Policy and Market Outlook for Cotton and Agriculture

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Outline

- A quick look at cotton policy
- Overview of key markets for agriculture
- Discussion of the impacts of tariffs on agriculture
Cottonseed
Title I Program

- Cotton now allowed to participate in Title I program (PLC) on a seed cotton basis (subsumes lint and cotton seed into one program)
- Forces a reallocation of “generic base” acres
- Establishes payment rates and yields
- After 2018, if a producer participates in the SC PLC program, they forgo STAX participation (a “pay for”)
Cottonseed
Title I Program

No covered crop planted on generic base—all base is set aside.

Farmer Decision

Seed cotton base as 80% of generic base acres with remaining 20% set aside.

Seed cotton base assigned as the average of cotton planted acres from 2009-2012, not to exceed generic base acres.

Larger of:

Generic base allocated proportionally to covered crop 09-12 plantings.

Or:
If the SC MYA price is less than 36.7 cents,
SC PLC Payment Rate = 36.7 – (higher of MYA price or 25 cents)

If the SC MYA price is greater than 36.7 cents.
SC PLC Payment Rate = 0

Upland cotton production (lbs) = million bales x 480 lbs per bale
All cottonseed production (lbs) = million tons x 2,000
Total Pounds = upland cotton (lbs) + total cottonseed (lbs)

Seed cotton (SC) MYA Price = (upland cotton lbs/Total lbs) x upland cotton MYA price + (cottonseed lbs/Total Lbs) x cottonseed MYA price
Cottonseed Title I Program

Thanks to Don Shurley, UGA, for the example calculations.
Cottonseed Title I Program

Figure from Shurley and Rabinowitz.
Cottonseed Title I Program

Can get personalized assistance with a live person to help you walk through the options and enter the data.
A Look at Broader Markets and Trends
10 Year Treasury Rates
Keeping it in perspective

Source: MacroTrends Data
Federal Spending

Total Deficits or Surpluses
Percentage of Gross Domestic Product

Source: Congressional Budget Office.
Where the money goes (hint: Defense isn’t the problem)
Turkish Lira
Argentine Peso
Brazilian Real
Overview

- Growing US debt load and increasing interest rates
  - Pressure on future US spending/taxes and further pressure on interest rates
  - Pressure profitability of leveraged US agriculture, especially with pressure on US prices coming from stronger US dollar

- Currency “collapse” in both competitors and buyers of US products will place increasing pressure on US agricultural exports
  - Are we witnessing the beginning of a new emerging economy contagion
The “Good” -- Cotton

Still historically high prices
The “Bad” -- Corn
The “Ugly” -- Soybeans
Will Tariffs Matter to Cotton?
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In the short-run...not a lot. They have had some impact. We do not know what the price would be but for the tariffs. But, they are at historically high levels with robust demand. And Vietnam has surpassed China as the leading importer of US cotton.

In the long-run. Absolutely. Markets will adjust to the new realities. Different supply chains will have to arise to accommodate the shifting trade. Prices will have to come down, ceteris paribus, to adjust to new market realities.

Over-reliance on tariffs as opposed to good trade agreements are not in the interest of agriculture.
“Soybeans”