

Shurley on Cotton: On Our Way to Unlocking Higher Prices?

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By Don Shurley, University of Georgia Cotton Economist



This week's USDA Acreage report was a shocker. USDA's first estimate of 2020 actual cotton acres planted is 12.185 million acres—down 11% from last year. Back in March, USDA's Prospective Plantings report estimated that acres planted would be 13.7 million acres—essentially unchanged from 2019.

Most analysts/observers considered that number high and, given the decline in cotton prices since then, even more so now compared to what would actually be planted. Today's estimate of 12.185 million acres is 1.5 million acres less than March intentions. The average pre-report guesstimate was 13.2 million acres.

The cotton decrease is not necessarily accurately explained by offsetting increase in other crop acreage. This is because of

differences in areas within a state where various crops are grown/not grown and production practices and land type that may determine what crops can be grown/not grown.

In general, the decline in cotton acreage is explained at least in-part by increase in corn, soybeans, grain sorghum, and peanuts. It is also possible that some land intended for cotton was not planted at all due to too dry or too wet conditions.

Texas acres planted are approximately 700,000 acres less than March intentions. March intentions were questionable from the beginning since they were almost 300,000 acres more than last year. I'm told a 400,000 acre decrease from last year seems reasonable given relative prices, weather, etc.

Regardless of how you feel about today's numbers, the reality is that cotton plantings are now estimated at considerably less than most folks thought. A surprising adjustment of this magnitude must now be considered a market mover.

Moving forward, crop condition (as this will impact yield and abandonment) will also be more critical. Crop condition in Texas improved just slightly in this week's report but has declined steadily this season—is in mostly poor to fair condition.

The 2019 US crop was 19.91 million bales. Given today's acreage estimate of 12.185 million acres, a 2020 crop of 17.3 million bales is projected based on 5-year average yield and abandonment.

If yield is above average and abandonment below average, a 2020 crop in the neighborhood of 19 to 20 million bales is possible. So, even with planted acres much less than expected, the market will keep a close eye on crop condition and outlook.

A lower US acreage and crop is just one part of a combination that could unlock a move to higher prices. The rest is yet to be determined. Higher prices will also now depend on continued

good export numbers, more stability and less uncertainty about demand/Use, and more confidence in a COVID-19 recovery.

Dec futures pushed very near 61 cents today for only the second time since mid-March. Prices will move higher or lower based on the combination of factors discussed. A move to near 65 cents would seem a prudent opportunity on some portion of the crop.