MARKETPLACE INSIGHTS

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Good morning, ladies and gentlemen.

It's an honor and a privilege to be back at the Beltwide again this year. This Conference continues to grow and prosper and is recognized today as the most important meeting for cotton producers in the U.S., as it pertains to new cotton production technology and ideas in the production and marketing of cotton.

Last year I said I wasn't sure I was qualified to speak on the cotton market after watching a record U.S. crop produced and then watching U.S. cotton prices soar to a level of $1.17. This year I am even more positive I am not qualified, after seeing another record U.S. crop projected in August and seeing prices move to a level in September of 95.20, basis March futures, as this record crop began to deteriorate. Prices have dropped approximately 12 cents, basis March futures, from their high in September 1995. To some it is puzzling, but the key has been our domestic demand has not kept pace with last season.

Since being here last year, so much has changed in the life of cotton for many of us. Let me quickly reflect on some of those changes.

First, last season we saw the highest price for cotton futures in the history of the cotton industry brought about by intense demand for U.S. cotton created by dismal production in China, Pakistan, and India.

I think I said last January the price of cotton would rise to a level where price would ration demand and this occurred as cotton prices moved above 95 cents. We saw prices advance to a level of $1.17, as I stated a few moments before. I predicted that the carryover would drop under 2 million bales, and we would run out of cotton by mid-August. What happened? This did not occur, even with a major disaster in the Rio Grande Valley. It did not happen because prices went high enough to sharply ration the demand in the U.S. and the world. The final U.S. carryover was 2.6 million bales. To say the least, it was the most exciting season of my cotton career. In the early Fall of last season I was bearish until November of 1994, but I became a rampant bull as the shortage of world supplies was recognized.

First, today let's examine the U.S. and world supply-demand for this season.

Reprinted from the *Proceedings of the Beltwide Cotton Conference*
Volume 1:22-24 (1996)
National Cotton Council, Memphis TN

Then, secondly, look at projected U.S. and world supply-demand for the 1996-97 season.

Third, what is the impact of new farm legislation or the impact of a simple one year extension of the existing farm bill?

Last, but not least, the potential price impact for the balance of this season, and then what you as cotton producers can expect for 1996-97, if my numbers are reasonably accurate.

As I have always done before making any price projections, I try to examine all the factors that can and will affect price for the next eighteen months.

I vividly remember the government in August of this year predicting in their August crop report that we would be looking at a U.S. crop for 1995-96 of 21.8 million bales, another U.S. record by over 2 million bales. Remember, last year we produced 19.662 million bales, a new U.S. record. I can assure you that in August after seeing the crop report, I was bearish on prices with a potential U.S. crop of 21.8 million bales, which would create a substantial rise in the U.S. carryover. Prices responded in July and early August of 1995 by going to a level of 70.76 for December futures, because of the projected size of the crop and horrible textile business in the U.S. and around the world. We projected after the August crop report that the U.S. carryover would increase to 5.2 million bales, off of 11.5 million bales of domestic consumption and 7.7 million bales of exports.

However, as we started to harvest the crop from South Texas and across the belt, yields were disastrous or disappointing in each area. The U.S. crop went from 21.8 million bales to a December projected number of 18,240,000 bales and, in my opinion, the final crop will be 18 million bales.

Ladies and gentlemen, we will have lost nearly 3.8 million bales of production, and today cotton prices are 83.65, basis March futures on last Friday's close. Domestic cotton consumption from August has continued to erode, and we are thinking final consumption for this season of 10.5 million versus 11.2 million bales last season. The cotton industry has already registered for export 7.2 million bales, and I think we will register 7.6 million bales, but probably only ship 7.3 million bales. The balance will be shipped as always in August and September of this year. If these numbers hold true, our carryover will be between 2.8 and 3 million bales. Cotton imports and a year end adjustment will probably make the final carryover just under 3 million bales. I think that is a very precarious carryover level, mainly because of the quality composition of the U.S. crop. We produced an abnormal amount of high micronaire cotton this season in the Memphis Territory and Southeast and a fairly substantial amount of low micronaire in Texas.

When I say the composition of the carryover is precarious, I mean that there may not be enough tenderable styles of U.S. cotton after we satisfy our domestic and export demand. Each futures month from March to July will be in more demand as it rolls around, unless the basis in the country breaks sharply. I do not see that happening today, unless the market moves sharply higher.

Now let's examine our projection for the U.S. for 1996-97. I think U.S. cotton acreage will drop from 16.84 million acres this season to 15.6 million acres, a drop of 1.2 million acres for next season, the reason being higher prices for corn and soybeans and the financial memory of this year's disaster. With average yields -- remember, I said average yields -- we should produce next season a crop of 20 million bales, another U.S. record, even though acres drop 1.2 million. I think domestic cotton consumption will escalate to a level of 11 million bales as the U.S. textile business improves, and U.S. exports will be 7.5 million bales, as we see an improvement in not only the U.S., but textile business around the world.

If these projections hold true, then the U.S. carryover will escalate to a minimum level of over 4.5 million bales, which would appear ample, but remember, these are only my projections looking at the 1996-97 potential, and it is only January of 1996. All you have to do is look at the last two cotton seasons and recognize all the factors that could destroy these projections. Over the last two seasons I have had to change my market bias two to three times each season.

Now that I have discussed the U.S., what has happened in the world this season versus last season?

We think the final world production this year will be slightly under 88 million bales, and the final world consumption number will be nearly 84.6 million bales, which will add to our world carryover. Last year the world carryout was 28.6 million bales, and this season it will be approximately 32 million bales, an increase of 3.4 million bales. Remember, again, these are Dunavant numbers, not USDA. We do know at this stage that China, Pakistan and India have better crops than last season by a good measure. In fact, at this stage Pakistan has been a substantial exporter of cotton versus an importer last season, and India will export probably 400,000 bales this season, but in lower qualities. China, both central government, provincial and joint venture mills, has already purchased about 1.4 million bales of U.S. cotton. In my opinion, if the U.S. cotton prices would drop 4 cents from today's level, I think there could be substantial new purchases. Remember, I said "drop." China is very cost conscious on new purchases. We do know that the Chinese strategic stocks are at a dangerously low level, and at some price it will be their intention to build back their stocks. In my opinion, price will be the determining factor and the quality of cotton they would like to add to their stocks will be high quality, and they prefer U.S. cotton if it is reasonably competitive.

For 1996-97 I think world production will continue to increase because cotton prices have been good and this will encourage slightly increased production. This year foreign producers have escaped the bullet of major crop disasters like we experienced in the U.S. Hopefully, in 1996-97 world consumption will get back on track with better textile business in the new season. Today we project next season's production at 89.3 million bales and next season's consumption at 87.7 million bales, leaving us an increased carryover of 33.6 million bales for 1996-97 versus 32 million this season. I think it is important to note that I project world production will increase by only 1.3 million bales in 1996-97, but world consumption will increase by over 3 million bales. These are very important factors to monitor for prices. Please remember, any major declines in new crop prices will in my opinion sharply decrease world plantings of cotton, and if it occurs between now and April, then world carryover stocks will be reduced, not increased, next season. Between now and planting time in the Spring of 1996, we must carefully monitor new crop prices to see how they affect northern hemisphere production.

The southern hemisphere crops of Australia and Argentina are currently progressing well compared to a year ago. As I said earlier, the real key to new crop prices will be consumption levels in the U.S. and around the world. We need a major improvement in textile business around the world. This we have not seen for three years.

If we have a simple one year extension of the existing farm bill, I feel comfortable we will produce at least 20 million bales next season with average yields. We will plant more acres with a one year extension than under the new farm bill, because of flexibility. If, however, we obtain the new farm bill, then I would be suspect of 20 million bales production. With greater flexibility and higher prices for competing crops, the forward crop contract price will be the determining factor from now to planting time.

I have now tried to examine all the criteria that is necessary to make price projections for the balance of this season and for 1996-97.

For the current season I do not think there is a bearish bias to prices at this time, but, also, I don't think we know all the answers to demand. I think for the next 60 days we will continue to be in a range of 81 to 85 cents, basis March futures. If export registrations continue to move above 7.2 million bales, then prices will tend to strengthen. I find it fascinating that everyone says U.S. cotton is not price competitive, yet we have 7.2 million bales registered for export. It is true that foreign growths are cheaper than U.S., but I think their supply availability will gradually disappear come the first of May, and major markets will have to rely on U.S. cotton and southern hemisphere crops. I said earlier that if we endure a price decline of 4 more cents from today's level, then I think U.S. export registrations will go above 8 million bales, and we would be in the same predicament as last season in regard to price. We will not be in that situation if prices stay between 81 and 85 cents. I feel strongly today that with prices at 83.65, basis March futures, we will export 7.3 million bales. At 78 to 80 cents I feel strongly we will register from 8 to 8.5 million bales, and we will once again become very friendly to cotton prices. Cotton will trade above 90 cents if we actually export 7.5 million bales this season, and if we export 8 million bales, cotton will once again push through the dollar level. Remember, only the price of U.S. cotton and time will determine if this will happen. Remember, I am not predicting that, unless export registrations move sharply higher. I do believe there will be some export cancellations in the months ahead on sales already consummated, which will also have to be monitored.

I also know that there is still a supply of Texas, Memphis and Eastern cottons available for sale above the market. However, the Memphis and Eastern cottons are not the same qualities that most of us owe to our customers. Not all the qualities will match up with what the industry needs, or what the futures market needs. I needed to take cotton off of December to have available supplies to ship to China. Memphis and Southeastern country warehouses do not perform as well as certificated warehouses. I do recommend that all growers for the balance of this season sell on a rising market, but not wait for last season's very high prices. I say this because demand is not aggressively strong, and as long as there is a supply of foreign grown cotton, then it will tend to move before the U.S. in many markets. Please remember, as cotton goes above 90 cents, just as last season, price will definitely ration demand, unless there is a dramatic improvement in textile demand; and if that occurs, prices can go much higher than 90 cents.

Now for a stab at prices for new crop -- the 1996-97 crop year.

First, I do not see a major decline in December futures until planting time is completed, and, conversely, on the upside, I do not see December futures going above eighty cents until the projections I shared with you are violated. I said the carryover has the potential to rise above 4.5 million bales next season, and unless world production falters, then I would definitely be hedging my new crop between 78 and 80 cents, basis December futures. I would probably hedge 50 to 75 percent between 78 and 80 cents and then save the balance for higher prices, or even until the crop moves in November and December of 1996.

I do believe if new crop prices drop to 75 cents, then cotton acreage in the U.S. will be lower because of higher prices for competing crops, such as corn and soybeans.

Today I would be a buyer of December futures on a scale down below 75 cents, because remember what has happened in production and consumption the last two seasons; and I am dealing with projections for next season, not reality.

Remember, we have to get the new crop planted on time with no major problems in the U.S. to put much pressure on new crop prices. If we don't, the pressure on prices will be to the upside. I do not foresee any situation occurring that could create the poor yields we experienced this season, but I am also the guy who believed in August that this crop was 21.8 million bales, so my thoughts are not always correct.

In closing, again I think the National Cotton Council has done an outstanding job of representing producers during the debate on the farm bill. On balance, if the new farm bill is adopted for the 7 year period, in my opinion, it will be good for agriculture in the long run.