

Grain and Cotton Outlook, 2016

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Some Overall Considerations

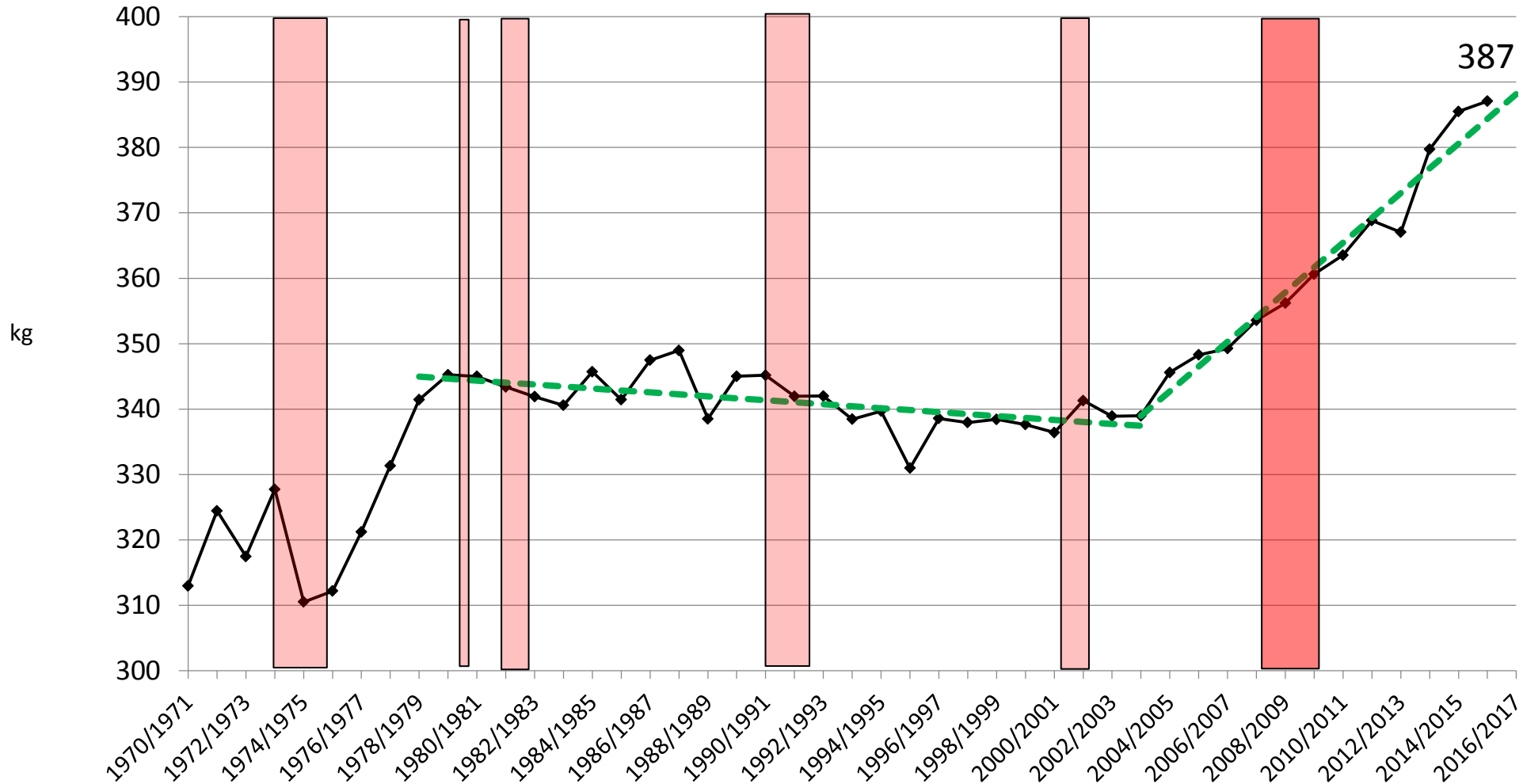
- Stronger U.S. dollar => more pressure on U.S. exports
- Slower Chinese economy => economic slowdown for the world?
- European economic weakness
- Some potential for increases in interest rates (although, I wonder if the Fed will actually do that in the face of above)
- All of these factors mean **pressure on U.S. commodity prices.**

Key Questions for 2016

- What will be the path of the US dollar?
- Will cattle on feed numbers continue to improve?
- What will be the path of input costs?
- Can I cash flow my crop at the anticipated insurance price guarantee?
- Will there be changes to the cotton program?

Grain Outlook

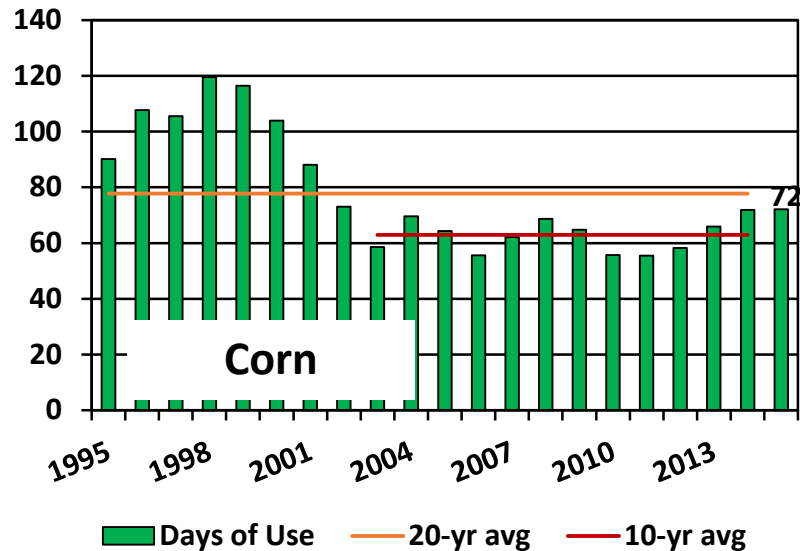
Per Capita Grain Use—The Good News



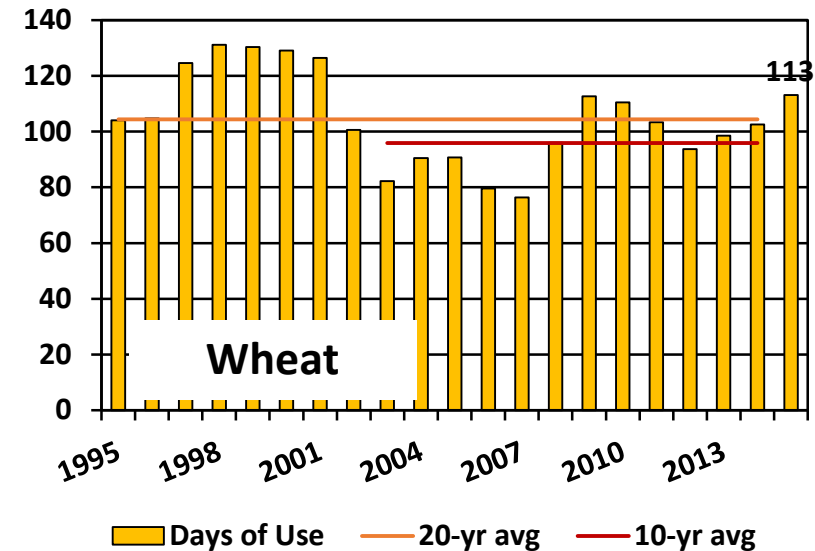
barley, corn, millet, mixed grains, oats, rice, rye, sorghum, soybeans, and wheat

USDA, Foreign Agricultural Service, PSD, 9/1/2015

Grain Stocks—The Bad News



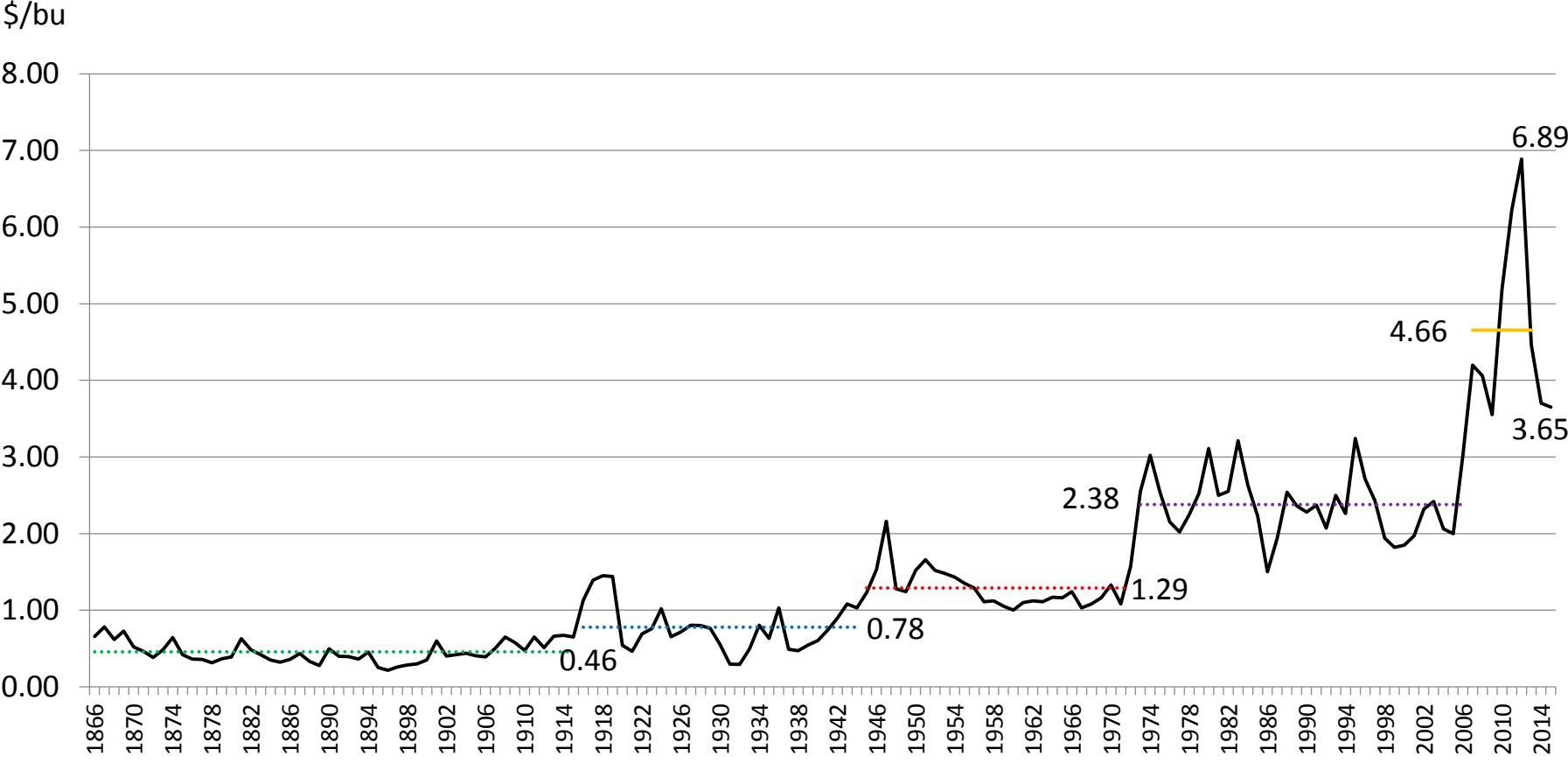
Corn has 72 days of use on hand, slightly below its 20 year average.



Wheat as 113 days of use on hand, slightly above its 20 year average.

For comparison, cotton has **about 330 days of use** on hand...

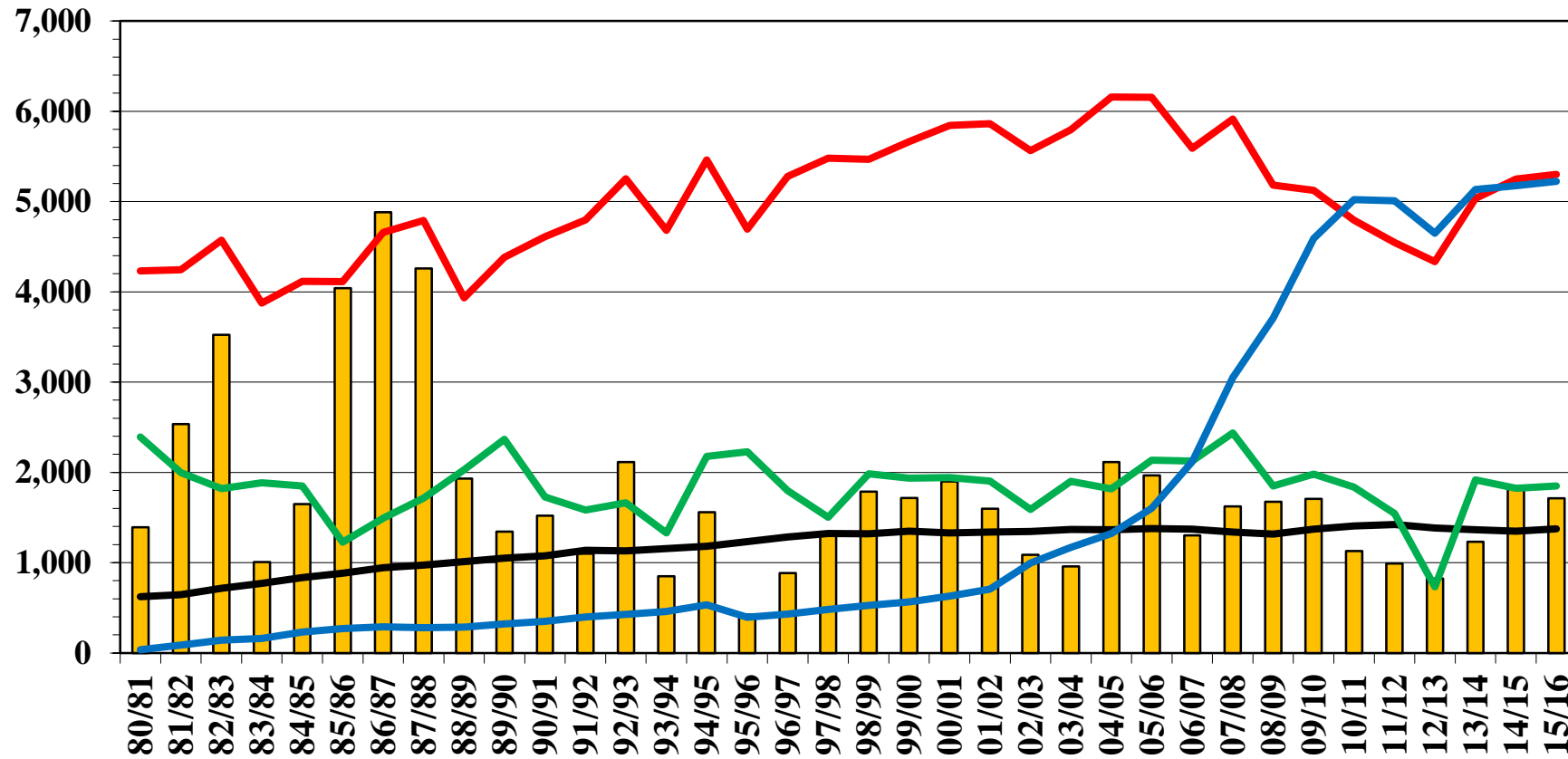
Price Effects—MYA Price for Corn



- SAFP
- Pre WWI
- WWI to WWII
- Post WWII
- World Trade
- Biofuel Era

U.S. Corn Disappearance

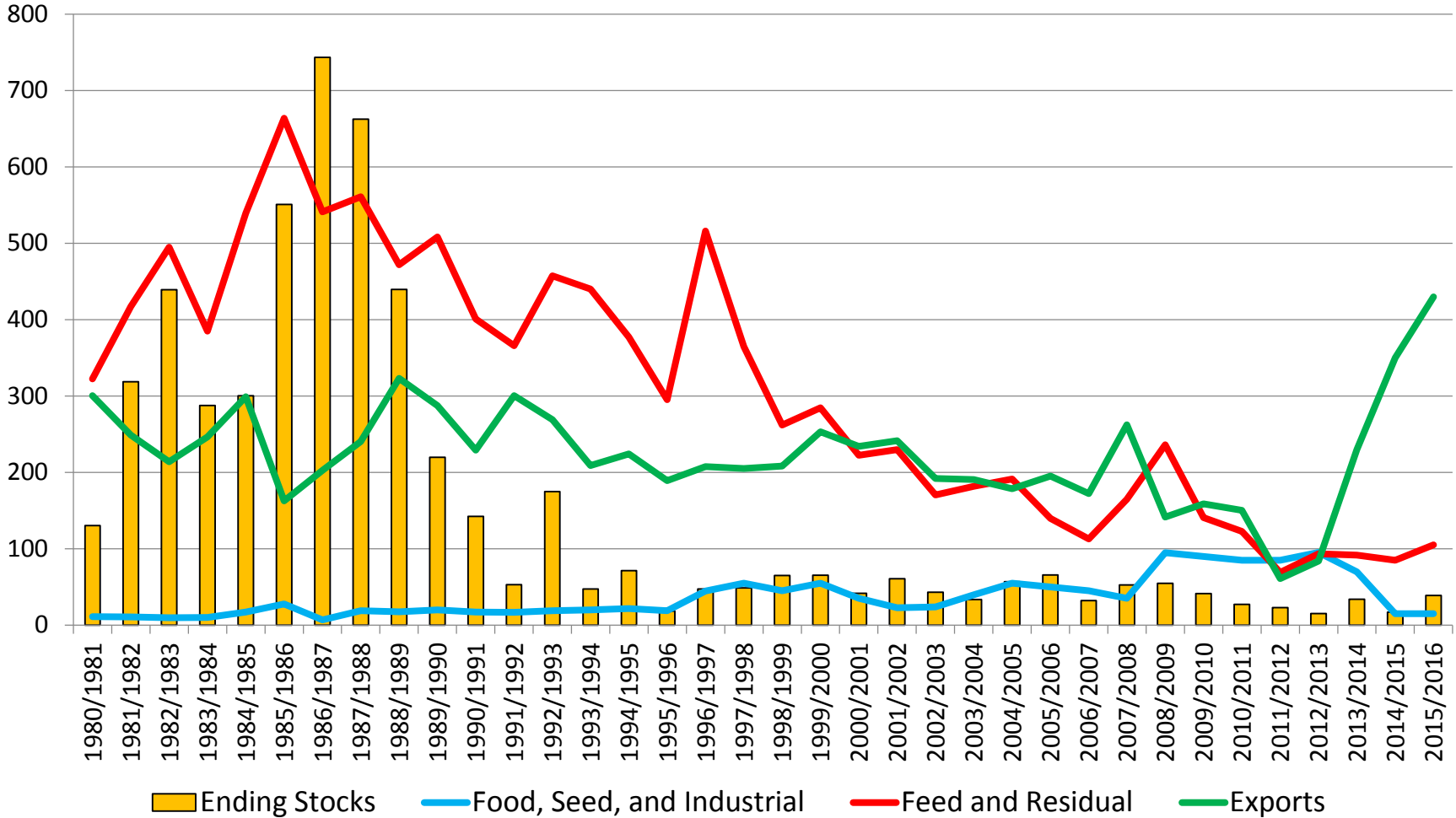
Million Bushels



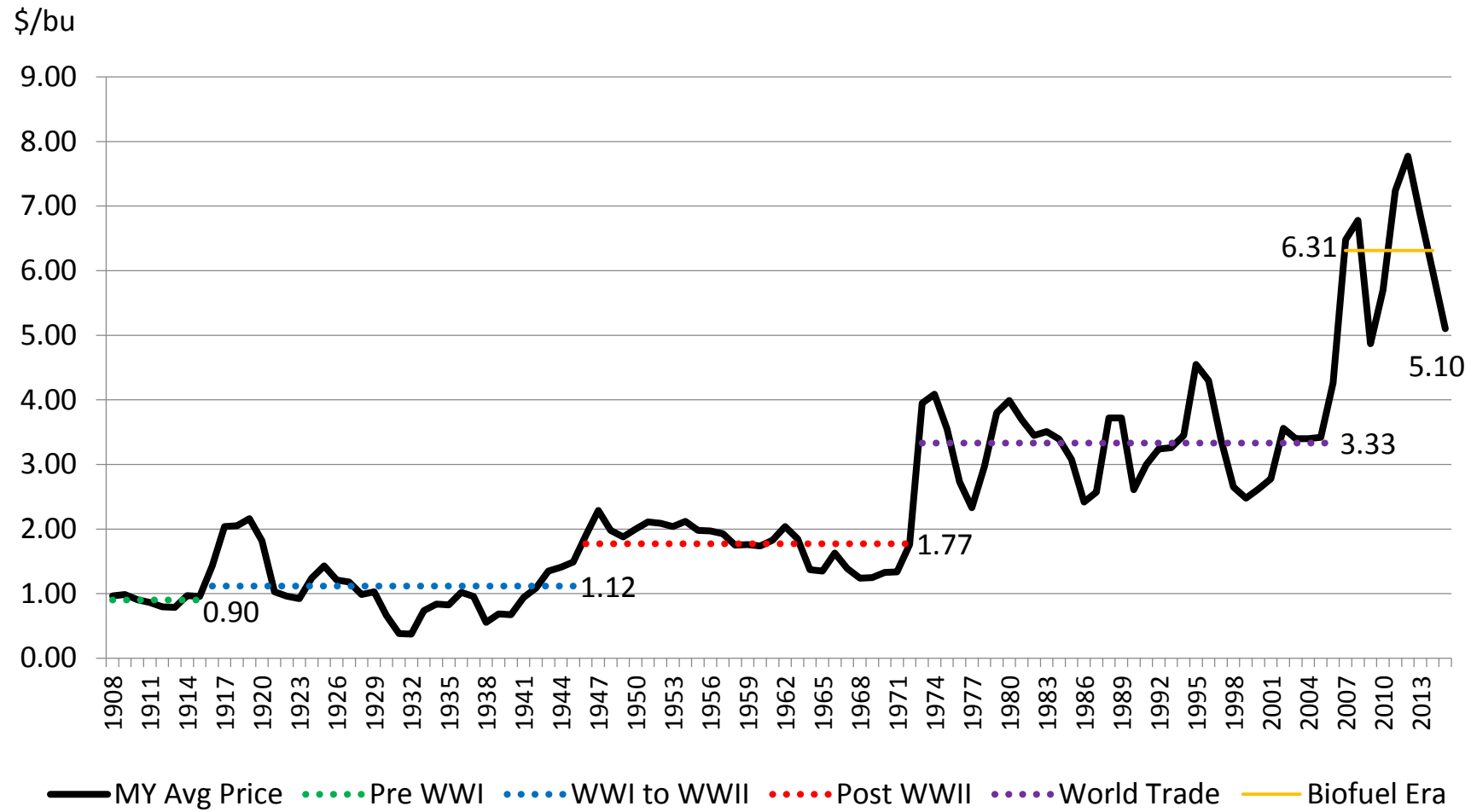
Source: USDA WASDE, 8/12/2015

U.S. Sorghum—The Bright Side?

Million bushels



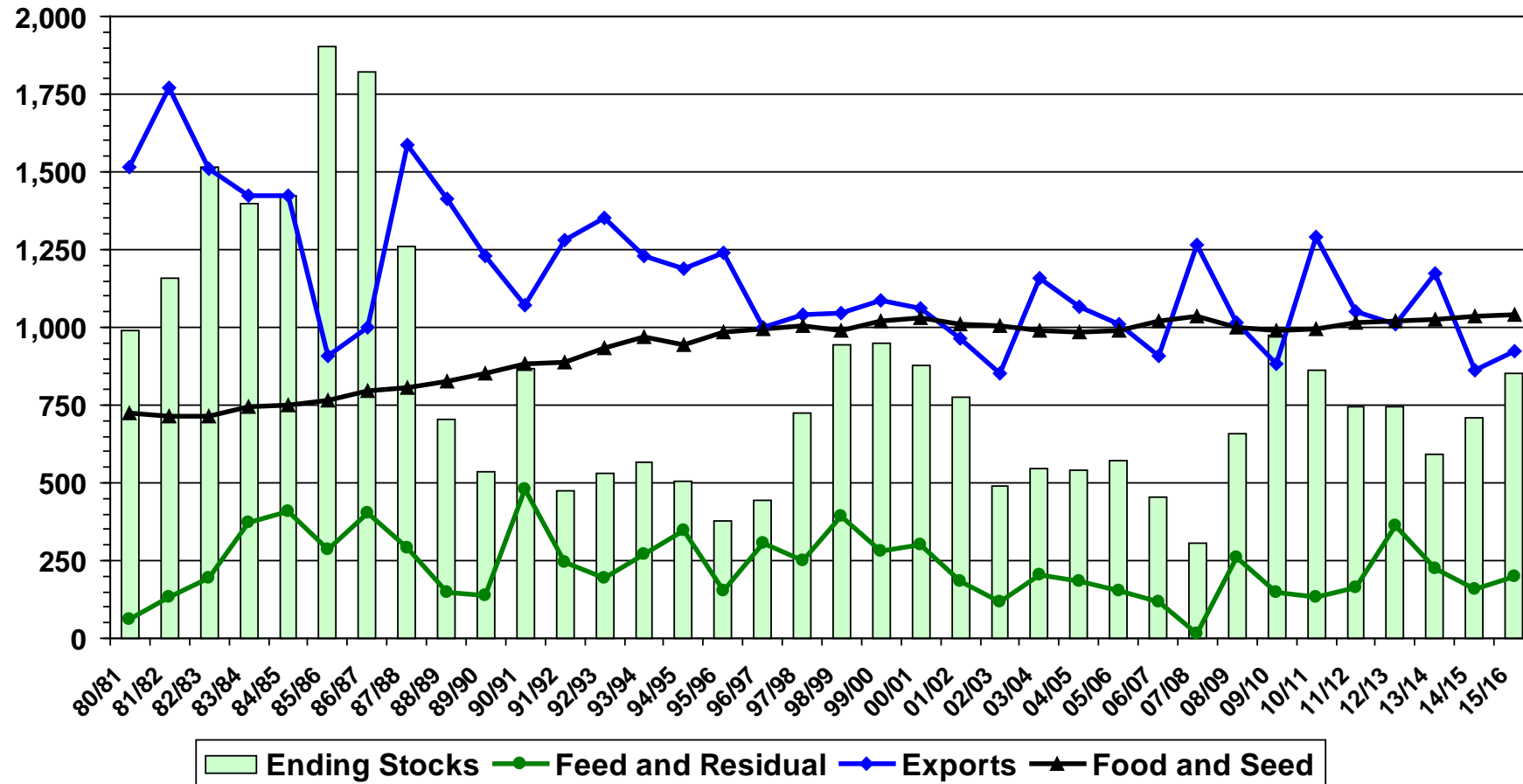
U.S. Wheat Price



WASDE, 8/12/15

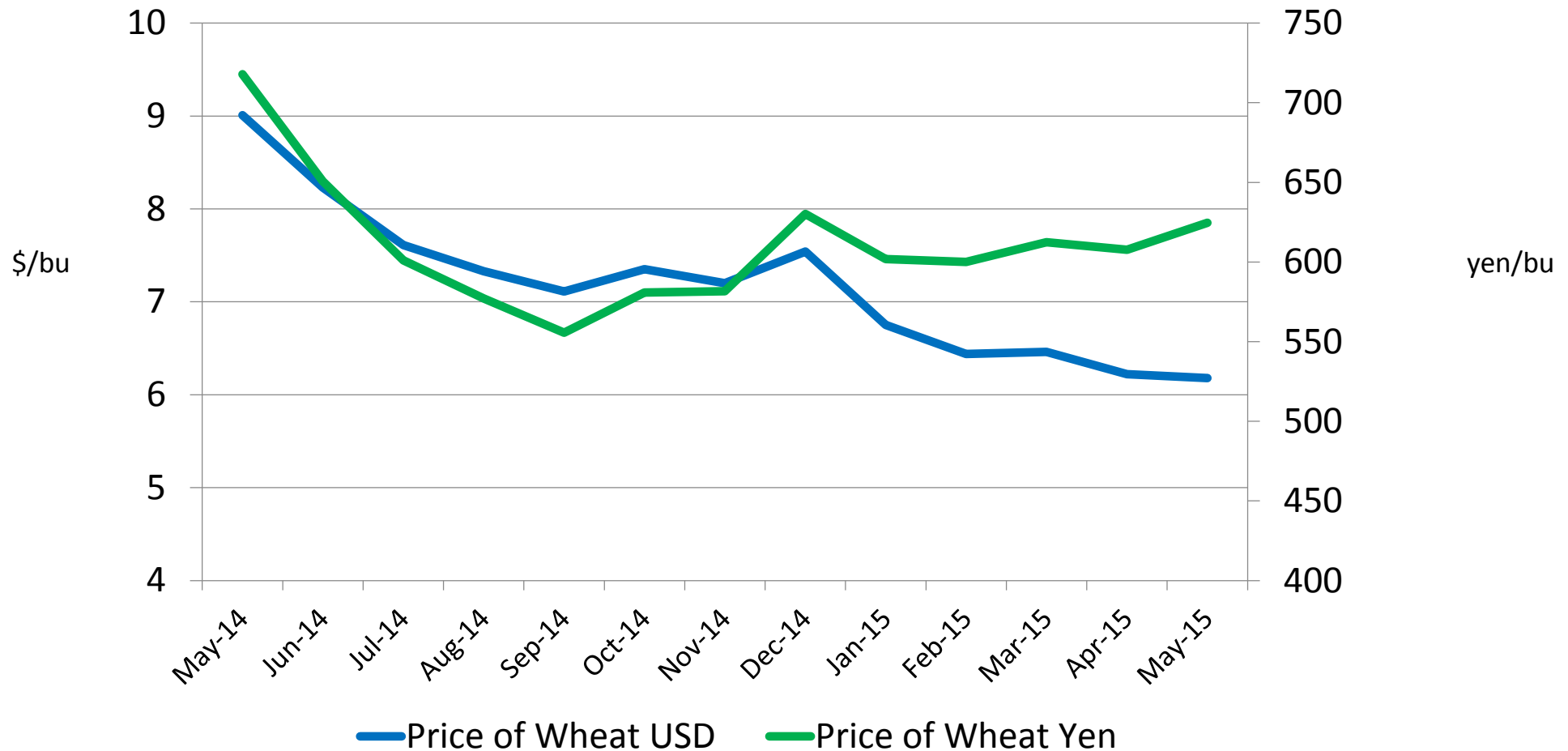
U.S. Wheat Use

Million Bushels



WASDE, 8/12/15

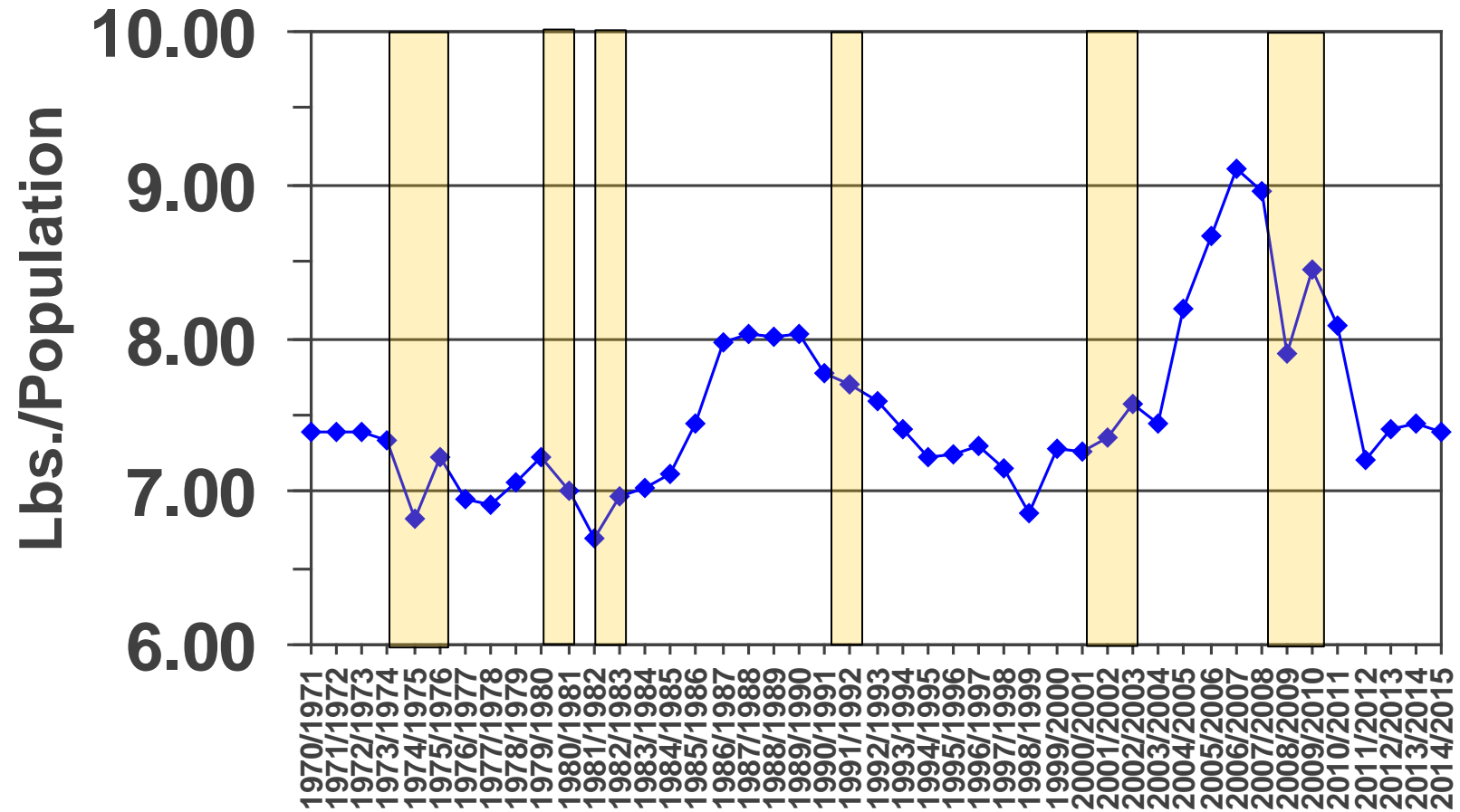
U.S. Wheat Price in Yen—The Impacts of a Strong Dollar



No. 1 HRW, ordinary protein, Kansas City, MO
USDA Wheat Data, USDA Agricultural Exchange Rate Data Set, X-rates.com

Cotton

Per Capita Cotton Use



Source: USDA/ERS/WASDE

2015 Balance Sheet

U.S. Cotton Balance Sheet for 2015/16	
	2015/16
Supply	
Planted Acres (mil.)	8.90
Harvested Acres (mil.)	7.89
Yield (lbs./ac.)	795
Beginning Stks.	3.70
Production	13.08
Imports	0.01
Total Supply	16.79
Disappearance	
Mill Use	3.70
Exports	10.00
Total Domestic Use	13.70
Unaccounted	-0.01
Ending Stks.	3.10
Ending Stks./Use	22.63

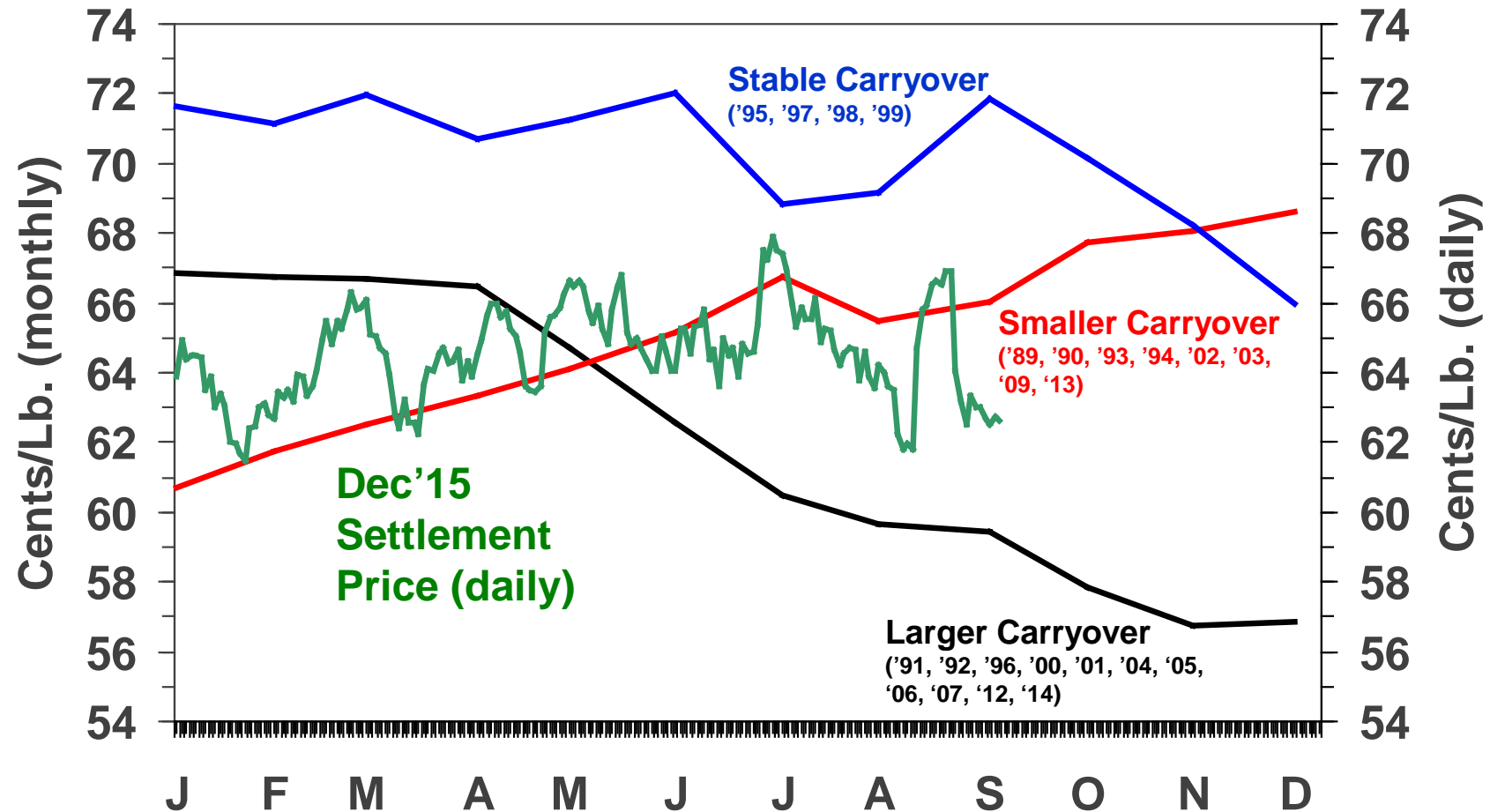
Influenced by 1. cumulative heat units, 2. dry/warm maturation weather in Sept/Oct, 3. date of first freeze, etc., U.S. production could vary from 13 to 16 million bales.

A realized forecast of El Niño moisture in the Fall could reduce yield potential and degrade quality (adding to the world oversupply of low grade cotton).

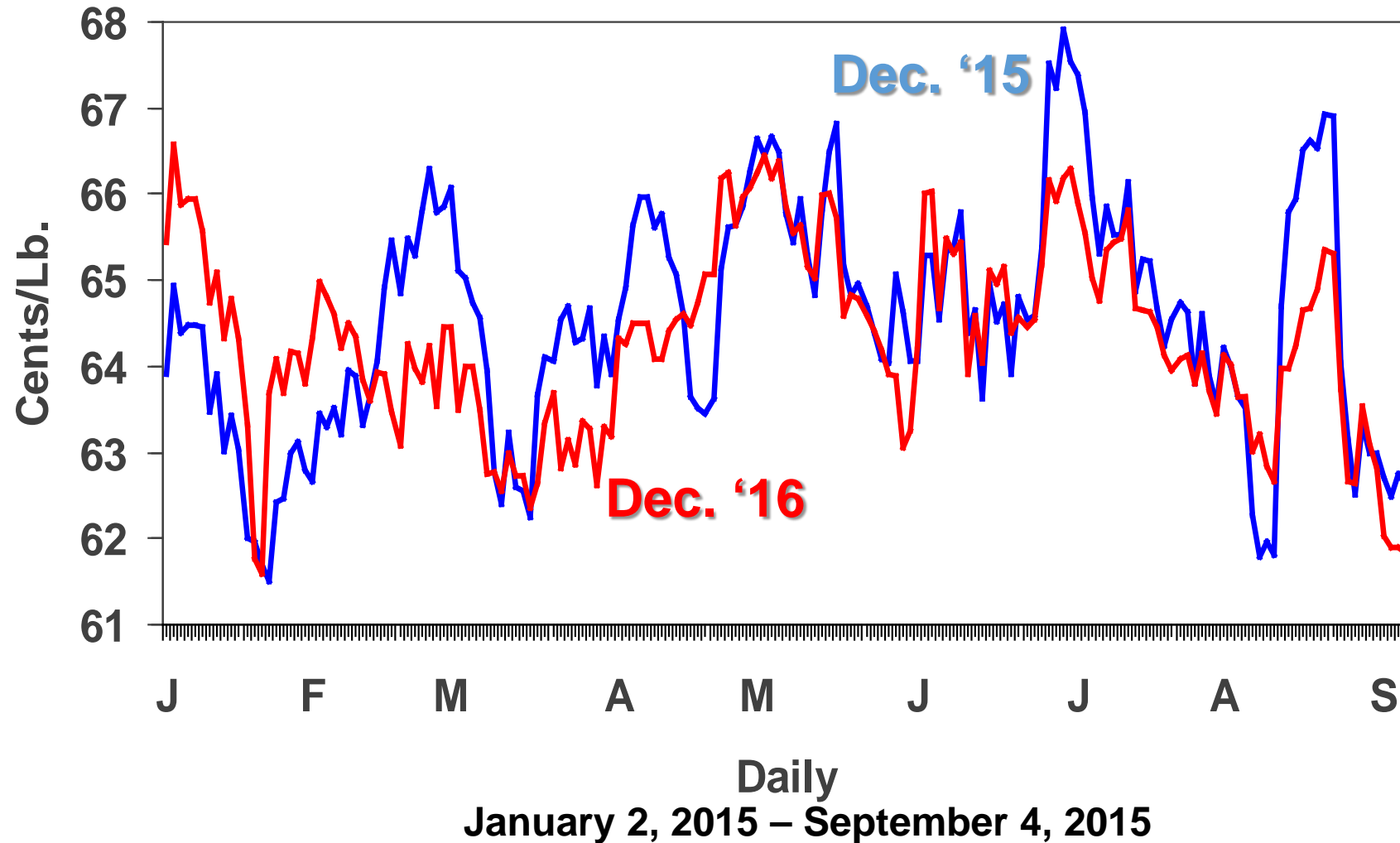
This variable is subject to Chinese stocks policy, foreign production, and perhaps the supply of quality new crop fiber.

Current bottom line is mildly stock reducing, year-over-year (historically price supporting)

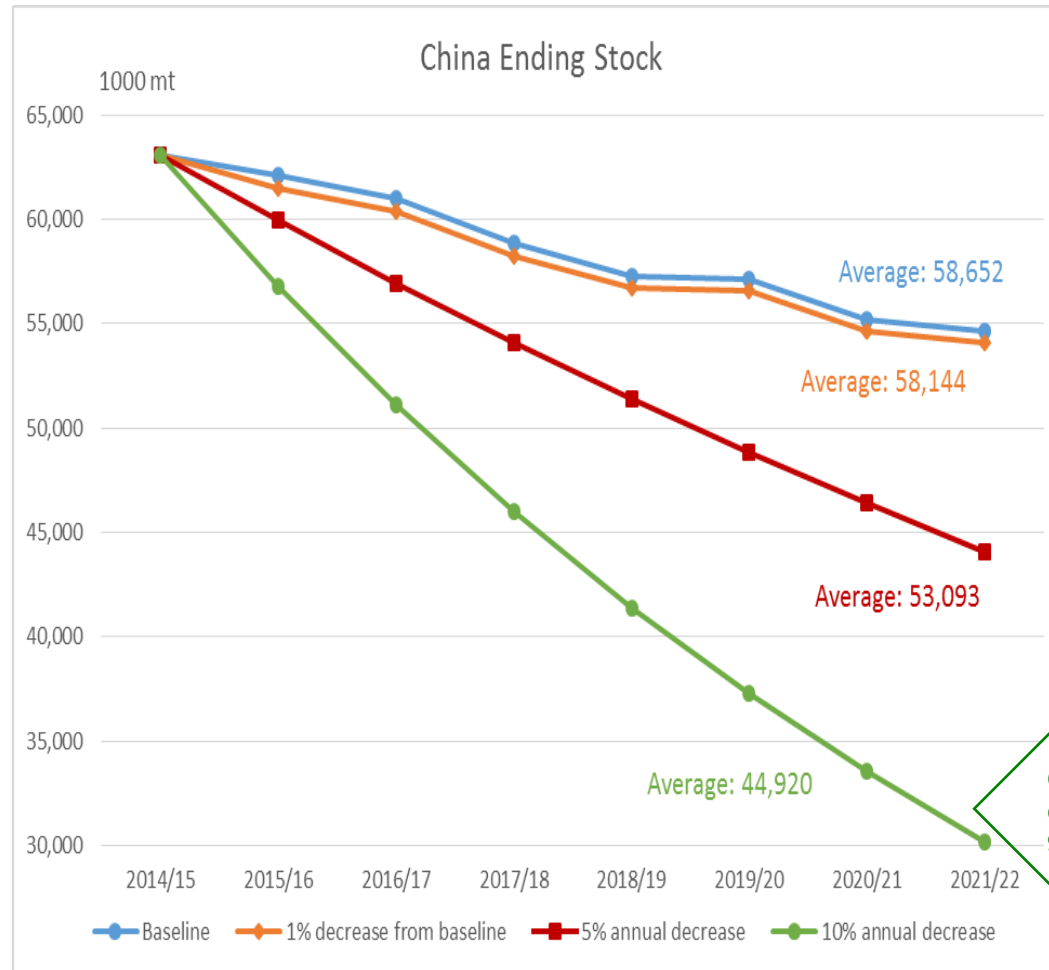
Typical Price Patterns with Carryover



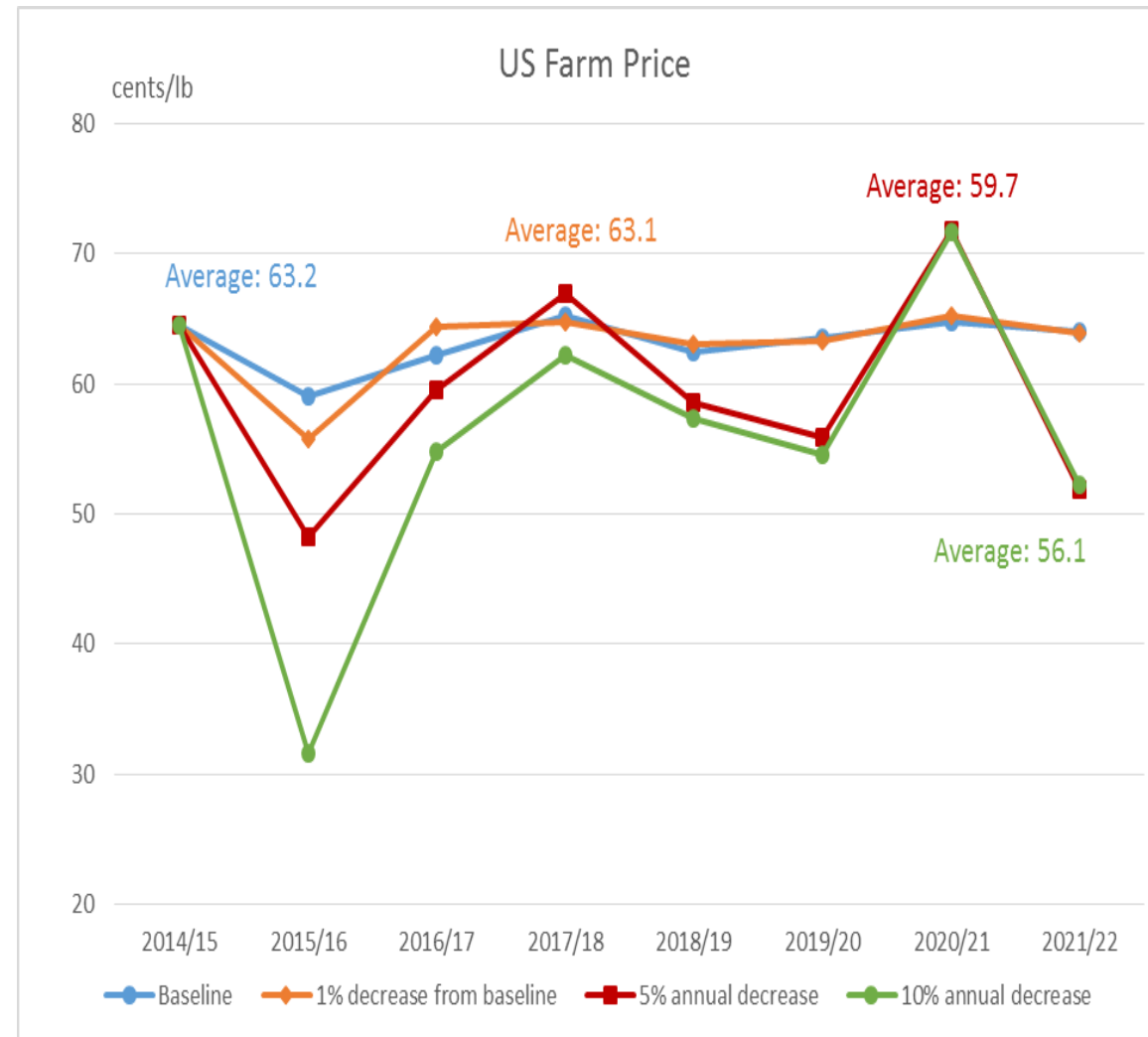
'15 and '16 Price Behavior



Chinese Stocks



Chinese Stocks and U.S. Price

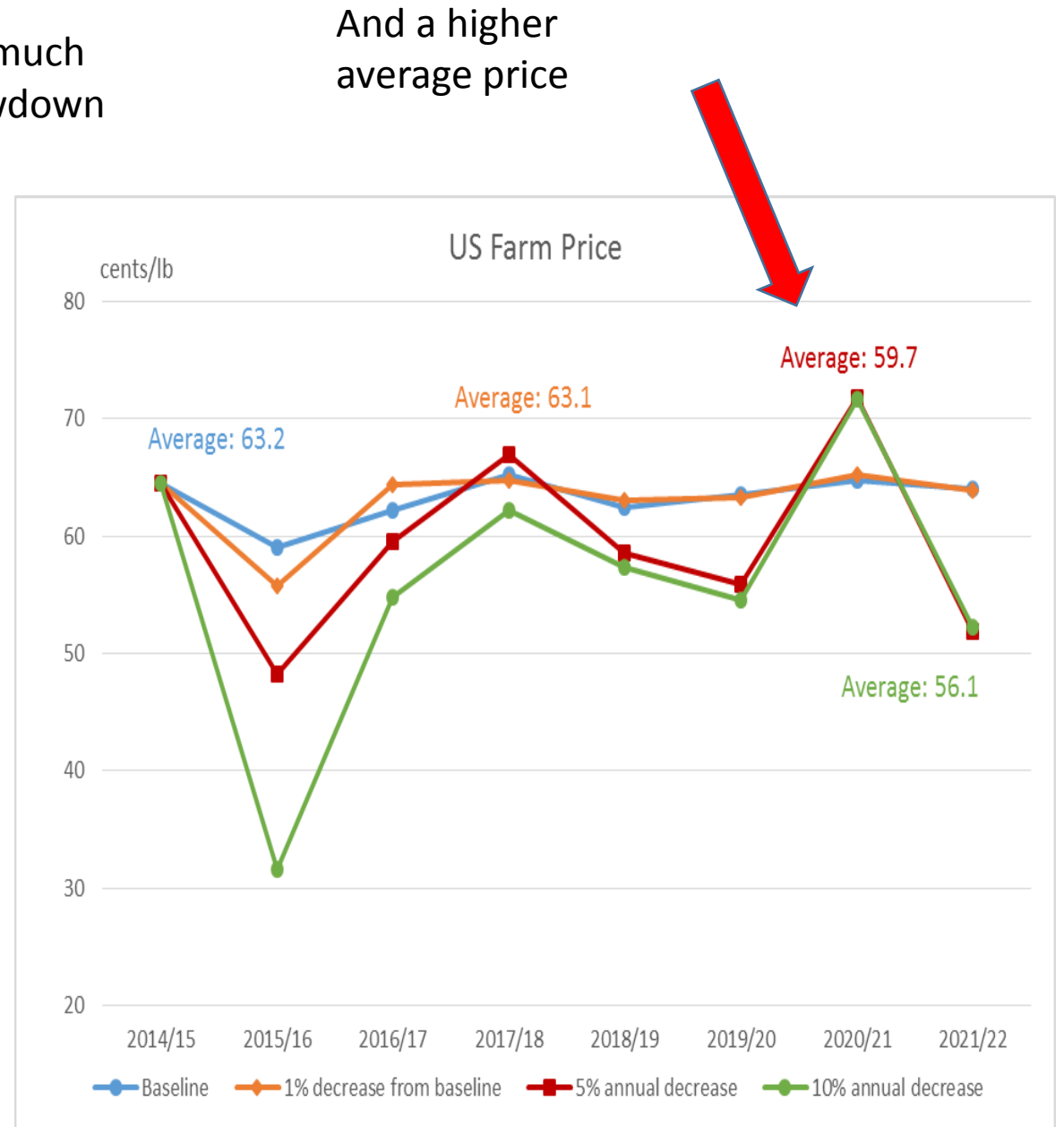
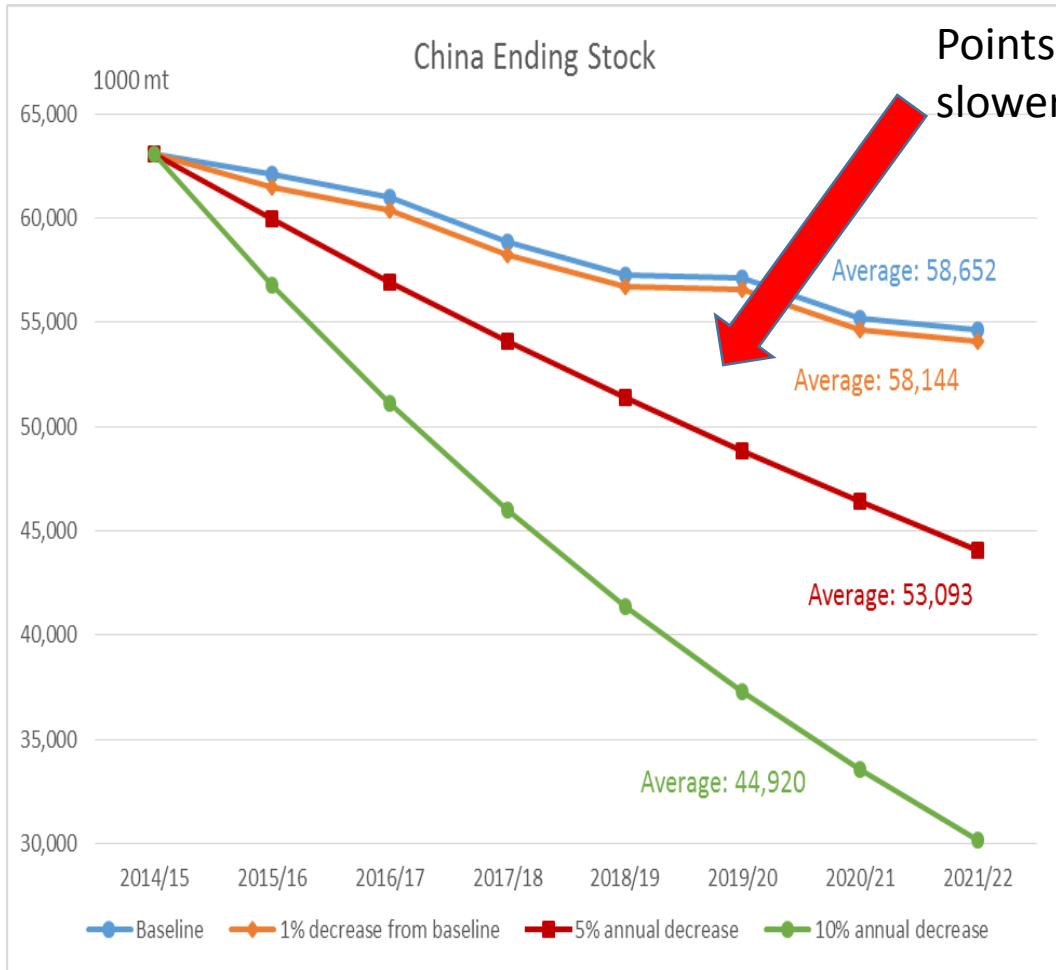


Drive to selldown huge China cotton stocks makes slow start

China sold just 8,704 tonnes of cotton the first day of sales from its state stockpiles, less than a third of what was offered – and equivalent to just 0.08% of its mammoth inventories.

Sales prices for the cotton ranged from 12,030-15,780 yuan per tonne, with high quality fibre reported to have seen the most interest.

China is posed to offer 1m tonnes of cotton until the end of August, of a series of daily auctions, as it tries to draw down stockpiles which the International Cotton Advisory Council (ICAC) estimates at 11m tonnes.



Conclusions

- Nothing indicates major changes in grains or cotton markets
 - Higher cattle on feed and ethanol use will bolster corn markets
 - Higher ending stocks will limit upside for wheat
 - Will China continue to import sorghum??
- El Niño will likely improve soil moisture—higher yields and lower abandonment
 - Fall moisture could impact cotton harvest and degrade quality—increase world supply of lower grade cotton and lower price further
- Key to success will be managing input costs and optimizing crop insurance to lower per acre costs of production