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# TIMELY INFORMATION

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### **Can or Will The World Produce 100 Million Bales of Cotton in 2004?**

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As spring is just around the corner, farmers across the cotton belt are getting ready to put in another crop. Most have handled marketing for the '03 crop, and have been blessed with a respectable harvest and a decent price, for once. However, as we look to the year ahead, with an Adjusted World Price (AWP) around of 64 cents, you have to wonder what lies ahead. Is it possible for farmers around the world to produce 100 million bales of cotton in 2004? If they did, what would it do to the price of cotton?

If you look at the long-term chart of world cotton production, you can see that we have been on an upward trend for a long time. Over the past 20 years or so, the trend has been for world cotton production to increase about a million bales each year. Since we have produced over 90 million bales 5 times since 1990, you have to figure it's only a matter of time before we go over 100. It could be this year. USDA reported 2002 production at over 98 million bales. If we produced that much in 2002 when prices were awful, wouldn't cotton production be sure to increase a whole lot now? After all, the AWP has nearly doubled.

However, if you look at likely 2004 production on a country-by-country basis, you may come to the conclusion that many of the major cotton producers are not really in a position to greatly increase production. They probably won't plant a lot more cotton, and ultimately the weather during the growing season will have more impact on cotton production in 2004 than the current high price.

There are about 80 countries in the world that grow cotton, but major cotton producing areas in the world are as follows: China, US, Former Soviet, Pakistan and India, Australia, Brazil, French Africa, and Turkey-Egypt. Of those, only 3 (maybe 4) have shown in recent years the inclination or potential to radically increase production in times of high prices. Production trend is downward on average in the Former Soviet States, and is not likely to reverse. Production is stagnant in Pakistan, India, and Turkey-Egypt. While wildly erratic, production in China (assuming the numbers they report actually reflect what is happening there, a big assumption) will go about 20 million bales no matter what.

Brazil has been increasing production at a rapid rate. The trend in Brazil over the last decade is up at over 100,000 bales per year. Last year, however, as prices increased, Brazilian cotton production increased a million bales in a single year. You have to assume a further increase. Thankfully, Brazil is still a relatively "small" producer at 5 million bales, but it all goes for export and the potential is there for Brazil to compete in cotton production as they do in the soybean market. On the positive side, Brazilian farmers are in the middle of a growing season right now, and they will not get a chance to affect future plantings until next fall. Also, they are getting ready to harvest some \$8 soybeans, which will limit their appetite for 60-cent cotton. Brazil is one of the eight cotton producing countries in the world that have increased production over 100% since 1995, but the total market share of these 8 countries is only 8%.

Australia is another southern hemisphere country that could increase production. Australia produced over 3 million bales per year just a few years ago. During recent low prices, Australian production shrank to less than 2 million bales. As prices remain strong, Australian cotton will again compete in the export market. Also, they are looking at good prices this spring as they gear up for their harvest, but will have to wait until fall to plant the next crop. Their planting intentions could have a big impact on price, but whatever that impact, it is delayed. That increase in acres won't show up as production until spring of 2005.

French Africa is another newcomer to world cotton trade. Between 1995 and 2002, production in these countries increased nearly 40%. Again, total production is less than a million bales, and Africa is still a minor player in the world cotton market. However, it is a "northern hemisphere" crop, mostly, and can impact us more directly. Also, this cotton is for trade, so we compete with these countries for exports. You have to question the capacity for further expansion here when production has already expanded so rapidly. At some point you have to think the capacity of the country to handle more cotton may be reached. Just remember the talk here in the US about being able to handle 10 million bales of exports. We doubted that the infrastructure was up to the job. The same things apply there. Can they get enough seed, fertilizer and chemicals? Are there enough gins? Can it be loaded on ships in a timely manner? These questions are important.

Finally farmers here in the US certainly have the capacity to increase production, but with soybeans, corn, and to some extent peanut prices as favorable as they are, only a slight increase in cotton acreage is likely.

The bottom line is that weather, not farmer intentions, will determine if the 2004 cotton crop will exceed 100 million bales. That's certainly nothing new. But production, or supply, is only half of the price-determination equation. The other question is that if the world produced 100 million bales in 2004, what would demand make of it.

That's a question for the next column, but I will just say here that I think the market is ready for it. My outlook on 2004 is that consumption will again exceed supply, ending stocks will fall, and prices will remain strong. Having said that, I must note that the market is offering an attractive booking price, and that farmers can provide a price floor or safety net well above the loan rate, and use Call options to participate in further price strengthening during the crop year, if they so desire. This also holds for corn and soybeans.