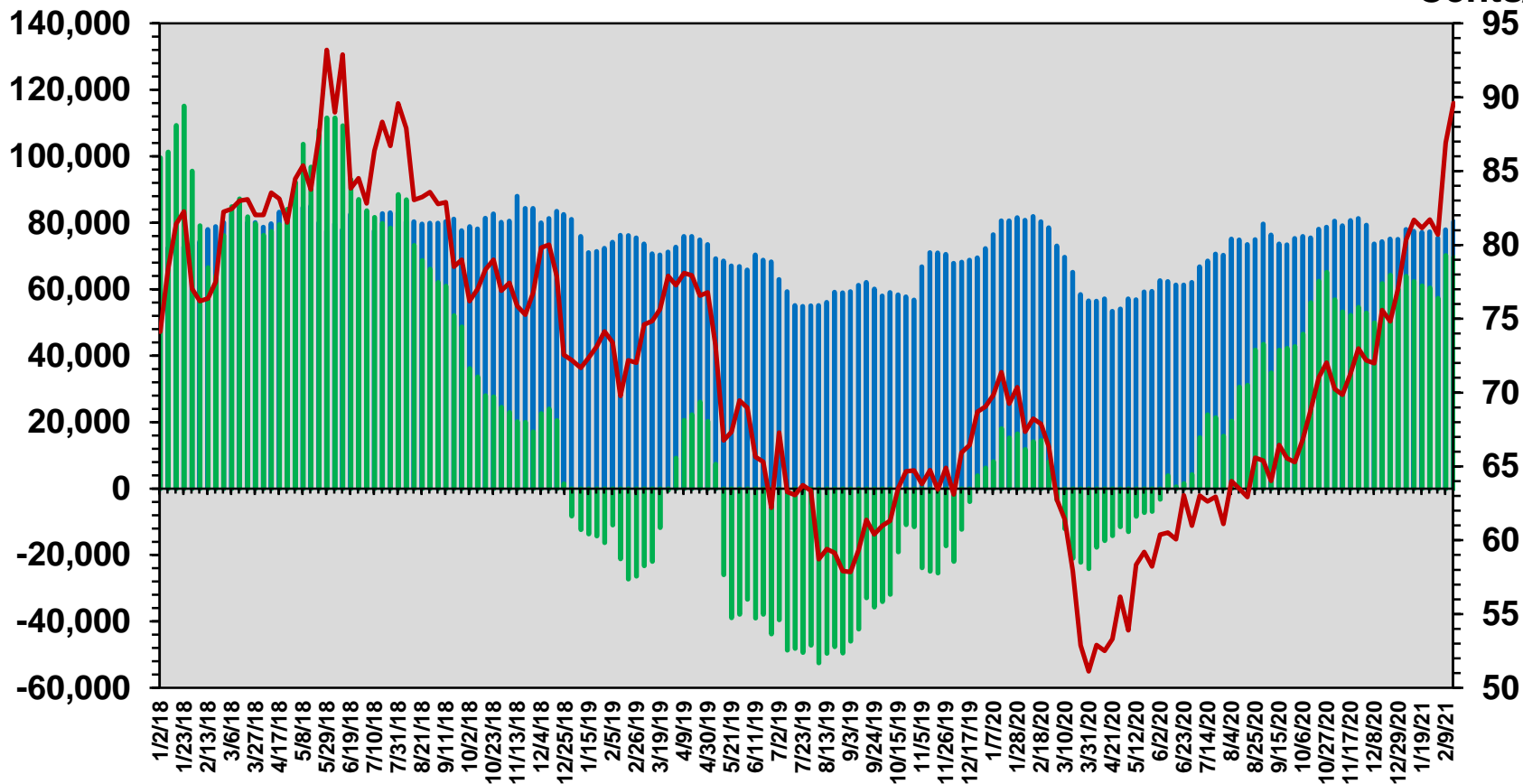
Production Share in 2019/20 (%)	
Xinjiang	85.25
Shandong	4.07
Hebei	3.64
Hubei	2.46
Hunan	1.39
Anhui	0.95
Gansu	0.56
Henan	0.46
Jiangsu	0.27
<u>Other</u>	<u>0.95</u>
Total China	100.00

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

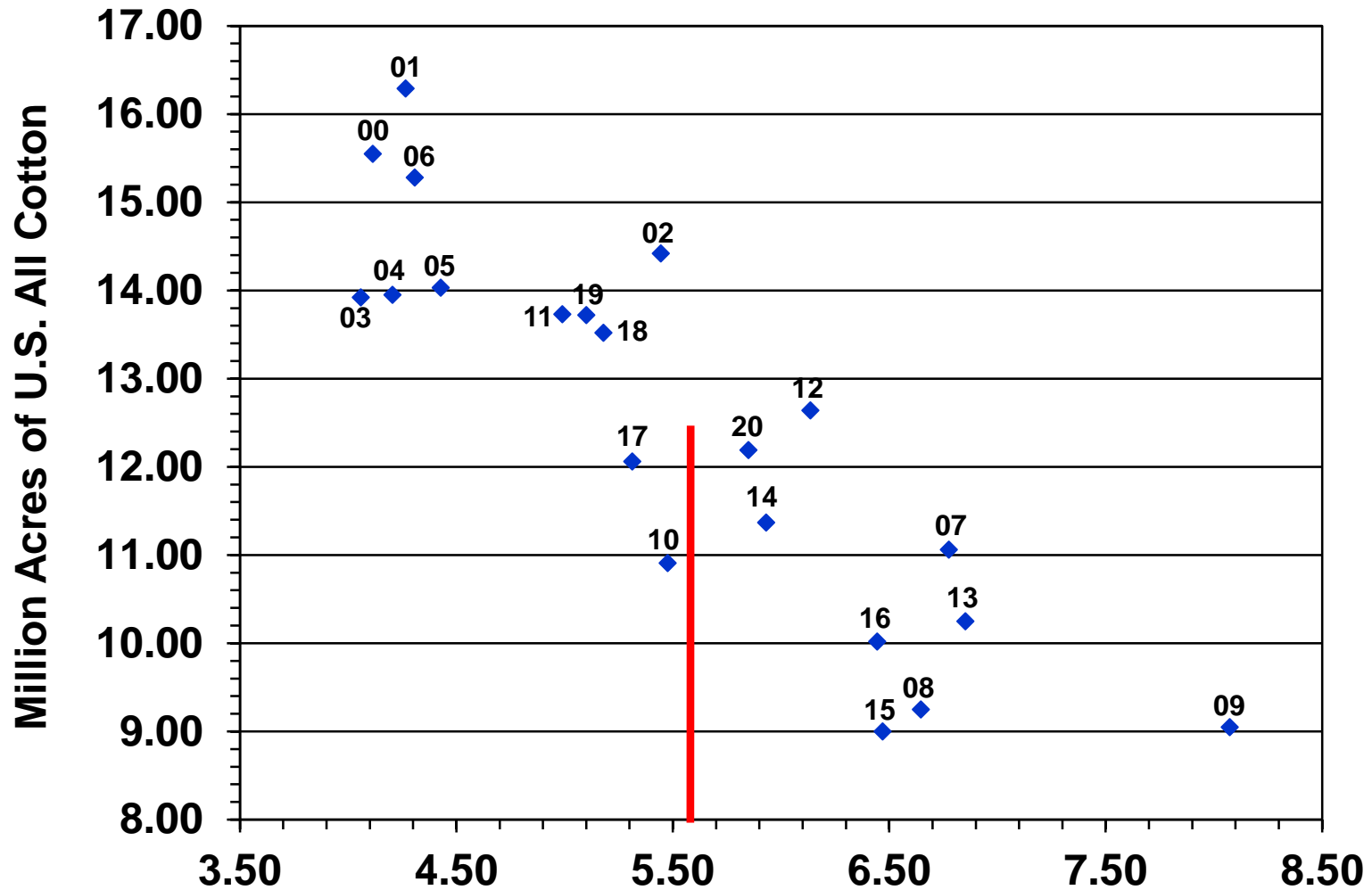
Cents/Lb.



■ Index Funds ■ Hedge Funds — Nearby Futures

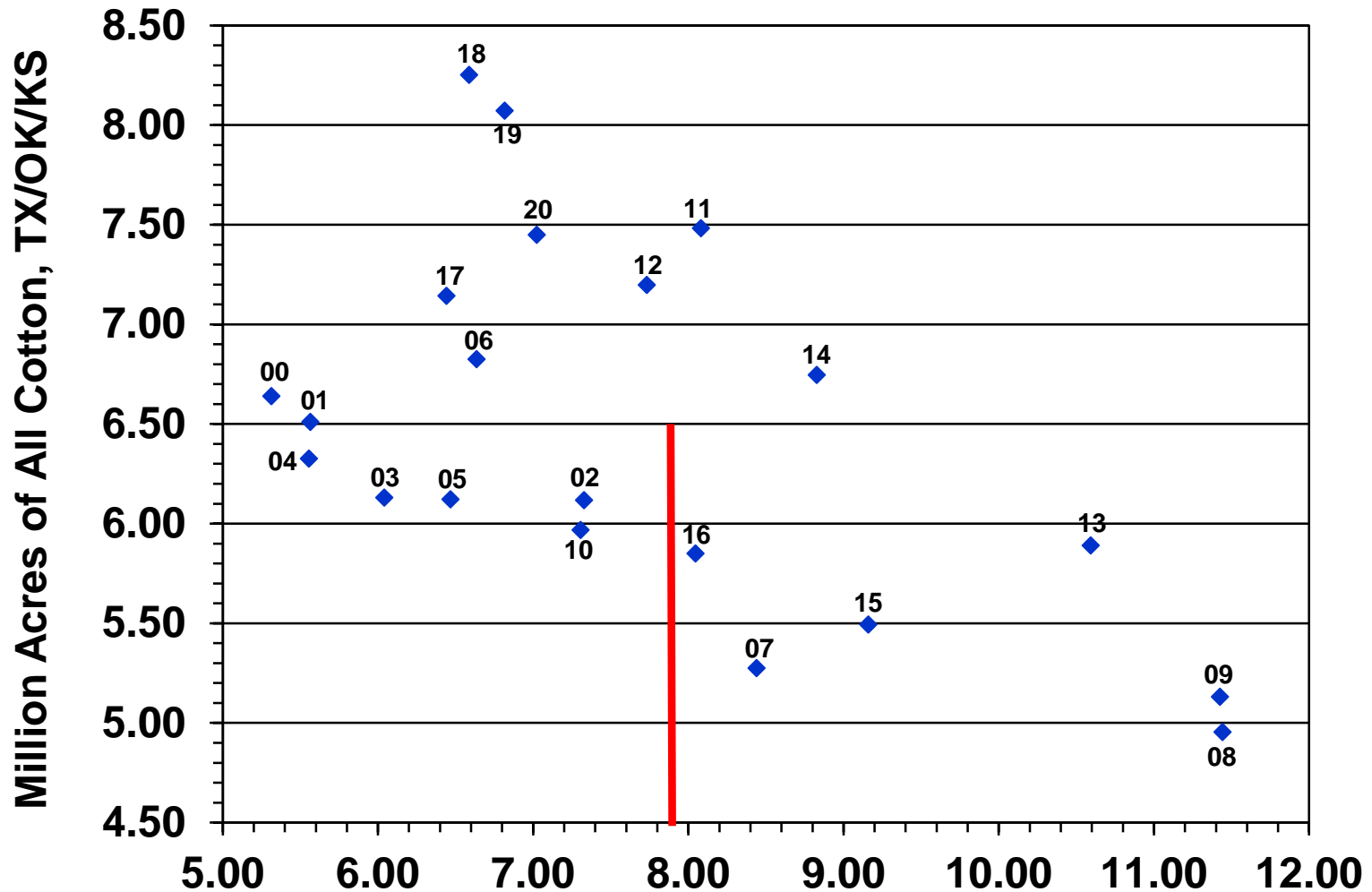
New Crop Influences

Feedgrain Prices Suggest Lower U.S. All Cotton Plantings



ZCZ21/CTZ21 Ratio = 5.6 as of February 8

Hard Red Winter Wheat Prices are Also Competitive in Southern Plains



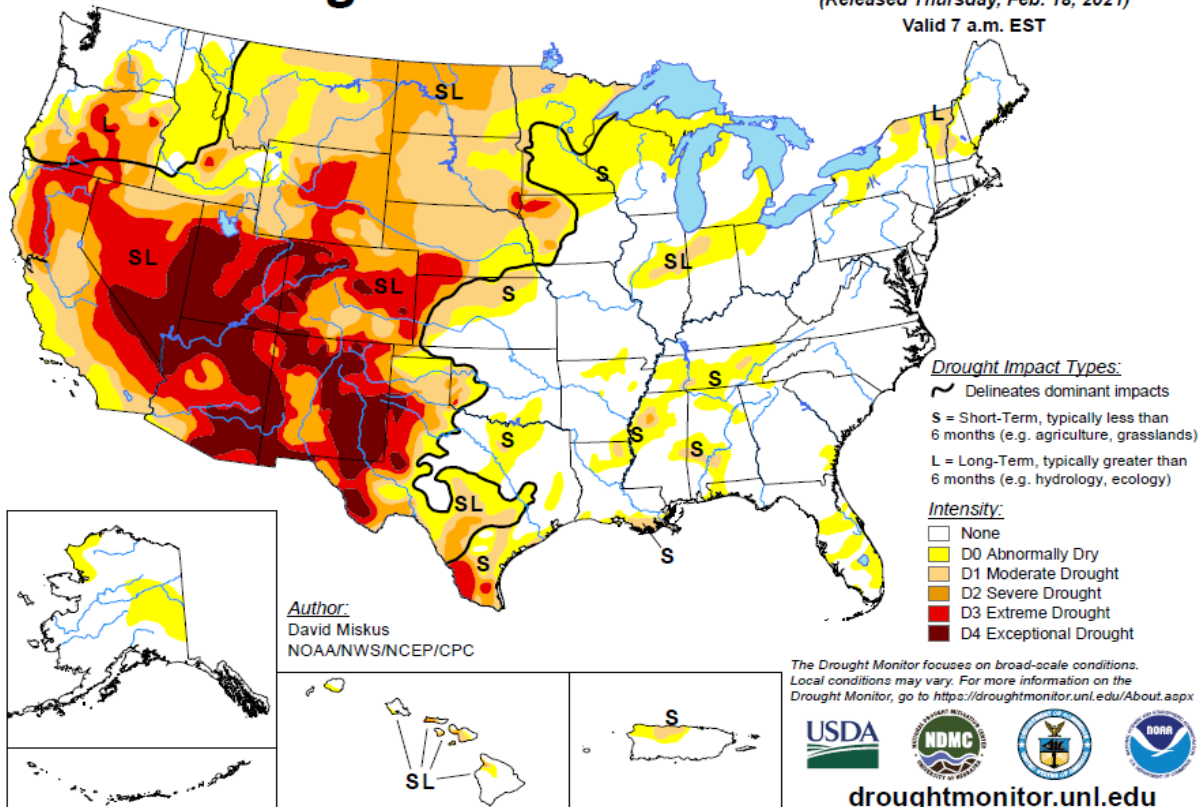
KEN21/CTZ21 Ratio is 7.9 as of February 8
1999/2001 – 2019/2020

New Crop Influences



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

U.S. Drought Monitor

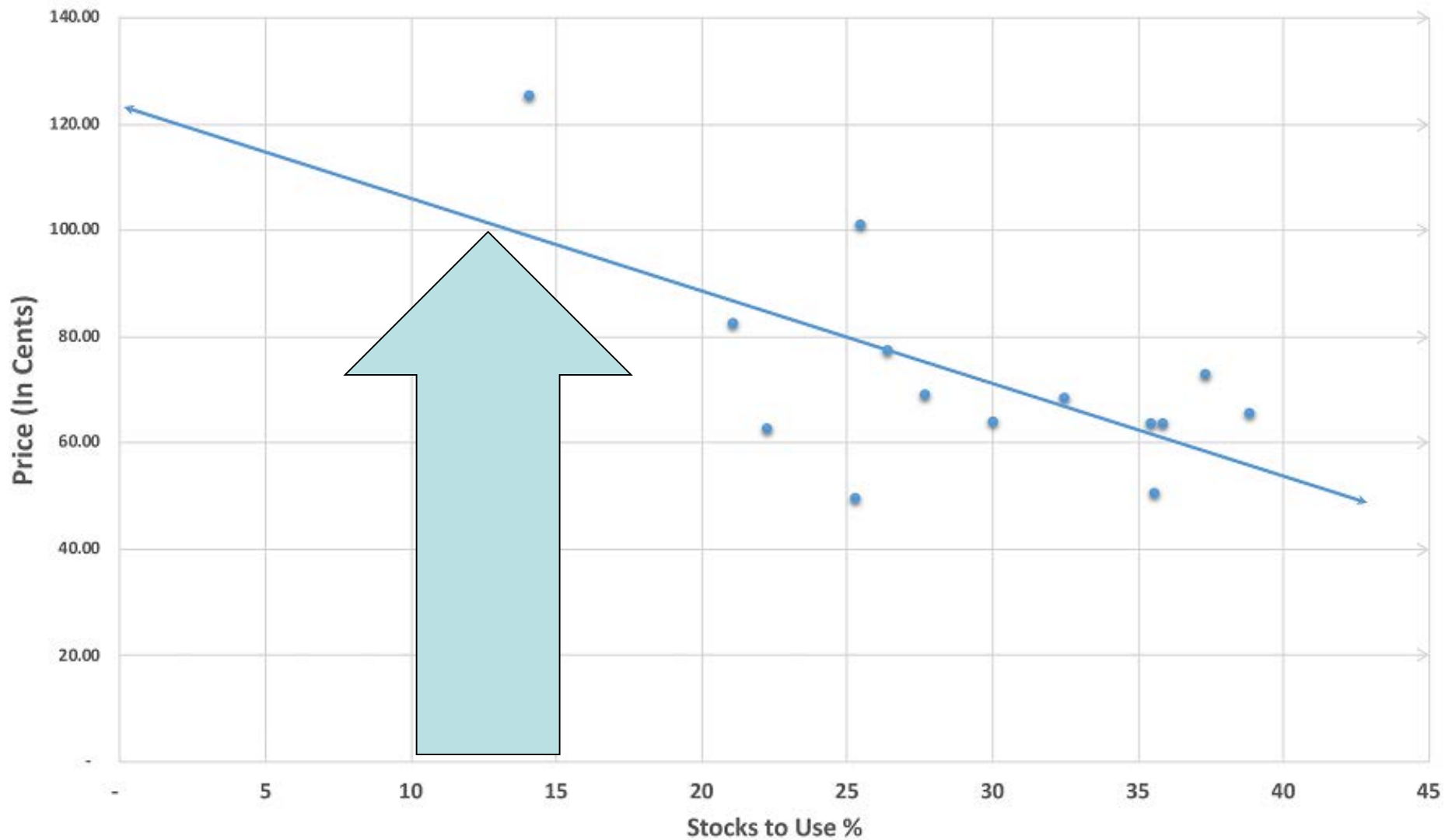
February 16, 2021
(Released Thursday, Feb. 18, 2021)
Valid 7 a.m. EST



New Crop Influences

- Bad 2020 production experiences 
- Drought and upper 70s insurance price 
- Quick Math for Very Tight Outcome
 - a. Higher abandonment (assume 29%)
 - b. Lower yields (assume 850 lbs/ac)
 - c. Potentially less production and stronger prices
 - d. 15+M bale crop, plus 4.6 M bales carry-in, less 18 million bales of use, gives 2+M bales of ending stocks, and a 11% stocks-to-use
 - e. Statistically, this would forecast an avg. Dec'21 futures price next October at 83 cents per pound!!!

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



Outlook Summary

- **Mar'21, May21, and Jul'21 ICE futures may push towards 90 cents**
 - **Commercial hedgers have major net short position in ICE cotton. This is not unusual, but this year it is historically large, and they may encounter a lack of selling liquidity when they want to buy back their hedges – an inadvertent squeeze, similar to the 3+cent spike on February 4**
- **Dec'21 may range between 75 and 85 cents per pound**
 - **Fundamental tightness in U.S., and speculative-fueled “commodity wave”**

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“Cotton Spin” Column, Southwest Farm Press

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

The Cotton Marketing Planner Newsletter

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

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