Shurley on Cotton: Making Sense of the USDA Outlook

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USDA's August crop production and supply and demand estimates will be released in a couple of weeks. This will be the first production estimates of the 2019 crop year based on actual producer survey.

US Crop

The 2019 US cotton crop is currently estimated at 22 million bales—3.6 million bales or 20% higher than last season. Will the first producer-based projections be higher or lower than 22 million bales?

The 2019 crop got off to a rough start but current conditions are generally very good and most observers seem to think the crop will lean higher rather than lower. But there are still many unknowns—actual acres planted due to delay, remaining crop conditions, and final acres harvested and yield.

As of July 21, the crop is 10% poor to very poor compared to 15% the week before. The crop is 60% good to excellent. Texas is at 58% and Georgia 60%. The least favorable conditions are reported for Kansas, Missouri, and North Carolina.

If the US crop gets larger, that's not altogether a bad thing (it's a good thing from a farm level production standpoint)—but it would place more emphasis on strong demand and strong exports.

Exports

USDA currently projects 17 million bales in exports for the 2019 crop marketing year. Under present circumstances, this seems a high and optimistic estimate.

Exports for the soon to be completed 2018 crop marketing year have been lowered from an earlier projected 15 million bales to the present 14.5 million bale estimate. Further, exports do not presently appear on pace to even make the 14.5 estimate. So, a further revision downward is possible.

Given the present weakness in demand and exports and the uncertainty of US-China trade talks, 17 million bales for the 2019 crop year would be very good but seems unlikely.

With a larger crop expected and the US being the World's largest exporter, higher exports are sometimes assumed just because higher export supply will be available. But that assumes no changes or barriers in the way of market access and competition and also assumes continuing good demand.

An even larger US crop combined with less than expected exports, would be a recipe for continued low prices. On the other hand, a 22 million bale crop or less combined with strong exports would be a recipe for a price recovery.

China and Foreign Situation

Prices have improved the past couple of days due to renewed optimism over the US-China trade talks. World demand and exports will drive prices, no doubt. If, in fact, we are to do 17 million in exports, it seems China has to be a major part of that.

Reports suggest that there is growing uncertainty about the China, India, and Pakistan crops. This too will factor in to the demand for US cotton. Forward export sales of the 2019 crop already total 4.5 million bales or 26% of the USDA estimate. Of this total, sales to China total 1.53 million bales thus far.

Price (and LDP) Situation

December futures have reached as low as 62 cents but have recovered on news of renewed US-China trade talks and an optimistic outlook. It is uncertain if this will hold. The USDA August producer survey based numbers will also be important.

The current "floor" is 62 to 63 cents. "Resistance" is at 64 to 65. If we can manage to break 65 cents, we set our sights next on 68.

Talk is starting to stir about possible LDP/MLG for the 2019 crop. An LDP or MLG is generated when the Far East (FE) Adjusted World Price (AWP) is less than the loan rate (52 cents for the 2019 crop). Based on current price relationships, an LDP/MLG can be expected if prices (futures) fall below roughly 60 cents.