# Marketing and Risk Management Programs for U.S. Cotton Producers

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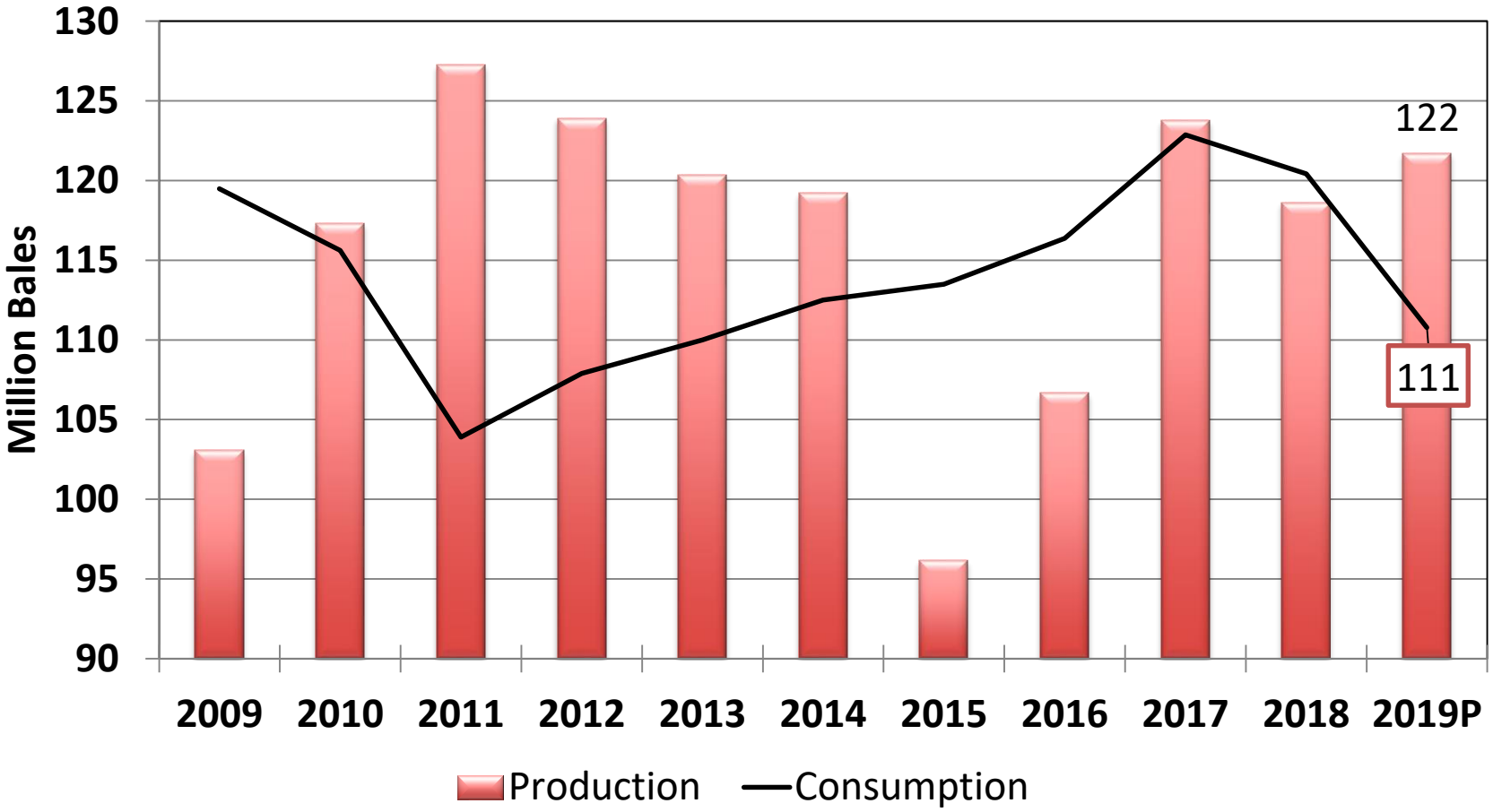
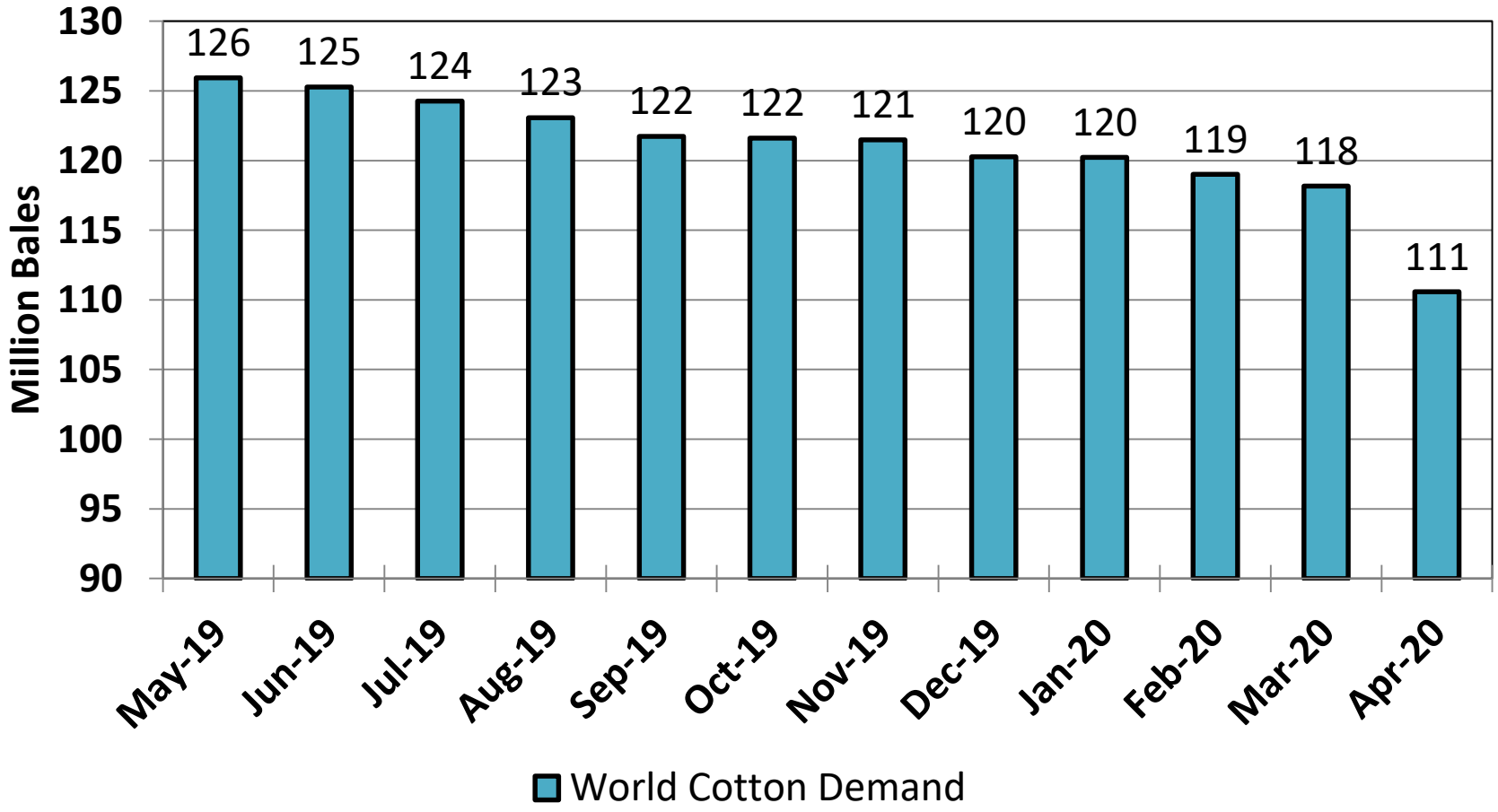
# World Cotton Supply and Demand




Data from USDA FAS

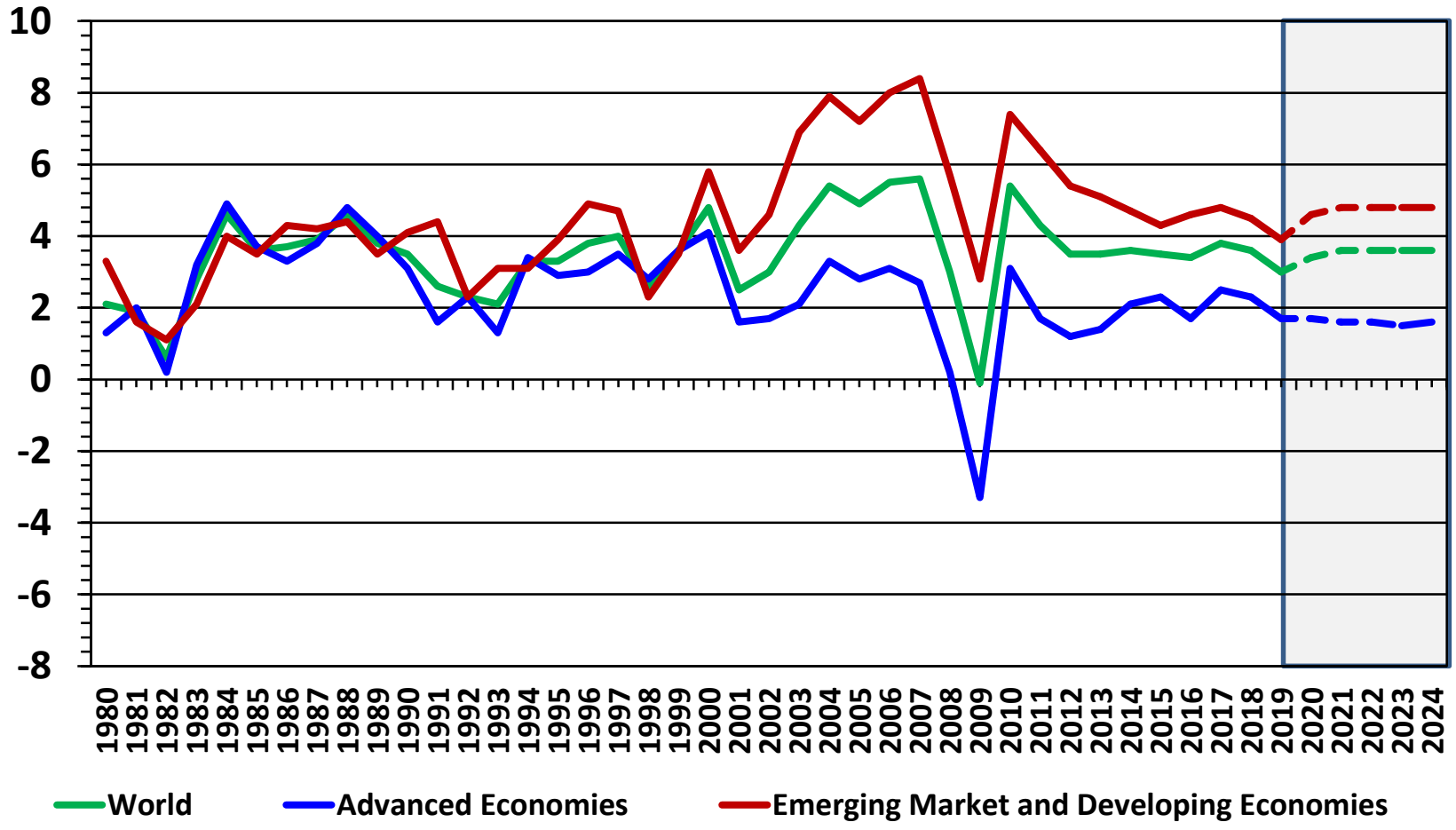
# Monthly Projections for 2019/20 Crop




Data from USDA FAS

# Projected Economic Growth

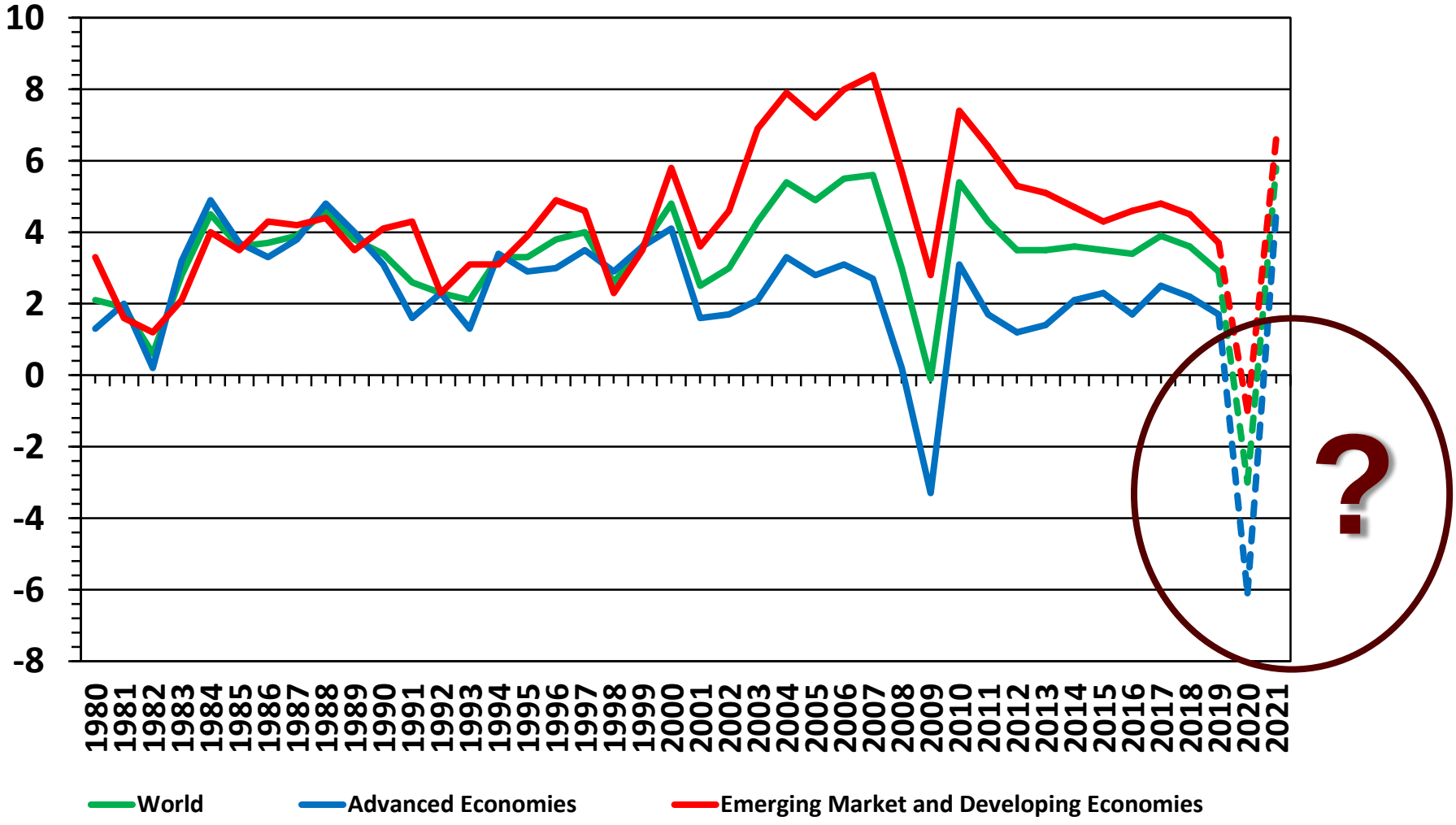
## Real GDP % Change, Published Last October




World Economic Outlook, October 2019
http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

# Projected Economic Growth

## Real GDP % Change, Published in April



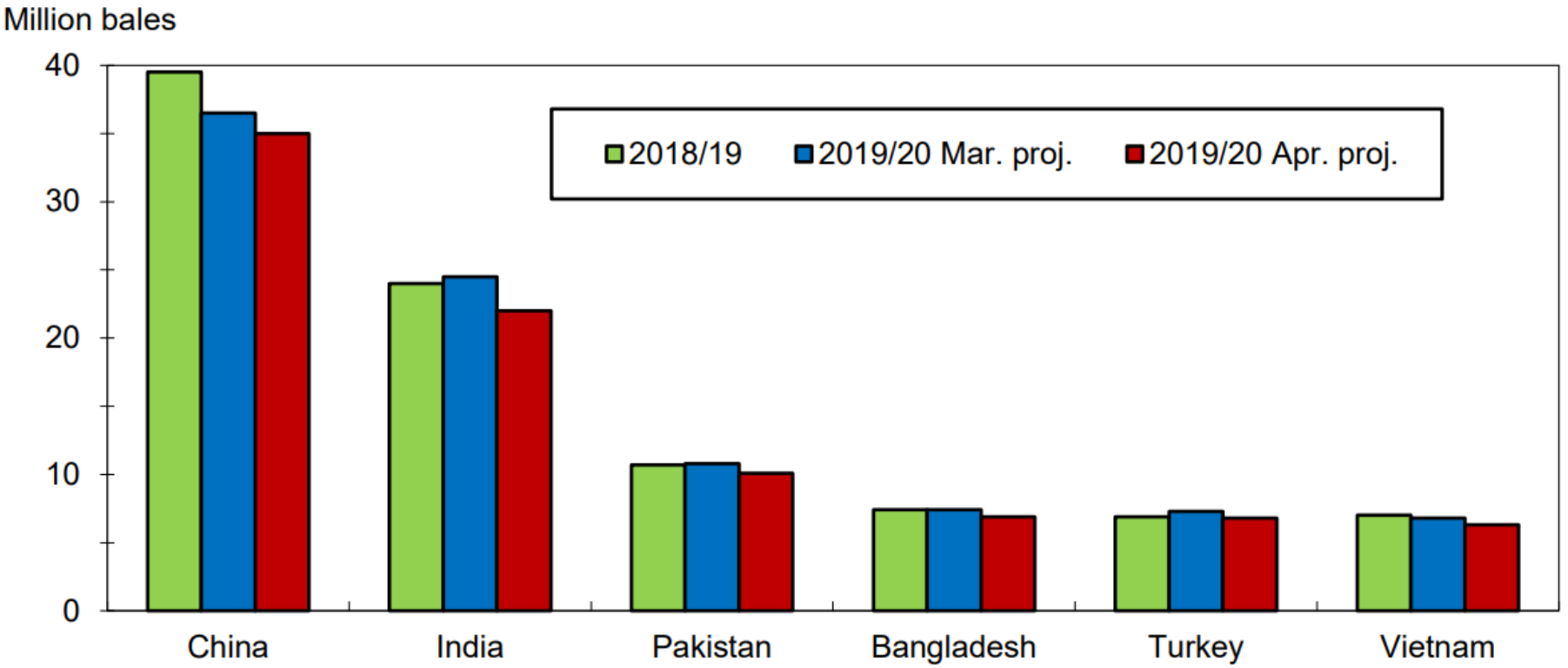

World Economic, Outlook, April 2020 http://www.imf.org

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

# How Deep Is the Drop?

- **Semi-durable, discretionary aspect of apparel may hurt cotton more than other crops**
- **Expected lower demand for apparel, cloth, yarn, and lint**
- **Evidenced in short run by cancelled U.S. export sales**

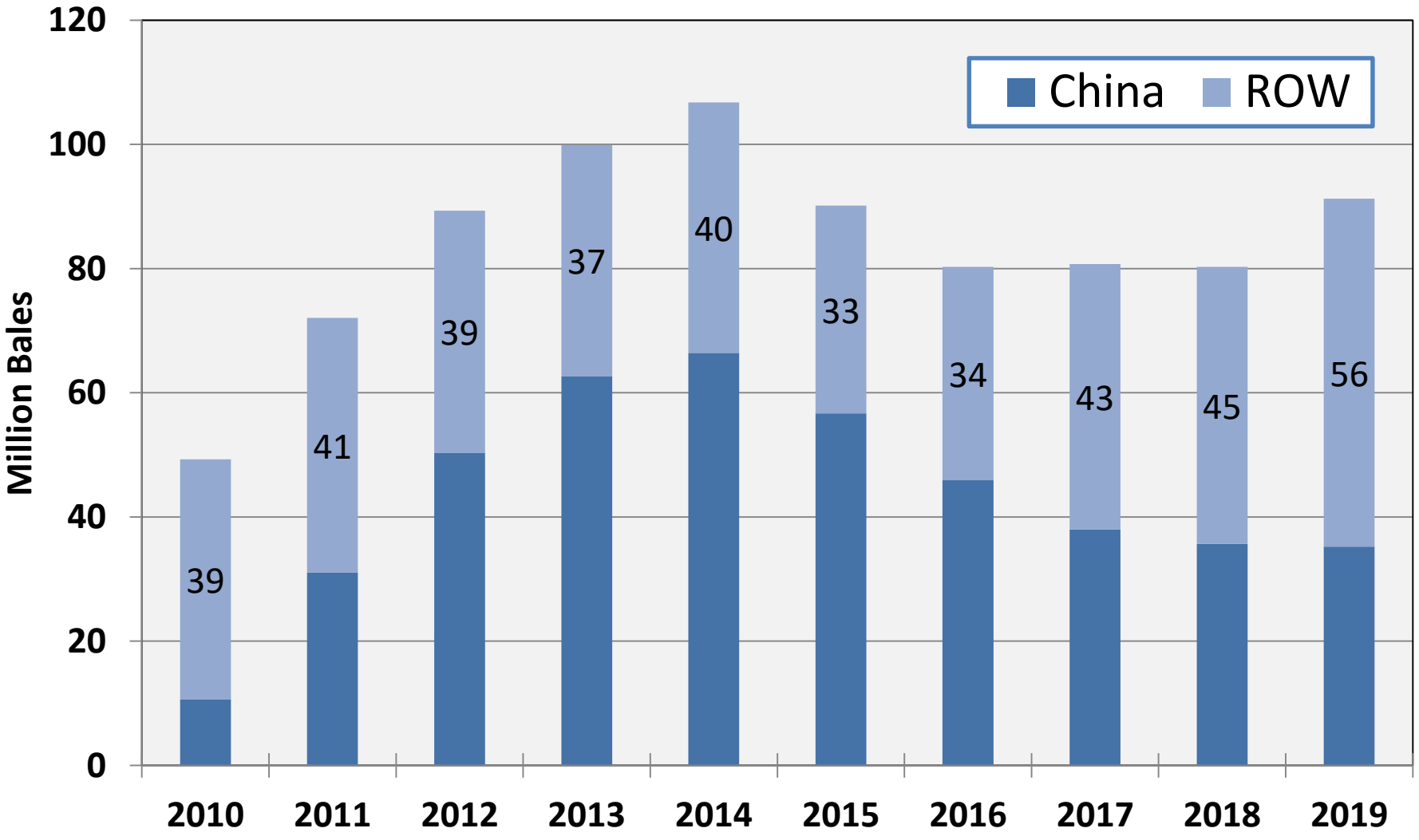
# Cotton Mill Use for Selected Countries




Note: 1 bale = 480 pounds.

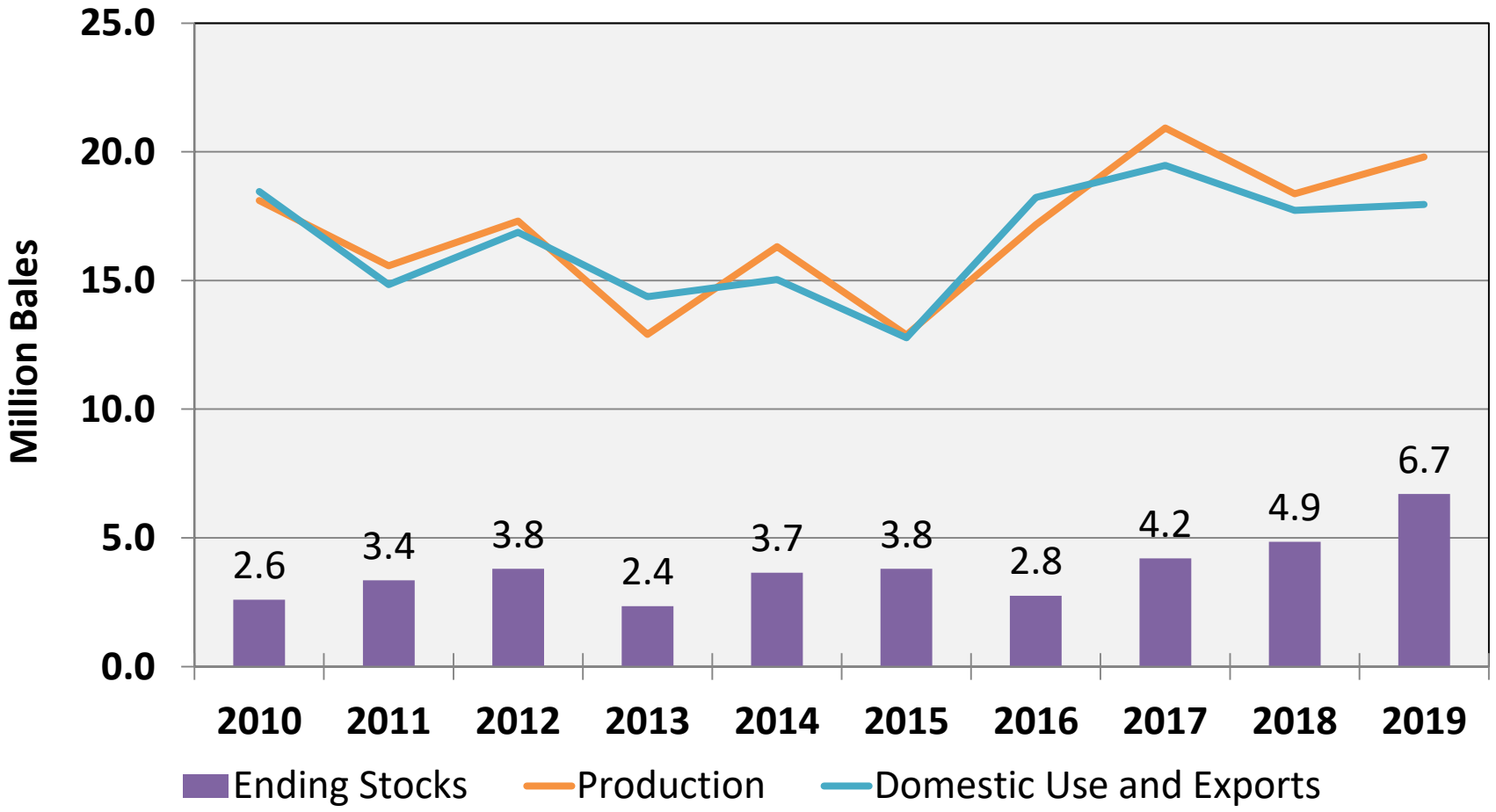
Source: USDA, *World Agricultural Supply and Demand Estimates* reports.

# World Ending Stocks



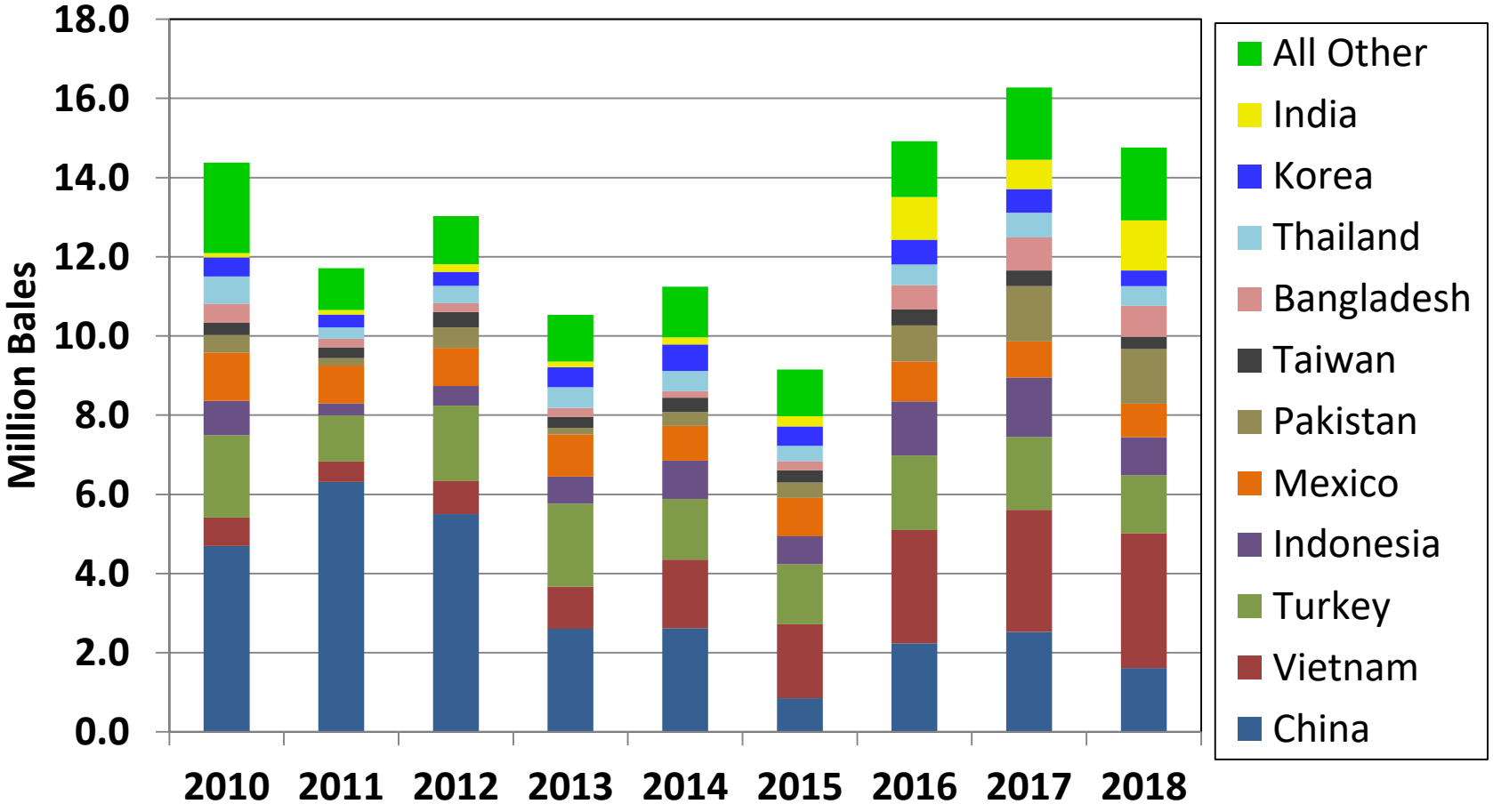

Data from USDA FAS

# U.S. Cotton Supply and Demand



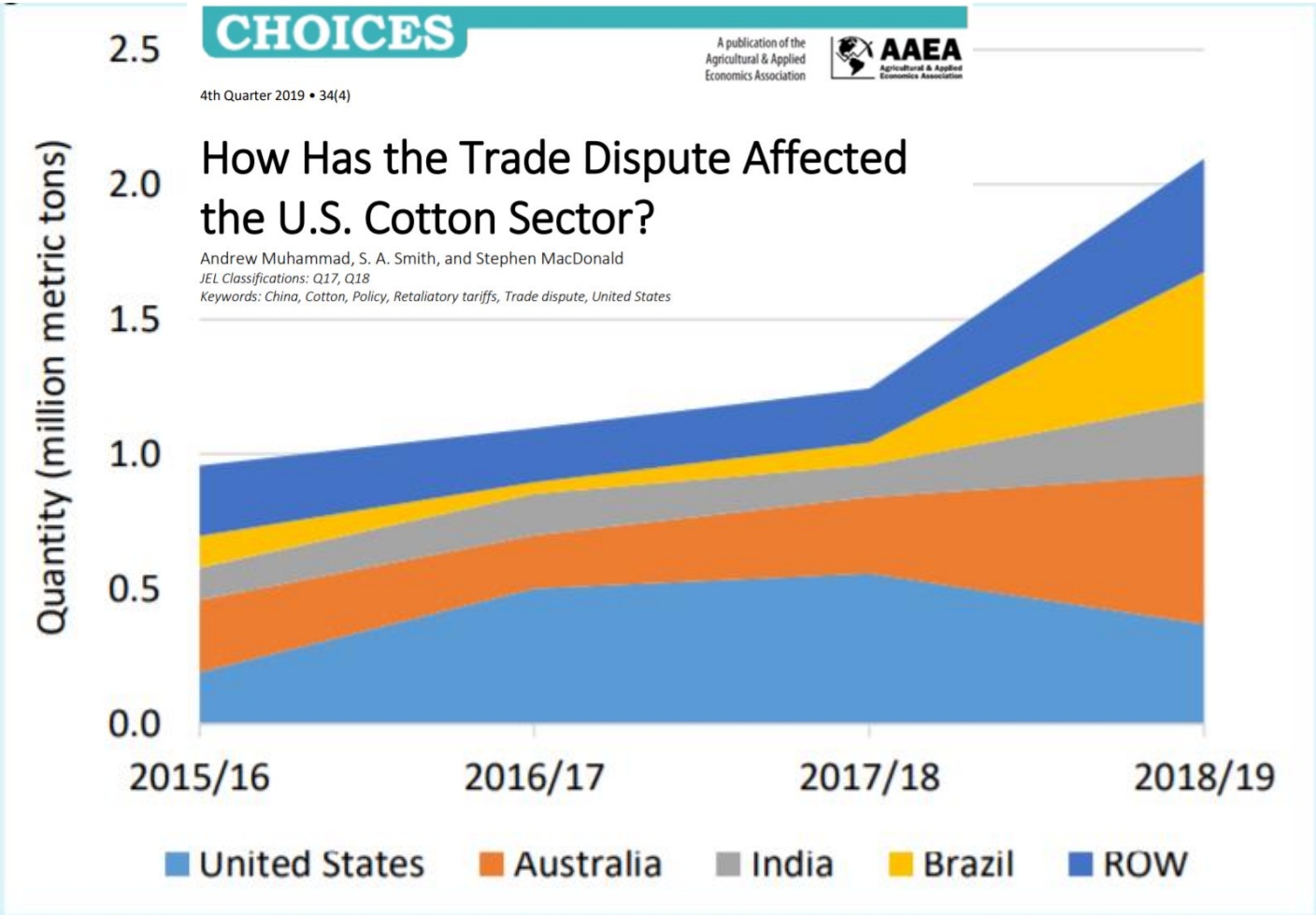

Data from USDA FAS

# U.S. Cotton Exports by Destination



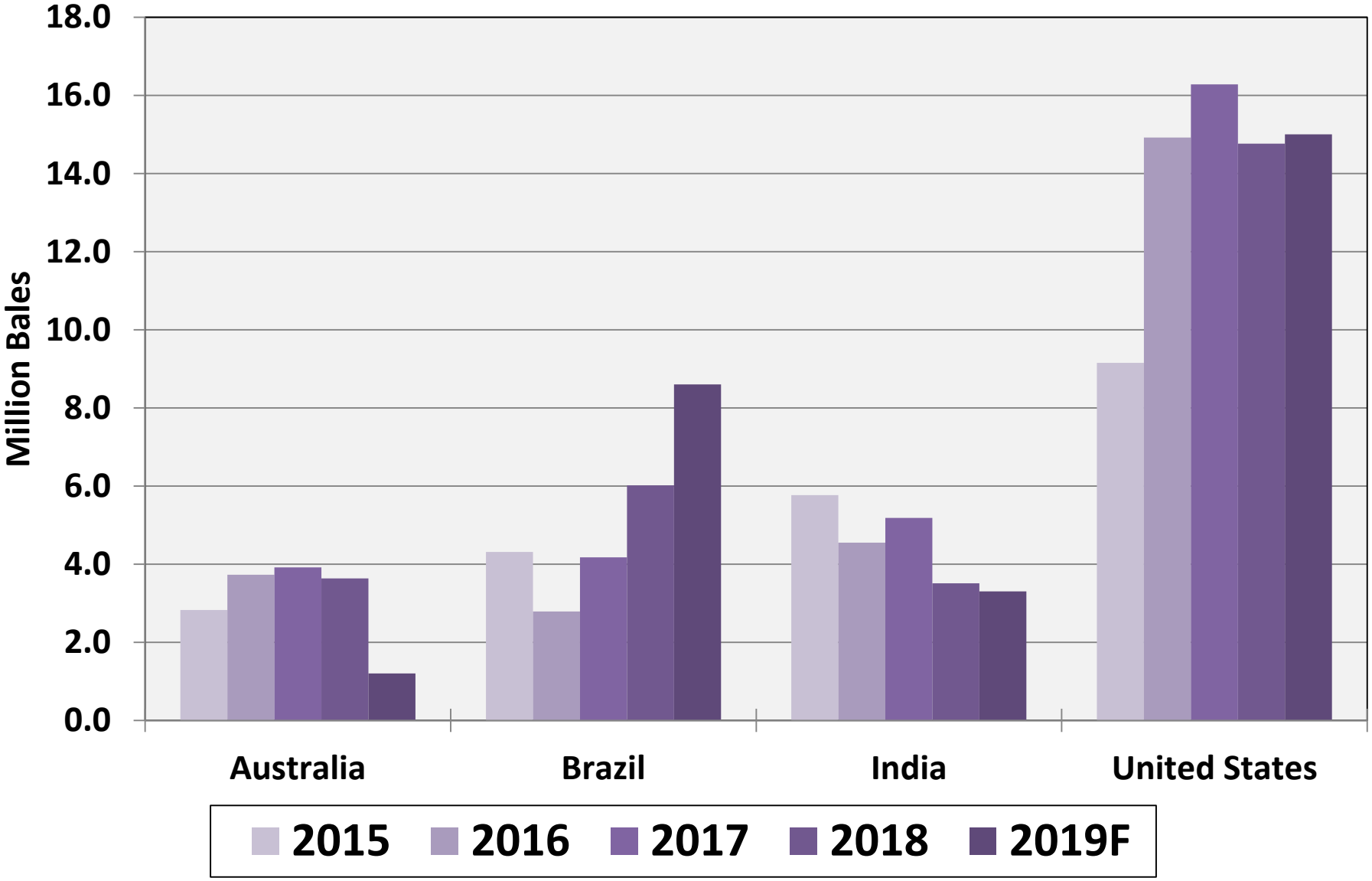

Data from National Cotton Council

# China Cotton Imports by Source




Note: Marketing year starts August 1. ROW is rest of world, which is an aggregation of all remaining countries. Cotton: HS 5201 (cotton, not carded or combed).
Source: Global Trade Atlas (2019).

# Major Exporter by Country and Year

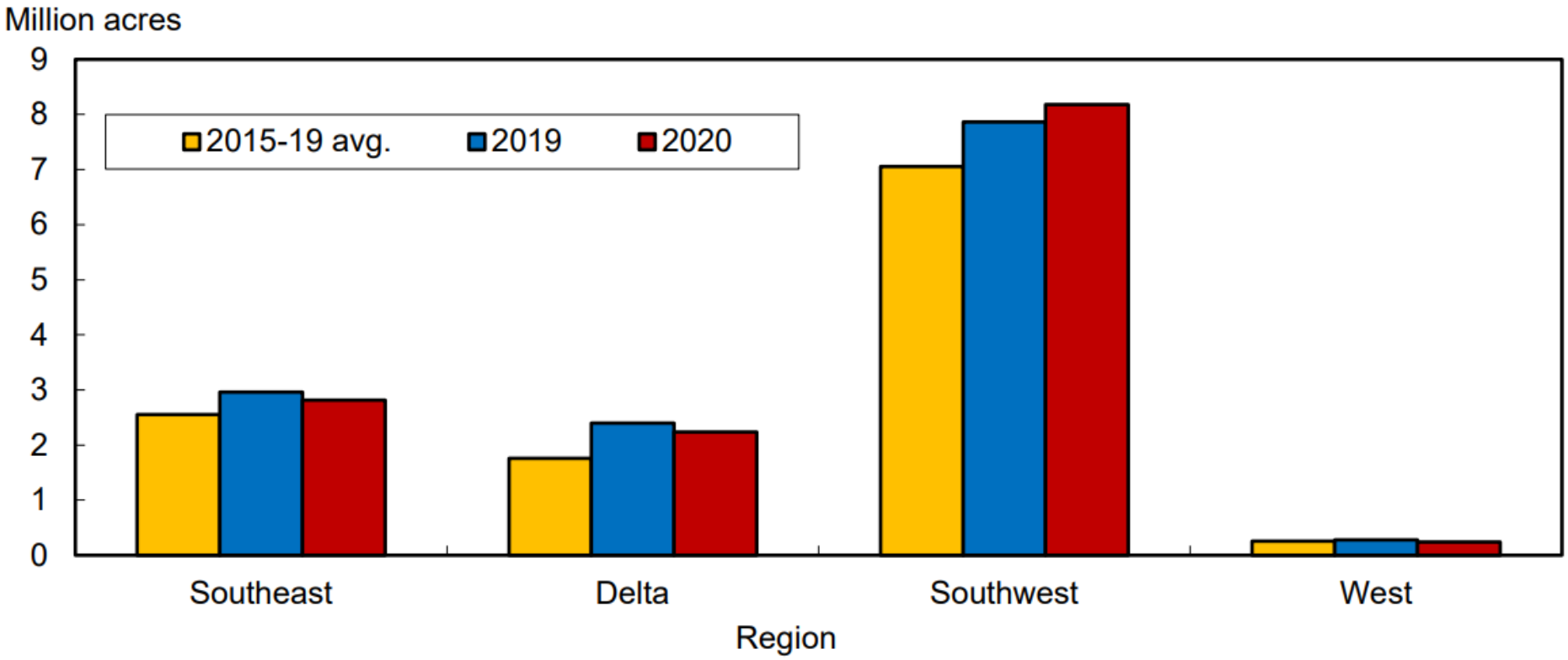



Data from USDA FAS

# U.S. Price and Ending Stocks


| May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 6.4 | 6.4 | 6.7 | 7.2 | 7.2 | 7.0 | 6.1 | 5.5 | 5.4 | 5.4 | 5.1 | 6.7 |

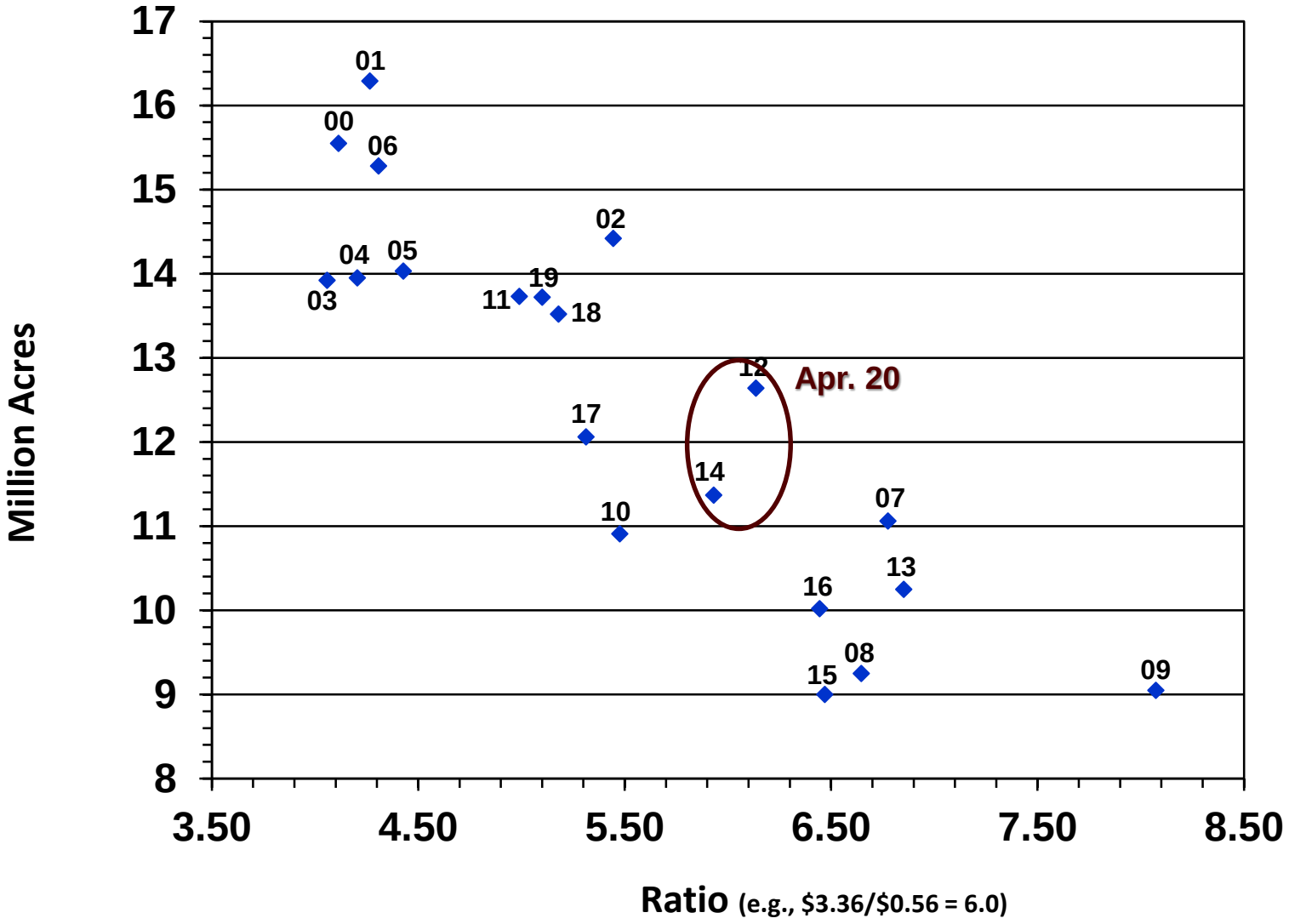
# U.S. Regional Upland Cotton Planted Area for 2020/21 Crop




Note: 2020 based on *Prospective Plantings* report.

Source: USDA, National Agricultural Statistics Service, *Crop Production* reports.

# Ratio of Q1 Dec Corn/Dec Cotton Futures, vs. June Cotton Planted Acreage Report



| U.S. Cotton Balance Sheet | 2018/19 Est. | 2019/20 April WASDE | 2020/21 JR |
|---|---|---|---|
| | *Area Million Acres* | | |
| Planted | 14.10 | 13.74 | 12.00 |
| Harvested | 10.21 | 11.80 | 10.20 |
| | *Pounds* | | |
| Yield/Harvested Acre | 864 | 817 | 800 |
| | *Million 480 Pound Bales* | | |
| Beginning Stocks | 4.20 | 4.85 | 6.70 |
| Production | 18.37 | 20.10 | 17.00 |
| Imports | 0.00 | 0.01 | 0.01 |
| Supply, Total | 22.57 | 24.96 | 24.71 |
| Domestic Use | 2.98 | 2.90 | 2.90 |
| Exports, Total | 14.76 | 15.00 | 15.00 |
| Use, Total | 17.74 | 17.90 | 17.90 |
| Unaccounted | -0.02 | 0.06 | 0.00 |
| Ending Stocks | 4.85 | 6.70 | 6.81 |
| Ending Stks./Use | 27% | 37% | 38% |

# Marketing Thoughts

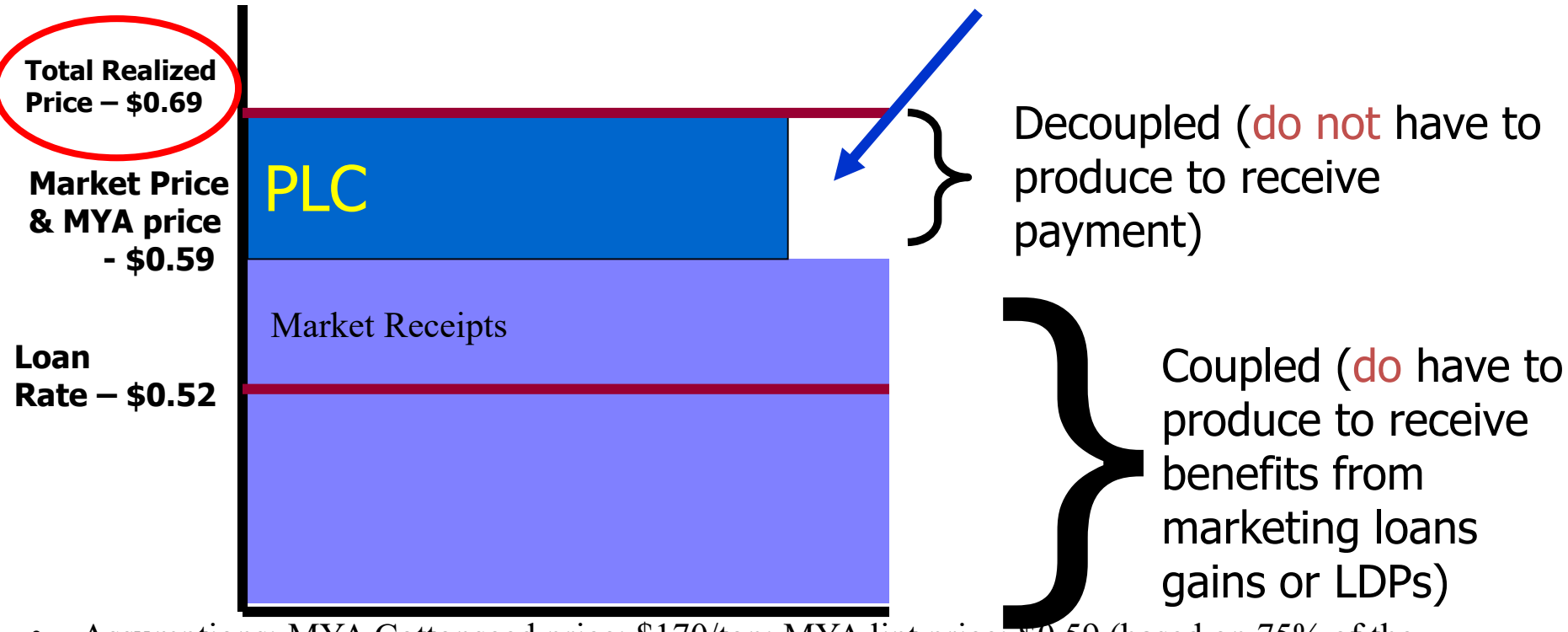
- **Despite fundamental bearishness, futures appear supported by**
  - **Lack of merchant hedge selling**
  - **Central bank monetary stimulus**
  - **Gov't price support in China, India & U.S.**
- **Old crop futures prices in upper-40s to upper-50s range**
- **However, a majority of 2019 crop was sold prior to price decline, i.e., MYA=59 cents**

# CCC Loan Tactics

- **MYA lint price in upper 50s implies zero LDP for majority of 2019 sales**

# Distribution of Government Support
## Example: Early Marketed 2019 Cotton

**Reflects payments not on full production (payment acres = .85 x base acres)**

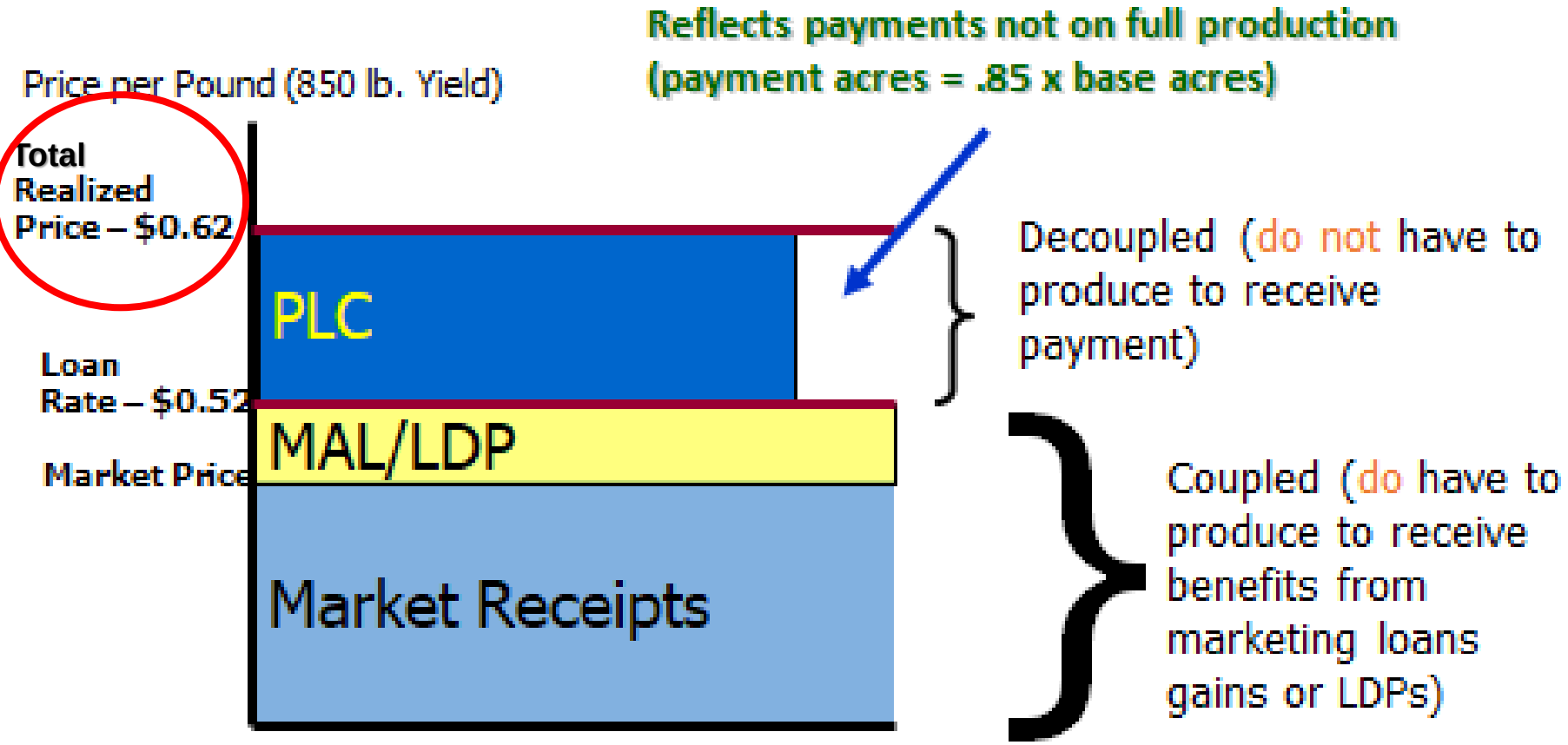



- Assumptions: MYA Cottonseed price: $170/ton; MYA lint price: $0.59 (based on 75% of the marketings); Producer yield: 850 lbs./ac; PLC payment yield: 1,530 lbs./ac
- Crop insurance base price was .73 cents; with no yield loss, the pure price protection from a 70% RP policy kicks in at 51 cents.

# CCC Loan Tactics

- MYA lint price in upper 50s implies zero LDP for majority of 2019 sales
- **But remaining later 2019 sales will likely involve AWP below loan rate**
  - **Forgo the loan, sell cotton, and apply for LDP**
  - **Put cotton in the loan**
    - **Redeem/sell later, downside protected by potential MLG**
    - **Take an equity payment and transfer to merchant**
    - **Forfeit**
- **Optimal strategy involves knowing whether the price increase exceeds storage costs.**

# Distribution of Government Support
## Example: Late Marketed 2019 Cotton

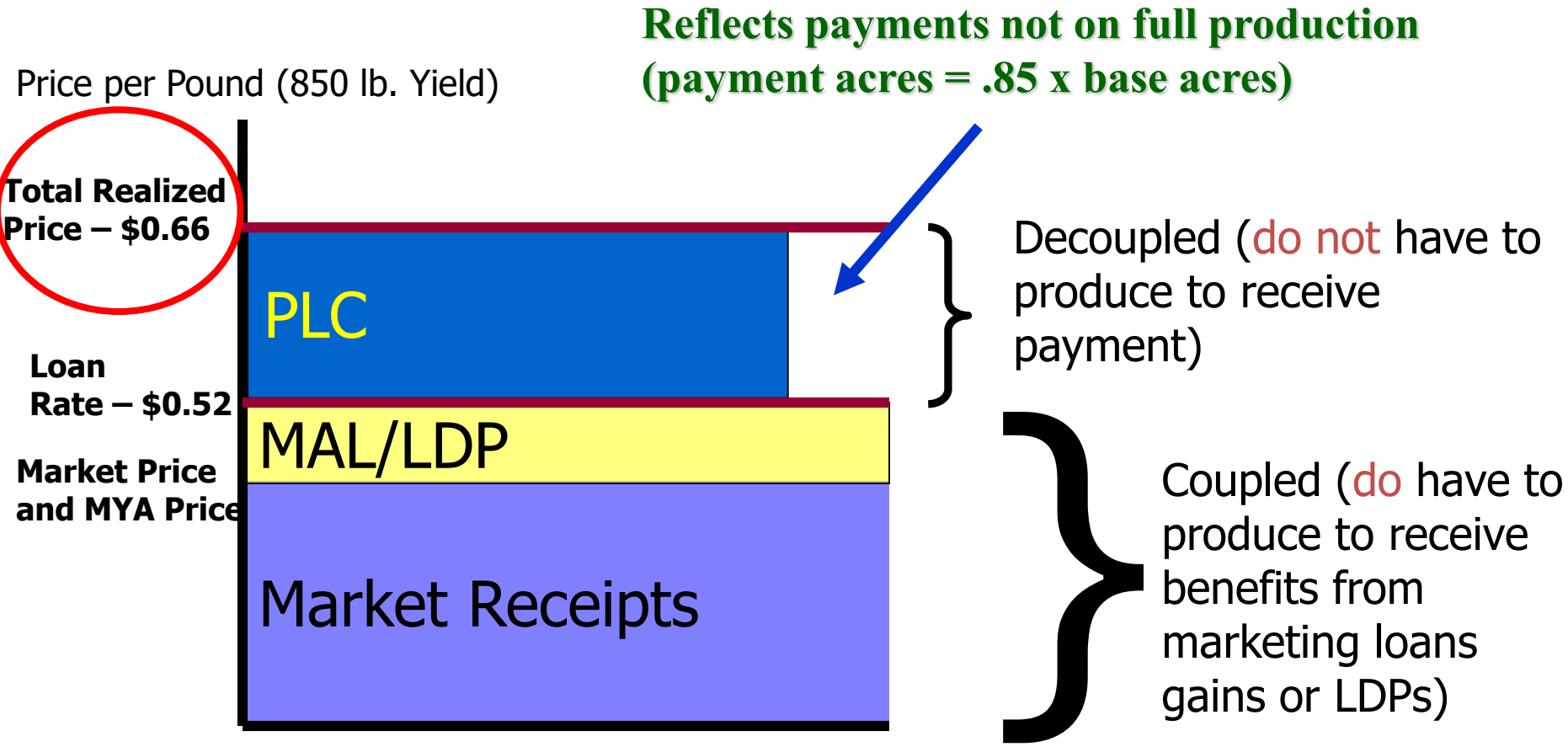



- Assumptions: MYA Cottonseed price: $160/ton; MYA lint price: $0.59; Producer cash price: $0.52 Producer yield: 850 lbs./ac; PLC payment yield: 1,530 lbs./ac

# New Crop

- **MYA lint price in lower 50s implies larger PLC pmt rate for 2020**
- **A lot of 2020 sales will likely involve AWP below loan rate**
  - **Forgo the loan, sell cotton, and apply for LDP**
  - **Put cotton in the loan**
    - **Redeem/sell later, downside protected by potential MLG**
    - **Take an equity payment and transfer to merchant**
    - **Forfeit**
- **Optimal strategy involves knowing whether the price increase exceeds storage costs.**

# Distribution of Government Support
## Example: New Crop Cotton




- Assumptions: MYA Cottonseed price: $170/ton; MYA lint price: $0.50; Producer yield: 850 lbs./ac; PLC payment yield: 1,530 lbs./ac
- Lower Crop Insurance Base Price than in 2019

# Hedging Govt Payments?

- **Some recommendations out there for calls and call spreads**
- **This might make sense when futures are in the lower 50s and LDP payment rates are large**
- **Not as clean to try and hedge PLC payments, plus the likelihood of futures rising up into the 60s seems kinda remote**

# Thank you!

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