

Cotton Market Outlook

2021 Cotton Tour
September 1, 2021

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Overview

- Supply and Demand Update
- Prices and Outlook for 2021 and 2022.

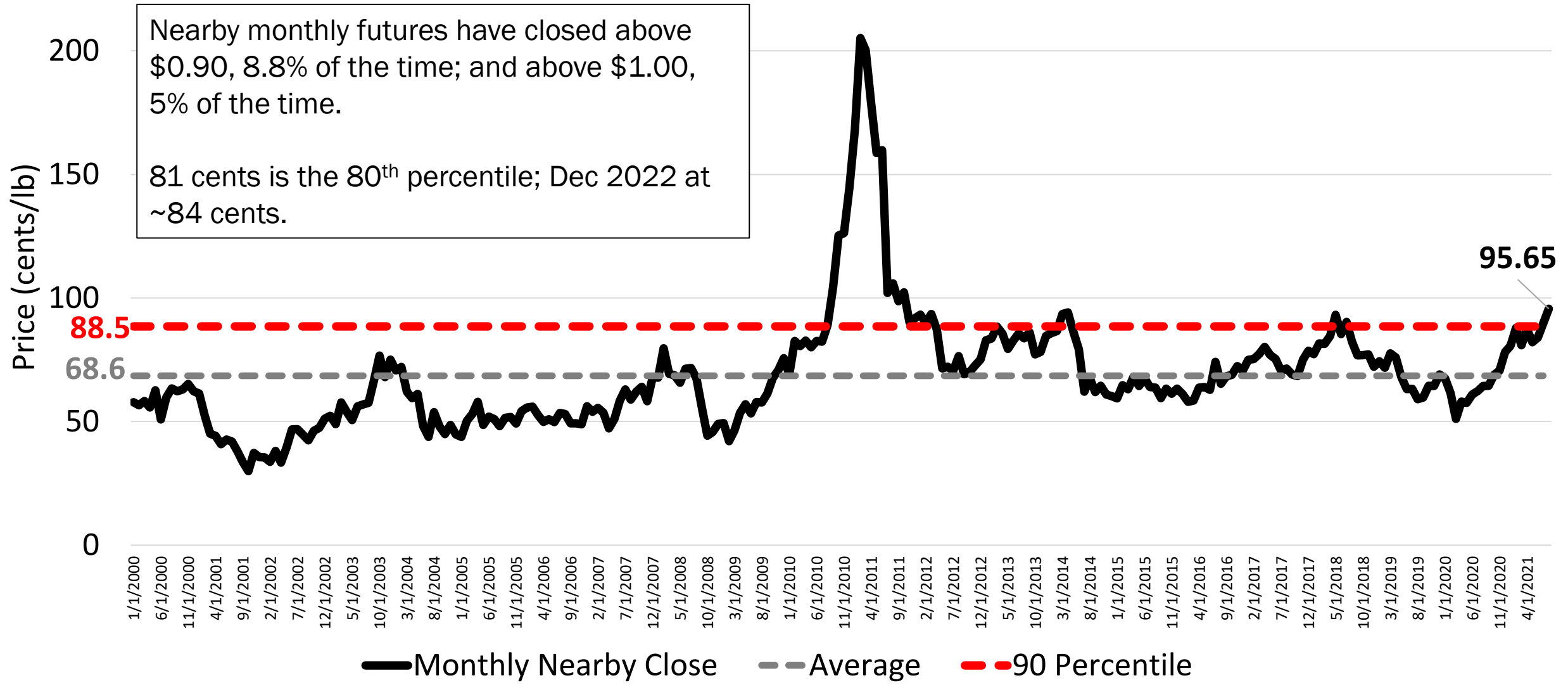
“In marketing, we must play the hand we are dealt; the goal is to maximize the outcome, while managing risk, subject to resources and constraints.”



Monthly Nearby Futures Contract Close, 2000-2021

Nearby monthly futures have closed above \$0.90, 8.8% of the time; and above \$1.00, 5% of the time.

81 cents is the 80th percentile; Dec 2022 at ~84 cents.

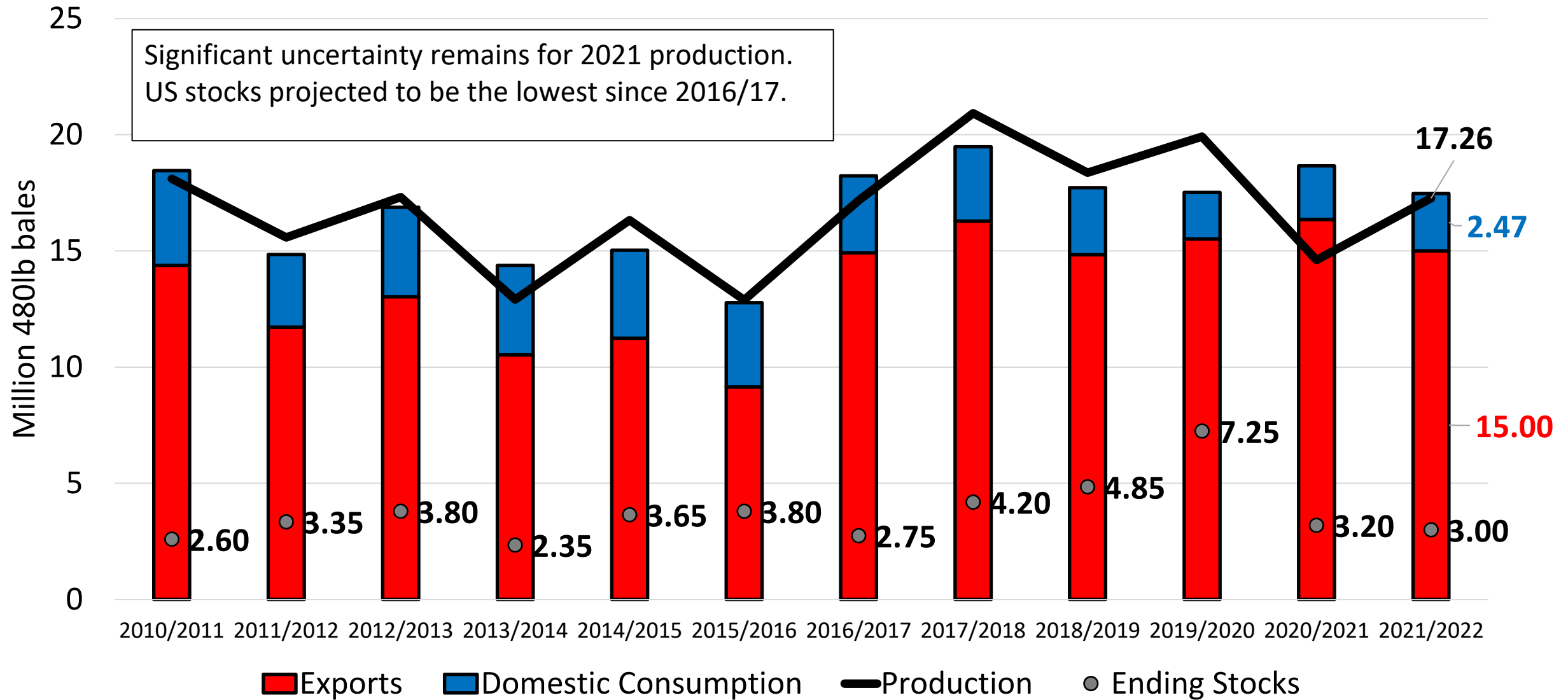


US, Global, and Trade



SUPPLY AND DEMAND UPDATE

U.S. Cotton Production, Consumption, Exports and Ending Stocks, 2010-2021

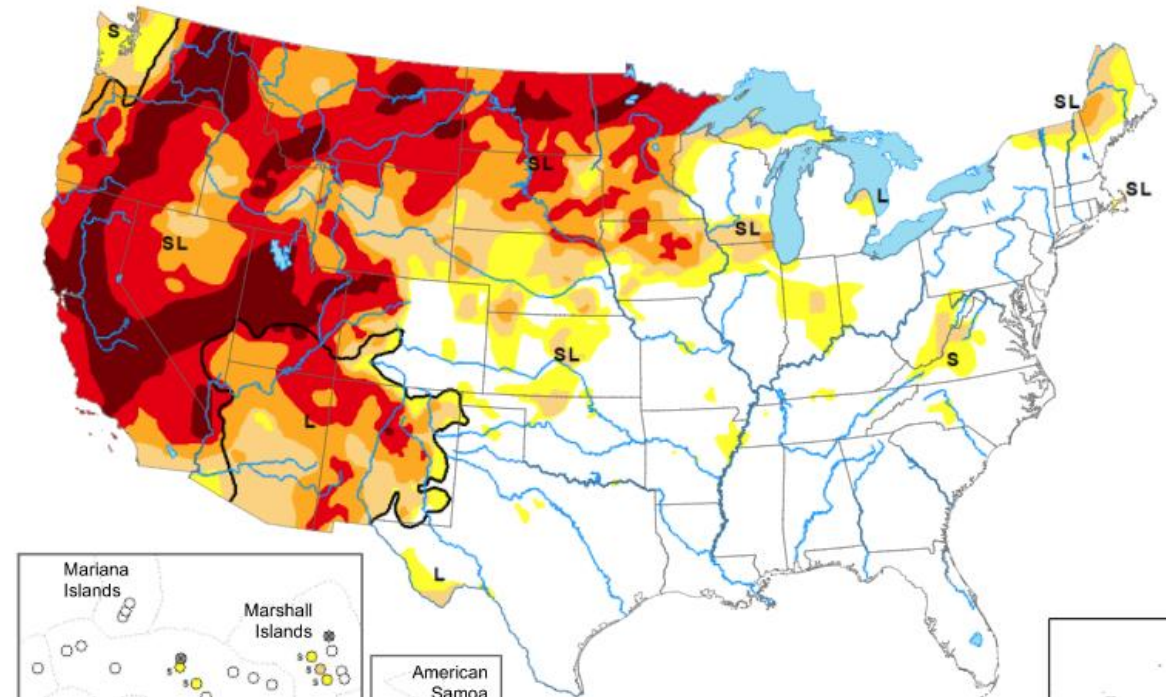


U.S. Production

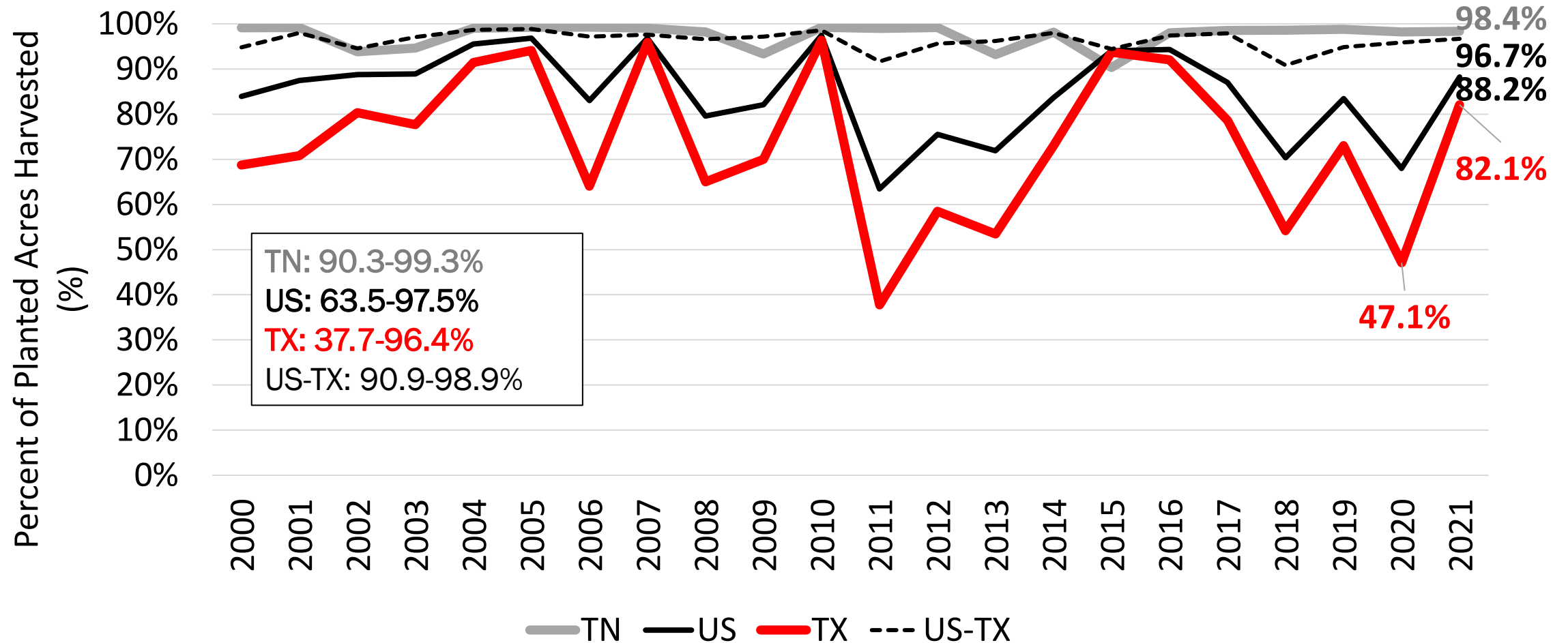
- Delayed planting in Tennessee.
- Adequate moisture in Texas.
 - Reduced abandonment in 2021 compared to 2020.
- Lower national average yield.
 - Low abandonment means that a lot of low yielding dryland cotton will get harvested and pull down the overall U.S. average yield.
 - Delayed maturity of the crop in many states, including Tennessee.
 - Hurricanes/storm damage.

Map released: August 26, 2021

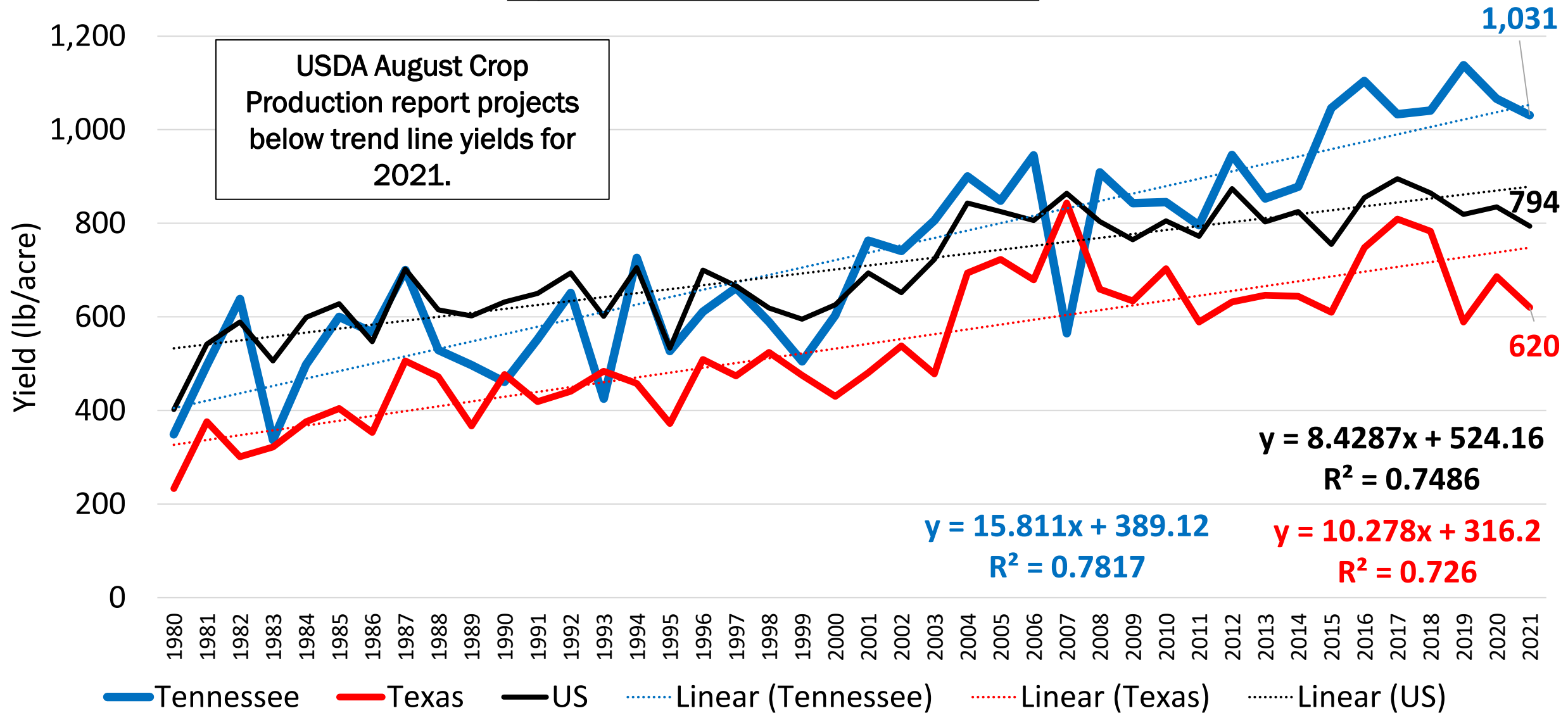
Data valid: August 24, 2021



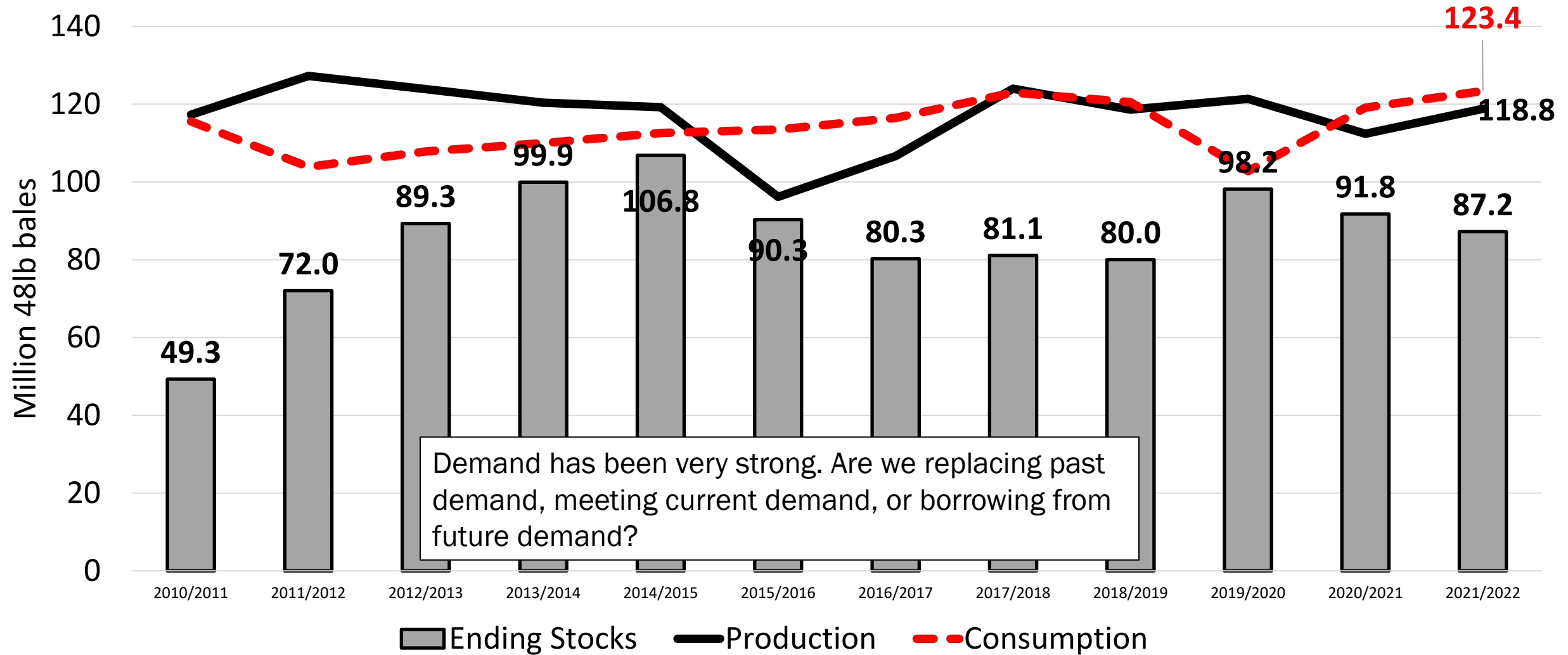
Percent of Planted Acres Harvested, 2000-2021



Upland Cotton Yield, 1980-2021

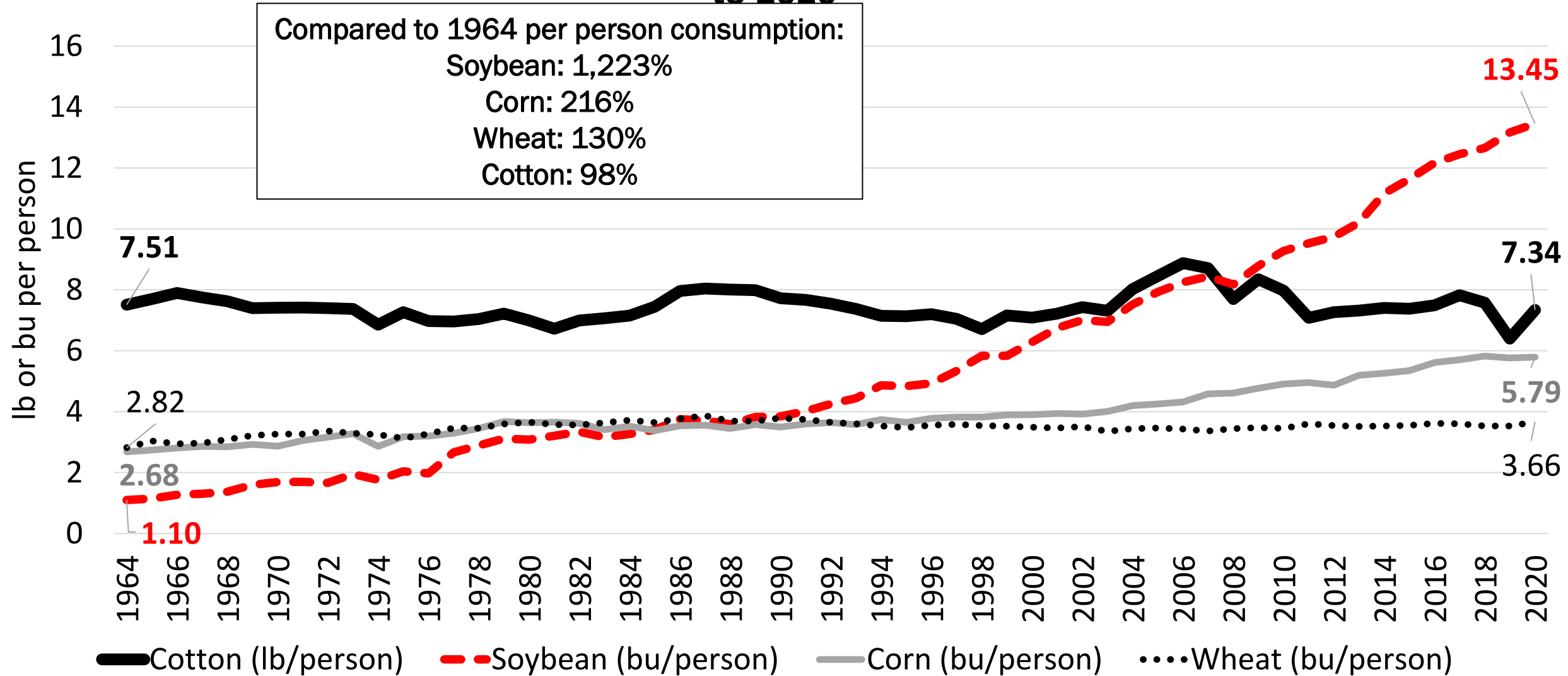


World Cotton Production, Consumption, and Ending Stocks, 2010/11-2021/22

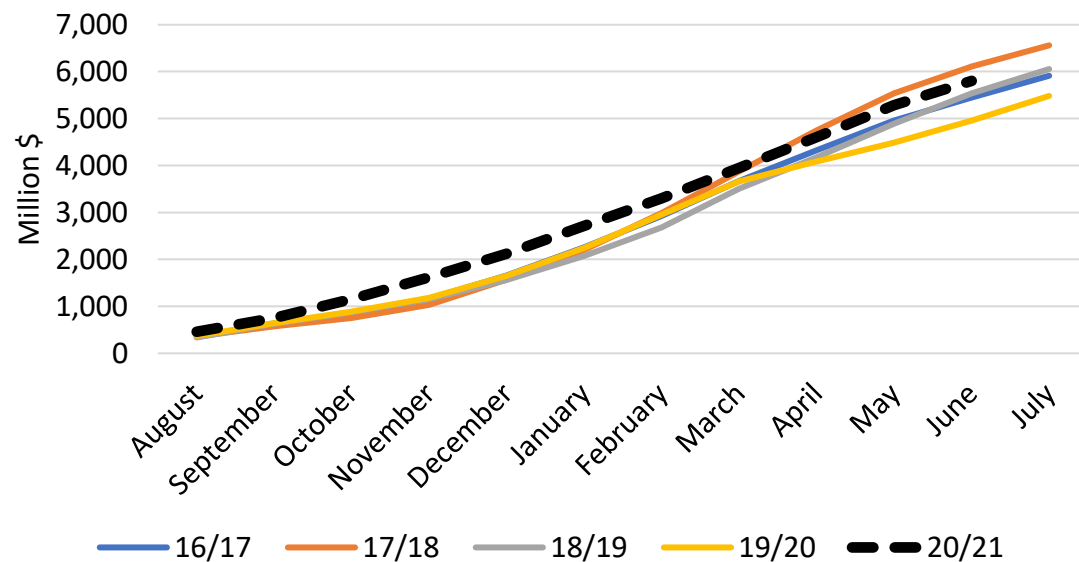


Source: <https://apps.fas.usda.gov/psdonline/app/index.html#/app/advQuery>

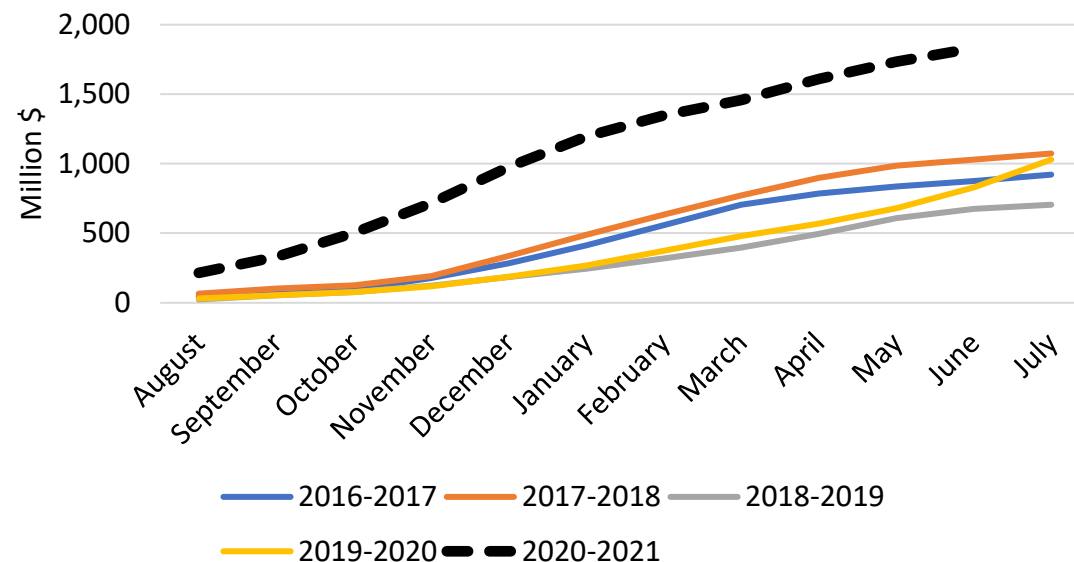
World Cotton, Corn, Wheat, and Soybean Consumption per Person, 1964 to 2020



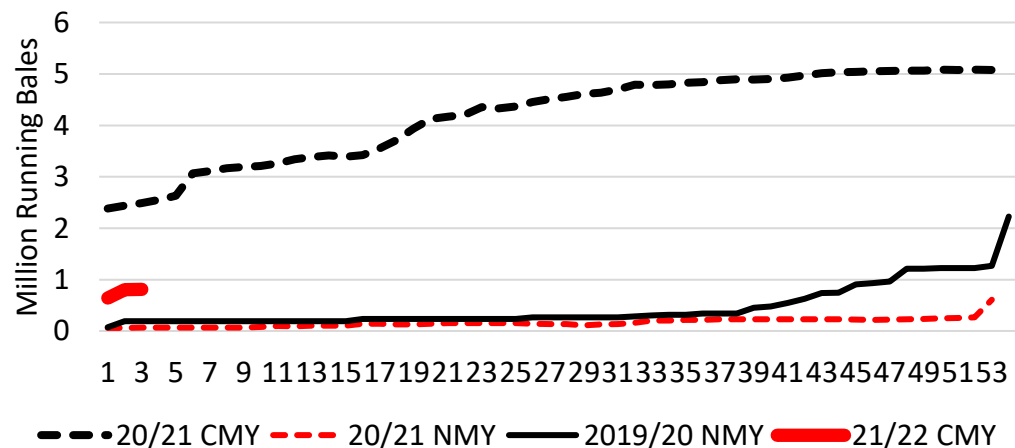
US Cotton Exports **Globally** - Monthly Accumulated Value
(\$), 2016/17 to 2020/21



US Cotton Exports to **China** - Monthly Accumulated Value
(\$), 2016/17 to 2020/21



US Export Sales Commitments to **China**



Supply and Demand Summary

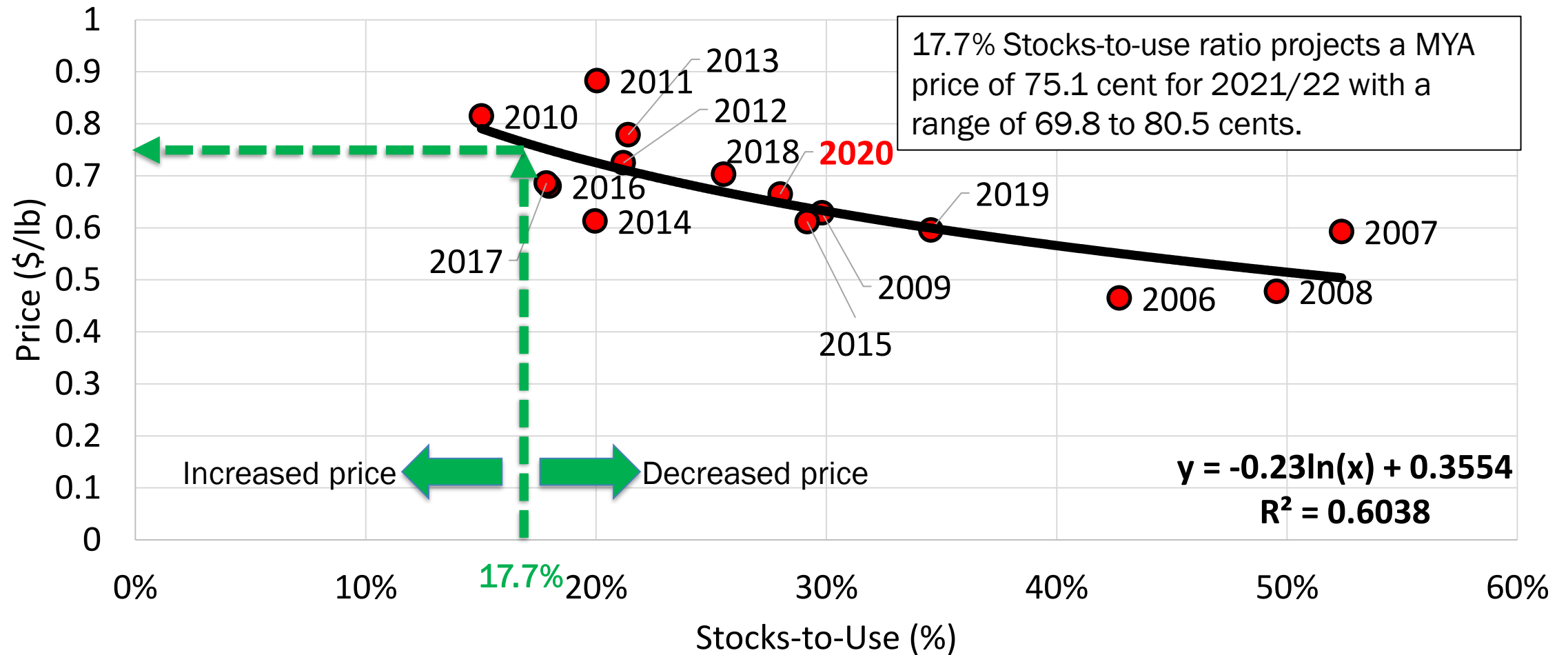
- US stocks have retreated to 3 million bales (down from 7.25 million).
- Final US production in 2021 is still uncertain.
- Global stocks are down.
- Drought in Central Asia.
- Demand has been strong.
- Export commitments to China are substantially lower than the start of the 2020/21 marketing year.
- Per capita cotton consumption has been stagnant.
- Has strong past and current demand eroded future demand?



Past, 2021, and 2022; and Input Prices

PRICES AND OUTLOOK

U.S. Stocks-to-Use to MYA Price, 2006-2020



December Futures Contract (Daily Close Jan 1 to Expiration)

	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	84.6
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	94.9
Range	82.5	52.0	31.9	18.5	26.0	7.9	21.1	9.3	18.8	19.6	22.3	19.5
MYA Price	81.5	88.3	72.5	77.9	61.3	61.2	68.0	68.6	70.3	59.6	66.5	80.0

How does the marketing year average price compare to offerings in futures markets and cash markets?

December Cotton Futures (CTZ)



- Colored bars Dec 21 futures.
- Black line Dec 22 futures.
- Strong uptrend starting April 2020.

Cotton Price and Outlook Summary

- Bearish Factors
 - High prices, COVID, shipment delays, limited supplies of quality, competition with synthetic fibers, USD strength, geopolitical environment, what happens after Phase 1 completion, and global economic uncertainty.
- Bullish Factors
 - Strong global/export demand, lower US and global stocks, weather concerns, US yield uncertainty, global economic growth, and high crop prices (competition for planted acres in 2022).
- A case can be made for higher prices, but risk management should be a primary concern.
- Growers have a wealth of marketing tools, marketing loan, forwarding contracting, futures hedges, the options market, and/or a combination.

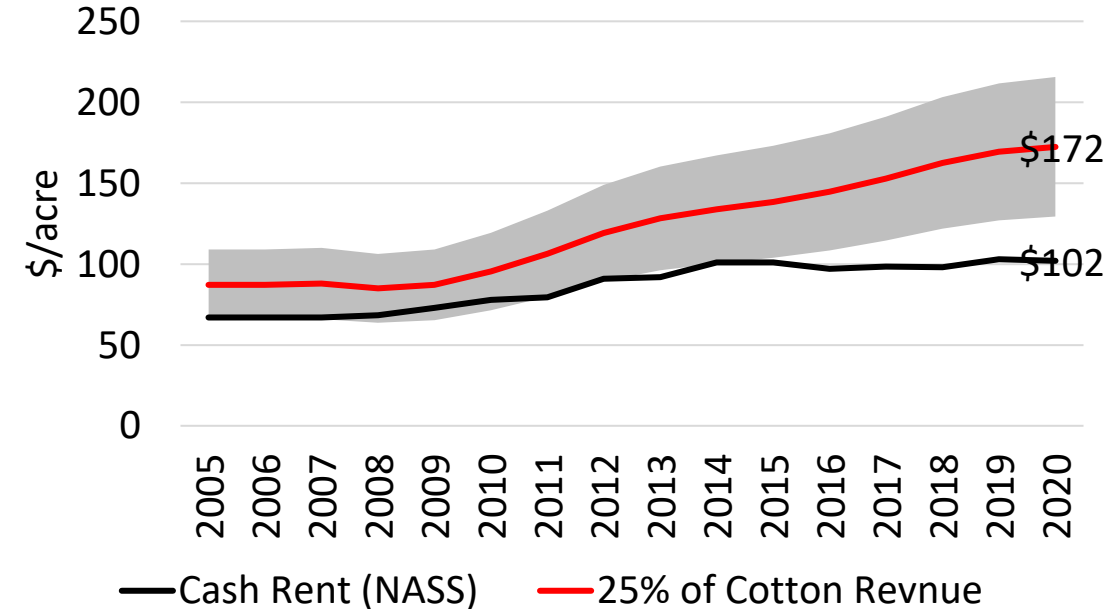
Managing Price Risk

- Remove some additional price risk for the 2021 crop (for illustrative purposes not a trading recommendation):
 - Protect against the downside:
 - Buy an 88 cent Dec 21 put option 2.31 cents establishes an 85.69 cent futures floor.
 - or
 - Buy an 88 cent Mar 22 put option 4.42 cents establishes an 83.58 cent futures floor.
 - Benefit from an upside move after selling the cash crop:
 - Buy a 95 cent Mar 22 call option for 5.19 cents gain above 100.19

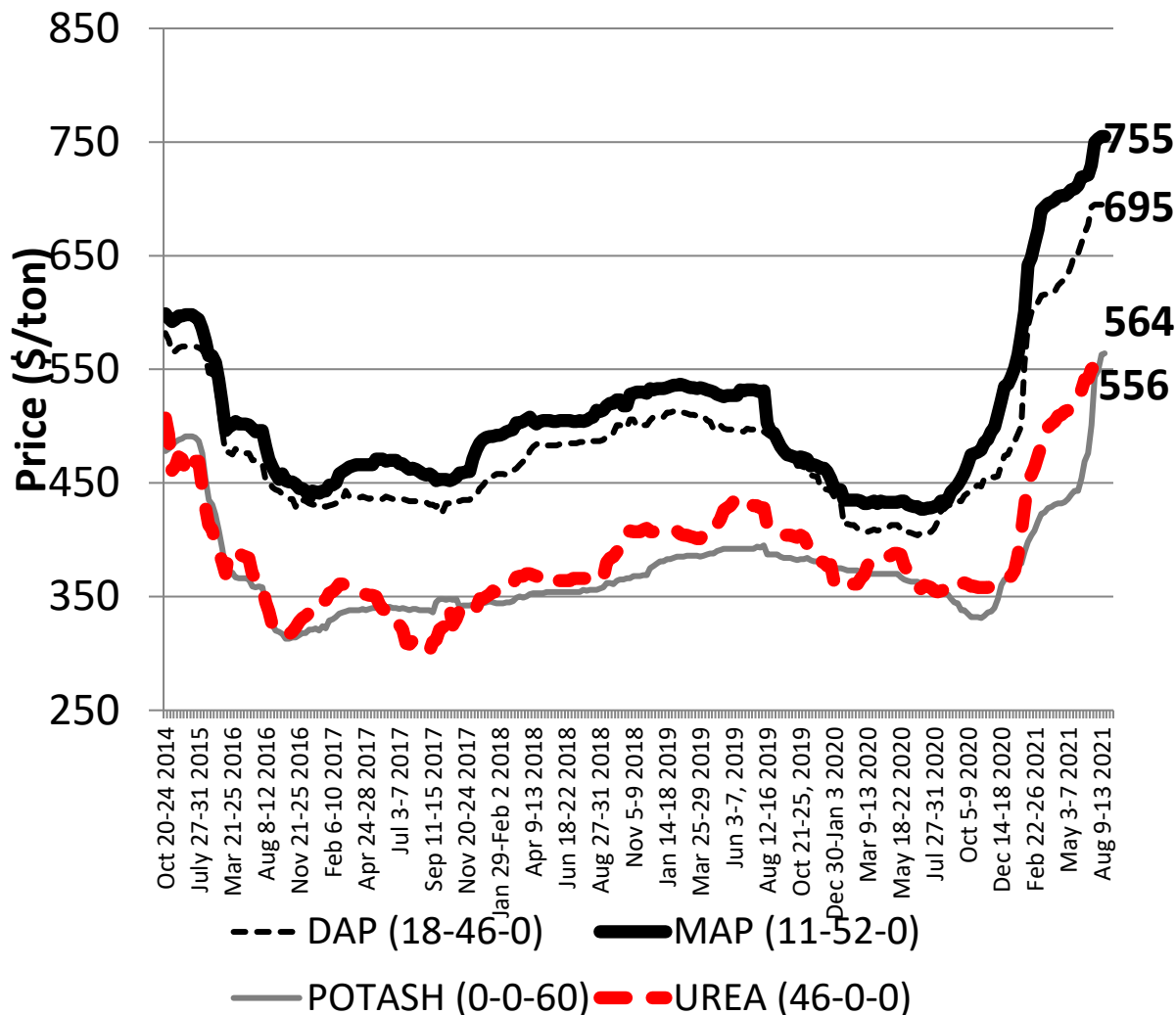
Input Prices

- Inflation
 - As at July 5.4%; Energy 23.8% from BLS.
- Increased substantially year-over year.
 - Land Rent: 1,150 lb/acre x 0.\$85/lb = \$977.50
 - At 25% share = \$244.38/acre land payment.
 - Equipment cost and availability (including parts).
 - Crop protection / seed.
 - Diesel fuel.

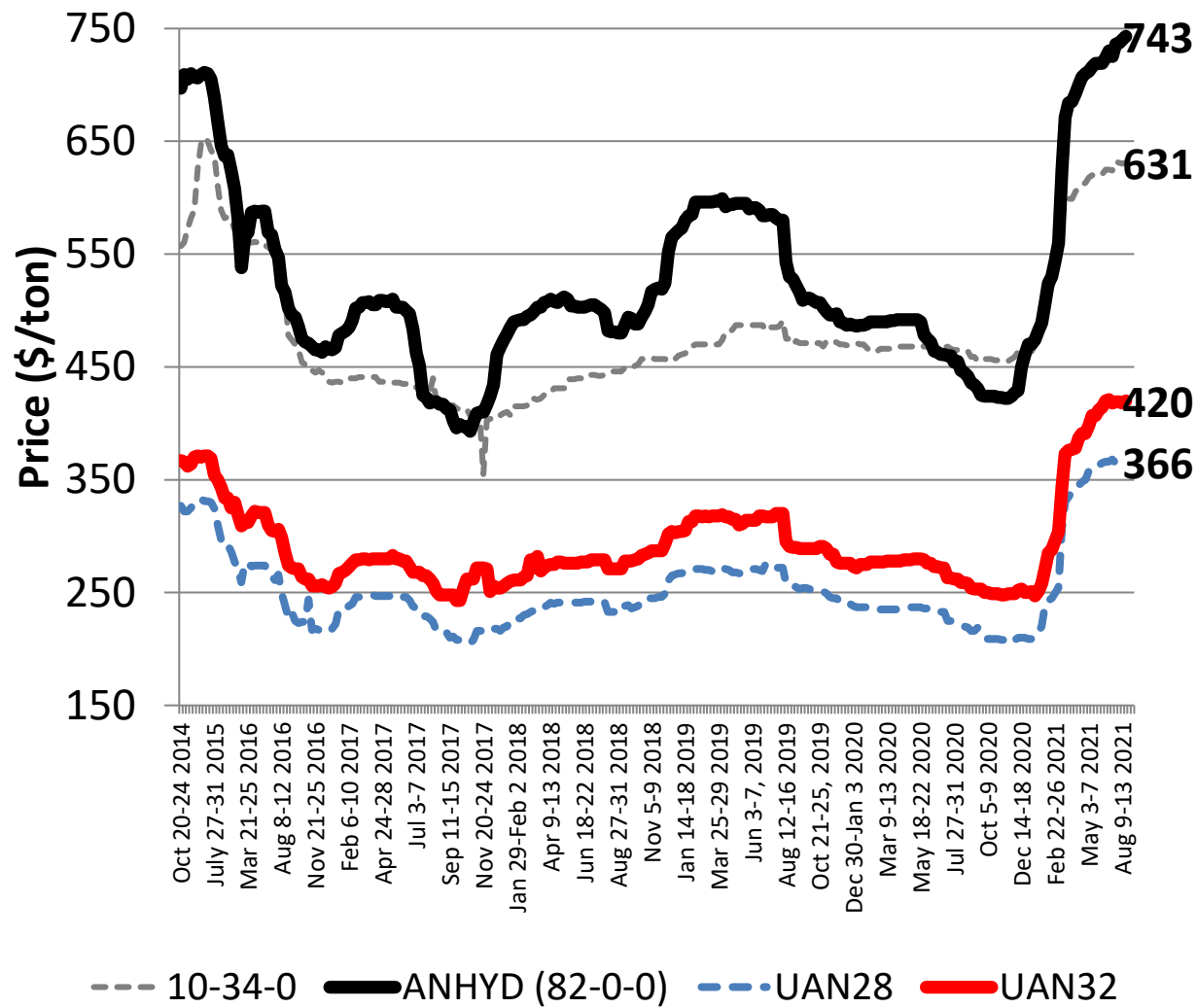
Tennessee: Ten Year Rolling State Average
of 25% of Gross Cotton Revenue, 2000-
2020



Dry Fertilizer Price, 2014-2021



Liquid Fertilizer Price, 2014-2021



What happens if input prices remain high and prices retreat? We have more tools to manage output price risk than input price risk.

Thank you

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