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

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

Wheat has 113 days of use on hand, slightly above its 20 year average.
U.S. Corn Disappearance

Million Bushels

Source: USDA WASDE, 8/12/2015
U.S. Sorghum—The Bright Side?

Million bushels

USDA, WASDE, 8/12/15
U.S. Wheat Price

MY Avg Price

Pre WWI

WWI to WWII

Post WWII

World Trade

Biofuel Era

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

Lbs./Population

Source: USDA/ERS/WASDE
**2015 Balance Sheet**

<table>
<thead>
<tr>
<th>U.S. Cotton Balance Sheet for 2015/16</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td><strong>Supply</strong></td>
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<tr>
<td>Planted Acres (mil.)</td>
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<tr>
<td>Havested Acres (mil.)</td>
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<td>Yield (lbs./ac.)</td>
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<td><strong>Beginning Stks.</strong></td>
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<td><strong>Production</strong></td>
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<td><strong>Imports</strong></td>
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<td><strong>Total Supply</strong></td>
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<td><strong>Disappearance</strong></td>
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<td>Mill Use</td>
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<td>Exports</td>
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<tr>
<td><strong>Total Domestic Use</strong></td>
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<tr>
<td>Unaccounted</td>
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<tr>
<td><strong>Ending Stks.</strong></td>
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<tr>
<td><strong>Ending Stks./Use</strong></td>
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</tbody>
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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

Stable Carryover ('95, '97, '98, '99)

Smaller Carryover ('89, '90, '93, '94, '02, '03, '09, '13)

Larger Carryover ('91, '92, '96, '00, '01, '04, '05, '06, '07, '12, '14)

Dec'15 Settlement Price (daily)
‘15 and ‘16 Price Behavior


Dec. ‘15

Dec. ‘16
Chinese Stocks

China’s plan for selling 1M tonnes during Summer 2015 represents a 9% year-over-year reduction.
Chinese Stocks and U.S. Price

![Graph showing the comparison between Chinese stocks and U.S. price trends from 2014/15 to 2021/22. The graph indicates average values with different lines representing different scenarios: Baseline, 1% decrease from baseline, 5% annual decrease, and 10% annual decrease.]
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.
Points to a much slower drawdown

And a higher average price
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