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# Four Ways to Keep Cotton **in the Spotlight**

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WHETHER YOU look at production, prices, demand or legislation, the news for most of the past year has been positive. Despite the traumas and aftermath of Hurricanes Harvey and Irma, cotton made the transition into 2018 in pretty good shape.

For the upcoming growing season, prices, global demand and other factors remain strong, which – despite saber rattling about tariffs – bodes well for continued growth. But initial projections for 2018 are a bit more muted. Although acreage increases are expected in the U.S. and in other cotton producing countries, production estimates are a bit lower, based primarily on drought concerns in the U.S. Southeast and Southwest, plus serious pest issues in countries like India and Pakistan.

And – as always – there's China.

## #1: Remaining Positive

In its annual economic outlook, the National Cotton Council noted that several positive factors point to continued optimism for cotton.

"The world economy is improving, and stronger growth is projected in 2018 and 2019," said Dr. Jody Campiche, NCC vice president, Economics and Policy Analysis, during her presentation at the 2018 NCC Annual Meeting. "World demand is increasing, with current estimates calling for an increase of approximately 5% in 2017/18 – more than double the previous five-year average.

"World mill use is expected to exceed world production in the 2018 marketing year, and global cotton stocks are projected to decline by 5.4 million bales in the 2018 balance sheet."

The NCC projections show world production at 119.3 million bales in 2018, with world mill use increasing approximately 3% to 124.8 million bales – including estimated U.S. mill use just shy of 3.5 million bales.

Speaking during the Mid-South Farm and Gin Show, Joe Nicosia also pointed out the positives for the industry.

"Last year, my challenge to the U.S. industry was to produce 20 million bales in the U.S. by 2020," recalled Nicosia, senior head of Cotton and Merchandising Platforms for Louis Dreyfus Commodities. "It was a knockout! We had one big crop. Cotton futures moved up to 75 cents. Acreage – after dropping under 10 million acres two years ago – recovered by more than 9 million acres in one year around the world. But most importantly, in the U.S., we met our production goal."

Nicosia noted that world cotton acreage in 2017 was up about 12% to roughly 82.5 million acres, which equates to acreage levels seen in the 2010-2013 timeframe.

"When we look at all of the main countries that grow cotton, every one of them has a positive sign," he said. "Every single country grew more cotton last year. That means the U.S. industry had better get ready for a fight. We won the production war in 2017, but that's not the only battle we have in front of us."

## #2: Tempering Expectations

On March 29, USDA's Prospective Plantings Report for 2018 estimated that U.S. cotton growers planned to plant 13.5 million acres this year – a 7% increase over last year. Results from the NCC's Annual Planting Intentions survey, conducted earlier in the year, projected 2018 U.S. cotton acreage at 13.1 million acres – 3.7% higher than 2017.

Using the NCC numbers, with abandonment assumed at 15% for the U.S. – possibly higher if dry conditions persist – harvested cotton acres would total 11.1 million acres. Assuming an average yield per harvested acre of 842 pounds, that projects a U.S. cotton crop of 19.4 million bales for 2018 – roughly 18.7 million upland bales and 744,000 extra-long staple bales.

That's still a good number. But, if conditions remain dry in parts of the Cotton Belt, Nicosia said the U.S. crop may be closer to 16.1 million bales. And, if conditions end up equal to 2017/18, production could climb as high as 22 million bales.

"The difference between those two production numbers is probably 40-50 cents in price," he noted.

Export numbers continue to look strong for 2018. According to the NCC report, the U.S. will remain the largest cotton exporter, with a market share of 39% in the 2017/18 marketing year – down slightly from 2016, based primarily on competition from other exporting countries that could continue to chip away at both U.S. exports and market share.

The NCC projects U.S. exports of 15 million bales in the 2017/18 marketing year, while USDA dropped their export estimate for the year from 14.8 to 14.5 million bales. The reason? While sales of U.S. cotton have been and remain strong, shipping delays due to trucking shortages and other factors are impacting cotton shipments.

That's a major concern for Nicosia.

"Cutting exports to 14.5 million bales leaves the U.S. with a carryover of 6 million bales," he stated. "That's not a good number. I guarantee you if our carryover is 6 million bales again next year, prices are going to go straight down. It's too much.

"U.S. cotton that can't be shipped cannot compete with foreign growths in the world," he added. "The ability to execute a timeframe needed often determines what somebody buys. Our customers are waiting way too long for our product. They're standing in line, but they're not going to stand in line forever. They're going to go somewhere else."

And one other thing. The NCC pointed out that the projected acreage increase for cotton is largely the result of weaker prices for competing crops – prices that have seen slight increases since the survey was tabulated. Cotton's slight price advantage may be offset by lower cottonseed prices and increased ginning costs.

"Many producers will continue to face difficult economic conditions in 2018," said Campiche. "Production costs remain high, and unless producers have good yields, current prices may not be enough to cover all production expenses."

Nicosia agrees.

"When you look at the math and look at grain prices, you see that everything is up right now," he said. "I can't tell growers to plant cotton because the alternatives are bad, because they're not. Growers know the benefits of rotation in their fields, and they have to look at what they have and what works for them."

## #3: Moving Ahead, Staying Competitive

Realistically, in spite of these and other challenges, cotton's future remains bright heading into the 2018/19 marketing year and beyond.

"The world cotton balance sheet for 2017/18 is roughly in balance," reported Nicosia. "We used 120 million bales and grew 121 million. We have talked about the need for cotton consumption to increase again, and it's gone from 114.7 million bales to 120.5 million. For the first time, consumption in Bangladesh, Turkey, Vietnam, India and China is up. That's good news, because it means it's broad-based."

He also noted that world ending stocks outside of China remain high, but have been holding consistent at about 40 million bales. That number jumped to 47 million bales early this year, which triggered some unnecessary bearish rumbles in the market.

"The market place is pretty smart," said Nicosia. "It knows China is coming. We need to build that ending stock number up, because when China wants to import 15 million bales instead of 5 million, they're going to get it from the rest of the world. And when the reserve sales finally end, the opportunity becomes a free-for-all.

"So, just like any good business, the cotton industry is starting to build its stocks to prepare for the demand that's going to come. Export demand is still taking off, and it's going to reach even greater heights."

He's confident that the U.S. cotton industry is up for the challenge. They've done it before. But he also admitted that meeting that challenge is not going to be easy, and urged the industry to buckle its seat belts tight.

Here's why.

USDA's projection for cotton exports in the world shows a 20 million bale increase in the next 10 years – from 38 million bales in 2017/18 up to 58 million. Conversely, they also project U.S. market share in the world to keep shrinking – potentially as low as 26% – as other countries like Australia, Brazil, India and West Africa start filling the demand gaps.

"If you don't think we can lose market share, think again," said Nicosia. "We used to get a 6-to-8 cent premium over West African and Brazilian cotton. Now, partly due to our inability to deliver in a timely fashion, we have lost all of our competitive advantage."

His suggestion? Rethinking and reworking our shipping philosophies would be a good start.

"Right now, we ship more than twice the amount of cotton between January and April than we do early in the season from September to December," he stated. "It's not because we don't have cotton. We have millions of bales in stock in October. We're shipping less and less early in the year to hold it in the warehouse to earn revenue, which, in the long run, causes our cotton to be worth less.

"We need to take back the first four months of the marketing year, because we have the capacity to grow a lot more cotton. If we grow it, we have to ship it."

As an example, Nicosia pointed to India, which ships nearly all of its cotton exports between November and January, with little time passing between harvest, processing and shipment. Prices are also generally higher at that point in the marketing year. That potentially impacts both U.S. market share and the prices growers can receive for their cotton.

## #4: Seizing Opportunities

Right now, USDA is projecting a 22 million bale deficit in the world, excluding the U.S. And that, said Nicosia, is the prime opportunity for U.S. growers in 2018 and beyond.

"The record for U.S. cotton shipments over two consecutive years is 32 million bales," he recalled. "That was in 2004 and 2005. Today, the NCC estimates 29.3 million bales over the next two years, and USDA says 30.5 million. I think exports are 16.4 million bales this year. And when we look at 2018/19, I think we're at 17.1 million. When we put it together, it's 33.5 million bales. We can break the record."

In order to make that happen, the U.S. would need to ship 389,000 bales each week to meet the NCC estimate, and 367,000 bales weekly to reach the USDA number. Nicosia admitted it would take moving 450,000 bales a week to meet his numbers. But he knows it's doable.

"I know we can't change the system overnight," he said. "But I have my eyes on 58 million bales ten years from now. I have my eyes on 17.1 million bales for next year. So we have to start the change now and get ready. We're going to take that market share away from India, but we have to ship in the first four months of the marketing year in order to do it. The marketplace isn't going to wait for us."

So, Nicosia now offers a new vision for the U.S. cotton industry based on shipments, not production.

"My new vision is 21 by 2021 – ship 21 million bales, domestic and export, by 2021. If we make those needed changes, we might make this before 2021, because the demand is going to be there for our cotton." ■