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2014 COTTON PRODUCTION MARKET OUTLOOK

**A look ahead to 2014 for growers
and those serving the cotton market**

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US cotton price jitters and impact on acreage

To date, the 2013 cotton market has been anything but stable. Original acreage projections were frighteningly low, based on increased corn acres displacing traditional cotton acres. A slight decline in corn and soybean prices – as well as a slight increase and stabilization of cotton prices – during the first quarter of the year led to more cotton acres than originally planned. The National Cotton Council projection of 9.0 million acres in February was the low mark for predictions, followed by USDA's projected plantings of 10.0 million acres in late March. At that time, world cotton prices moved in the mid-80-cent range (with a few spikes into the 90s) and have recently stabilized in the 82- to 85-cent range. That made cotton a more profitable option in many areas of the Cotton Belt as planting approached. In its report, USDA indicated potential acreage increases for Georgia and Florida, but also projected record low acreage for most of the Mid-South, New Mexico and Oklahoma. Acreage for most other cotton-producing states showed decreases ranging from 3% to 29%, including Texas with 5.5 million acres. Cotton acres in California and Arizona, home to the majority of seed production acres and of Pima varieties, were both down more than 20%.

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2013 planting: spring struggles

Growers struggled to get a crop in the ground this spring due to prolonged rain and colder-than-normal weather. In many areas, growers pushed as hard as they could to get a crop in between rains and before insurance deadlines. State-by-state reports of planted acres are still sketchy, since some growers were still working on replants as late as June 21. This much is certain: Acreage will probably be closer to the original USDA projection of 10.0 million acres. Although some growers did intend on increasing their cotton acres, few may have actually been successful due to weather. Growers in South Texas pushed their crop into the ground with little to no soil moisture. As a result, USDA has already projected 32% abandonment of acres in that area.

A number of factors will impact U.S. cotton acreage:

China's reserves policy skews market

This year, we can't point at cotton prices as a barrier to planting cotton, where it has settled into a steady 82- to 85-cent range. But China still continues to influence cotton price on a global scale, primarily due to the market's acceptance that China's cotton reserves are not and will not be available on the open market. This means the market price is set on available cotton stocks around the world – estimated at roughly 41 million bales – rather than the total stocks number that would include China (88 million bales). As one economist described it earlier this spring, "Forty-one million bales, or approximately a 45% stocks-to-use ratio, is tight. But it's not burdensome."



The lure of grain price strength

Grains – and market prices for grains – continue to be the largest limiting factor to cotton acres, especially in the Mid-South. Southern growers have gotten pretty good at growing corns and beans. Winter wheat was a common sight throughout the South, with the majority of those acres pegged for soybeans after wheat harvest. Corn has taken a dominant position on many farms, although total acres for 2013 were less than anticipated due to cold, wet weather during the traditional corn planting window. Some of those acres did move back to cotton. But continued weather issues moved some away and into soybeans...or to no second crop at all due to continuing early summer rains.

Rain evades key growing areas

In some parts of the Cotton Belt, water – or the lack thereof – continues to be a problem. Plentiful rainfall throughout the winter, spring and early summer in the Southeast and Mid-South (too much in some cases) alleviated existing drought-like conditions in those areas. But the Southwest – especially Texas – is still dry and dusty, with little-to-no subsoil moisture. Much of West Texas did enjoy a significant rain-event in Mid-July, and in many places that will be enough to see this crop through. However, lingering sub-soil water table levels will continue to hound farmers in West Texas, where nearly half of the nation's cotton crop is planted.

Weed resistance persistence

Weed issues – especially with glyphosate-resistant pigweed – have also impacted crop decisions. Several growers have indicated that continued issues with weed control have pushed them to crops where weed control options are greater and easier. Weed management in cotton is, in many cases, more expensive and labor-intensive than in other crops. Considering the lateness of this year's crop, some growers missed their traditional burndown applications and have scrambled to catch up. Unfortunately, young cotton will be competing with aggressive weed growth in many areas.

Looking for solutions to insect issues

Insect control will also continue to impact cotton production, especially in the Mid-South states. Plant bugs continue to be the major driver for insect management and are becoming an increasing problem as well in the Southeast. Transform, a new proprietary insecticide from Dow, recently received EPA approval and will help with the plant bug battles. But the late start to the growing season potentially means young plants will face thrips, aphids, mites, plant bugs and worm pests at an earlier stage of development than usual.

Cotton's future fortunes: possible upside scenario

Looking ahead, a recent study released by Rabobank provides hope for future cotton acres. The report, "AgFocus: Bracing for Tightening U.S. Grain Margins," states that as growth in demand for biofuels begins to slow and Chinese grain demand remains uncertain, U.S. corn prices could be pressured to below breakeven levels, and that softer medium-term prices could lead to a contraction of 5-6 million U.S. corn acres as growers look toward other crops.

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Industry infrastructure I: gins boosting capacity

According to the most recent National Agricultural Statistics Service (NASS) survey, 671 cotton gins are now operating in the U.S. – a significant decrease over the past two decades due to closures and consolidations. That consolidation, however, has created larger gins with the ability to gin greater volumes of cotton. Much of that has been driven by technological advances at the gin level, as well as increased acceptance and use of in-field module pickers. And there's also the impact of labor shortages and high labor costs, which is also driving gin automation and logistical efficiency.

Industry infrastructure II: Deere the clear winner

It appears the John Deere picker is the overwhelming choice in the field. The new round modules have helped solve some transportation issues and opened up gins to take cotton from greater distances. They can be transported legally on flatbed trailers (which open up interstate travel) rather than relying on module trucks which still have size and regulation issues on some roads.

Farm Bill: 800-pound gorilla

The failure of the House to pass a complete Farm Bill in late June has left the cotton industry scrambling for answers. The House did pass a production-only version of the bill in July (no nutrition titles were included) that contained the STAX crop insurance program, as does the Senate version, which passed on June 11. Provisions of the STAX program were written and developed to not only provide an adequate safety net for cotton growers, but also to meet and settle any lingering issues in the WTO trade dispute with Brazil. However, the differences between the House and Senate versions of the bill will make conferencing and finalizing legislation very difficult. The NCC and other agricultural groups are working hard to try to salvage the legislation and/or determine other options for the production programs. Another extension of the existing Farm Bill – possibly for up to two years to

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avoid an election year – is possible. Without new farm legislation to provide direction, many cotton growers could face difficulty in securing crop financing from lenders – many of whom already see grains as a less expensive and more profitable option.

Continuing industry innovations: seed and crop protection

The seed and technology companies serving the cotton industry are not sitting idle waiting to see what happens with acres. They're moving ahead aggressively with new varieties, new traits and new tolerances to help meet the needs of growers throughout the Cotton Belt.

ABOUT COTTON GROWER

Cotton Grower serves as a top information source for cotton growers seeking information about production techniques, crop protection, farm management, new varieties, marketing and more. Our readers are commercial cotton growers well as other allied professionals in the cotton industry.

Cotton247.com is the digital location to find out the latest news and trends in the U.S. and international cotton markets. The site features relevant content from integrated, cross-market resources Cotton Grower and Cotton International. Featured videos, useful analysis, and opinion help round out this industry resource.

Cotton Grower is based in Memphis, TN, while its corporate headquarters are located in Willoughby, OH, in the Cleveland metro area where its parent company, Meister Media Worldwide, was founded in 1932.

ABOUT MEISTER MEDIA WORLDWIDE

Meister Media Worldwide, headquartered in Willoughby, Ohio, provides integrated media solutions for worldwide specialized agriculture. A leader in the industry, the company provides information and networking opportunities to global markets, including fruits and citrus, vegetables, cotton, ornamental horticulture, precision agriculture, plant protection and Latin American agriculture. Founded in 1932, Meister Media Worldwide now produces 13 regular magazines, along with eNewsletters and more than 20 websites, as well as trade shows and exchange events. In addition, Meister produces custom print products, web development, videos and strategic business development services. Contact us at www.MeisterMedia.com.

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