

Agricultural Outlook for Cotton

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Presentation to the 2008 Banker's Agricultural Credit
Conference, Lubbock, TX

November 14, 2008





SHORT-TERM OUTLOOK FOR COTTON



Tumultuous Time for Commodities

- Of asset bubbles and pin-pricks...
 - Extreme liquidity has led to “over-investment” in commodities (especially oil) as inflation hedge
 - Volatility in financial sector has spread into commodity markets
- Of energy and droughts...
 - Markets continue to adjust to ethanol
 - Cereal grains (wheat) prices not driven by ethanol, but global weather events of late



Mama Mia!!



But Cotton is Not Alone...

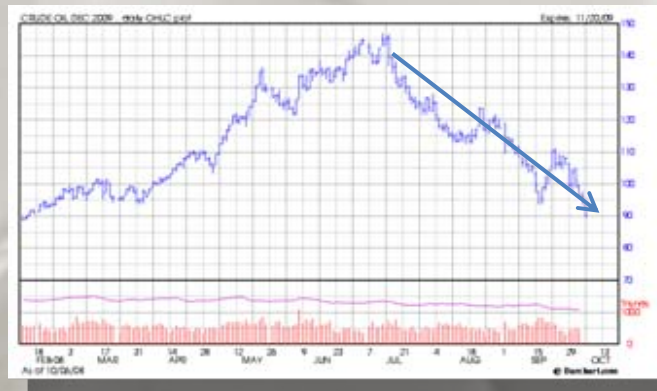
Soybeans



Wheat



Crude Oil

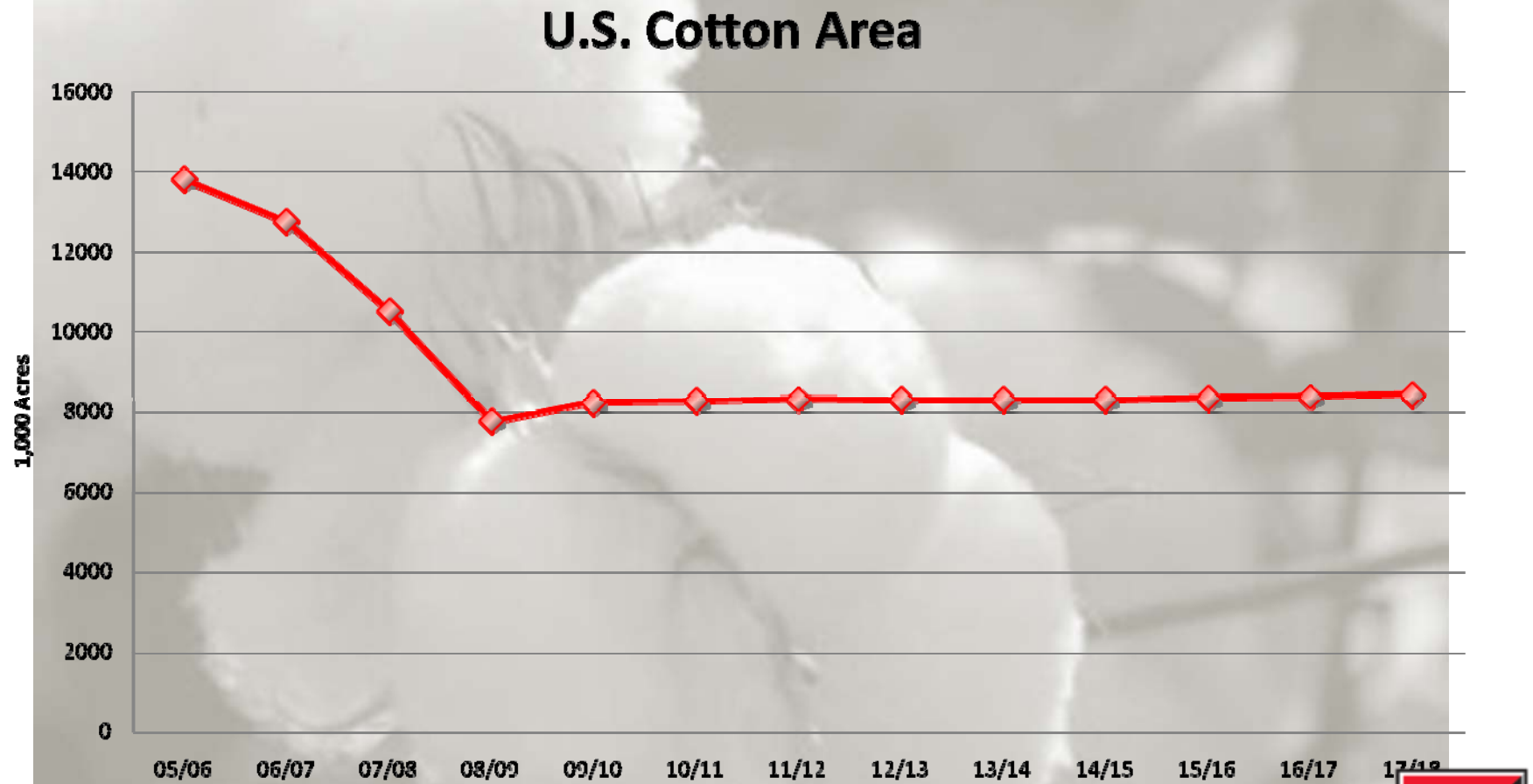


Short-Term Outlook

- Continued decline in cotton acreage...



U.S. Cotton

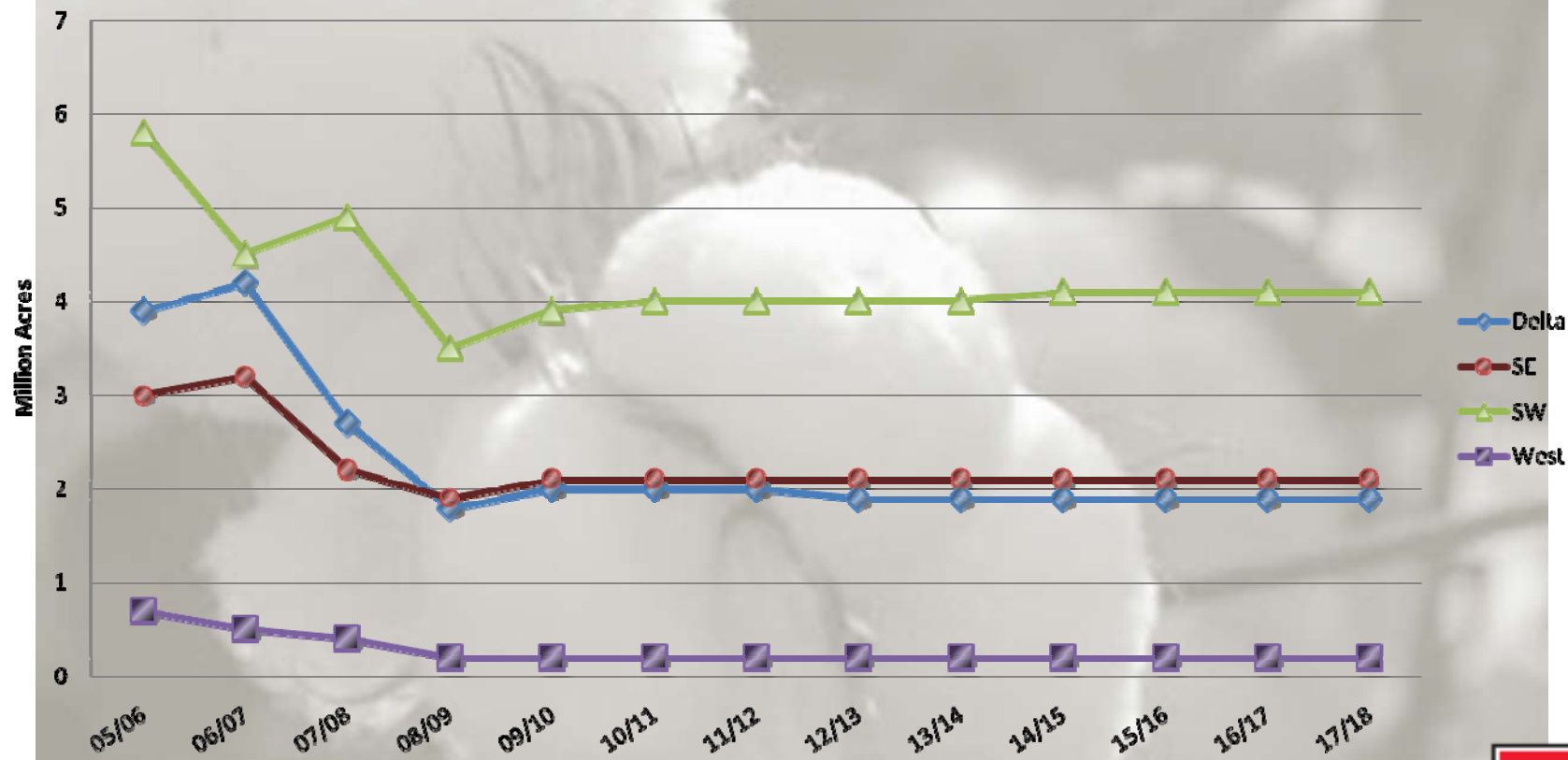


Source: CERI, TTU Baseline Projections,
October 2008



Regional Differences

U.S. Regional Production



Source: CERI, TTU Baseline Projections,
October 2008



Short-Term Outlook

- Continued decline in cotton acreage...
- We anticipate U.S. acreage leveling off at around 8.2-8.5 million acres...but,
- Critical factors
 - Credit availability
 - Cotton has a large cash outlay...but so does corn—points to a movement to wheat/sorghum in SW and soybeans in Delta/SE if credit is tight—Cotton generally has biggest “bang for the buck” in local economies
 - Other macro factors such as inflation/recession that affect general expectations
 - Only hope that pullback in petroleum will lead to some pullback in input prices



INTERNATIONAL MARKETS

CERI October 2008 Preliminary Baseline Results

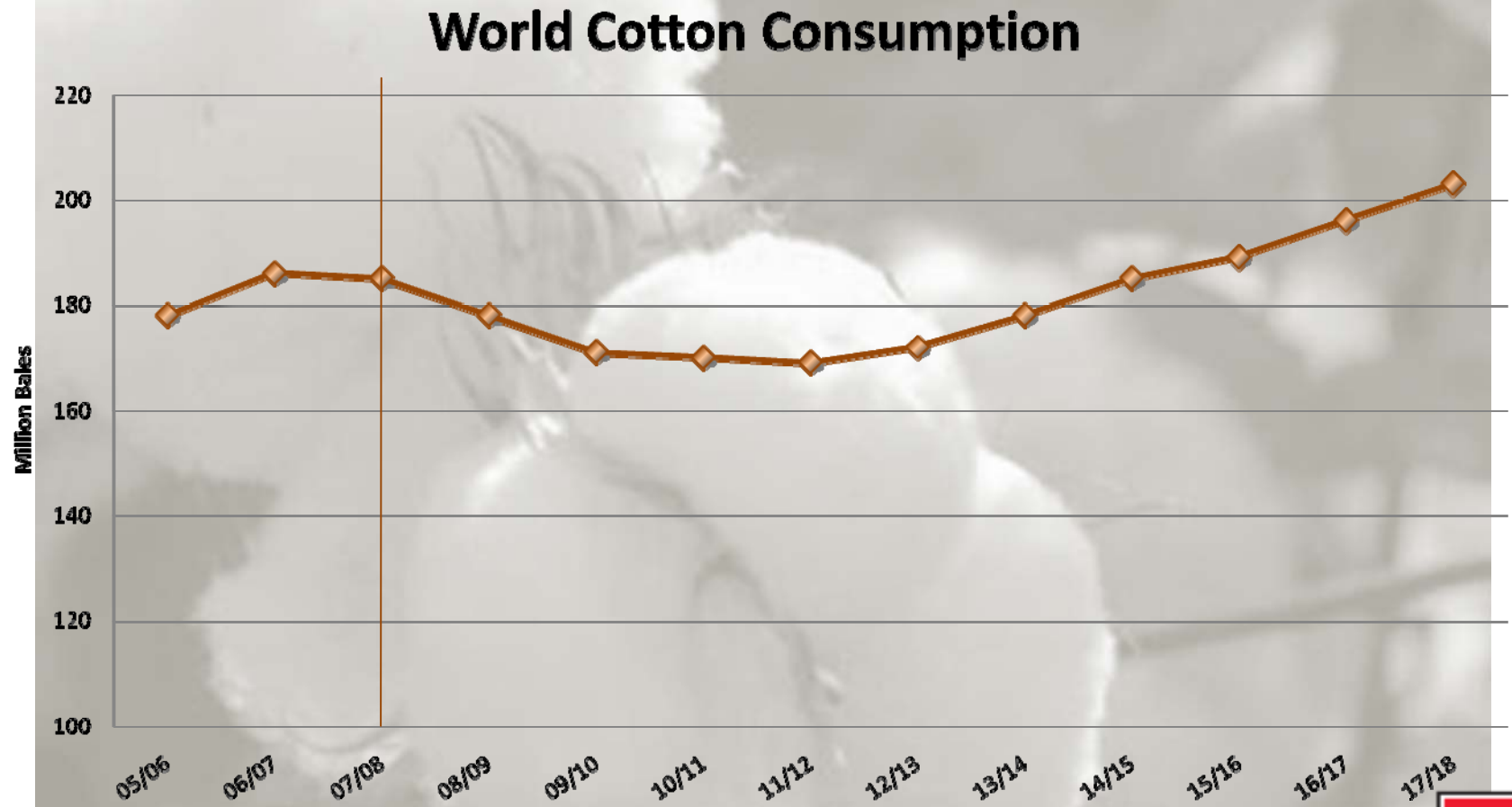


Overall Picture

- Short-term weakness
 - Same weakness in U.S. markets for global markets
- Longer-term recovery
 - Depends on speed of economic recovery...we are using 2-3 year time period for return to historic growth levels



Global Consumption



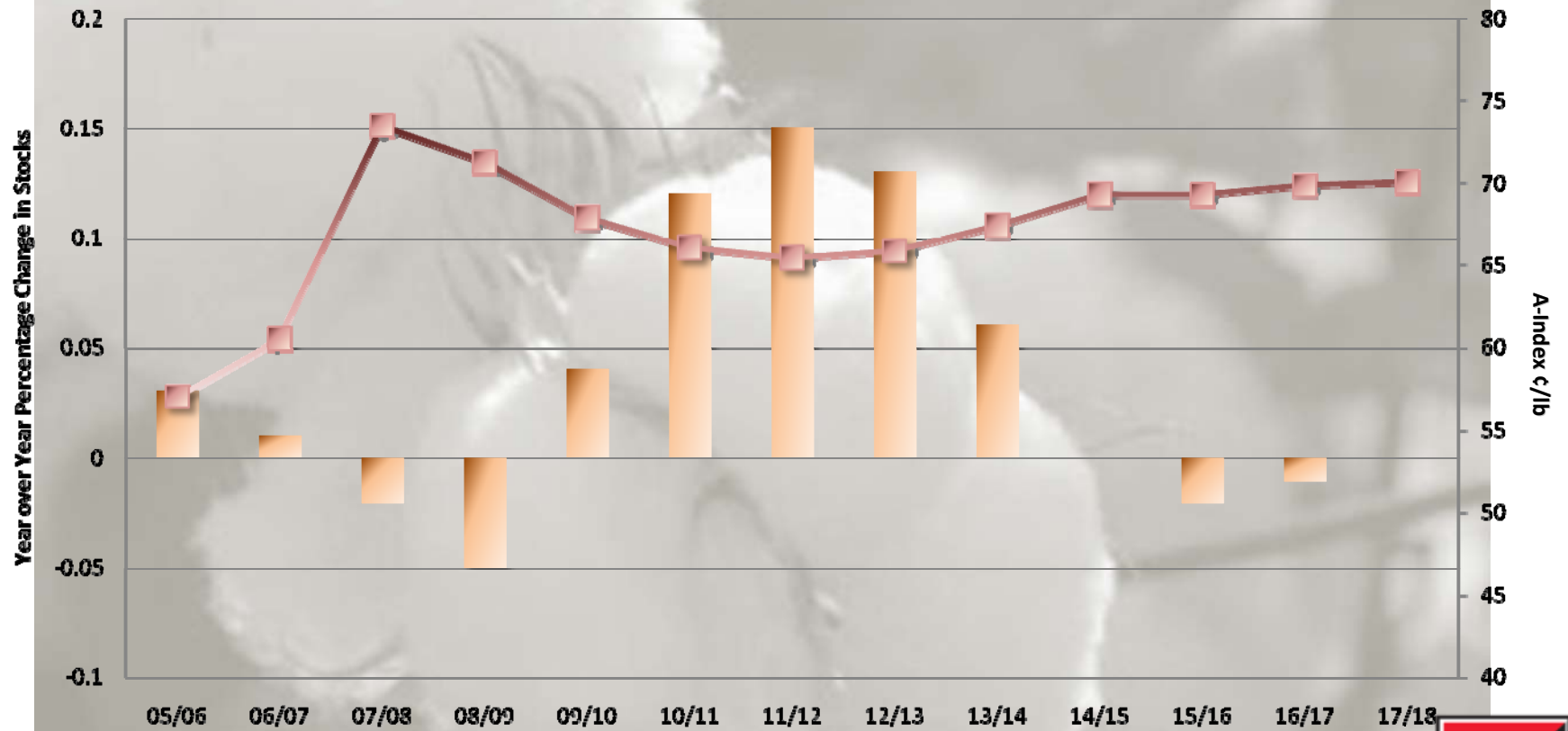
Global Consumption

- While overall economic recovery in 2-3 years, some lag in overall demand recovery
 - Important to note that consumer demand for cotton products tends to be **more responsive to recessionary forces** than other commodities; cotton products are, for all intents and purposes, durable goods
- Anticipate some stock build-up, leading to some drag on price recovery



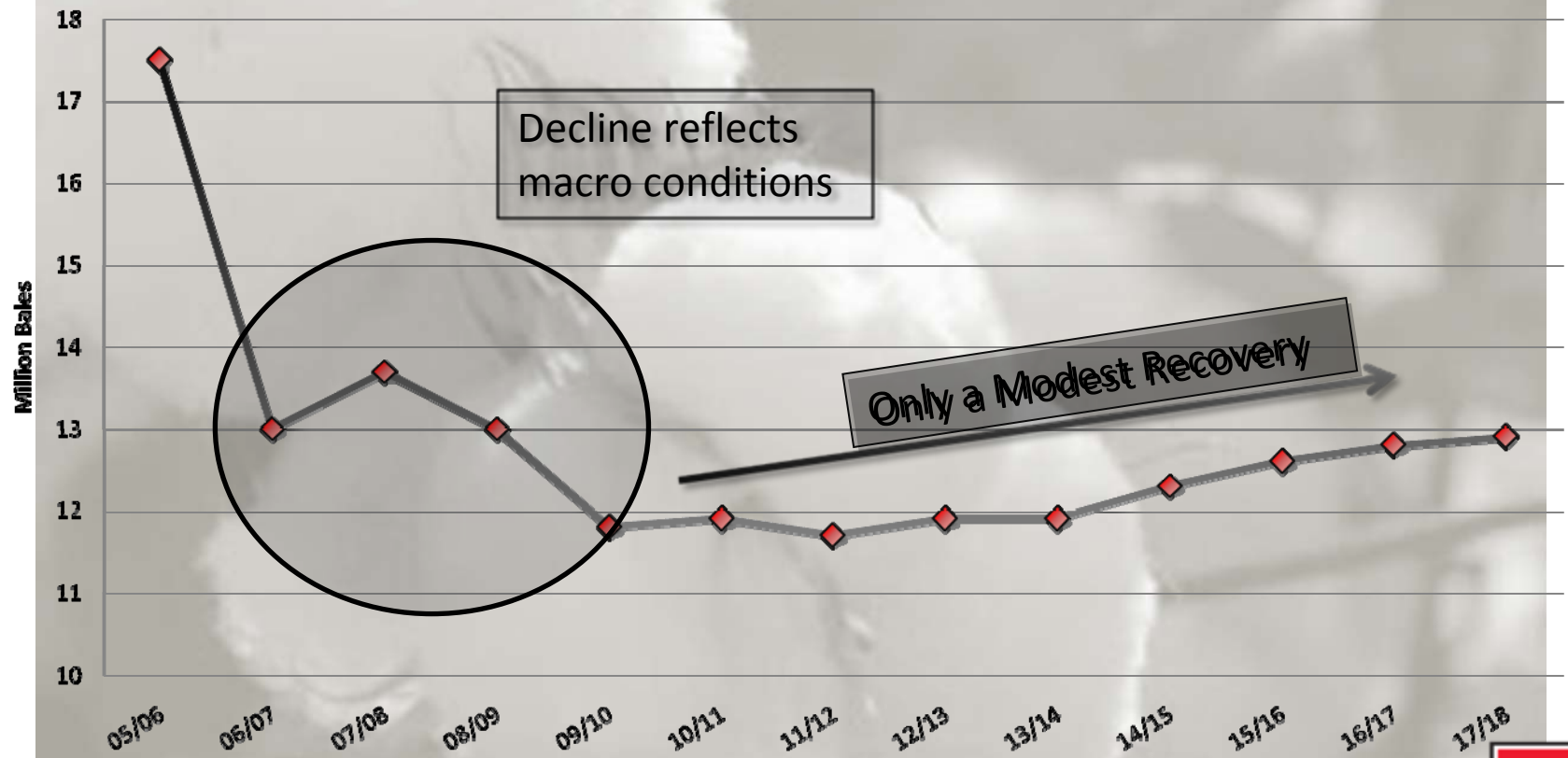
A Story of Stocks

Price and Stocks



Exports

U.S. Cotton Exports



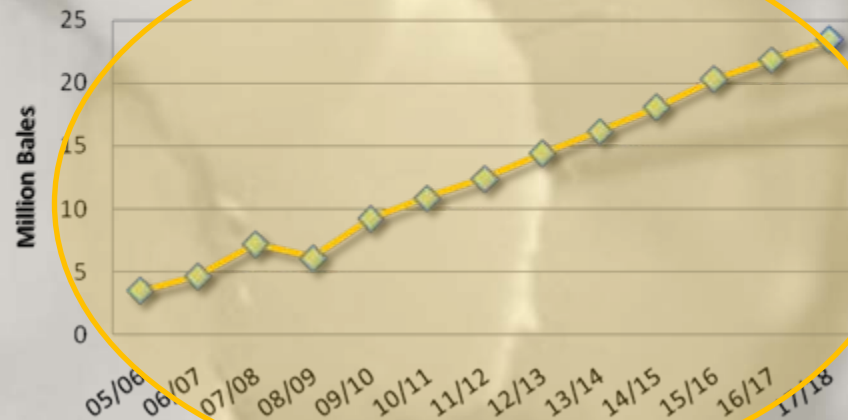
Export Competition

Brazil Exports



Assumes only modest yield growth in India—widespread adoption of Bt may mean we are underestimating growth, but assumed growth may also be optimistic; extreme uncertainty.

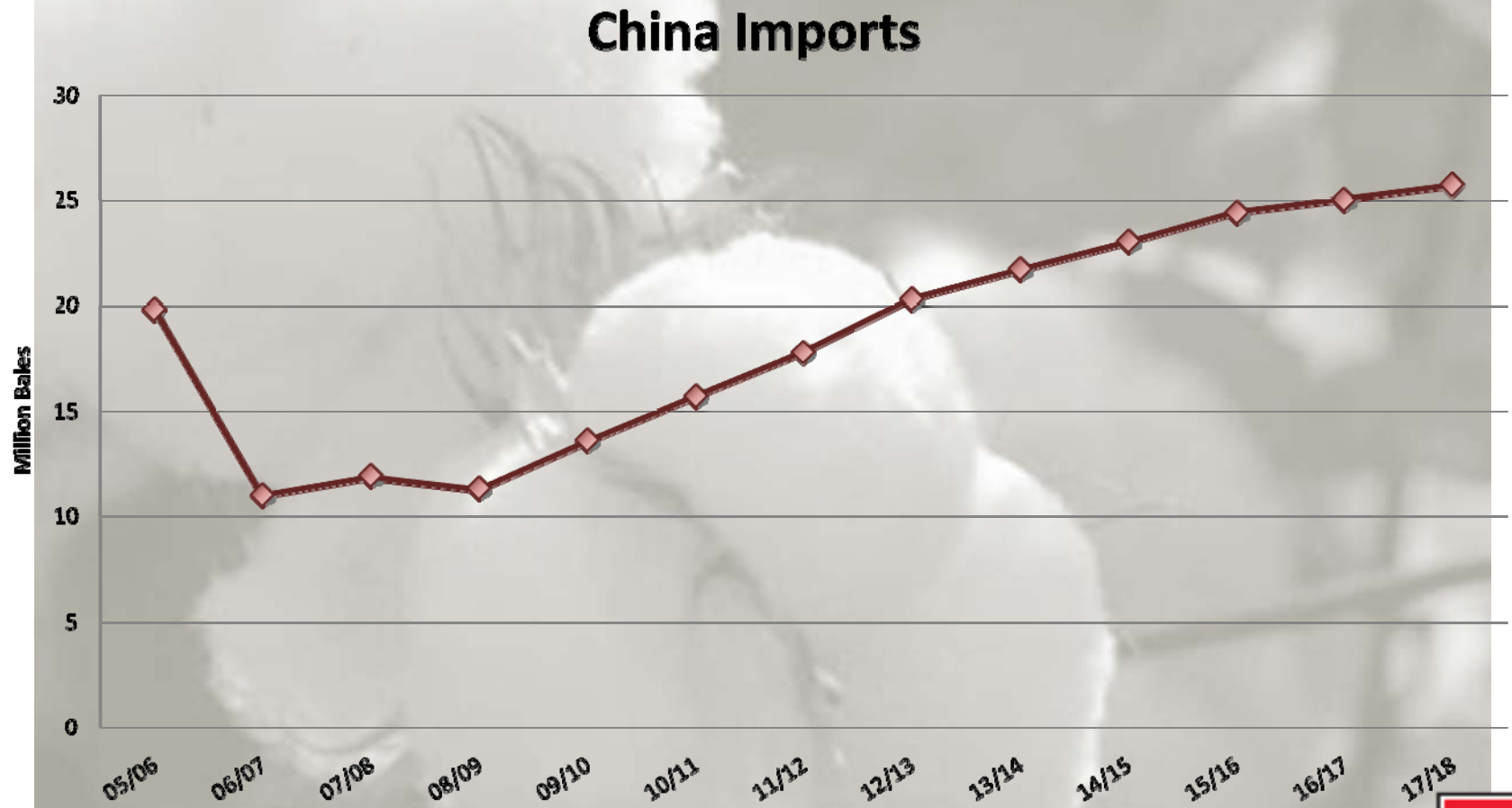
India Exports



India will overtake U.S. in exports in **2011**.



Some Good News...



Concluding Comments

- Short-term weakness, but longer-term recovery
- Lack of credit will exacerbate decline in cotton acreage; result in modest impact on local communities
- Cotton still adjusting to new realities of bio-fuels and decline of textile industry
 - Substantial loss of cotton infrastructure; especially in Delta region
- Southwest cotton still positioned to be globally cost competitive

