THE WORLD AND UNITED STATES COTTON OUTLOOK

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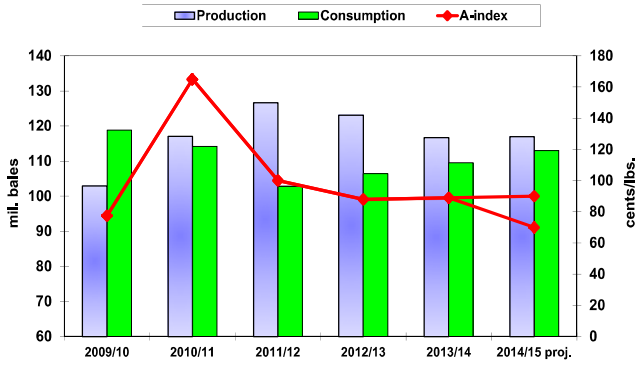
Introduction

World Production, Consumption, and Prices
2009/10 through 2014/15 projection

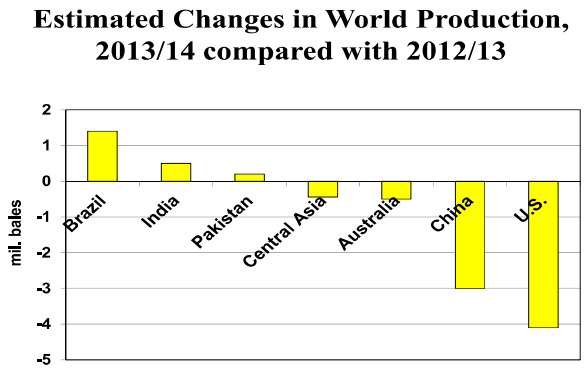


The U.S. Department of Agriculture's (USDA's) first world 2014/15 cotton projections anticipate that production will exceed consumption for the fifth consecutive season, with the potential for record global stocks to exceed 100 million bales. World stocks more than doubled between 2009/10 and 2013/14, due mainly to cotton policies in China, which have supported world prices above market-clearing levels. China's government now intends to reduce support levels; however, world stocks are unlikely to fall in 2014/15 as the adoption of new policies will be gradual, and world production and consumption responses will lag changes in policy and prices. China's stock level is expected to stabilize, and stocks held outside of China are likely to grow. USDA projects that lower China domestic support levels, higher stocks outside of China, and falling grain and oilseed prices could reduce the world cotton price (A-index) to a 5-year low.

The U.S. cotton crop is projected to rise sharply to 16.3 million bales in 2014/15, due to both higher planted area and an expectation of lower abandonment. At the same time, lower demand for imports by China is likely to limit U.S. export potential, resulting in increased stocks and lower prices.

World Cotton Situation, 2013/14

World Cotton Production, 2013/14



Global 2013/14 cotton production is expected to fall 5 percent from the previous year to 116.7 million bales. The estimated crop decline is primarily the result of reductions in the United States and China, partially offset by increases for Brazil and India. World 2013/14 area harvested is estimated at 33.1 million hectares, down 3.5 percent from last year, and the world average yield is at 766 kg/hectare, down 2 percent.

China, the world's largest cotton producer, is estimated to produce 32.0 million bales in 2013/14, a 9-percent drop from last season as farmers in eastern China sought to diversify and grow more attractive cropping alternatives. China's 2013/14 harvested area is estimated at about 5.1 million hectares, 5 percent below 2012/13. Yields are also expected to have fallen, down 4 percent to 1,380 kilograms per hectare, due to less favorable weather.

India's 2013/14 crop is estimated at 29.0 million bales, up 2 percent from the preceding year on higher yields. The world's second largest producer is expected to have a harvested area of 11.7 million hectares, down 2.5 percent from a year earlier as non-irrigated area, especially in Madhya Pradesh, shifted to soybean production. India's 2013/14 yield is estimated at 540 kg/hectare, 4 percent higher than last year in light of extra pickings due to favorable late-season rainfall.

Pakistan is expected to produce 9.5 million bales in 2013/14, an increase of 2 percent from the previous year despite reported electrical problems that disrupted irrigation distribution. Pakistan's 2013/14 area harvested is expected to remain at 3.0 million hectares, unchanged from a year ago, while yield is estimated at 689 kg/hectare, up 2 percent from the previous year.

Brazil, the largest producer in the southern hemisphere, is forecast to produce 7.4 million bales in 2013/14, up 23 percent from the previous year due to deteriorating price prospects for corn and soybeans at planting time. Brazil is expected to harvest 1.1 million hectares in 2013/14, and yields also are expected to improve.

Australia is expected to produce 4.1 million bales in 2013/14, down 11 percent from the previous year due to dry conditions at planting time and excessive heat which has quickly depleted irrigation reserves. Australia's 2013/14 harvested area is estimated at 415,000 hectares, down 3 percent from the preceding year. Yield is expected to fall about 9 percent to 2,151 kg/hectare.

Central Asia's 2013/14 crop is estimated to decline 6 percent from the preceding year to 6.8 million bales. Harvested area in the region is also expected to decline, down 3 percent from last year to 2.2 million hectares. Uzbekistan, the largest cotton producer in the region, is expected to produce 4.25 million bales, a decrease of nearly 6 percent from last year, due to less favorable weather conditions.

2013/14 China Supply and Demand

China Cotton Supply and Demand
2012/13 and 2013/14 est.

	Unit	2012/13	2013/14	Change (%)
Beg. Stocks	**mil bales**	**31.1**	**50.4**	**62.0**
Production	**"**	**35.0**	**32.0**	**-8.6**
Imports	**"**	**20.3**	**11.0**	**-45.9**
Total supply	**"**	**86.4**	**93.4**	**8.1**
Consumption	**"**	**36.0**	**36.0**	**0.0**
Exports	**"**	**0.0**	**0.1**	**6.4**
Total use	**"**	**36.0**	**36.1**	**0.0**
Ending stocks	**"**	**50.4**	**57.3**	**13.8**
Reserve stocks	**"**	**35.0**	**47.0**	**34.3**
Stocks-to-use	**%**	**140**	**159**	**13.8**
% of world stks	**"**	**56.5**	**59.4**	**5.1**

China is forecast to add 6.9 million bales to total ending stocks during 2013/14, despite sharply lower imports. As in 2012/13, domestic policies designed to support farmers continue to drive stock-building. China's stocks on July 31, 2013 were an estimated 50.4 million bales, equivalent to about 140 percent of 2013/14 domestic consumption, surpassing the previous stocks-to-use record set in 1998/99. More than two-thirds of the 2013/14 beginning stocks was held by the state reserve.

The announced 2013/14 support price of 20,400 RMB/ton (approximately $1.50/lb.) has helped to support farm income and stabilize production in China, which is currently estimated at 32 million bales, down about 9 percent from the previous year. With 85 percent of the total 2013 crop expected to be purchased by the state reserve, the support program continues to maintain internal prices substantially above world price levels. As a result, China's consumption will remain stagnant, despite relatively strong growth in world demand, as the Chinese textile

industry substitutes cheaper manmade fiber and imported cotton yarn in finished goods. At an estimated 36 million bales, China's cotton consumption has fallen 28 percent in four years from the 50 million bales realized in 2009/10.

Imports are forecast at 11.0 million bales in 2013/14, despite quota restrictions and record stock levels. Mills in China have taken maximum advantage of the 1-percent duty WTO TRQ and the carryover sliding scale TRQ, as imports in these categories are priced significantly below domestically available cotton. Imports during August-December 2013 totaled 6.4 million bales, nearly 60 percent of the projected total. Imports through December included cotton brought in under the 40-percent out-of-quota duty rate. At the same time, however, reduced foreign cotton purchases directly by the state reserve this season, as compared to the previous two, will help limit import volumes.

Imports for the balance of 2013/14 will depend upon both the government's policies regarding imports and the release of cotton from the state reserve. It seems unlikely that much discretionary sliding scale quota will be released before the end of the marketing year, since this would interfere with sales of government-owned stocks. The current reserve sale price is 18,000 RMB/ton ($1.35/lb.), 12 percent below the support price. At an A-index price above 86 cents per pound, it is more advantageous for mills in China to purchase reserve cotton than to pay an out-of-quota duty of 40 percent.

China's 2013/14 ending stocks are forecast at a record 57.3 million bales, equivalent to 159 percent of offtake and accounting for nearly 60 percent of world stocks.

2013/14 World Consumption, Trade, Ending Stocks, and Prices

World Cotton Supply and Demand
2012/13 and 2013/14 est.

	Unit	2012/13	2013/14	Change (%)
Beg. Stocks	**mil bales**	**73.3**	**89.2**	**21.6**
Production	**"**	**123.1**	**116.7**	**-5.2**
Imports	**"**	**46.0**	**38.5**	**-16.3**
Total supply	**"**	**242.3**	**244.3**	**0.8**
Consumption	**"**	**106.4**	**109.5**	**2.9**
Exports	**"**	**46.7**	**38.5**	**-17.6**
Total use	**"**	**153.1**	**148.0**	**-3.3**
Ending stocks	**"**	**89.2**	**96.5**	**8.2**
Stocks-to-consumption	**%**	**83.8**	**88.1**	**5.1**

World cotton consumption is expected to increase 3 percent in 2013/14 to 109.5 million bales. Continued relatively strong global economic growth has resulted in improved textile demand while the lower volatility of cotton prices, due in part to China's support policy, has supported a slight recovery in cotton's fiber share. With no growth projected for China's consumption, consumption in the rest of the world is expected to increase 4 percent. Particularly strong consumption growth is expected in south and southeast Asia, supported by record cotton yarn exports to China, notably from Pakistan, India, and Vietnam.

While world trade is forecast down 18 percent from last season's record level, the large fall in imports by China masks strong demand elsewhere. Imports in the rest of the world are forecast to increase 7 percent. This growth in import demand is fueled by consumption growth in the non-producing Asian markets and smaller increases in major producer-importers, such as Pakistan and Turkey. The decline in exports is being felt by nearly all major exporters. Exports from Brazil and Australia are both down by about 40 percent, as production has continued to fall from recent records. India's exports are expected to decline only slightly as a larger total supply partially offsets growing use and a significant decline in the value of the rupee enhanced its competitiveness against other origins.

The accumulation and distribution of world stocks continue to be distorted by the developments in China. World stocks are forecast to increase 7.3 million bales to 96.5 million bales, a third consecutive record both in volume and as a percent of world use. But with almost 7 million bales of growth projected for China, stocks in the rest of the world are forecast about even with last season. However, with U.S. stocks forecast to decline sharply, stocks in the rest of the world will actually increase slightly.

The A-index has traded within a 12-cent range since August 1 and is forecast to average about 90 cents per pound for 2013/14. China's policies have continued to put a floor under world prices thus far this season. The break-even price at which mills in China could import cotton and pay the 40-percent duty, compared to the government's reserve sale price of 18,000 RMB/ton ($1.35/lb.), was equivalent to an A-index of about 86 cents per pound. When world prices fell below 85 cents per pound in November, strong buying from China, reportedly for import with the 40-percent duty, caused prices to rise again. The A-index has averaged about 93 cents per pound during the first half of February.

U.S. Cotton Situation, 2013/14

Area and Production

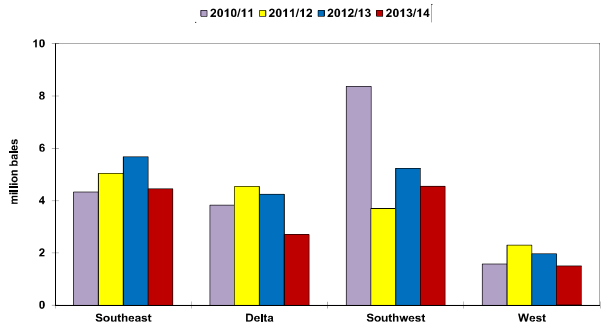
U.S. all-cotton production in 2013/14 is estimated at 13.2 million bales, 24 percent lower than last season's crop. Cotton planted acreage decreased 15 percent (nearly 2 million acres) in 2013 as relative crop prices favored the planting of alternative crops. Cotton area this season was its lowest since 2009. Severe drought conditions continued for much of the Southwest in 2013, keeping U.S. abandonment near 25 percent for a second consecutive season, compared with the 10-year average of 14 percent. In 2013, the U.S. yield averaged 826 pounds per harvested acre, below 2012's record of 887 pounds but the second highest since 2007. Upland production is currently estimated at about 12.6 million bales—approximately 4 million below 2012—with an average yield of 807 pounds per harvested acre, well below 2012's 869-pound record. The extra long staple (ELS) crop also is estimated lower—at 636,000 bales—as smaller area and a lower yield reduced the crop to its smallest in three seasons.

U.S. Cotton Area, Abandonment, Yield, and Production

		2009/10	2010/11	2011/12	2012/13	2013/14
Planted acres	**mil. acres**	**9.2**	**11.0**	**14.7**	**12.3**	**10.4**
Harvested acres	**mil. acres**	**7.5**	**10.7**	**9.5**	**9.4**	**7.7**
Abandonment rate	**%**	**17.7**	**2.5**	**35.8**	**23.9**	**26.4**
Yield/harvested acre	**lbs./acre**	**777**	**812**	**790**	**887**	**826**
Production	**mil. bales**	**12.2**	**18.1**	**15.6**	**17.3**	**13.2**

Compared with last season, 2013/14 upland cotton production was lower in each of the Cotton Belt regions. Production decreased in the Southwest as lower area more than offset a higher yield. With 2013 Southwest cotton plantings at 6 million acres, the region accounted for 59 percent of total U.S. upland plantings and the largest since 1980. Southwest harvested area approached 3.4 million acres, below the 5-year average, as above-average abandonment—44 percent—occurred for the third consecutive season. As a result, the Southwest upland crop reached 4.5 million bales in 2013/14, accounting for 36 percent of upland production.

U.S. Cotton Regional Production
2010/11 to 2013/14



For the Southeast, planted acreage in 2013 was about unchanged at nearly 2.7 million acres. However, a yield of 811 pounds per harvested acre is considerably lower than 2012's record yield of 1,033 pounds. As a result, the 2013/14 Southeast crop only approached 4.5 million bales, the lowest in three seasons. For the Delta, 2013 planted area decreased to a record low of 1.2 million acres, 39 percent below 2012. Although a record yield of 1,085 pounds per harvested acre helped offset some of the area decline, the 2013/14 Delta crop of 2.7 million bales was the second lowest in three decades.

In the West, 2013 upland area declined to 292,000 acres, the second lowest behind the 2009 season. With an average yield of 1,470 pounds per harvested acre, upland production in the West decreased to 870,000 bales, one of the lowest on record. The ELS crop remains concentrated in the West, with planted area in 2013 falling more than 15 percent to 201,000 acres. Yield also decreased from 2012's record of 1,581 pounds per harvested acre to 1,530 pounds, but was still the second highest. As a result, ELS production in 2013/14 reached 636,000 bales, bringing total cotton production in the West region to 1.5 million bales.

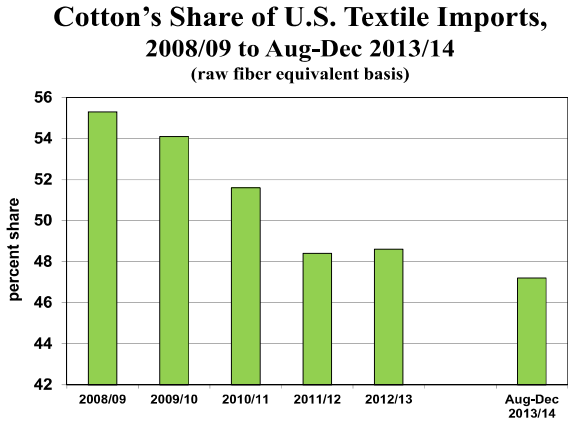
U.S. Cotton Supply and Demand
2012/13 and 2013/14 est.

	Unit	2012/13	2013/14	Change (%)
Beg. Stocks	**mil bales**	**3.4**	**3.9**	**16.4**
Production	**"**	**17.3**	**13.2**	**-23.8**
Imports	**"**	**0.0**	**0.0**	**0.0**
Total supply	**"**	**20.7**	**17.1**	**-17.3**
Mill use	**"**	**3.5**	**3.6**	**2.9**
Exports	**"**	**13.0**	**10.5**	**-19.4**
Total use	**"**	**16.5**	**14.1**	**-14.7**
Ending stocks	**"**	**3.9**	**3.0**	**-23.1**
Stocks-to-use	**%**	**23.6**	**21.3**	**-9.8**
Farm price	**cents/lb.**	**72.5**	**76.0**	**4.8**

Domestic Mill Use

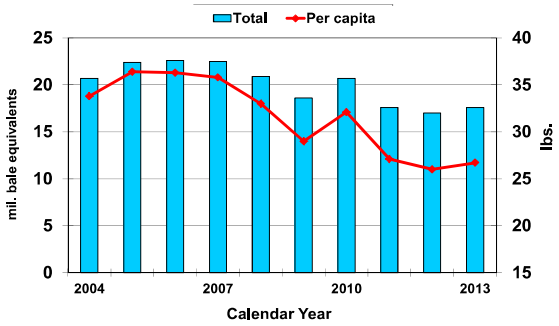
U.S. cotton mill use for 2013/14 is forecast at 3.6 million bales, 3 percent above the 2012/13 estimate. U.S. mill use is slightly higher this season and is expected to be one of the highest in the past five years. However, mill use is about half that used in the early 2000s. With relatively strong growth forecast for the U.S. economy in 2014, U.S. cotton mill use also is expected to remain strong in the second half of 2013/14.

Cotton has lost share to manmade fibers over the last several seasons as relatively high cotton prices have reduced cotton's share of imported products to historically low levels. The trend continued for the first five months of 2013/14, with cotton's share of the total slipping below 48 percent, similar to the corresponding August-December level of the last two seasons. However, since cotton's share is historically higher in the second half of the marketing year, the share for 2013/14 is still expected near levels achieved the previous two seasons.



Consumer demand for cotton textile and apparel products follows the global economy. With persistent economic uncertainty in calendar year 2012, U.S. cotton textile and apparel imports reached only 17.1 million bale-equivalents, the lowest in a decade. In 2013, however, economic conditions improved and product imports increased more than 3 percent to 17.6 million bale-equivalents. With U.S. mill use and textile exports about equal in magnitude, U.S. domestic consumption of cotton (mill use plus net textile trade) in calendar 2013 is estimated at 17.6 million bale-equivalents, down from 17.0 million in 2012 but near the 2011 level. Similarly, U.S. per capita cotton consumption recovered slightly to an estimated 27 pounds in calendar 2013, but is still one of the lowest since the early 1990s.

U.S. Domestic Cotton Consumption:
Total and Per Capita



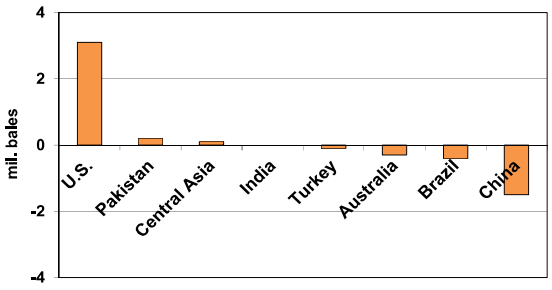
2013/14 U.S. Exports, Ending Stocks, and Prices

U.S exports for 2013/14 are forecast at 10.5 million bales, down 2.5 million from the previous year due to sharp reductions in both the available U.S. supply and foreign import demand. Export commitments to date have been strong seasonally, which is typical of years when U.S. supplies are limited and stocks are low. With offtake outstripping production, ending stocks are forecast to fall 23 percent to 3.0 million bales and the average farm price is expected to rise about 5 percent to 76 cents per pound.

World Cotton Outlook, 2014/15

World Cotton Production, 2014/15

Estimated Changes in World Production,
2014/15 compared with 2013/14



Little change is expected compared with the year before for world cotton production in 2014/15. Production is expected to rise by less than 1 percent to 117.0 million bales. A large increase in U.S. production, resulting from both higher planted and harvested area, is expected to offset lower production in China, Brazil, and Australia. Marginal changes are expected for production in other major producing countries in 2014/15.

China's expected decline of 1.5 million bales is the second largest change foreseen in production in 2014/15. Producers outside of Xinjiang are expecting significantly lower returns as China's government begins unwinding its price support policies. However, China's largest producing province—Xinjiang—is expected to plant virtually the same area to cotton in 2014/15 as in 2013/14, as producers there are expected to benefit from direct subsidies from the government for growing cotton. Rising labor costs are a major impediment to profitable cotton production in China, and Xinjiang's labor cost share of production is significantly lower than elsewhere in China. Because Xinjiang's yields exceed other provinces' yields by a substantial margin, aggregate China production (-5 percent) will fall noticeably less than area (-9 percent).

No change is foreseen in India's 2014/15 crop compared with the year before. After trending up sharply since 2002, due mainly to the establishment of Bt cotton, area in India fell in 2013/14 by its largest amount since 1999. Producers in India have benefitted from India's currency depreciation since May 2013, which has raised local prices. However, due to the timing of the monsoon, Indian producers plant much later than producers in most other northern hemisphere countries, which will allow more time for the impact of China's policy changes to affect production decisions. Area is forecast up slightly from the previous year, and—assuming a normal monsoon—a slight decline can be assumed for yields. At 29 million bales, India's crop will remain the world's second largest by a significant margin.

Southern hemisphere production is difficult to forecast because of the more distant time horizon for planting decisions there, but the current outlook is for a decline. Australia's producers will likely be hampered by the drawdown in reservoir supplies during the 2013/14 crop year. Production is expected to fall 7 percent to 3.8 million bales. Lower production is also foreseen for Brazil, down 5 percent to 7.0 million bales. Brazil's cotton area is strongly correlated with changes in cotton prices that occur during the year the crop is planted, due to its mid-season planting cycle. This suggests a negative influence on Brazil's output in 2014/15. While Brazil's government has agreed to raise the minimum support price there for the first time since 2003, the announced level is below current market prices.

USDA Policy Assumptions and Projections for China, 2014/15

The most important driver of world cotton supply and demand in 2014/15 will be China's stock and import policies. The potential drawdown of 47 million bales projected to be held in China's national reserve on August 1, 2014 is already pressuring new-crop futures prices. To date, the government of China has indicated that it intends to follow a more market-oriented strategy, supporting farmers in the Xinjiang Autonomous Region with a pilot program that will substitute income support for price support. China's government has also made strong but general statements about its desire to reduce distortions to world markets, support cotton textile production, and decrease the size of the reserve. Measures implemented to date include slight

reductions in reserve release prices and an apparent slowdown in the allocation of the discretionary sliding scale import quotas.

China's government faces numerous challenges and constraints pursuing these policies. USDA has prepared a comprehensive analysis of the background, current situation, and likely direction and impacts of China's policies in a companion paper to this outlook, "China's Cotton Policy: New Directions in 2014," available at http://www.usda.gov/oce/forum/2014_Speeches/MacDonald.pdf by 6:00 p.m. on February 21, 2014. While China's likely production from the 2014 crop will be established with spring planting, considerable uncertainty surrounds the remaining supply and demand variables, mainly because the two most important policies affecting offtake and prices – the total level of import quota and the reserve release price – are as yet unknown.

For the purposes of this preliminary outlook, USDA is assuming that China's leadership will adopt a cautious approach to the liquidation of stocks, reducing reserve release prices on average by about 15 percent and allowing imports at a level about midway between the minimum WTO commitment of 4.1 million bales and 2013/14's estimated 11.0 million bales. Based on these assumptions, China's consumption would rise for the first time in five years to 38 million bales, and ending stocks would remain roughly the same as in 2013/14.

China Cotton Supply and Demand
2013/14 est. and 2014/15 proj.

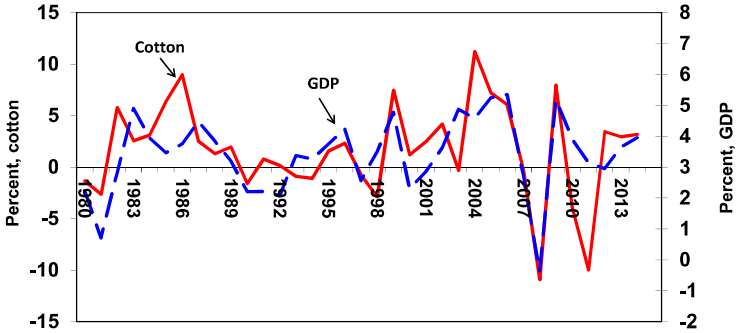
	Unit	2013/14	2014/15	Change (%)
Beg. Stocks	**mil bales**	**50.4**	**57.3**	**13.7**
Production	**"**	**32.0**	**30.5**	**-4.7**
Imports	**"**	**11.0**	**8.0**	**-27.3**
Total supply	**"**	**93.4**	**95.8**	**2.6**
Consumption	**"**	**36.0**	**38.0**	**5.6**
Exports	**"**	**0.1**	**0.1**	**0.0**
Total use	**"**	**36.1**	**38.1**	**5.5**
Ending stocks	**"**	**57.3**	**57.7**	**0.7**
Reserve stocks	**"**	**47.0**	**45.0**	**-4.3**
Stocks-to-use	**%**	**159.0**	**151.7**	**-4.6**

World Cotton Consumption, 2014/15

World cotton consumption is expected to continue growing relatively strongly in 2014/15, rising 3.2 percent to 113 million bales. Factors supporting cotton consumption include rebounding world economic growth, favorable movements in cotton prices, and China's reform of its cotton policies.

According to the International Monetary Fund's January 2014 update of its world economic outlook, world economic growth in calendar 2014 is expected to rise to 3.7 percent from about 3.0 percent during the previous two years. In calendar 2015, a slight further gain is expected, to 3.9 percent. The improvement is particularly notable for high-income countries, which are expected to see their first period of sustained income growth in excess of 2 percent since 2007. This shift is particularly important for cotton since cotton's share of consumer textile and apparel purchases is higher in higher-income countries than it is in the rest of the world.

World Cotton Consumption and Economic Growth

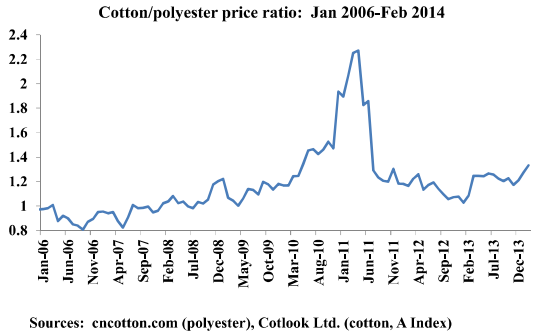


Sources: USDA, International Monetary Fund, and Global Insight.

The world price of cotton in 2013/14 is forecast to be slightly lower than the year before, which will support higher cotton consumption in 2014/15. Prices are expected to fall even more in 2014/15, down 10 percent in inflation-adjusted terms, and the decline has been widely anticipated, facilitating the textile industry's ability to respond. Futures markets in the United States and China have had contracts maturing in late 2014 and early 2015 trading at levels indicative of lower prices in 2014/15 for some time. World polyester prices are difficult to foresee, but between 2000 and 2012 cotton and polyester prices generally declined together, and cotton prices typically fell by a larger amount, suggesting a more favorable competitive position for cotton relative to polyester in 2014/15.

Reform of China's cotton policies will allow a greater share of China's spinning capacity to profitably produce and sell cotton yarn. This will improve the average efficiency of the global industry, permitting an additional increase in cotton consumption.

World Cotton Prices Continue High Relative to Polyester in 2013/14



Sources: cncotton.com (polyester), Cotlook Ltd. (cotton, A Index)

World Cotton Trade, Stocks, and Prices, 2014/15

World Cotton Supply and Demand
2013/14 and 2014/15 proj.

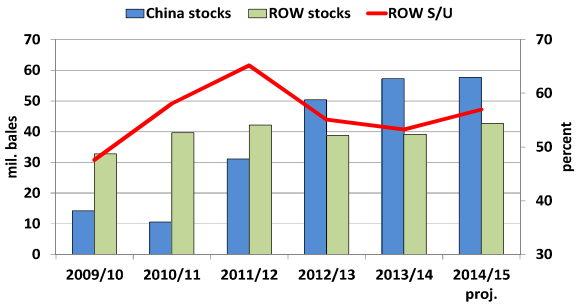
	Unit	2013/14	2014/15	Change (%)
Beg. Stocks	mil bales	89.2	96.5	8.2
Production	"	116.7	117.0	0.3
Imports	"	38.5	37.0	-3.9
Total supply	"	244.3	250.5	2.5
Consumption	"	109.5	113.0	3.2
Exports	"	38.5	37.0	-3.9
Total use	"	148.0	150.0	1.4
Ending stocks	"	96.5	100.5	4.1
China stocks	"	57.3	57.7	0.7
Stocks-to-consumption	%	88.1	88.9	0.9

World trade in 2014/15 is expected to decline 4 percent to 37 million bales as a reduction in imports by China more than offsets import growth in the rest of the world. Imports outside of China could surpass the record 28.9 million bales seen in 2001/02, as consumption continues to grow in import-dependent countries in southeast Asia and Bangladesh and production fails to keep up with consumption growth in producer-consumer countries such as Turkey and Pakistan. India's exports are projected to fall as stable production and expanding consumption will limit exportable supplies. U.S. exports are forecast to rise, while exports for most other major exporters will remain near 2013/14 levels.

World ending stocks are forecast to exceed 100 million bales for the first time, and will total 90 percent of world use, a fourth consecutive record for both stocks and stocks–to-use. Absent an aggressive stock reduction policy in China, China's stocks are expected to increase slightly and

will account for nearly 58 percent of total world stocks. Stocks outside of China also are likely to rise to a level slightly above the long-term average of 40 million bales.

China's Stocks, Stocks Outside China, and Stocks Outside China as % of Use



A-Index Projection

These projections of world cotton supply and demand, combined with the assumed China policies, indicate an A-index range of 70-90 cents per pound. At the range mid-point of 80 cents, world prices would average about 11 percent below 2013/14.

U.S. Outlook for 2014/15

Area, Production, and Supply

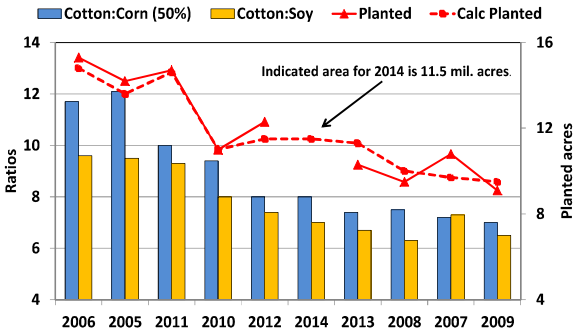
U.S. Cotton Area, Yield, and Production
2013/14 and 2014/15 proj.

	Unit	2013/14	2014/15	Change(%)
Planted area	**mil. acres**	**10.4**	**11.5**	**10.5**
Harvested area	**"**	**7.7**	**9.7**	**26.6**
Abandonment rate	**%**	**26.4**	**16.0**	**-39.4**
Yield/harvested acre	**lbs./acre**	**826**	**805**	**-2.5**
Production	**mil. bales**	**13.2**	**16.3**	**23.5**

The early USDA projection for 2014 U.S. cotton planted acreage is 11.5 million acres, an increase of 10.5 percent from last year, due mainly to relative prices and net returns that favor cotton over alternative crops. The projection is equal to the level indicated by statistical analysis, but slightly above the recent National Cotton Council (NCC) survey. The analysis quantifies the effects of relative crop prices and soil moisture conditions in the Southwest (where drought conditions generally favor cotton), based on U.S. area response for the 2002-2013 period. The

main variables are ratios of cotton to corn and soybean prices (using averages of fall futures prices for the February-March period preceding planting each year) and an index of soil moisture on the Texas High Plains as of June 1. For 2014, soil moisture is projected to be near the 10-year average and improved from the three previous drought years.

All-Cotton Planted Acres Based on Relative Crop Prices, Texas Moisture Index, 2005-2014



NCC's survey forecast of nearly 11.3 million acres was released on February 8, reflecting responses received from mid-December through mid-January. Survey respondents reported a slight decrease in cotton acreage in the Southeast based on offsetting crop mixes. For the Delta States—except Arkansas—an increase in cotton plantings at the expense of corn is expected. The survey indicated that Southwest producers will shift area out of grains and into cotton. Water availability issues and competition from alternative crops are expected to limit upland cotton area in the West; in contrast, ELS cotton planted area will rise due to recent very strong prices. USDA's first survey of producer planting intentions—*Prospective Plantings*—will be conducted in early March and published on March 31, 2014.

Cotton plantings of 11.5 million acres are estimated to result in harvested acreage of 9.7 million acres. The projected U.S. harvested area is based on an abandonment rate of 16 percent, down significantly from the 2011-2013 rates that were driven by drought in the Southwest. Although the abandonment forecast is near the 10-year U.S. average of 15 percent, actual rates have been highly variable. The 2014 forecast is based on a reduced Southwest drought impact.

With the Southwest expected to account for over half of U.S. cotton area again in 2014, crop conditions in this region will have a considerable impact on the U.S. crop. While the NOAA mid-January seasonal drought outlook for the Southwest indicates that persistent drought will continue through the end of April, improved precipitation is predicted to return during the growing season. These improvements should partially mitigate the drought that has significantly impacted both planted area and abandonment in recent years.

USDA is forecasting a national average yield of 805 pounds per harvested acre, based on 3-year regional averages. U.S. 2014 crop production is projected at 16.3 million bales, 23.5 percent

above 2013 and slightly above the average of the previous four seasons. With carry-in stocks at 3.0 million bales, total supply—19.3 million bales—would increase 13 percent from 2013/14.

U.S. Disappearance, Ending Stocks, and Farm Price

U.S. Cotton Supply and Demand
2013/14 est. and 2014/15 proj.

	Unit	2013/14	2014/15	Change(%)
Beg. Stocks	**mil bales**	**3.9**	**3.0**	**-23.1**
Production	**"**	**13.2**	**16.3**	**23.5**
Imports	**"**	**0.0**	**0.0**	**0.0**
Total supply	**"**	**17.1**	**19.3**	**12.9**
Mill use	**"**	**3.6**	**3.7**	**2.8**
Exports	**"**	**10.5**	**11.0**	**4.8**
Total use	**"**	**14.1**	**14.7**	**4.3**
Ending stocks	**"**	**3.0**	**4.6**	**53.3**
Stocks-to-use	**%**	**21.3**	**31.5**	**47.9**
Farm price	**cents/lb.**	**76.0**	**68.0**	**-10.5**

U.S. domestic mill use is projected at 3.7 million bales, slightly above 2013/14. Mill use has shown steady improvement from a low of 3.3 million bales in 2011/12, when cotton prices peaked relative to polyester. Gains are projected to continue into 2014/15, due to more competitive prices and increased efficiencies from investment. U.S. cotton mill use has been sustained mostly by semi-processed textile and apparel exports—mainly to Mexico and the CAFTA-DR/CBI countries—that are finished and shipped back to the United States. U.S. mill use is also benefitting from cotton yarn shipments to China and from expanding capacity.

U.S. cotton exports are projected at 11.0 million bales in 2014/15, a gain of nearly 5 percent, due to increased supplies and a very strong foreign import demand outside of China. The United States is projected to account for a world trade share near 30 percent in 2014/15, the highest since 2010/11. Ending stocks, projected at 4.6 million bales, would rise for the first time in three seasons and account for 31.5 percent of total disappearance, compared with a 5-year average of 20 percent. However, U.S. stocks as a share of world stocks are expected to remain below 5 percent, consistent with the three previous seasons.

In addition to the price-depressing effects of China's policy changes and higher world "free" stocks, lower prices projected for the 2014 crops of corn and soybeans will also weigh on U.S. cotton prices. The 2014/15 marketing year average price received by U.S. cotton producers is projected to range between 65 and 70 cents per pound, well below the 2013/14 mid-point estimate of 76 cents per pound. Supporting the lower price projection are December 2014 cotton futures which, as of early February, were around 77 cents per pound.