

**U.S. COTTON:  
ITS POSITION IN WORLD TRADE**

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**Abstract**

As a whole, United States cotton produces are the most reliable suppliers of cotton in the world today. This was attested by record exports of 9.4 million bales in 1994/95 which could be exceeded by the end of the twentieth century as growing demands from an exploding population increase cotton consumption worldwide. Fortunately, the reliability of U.S. cotton has placed our industry in a position to continue as the supplier of the future.

**Introduction**

Attempting to put definitive numbers to cotton is difficult at best even when looking at the present. Putting definitive numbers to cotton a year, two years, or five years in the future is next to impossible. However, this is what we will attempt in this presentation using the best information currently available.

Initially, I will discuss the outlook for U.S. exports this year. Then I will focus on the possibilities for the 1996/97 season and lastly, finish by taking a look at what current trends indicate as we end the century. The major topic of this presentation is the prospect for U.S. cotton in world cotton trade, but it is impossible to focus on this without looking at a number of other things that impact U.S. exports. Therefore, I will present one perspective of the current U.S. supply and demand situation and how it compares with the foreign situation. After laying this groundwork, I will build a case for projections of the 1996/97 season and briefly look at some possibilities for world cotton trade as we approach the twenty first century.

**1995/96: A Season of 'Ifs' and 'Buts'**

Looking back, we have to wonder what would we be looking at if the U.S. crop actually did reach the twenty two million bales most economists were projecting in August. Nothing is certain, but if U.S. production was another 3.5 to 4 million bales more than what is currently expected, it is doubtful prices in New York would be anywhere near 80.00 cents. Regardless, U.S. production will still be the third largest in history which is sometimes overlooked due to poor yields across the cotton belt. In fact, this crop is 3.5 million bales larger than in 1986, when the United States had yields of 702 pounds per acre. Unfortunately, this does little to help us today and does nothing to calm our bankers.

As we look at the current situation, it is rather surprising to realize the United States is the only country of the big four cotton producing countries to do worse than last year. This is a bit ironic considering most industry analysts expected just the opposite last spring. Persistent insect problems in China, combined with drought in the northern region and flooding in the southern areas, led most people to discouraging outlooks for the 1995/96 Chinese crop. Moreover, most projections for the Pakistani and Indian crops were pessimistic at best. Generally speaking, the U.S. was expected to carry the load again for the world cotton trade. Futures prices climbed and U.S. farmers were quick to respond as plantings increased by three million acres.

Unfortunately for us, the tables turned in 1995. The insect and weather problems experienced in China, India, and Pakistan the last several years moved to the United States. India and Pakistan are actually approaching record crops and China may produce a larger crop than last year's. Our crop is estimated at 18.2 million bales instead of 22 million, Pakistan is currently exporting cotton, and rumors have China on the verge of increasing exports.

Instead of increasing our market share of world trade, the United States' share will substantially decrease this season. In fact, it could fall from 32 percent in 1994/95 to almost 24 percent of total world trade if the USDA estimate of 6.8 million bales is correct.

However, as with most things, this is not a given. With lackluster numbers at the retail level, U.S. cotton consumption has fallen off significantly in recent months. Most sectors of the U.S. textile industry are experiencing less than bright times and the Christmas season did little to cheer up the mills. The annualized consumption number of only 10.2 million bales for the month of October only stressed this point and many people believe the November number could be below 10 million bales (for only the second time since November 1992), with December even worse. Accordingly, it will be almost impossible to reach the current USDA estimate for consumption this year. We do expect consumption to pick up during the second half of the marketing year; but, final consumption may be only 10.6 million bales — which may still be optimistic.

Considering the poor U.S. consumption prospects, not all is doom and gloom as there are limited things that can happen. Either U.S. exports will take up the slack, or stocks will rise, thus putting pressure on raw cotton prices. Of course, with many mills throughout Southeast Asia uncovered for the majority of 1995, any significant fall in the futures market could make U.S. cotton competitive again, which could boost U.S. exports. Therefore, the prospect of increasing stocks (thus pressuring prices) could be offset by increased interest in U.S. cotton overseas. On the other hand, a probably larger Australian crop and competition from Pakistan, India, Africa, and CIS cottons could create a buyers' market this summer, thus removing some of the support of futures prices. Regardless, there is

plenty of material available to support both bullish and bearish positions.

With this said, it is still no simple matter to estimate U.S. exports this season. As this paper goes to print, U.S. export sales registrations stand at just over 7.2 million statistical bales. However, this does not account for sales of U.S. cotton not yet registered for a variety of reasons. But it probably does include at least some sales of optional growth cotton that may eventually be cancelled if foreign cotton is shipped in place of U.S. cotton. There are also 1.5 million bales registered to China, of which 400,000 have been shipped.

As always, numerous rumors surround these Chinese sales which only makes the market that much more interesting. We have heard there are still large sales to China not yet reported, but we have also heard at least part of these sales will be canceled instead of shipped. With only 400,000 bales shipped to date, cancellations are a definite possibility. As you can see, projecting U.S. exports is about as difficult as making money in Las Vegas—even though you may win five hundred dollars, it may take you six hundred dollars to do so.

Nonetheless, we must start somewhere, so we will begin with the 7.2 million bale number currently registered. If recent registrations are indicative of future export reports (as some analysts believe is possible), we could see another million bales added to registrations over the next two and a half months. Therefore, total registrations could exceed 8.2 million bales by the end of March.

After March, Southern Hemisphere growths will begin to be shipped, which could displace some of the registrations of U.S. cotton. Considering this, registrations could drop back to the 7.7 to 7.9 million bale range, depending on the market conditions during the second quarter of 1996.

According to some sources in China, total purchases of U.S. cotton to date are roughly 1.3 million bales for shipment through March. Now this is not perfect information, but combined with rumors of possible cancellations, it may make some sense. Therefore, for the sake of argument, let's concede 200,000 bales of the Chinese sales will be eventually cancelled. When you include other possible sales of U.S. cotton between now and the end of March, it can be argued total registrations could be around 8 to 8.2 million bales on March 31st.

Historically, the registrations at the end of March have been a good indicator of final shipments. However, I don't pretend to believe history has to be repeated. Due to the underlying fact Foreign Ag Service export sales registrations may include future cancellations and sales which foreign cottons may ultimately be shipped on, it is best to be careful at this stage of the game. Certainly, more sales will be made after March, but since the marketing

season ends August 31st, some of the registered sales will be shipped in the 1996/97 season so final exports for the 1995/96 season will probably be in the range of 6.8 to 7.3 million bales—up to 500,000 bales over the current USDA estimate. However, for the purpose of this presentation, I will use a conservative 7 million bales for 1995/96 exports.

Considering production was 18.1 million bales and total offtake should be around 17.6 million bales, U.S. stocks should increase by about 500,000 bales to just about 3 million bales this season yielding a stocks-to-use ratio of 18.6 percent. Granted, there are strong arguments for larger exports but the possibility of higher futures prices and the confusion surrounding export sales registrations could offset many of these arguments.

### **1996/97: Another 'Next Year'**

I was recently told about a cotton farmer who passed away for no apparent reason. During the autopsy, they found seven "Next Years" inside him. After a disastrous season in 1995 for most regions of the U.S. cotton belt, many producers are questioning the possibilities for "Next Year"—especially if there are suitable alternatives to cotton.

Last year, we were wondering how many new acres would be planted to cotton. Now we are wondering how many acres will move out of cotton. With grain prices so attractive and recent memories of cotton troubles prevalent, there is little doubt acreage will decline this season. Many Mississippi Delta growers will be tempted by grain and bean prices, as will some growers in areas of the Southwest. Upland acres in the Far West may be displaced by wheat, barley, and Pima cotton. However, we still expect the enthusiasm for cotton to continue in the Southeast.

Quantitatively, U.S. planted acreage should approach 15.7 million acres in 1996, notwithstanding significant changes in the recent price range for new crop cotton. (The 15.7 million acre number is based on prices remaining in a range of 75 to 85 cents; a sufficient break from this range will probably impact final plantings accordingly.) Using 15.7 million acres, we can potentially produce a crop of roughly 20.9 million bales, of which 570,000 bales could be Pima cotton.

As the retail woes of 1995 cycle back to better times, domestic mill consumption should jump back over the 11 million bale mark to 11.25 million bales next year. Considering beginning stocks will be about 3.1 million bales, that leaves us a total of 12.8 million bales for the exporters to work with in 1996/97.

Before projecting possible U.S. exports, we need to look at likely foreign production and consumption next year. Continued competition for ground in China will limit its possibilities to increase production. An increasing need for food from a population that is growing by 14 to 16 million

people annually may make it difficult to keep cotton acreage at current levels. Therefore, under an optimistic outlook, we will leave cotton production basically unchanged for China.

Yields in Pakistan are expected to drop back to a more historical level this year, but somewhat increased plantings should offset lower yields for a net change that is negligible. The Indian crop should also remain stable if the monsoon season is normal. Turkey could expand production somewhat, but Central Asian production should be down slightly as some land is expected to be diverted to grains. In all, foreign production should increase by only a marginal 300,000 bales as most of the total increase will come from the United States, yielding total world production of around 93.5 million bales.

World consumption should increase to at least 87.1 million bales next season, up 2.2 million bales from this year. This may be a conservative number considering consumption has been virtually stagnant for much of the past decade. Under improved economic conditions, we may finally be in position to move up to a new level of world consumption.

World per capita consumption in 1995/96 is expected to be down to its lowest level since 1984/85 at 7.1 pounds. If this figure could increase back to the estimated 7.4 pounds in 1993/94, world consumption would jump to 90 million bales. Correspondingly, world production would need to be around 93 to 95 million bales to support consumption of 90 million bales — unless stocks were drawn down this year, thus allowing production to catch up in 1997/98.

Using the conservative figure for world consumption of 87.1 million bales, the foreign production/consumption deficit would be 3.3 million bales, which does not support a significant increase in exports from this year's 7 million bale figure. However, if you look at it optimistically, world consumption of 90 million bales could increase the foreign production/consumption deficit number to 6.2 million bales, which is much friendlier to U.S. export projections (as well as long-term prices).

Of course, there are many other factors we must consider besides the production/consumption deficit. One factor that has grown in importance in world cotton trade is reliability of quality and reliability of shipments. As mills carry lower stocks and require more consistent qualities in their yarn production, the reliability factor will grow in importance.

Over the past several seasons cotton consumers have come to realize just how important this factor already is to their economic health. Cancellations of commitments for Pakistan and Indian cotton have caused buyers to hesitate in contracting for this cotton prior to harvest. Unreliable deliveries from the Central Asian republics have caused buyers to delay purchases until cotton is in strong hands. And, the information from China is little better today than

it was ten years ago. Without much argument, the United States is the only reliable significant source of cotton in the world at this time.

World trade in 1996/97 should increase slightly over this year. Therefore, world trade will probably be somewhere around 28.5 to 29 million bales. A larger foreign production/consumption deficit of around 4 to 4.5 million bales (to be conservative) would lend credence to projecting U.S. market share of the world trade at a probably low 27 percent. If proven true, U.S. exports should increase to a minimum of 7.6 million bales this season and could reach significantly higher levels depending on the general health of the world textile industry. In fact, it is not inconceivable that exports could approach or even exceed the 9 million bale figure again under the right circumstances. If you increase U.S. market share to only 29 percent, exports could rise to 8.2 million bales. And, this is still well below the market share held in the 1989/90, 1990/91, and 1994/95 seasons. It will be important to remember a disaster in any of the major cotton producing countries could set the stage for a possible jump in U.S. exports to fill the void.

### Closing Out the Century

As we near the end of the Twentieth Century, production and consumption should both reach new heights. The record 95.9 million bale crop produced in 1991 will eventually be surpassed, as the world's cotton producers attempt to offset increased demands for cotton both from an increasing consumer preference for natural fibers and an exploding population. For example, China alone will add approximately 80 million people to its already huge population by the end of the year 2000. That is a possible demand of 100,000 bales just for diapers in China, and China isn't the only country with projected population surges.

Even without significant increases in per capita cotton consumption, it is feasible total world consumption could finally exceed 90 million bales on an annual basis by the end of the century. However, with an increase in per capita consumption, cotton producers could be pressed to keep up with demand.

So, who will supply the cotton? It is not likely China will be able to substantially increase acreage devoted to cotton. Evidently, the Chinese government is no longer determined to be self-sufficient in their commodity needs. They will probably switch more acreage to food crops which they are already importing at astounding levels. Some estimates have China importing 40 million tons of grain by the year 2000, even accounting for expanding acreage devoted to grain production in country. Improving living conditions in China could create a more market sensitive agricultural sector which places a higher importance on food production. In turn, this could place even greater pressure

on farmers to produce food instead of cotton under current government policy.

Acreage in Pakistan, after steadily increasing, has begun to show signs of levelling off and could decrease under the right conditions. Significant increases in the acreage planted to cotton in India are not so likely, but they could increase their yields somewhat. Likewise, it is not probable acreage in the Central Asian republics will increase substantially and the probability of significantly increasing yields does not seem to be too high, considering historical problems with resource management and current political difficulties. We could see increases in the cotton acreage of the Southern Hemisphere but political instability, insect problems, and weather difficulties in many of the cotton producing regions limit the possible degree of increase.

The most likely source for a significant increase in production remains here in the United States. The reliability of U.S. cotton quality and shipments is well regarded in world trade and does not look to be changing any time soon. Accordingly, the United States should be able to easily maintain the 27 percent average market share of total world trade seen over the past ten years. Arguably, this percentage share could increase to around 30 to 31 percent on average over the next five to ten years. Therefore, as long as supplies are adequate in the United States, exports should range between 7 and 10 million bales annually through the last half of this decade.

Of course, any significant problems in any of the major cotton producing countries will have a corresponding impact on world trade and market prices. As such, there is no reason to believe the volatility witnessed in cotton prices over the past two seasons should change in the near future. The New York futures market will continue to play a vital role in the marketing of U.S. cotton as the world cotton trade increases its dependence on U.S. cotton to meet the growing needs of an expanding population.