

2021 Cotton Outlook

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Overview

- Marketing information should be obtained from:
 - Futures and options markets
 - U.S. and global supply and demand estimates (public and private)
 - Local / farm data (weather forecasts, yield estimates, cost of production etc.)

Cautious Optimism, but Protect Against the Downside

“Doing nothing all season is a strategy. It avoids up-front option premiums and possible futures margin calls. But the cost of this strategy is bearing the risk of lower prices all season. In that sense doing nothing is the ultimate form of speculation.”

John Robinson – Texas A&M

Nearby Cotton Futures and Net Managed Money Positions Reported by the Commitment of Traders

“If Managed Money wants to add to its long position, prices are going to go up. If it exits, they're going to go down.”

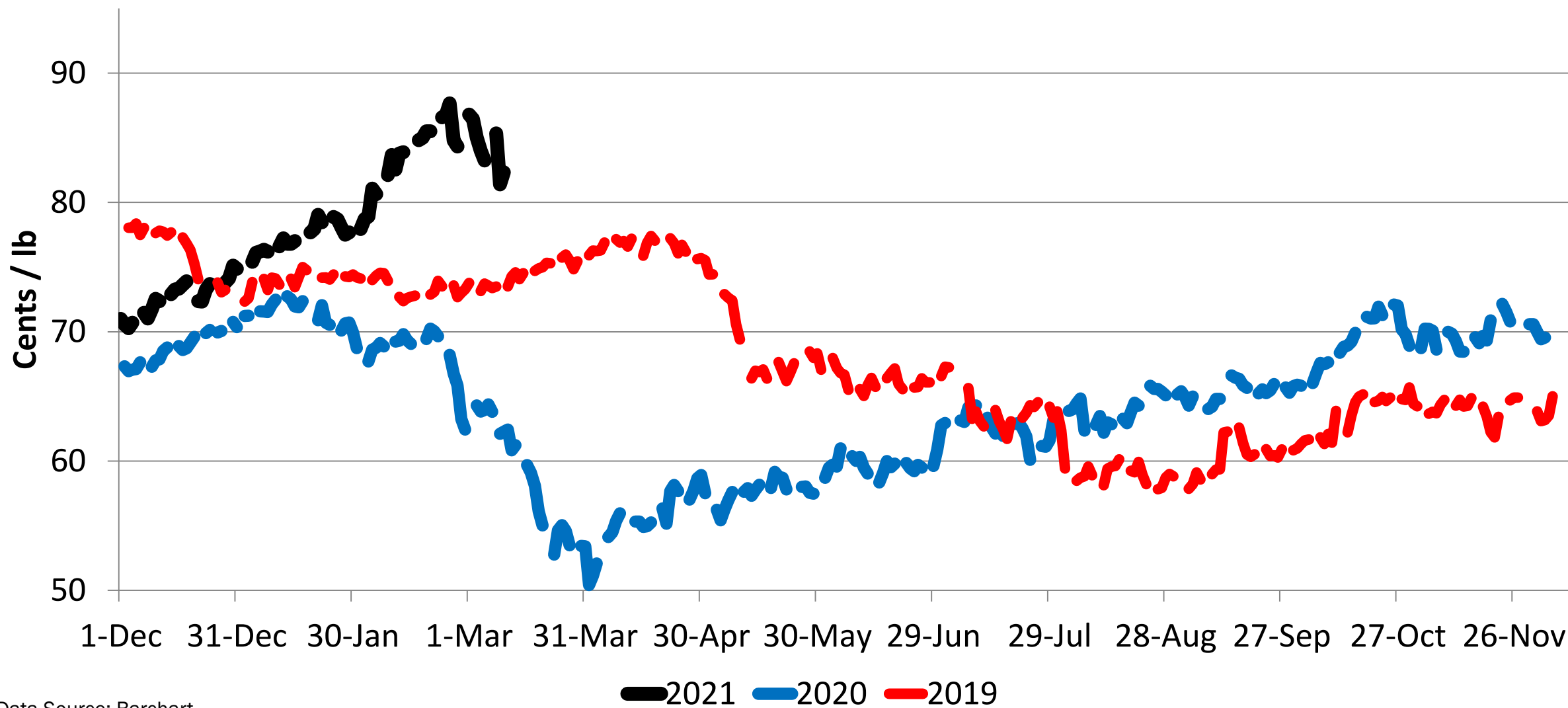
Data Source: Barchart

Range: 1D 5D 1M 3M 6M 9M 1Y 2Y 3Y 5Y 10Y 20Y MAX Frequency: Weekly Nearby 5Y Date:

tutorial



December Cotton Futures



Data Source: Barchart

December Cotton Futures Contract (January 1-Expiration) Compared to MYA Price

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Average	88.0	113.2	79.3	83.8	72.3	63.9	65.3	71.3	80.4	67.6	63.9	81.0
Min	68.7	90.0	65.4	74.8	58.5	60.0	55.7	66.4	74.1	57.8	50.4	75.4
Max	151.2	142.0	97.3	93.3	84.5	67.9	76.7	75.7	93.0	77.4	72.7	87.7
Range (max-min)	82.5	52.0	31.9	18.5	26.0	7.9	21.1	9.3	18.8	19.6	22.3	12.3
MYA Price	81.5	88.3	72.5	77.9	61.3	61.2	68.0	68.6	70.3	59.6	63.2	75.0

- Examine how the MYA price compares to the harvest futures contract average price and price range.
- 2010-2020 average price range 26.9 cents (max-min).
- Make basis adjustments to determine reasonable cash price estimates.

Futures and Options Market Summary

- Nearby futures rallied from a low of 48.35 on April 1, 2020 to high of 95.60 on February 25, 2021 (+47.25 cents).
- December 2021 cotton futures peaked at 89.28 on February 25, but have retreated to 80-84 cents.
- Options are expensive; near the money 5-9 cent premium cost (reflects volatility).
- Cotton on-call positions provide some bullish optimism.
- Managed money positions are long over 65,000 contracts.
- Money flows will continue to create volatility/unpredictability in cotton futures markets.

Factors Effecting Supply

Positive for Prices

- Global cotton stocks dropped year-over-year.
- 2020/21 U.S. stock estimates have dropped from 8 million bales in June 2020 to 4.2 million in March 2021.
- High prices for many crops make acreage decisions competitive and regional.
- Drought concerns in Southern plains.
- Concerns in Brazil for planting/production.
- Limited number of machine picked export competitors.

Negative/Uncertain for Prices

- Planted acres 2021
- 2021 weather – what will abandonment be Texas? Hurricane season?
- Added acres/global production regions - high prices often cure high prices.
- Rising input costs.
- Strong spring crop insurance price will encourage acres.

Factors Effecting Demand

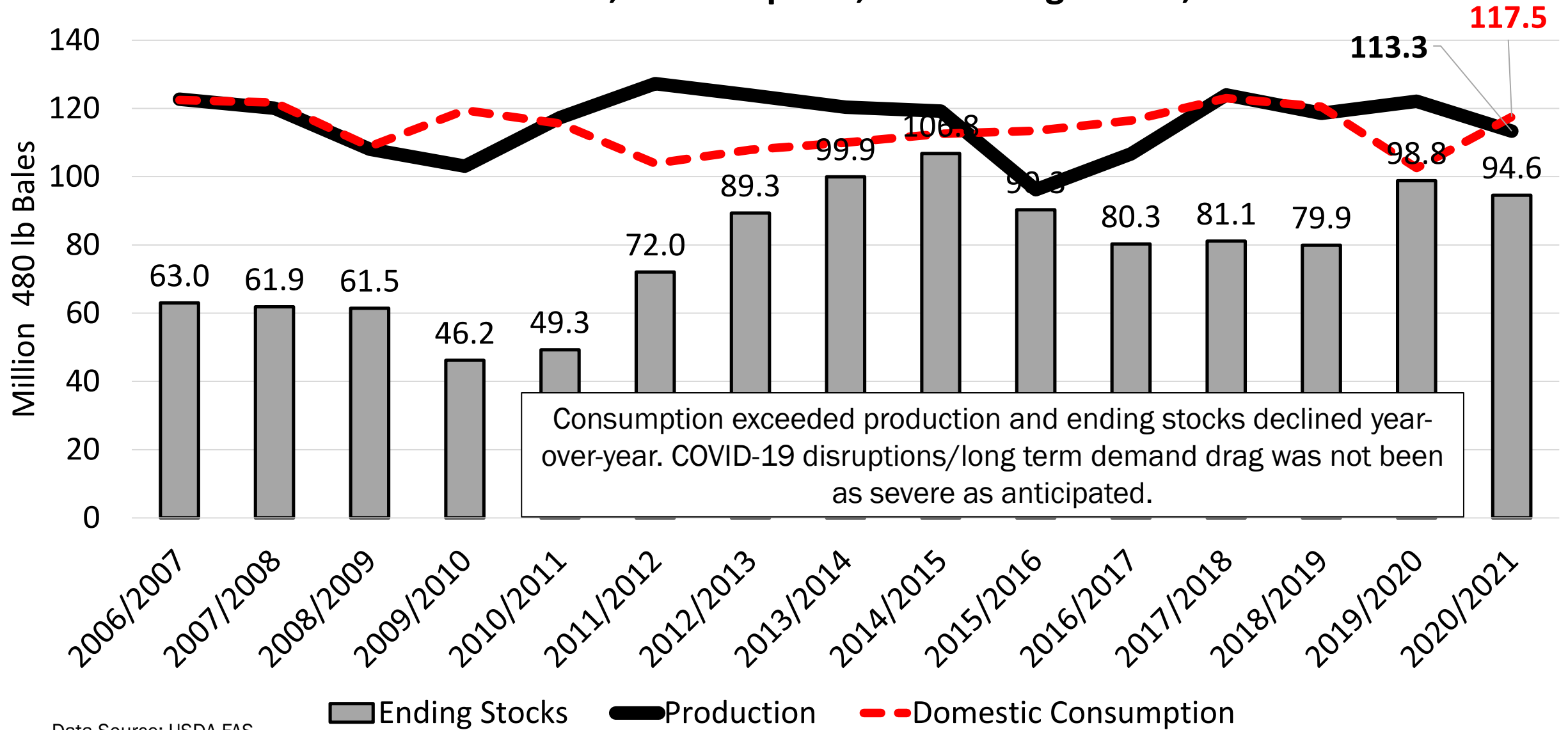
Positive for Prices

- Strong export demand from multiple countries.
- Near 5-year low in the US dollar index.
- Phase One trade agreement / export purchases by China are projected to remain strong in 2021.

Negative/Uncertain for Crop Prices

- COVID-19 uncertainty.
- Price competitiveness with synthetic fibers. High prices can limit demand and result in substitution.
- China (policy, geopolitics etc.)
- Global economic uncertainty.
- U.S. trade / policy uncertainty.

Global Cotton Production, Consumption, and Ending Stocks, 2006-2020

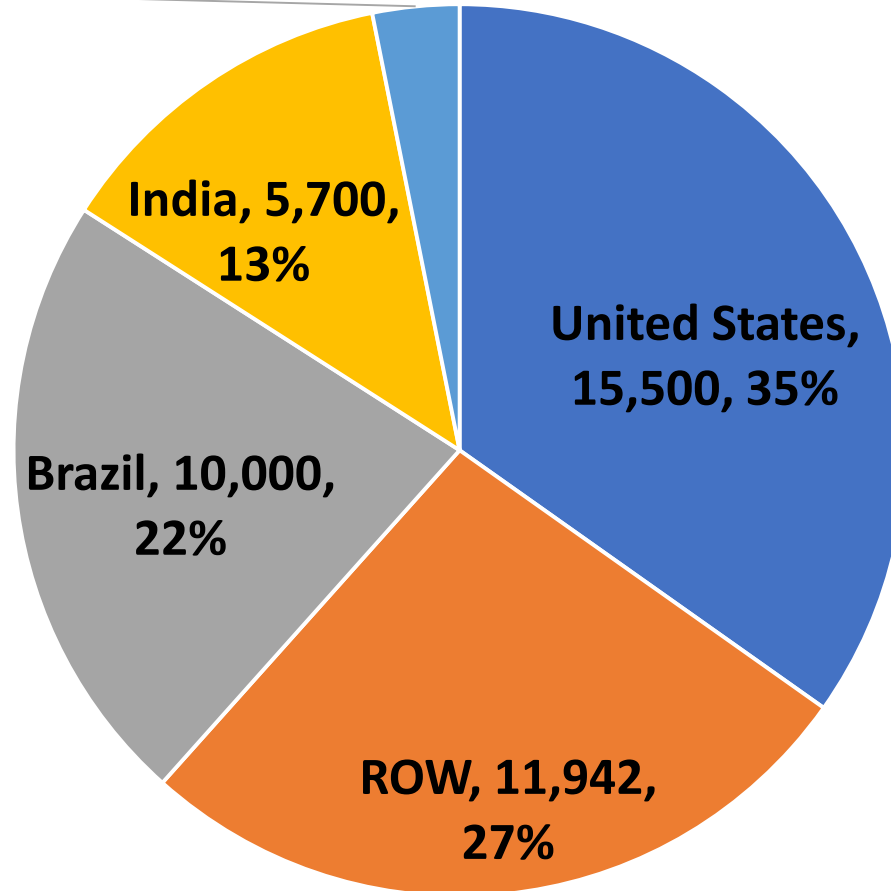


Data Source: USDA FAS

Ending Stocks Production Domestic Consumption

Cotton Exports by Country (1,000 480-lb bales), 2020/21

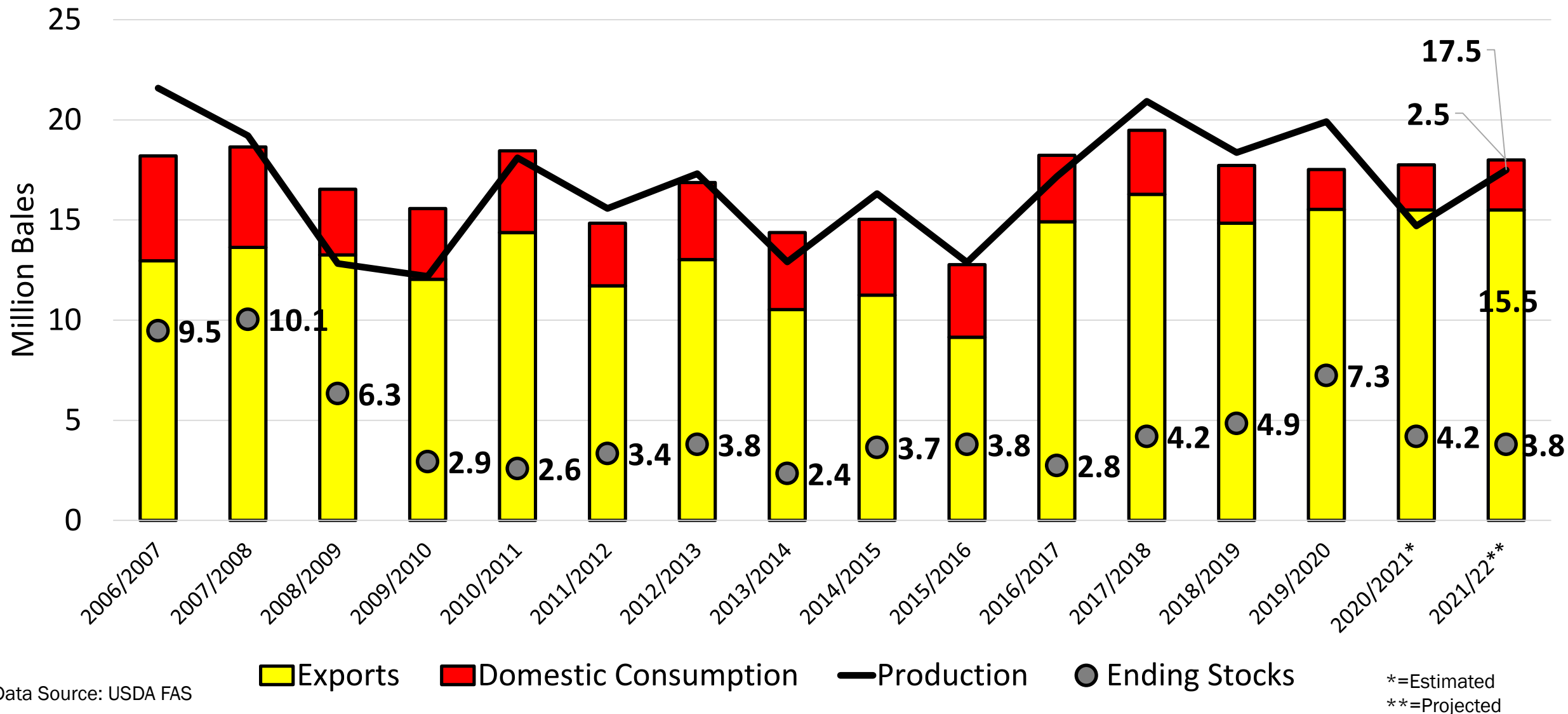
Australia,
1,400, 3%



- Brazil continues to expand market share.
- Many producers and exporters, but consideration needs to be paid to production methods/quality.

Data Source: USDA FAS

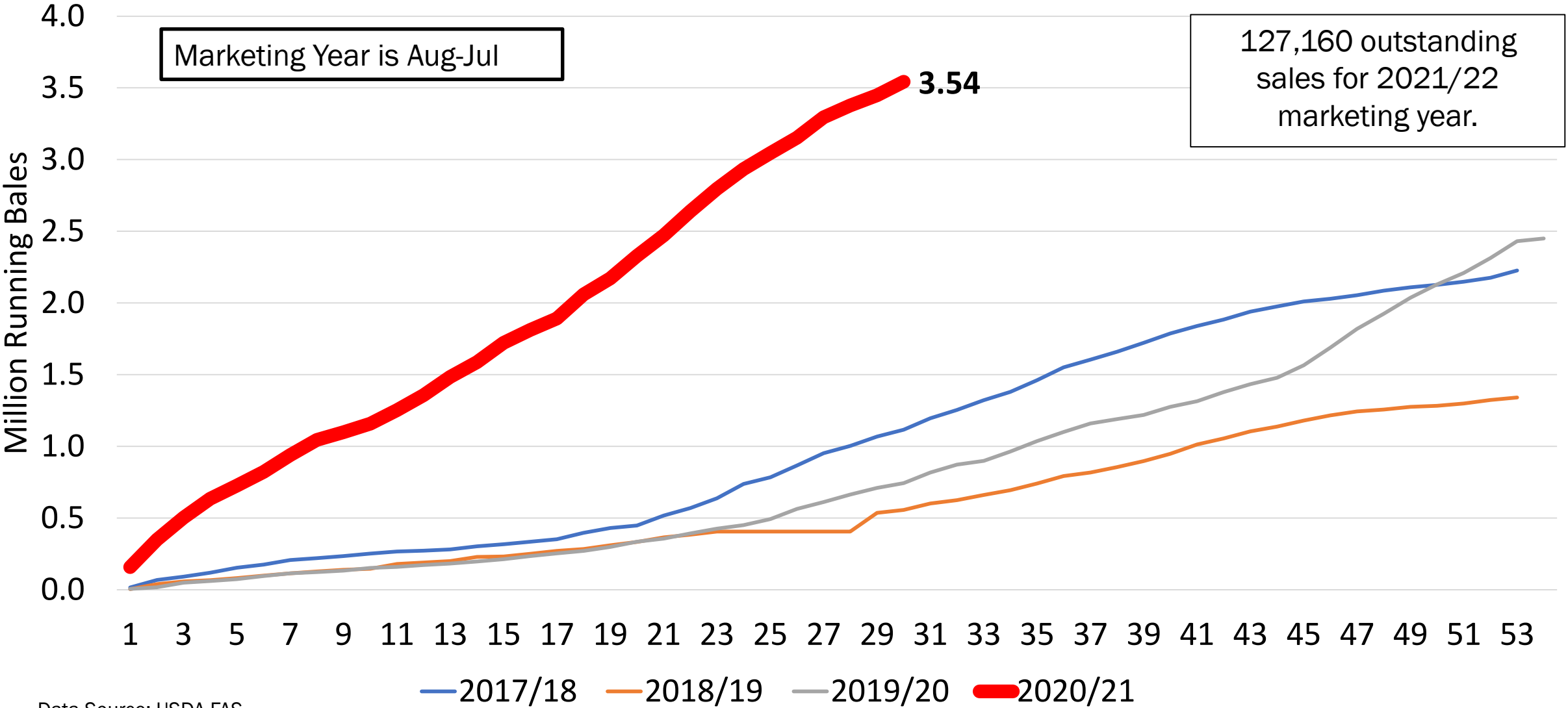
Cotton - U.S. Production, Consumption, Exports, and Ending Stocks



Data Source: USDA FAS

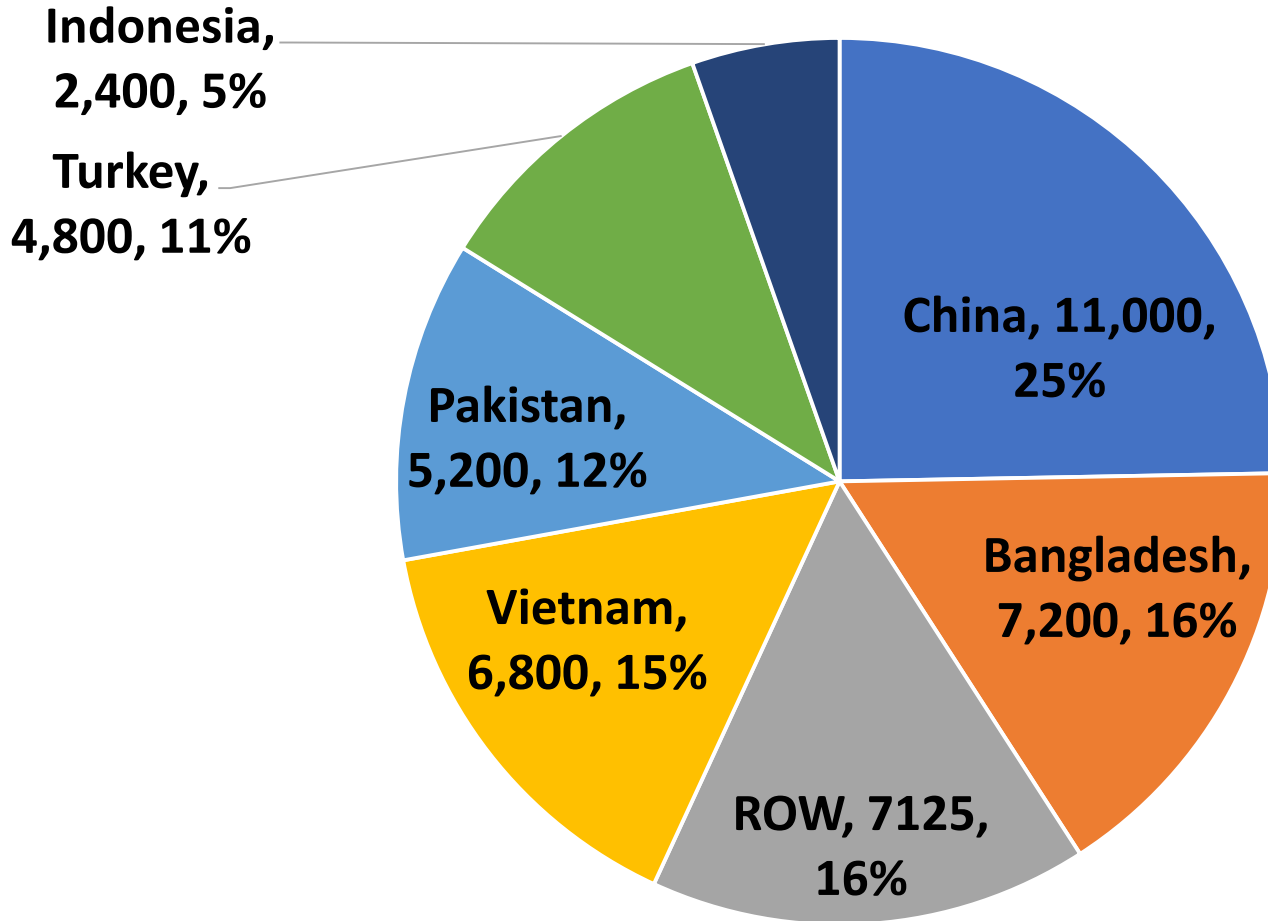
**“IT IS DEMAND THAT MAKES RELEVANT OTHER
FACTORS LIKE PRODUCTION AND STOCKS”**

U.S. Cotton Exports to China, 2017/18 to 2020/21



Data Source: USDA FAS

Cotton Imports by Country (1,000 480-lb bales) 2020/21



- China is an important market.
- The continued emergence of other large import markets is appositive for demand and price.

Data Source: USDA FAS

Crop Insurance Prices, 2021

	Projected (Spring) Price	Price Volatility
Corn	\$4.58 (\$3.88)	0.23 (0.15)
Cotton	\$0.83 (\$0.68)	0.20 (0.14)
Soybean	\$11.87 (\$9.17)	0.19 (0.12)
Wheat	\$5.54 (\$4.86)	0.15 (0.16)

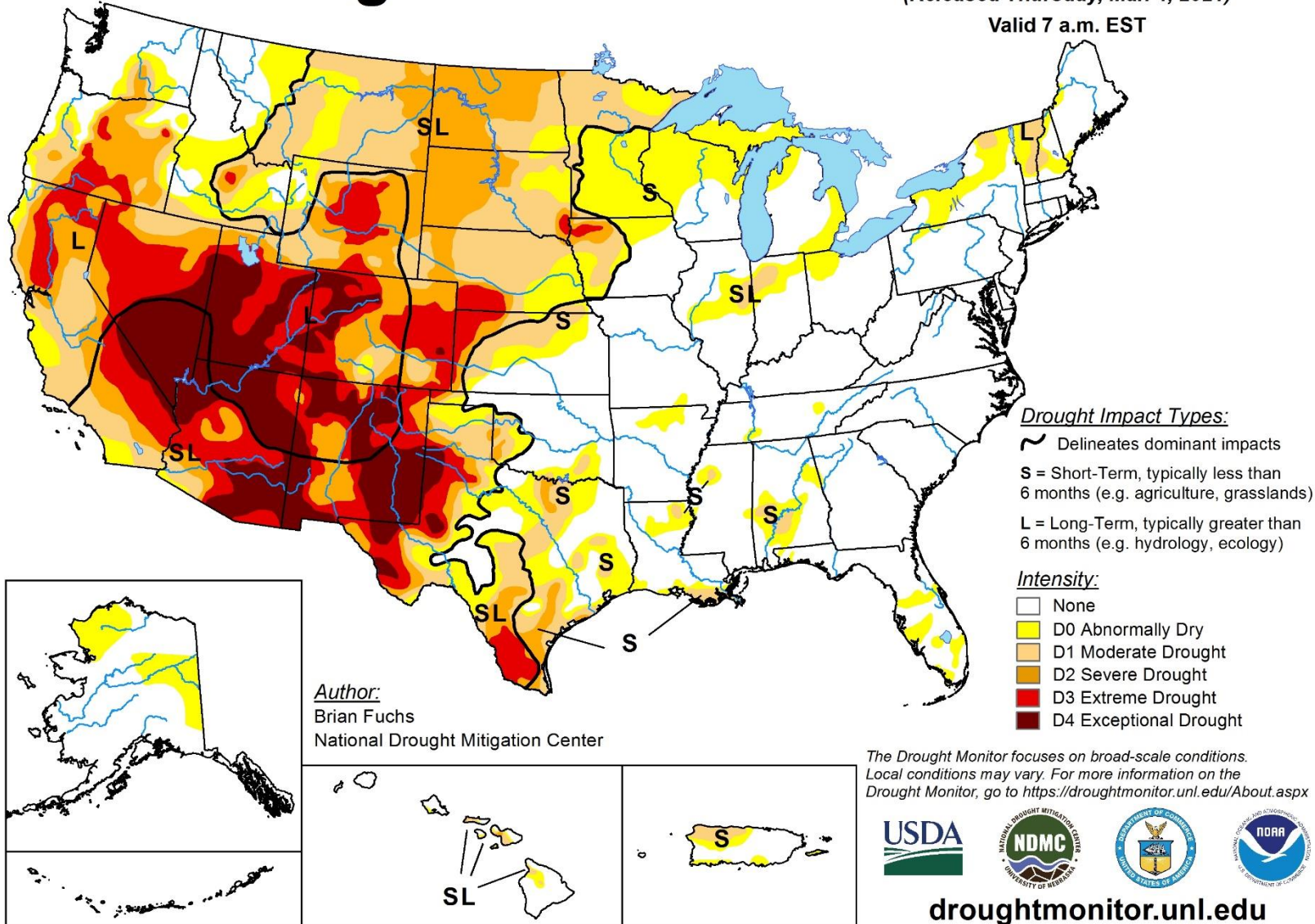
- Sales closing March 15.
- Premiums will be higher than last year.
- Revenue guarantees will be higher than last year at the same coverage level.
- Creates a different in-season risk profile than last year.
- Work with a qualified crop insurance agent to determine the most suitable coverage for your operation.

Projected Planted Acres 2021

- Nationally (USDA Ag Outlook Forum)
 - Soybeans: 90 million acres (+6.9 million)
 - Corn: 92 million acres (+1.2 million)
 - Cotton: 12 million acres (-90,000)
- Tennessee (Aaron)
 - Soybeans: 1.7 million acres (+50,000)
 - Corn: 965,000 acres (+95,000)
 - Cotton: 325,000 acres (+45,000)
- Planting weather / prevented planting will influence crop allocations.
- Incentive to plant for most commodities.

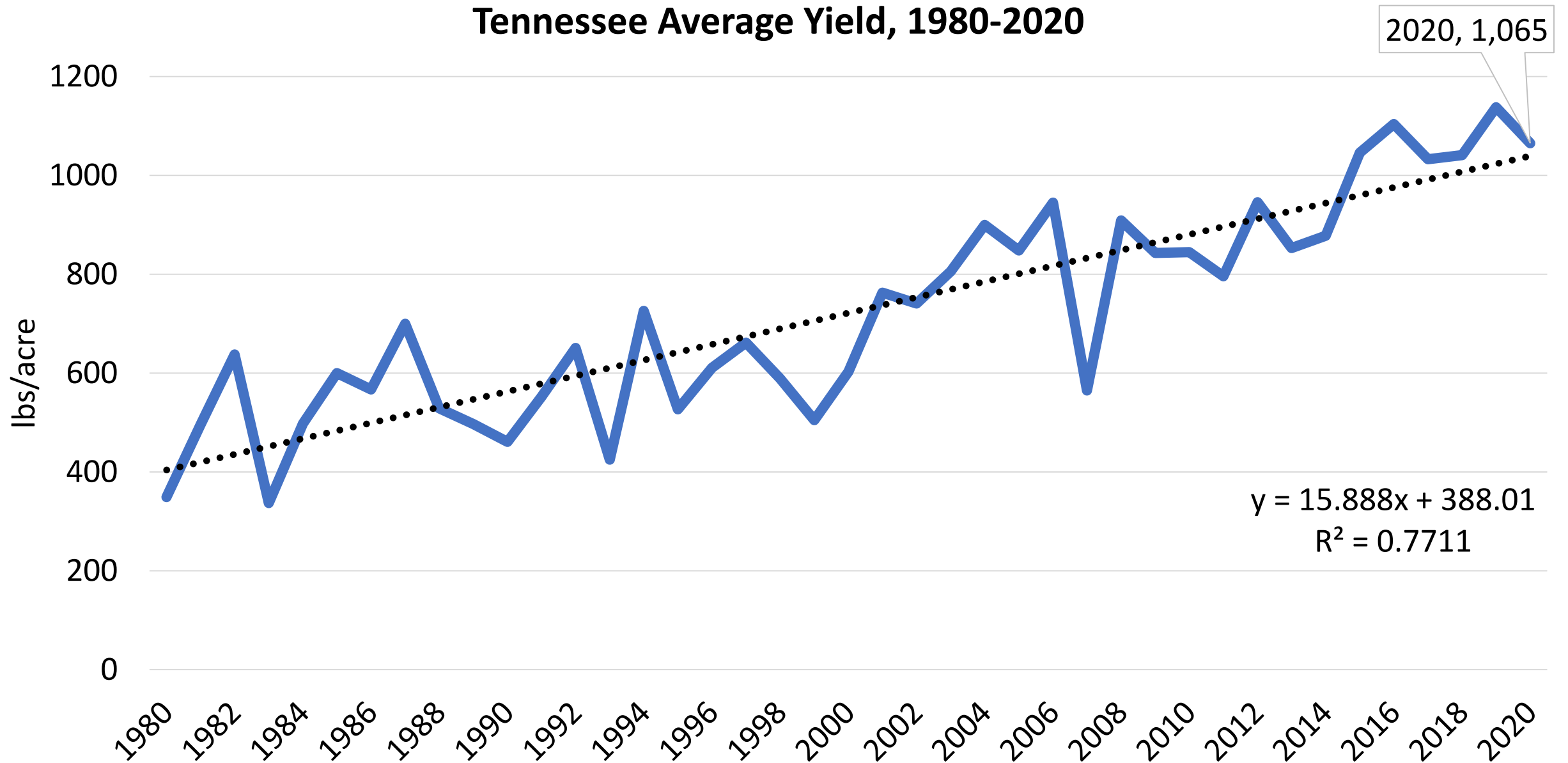
U.S. Drought Monitor

March 2, 2021
(Released Thursday, Mar. 4, 2021)
Valid 7 a.m. EST



If West Texas is dry
and we can't get the
crop
planted/harvested,
prices will move
higher.

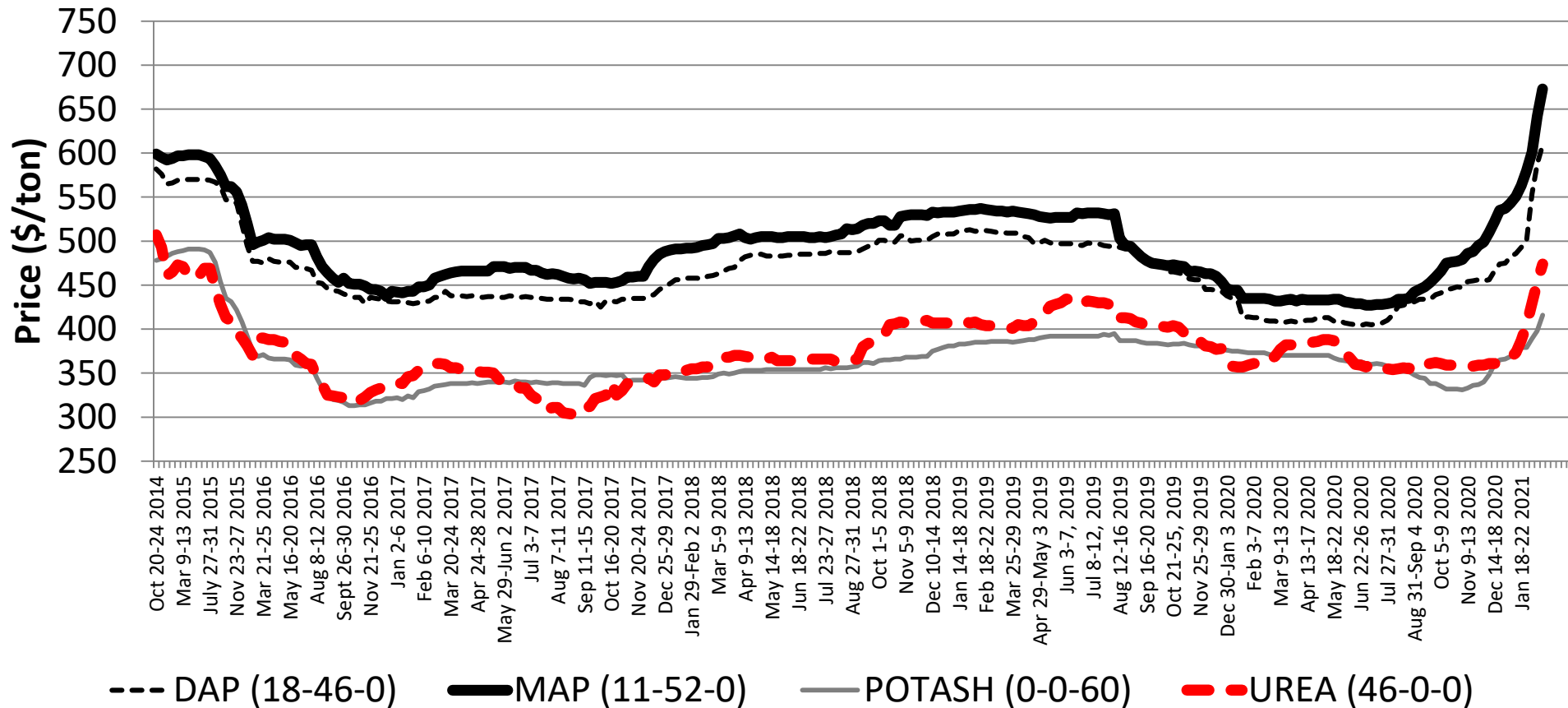
Tennessee Average Yield, 1980-2020



Data Source: USDA NASS

Input Prices on the Rise

Dry Fertilizer Price, 2014-2021



Fertilizer prices highlight the increase but many inputs have moved higher!

Cotton - Net Return Table (\$/acre); Cost of Production (\$850/acre)

		Yield (lb/acre)										
		900	950	1,000	1,050	1,100	1,150	1,200	1,250	1,300	1,350	1,400
Price (cent/lb)	75.00	(175)	(138)	(100)	(63)	(25)	13	50	88	125	163	200
	76.00	(166)	(128)	(90)	(52)	(14)	24	62	100	138	176	214
	77.00	(157)	(119)	(80)	(42)	(3)	36	74	113	151	190	228
	78.00	(148)	(109)	(70)	(31)	8	47	86	125	164	203	242
	79.00	(139)	(100)	(60)	(21)	19	59	98	138	177	217	256
	80.00	(130)	(90)	(50)	(10)	30	70	110	150	190	230	270
	81.00	(121)	(81)	(40)	1	41	82	122	163	203	244	284
	82.00	(112)	(71)	(30)	11	52	93	134	175	216	257	298
	83.00	(103)	(62)	(20)	22	63	105	146	188	229	271	312
	84.00	(94)	(52)	(10)	32	74	116	158	200	242	284	326
	85.00	(85)	(43)	0	43	85	128	170	213	255	298	340
	86.00	(76)	(33)	10	53	96	139	182	225	268	311	354
	87.00	(67)	(24)	20	64	107	151	194	238	281	325	368
	88.00	(58)	(14)	30	74	118	162	206	250	294	338	382
	89.00	(49)	(5)	40	85	129	174	218	263	307	352	396
	90.00	(40)	5	50	95	140	185	230	275	320	365	410

Does not consider income from cotton seed

Tennessee Cash Price Projections

	Old Crop	New Crop
Corn	\$5.00-\$6.50	\$4.25-\$7.00
Cotton	80-92 cents	75-90 cents
Soybeans	\$13.00-\$15.00	\$10.00-\$15.00
Wheat	\$6.00-\$7.25	\$5.50-\$7.00

- Very early in the 2021 production season, so prices are highly uncertain.
- Expect volatility in old and new crop futures.
- Planted acres will be the next major market mover.
- Over 90 cents is very unstable and risks demand erosion.

Closing Comments

- Understand the current market environment and continue to evaluate price projections and yield potential throughout the marketing cycle.
- The amount priced at different times of the year is operation specific but:
 - Have some 2021 production priced prior to planting ~25-50%.
 - Don't over price and trade price risk for production risk.
 - Don't price your way out of a potential extended rally, but protect the downside.

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THANK YOU!