

Agricultural Outlook Forum 2010

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THE UNITED STATES AND WORLD COTTON OUTLOOK

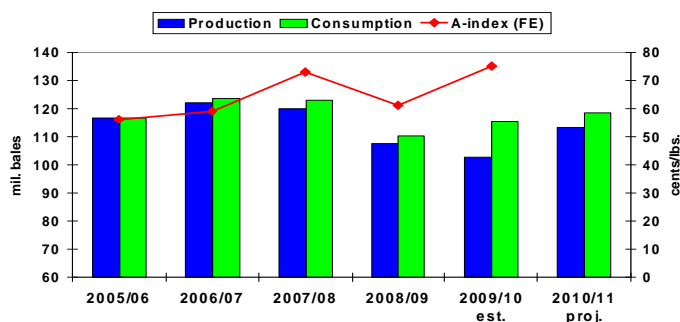
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Introduction

A combination of lower production and higher consumption is reducing world cotton stocks by an estimated 17 percent in the 2009/10 marketing year. World production fell for the third consecutive season as credit problems, higher returns for alternative crops, and a weak economic outlook depressed cotton area; at the same time, adverse weather, especially in the United States and India, reduced yields. In contrast to production, global consumption has rebounded, growing an estimated 5 percent, as the world economy recovered from the financial crisis and ensuing recession of 2008-2009. With world stocks expected to fall sharply, both world and U.S. prices have risen. The A-index has averaged just over 70 cents per pound for August-December of 2009 and has exceeded 80 cents as of mid-February. The U.S. season average price received by producers for upland cotton is currently forecast at 62 cents per pound, 30 percent above last season.

For 2010/11, both production and consumption are forecast to rise, but production gains are unlikely to keep pace with consumption, and world stocks are projected about 2.5 million bales lower. World production is projected to increase more than 10 percent to about 113.5 million bales, as both area and yield show gains from the 2009/10 levels. World consumption is anticipated to continue its recovery, albeit at a slower growth rate of about 2.5 percent, reaching 118.5 million bales. For the United States, production of 16.0 million bales is projected, 3.6 million bales above 2009/10, but higher offtake will absorb the increased supply, leaving ending stocks nearly unchanged. The U.S. season average price is projected to rise to 64 cents per pound as continued tight supplies relative to demand will be supportive.

**World Production, Consumption, and Prices
2005/06 through 2010/11 proj.**

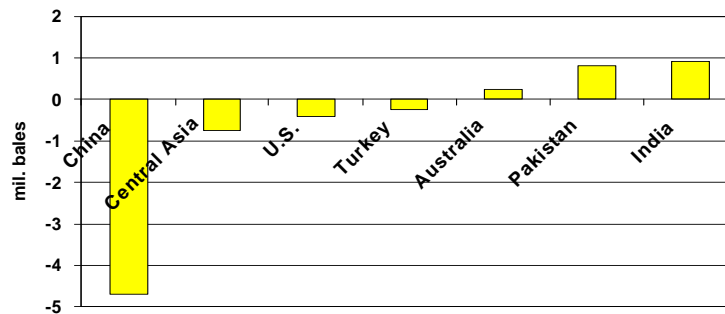


World Cotton Situation, 2009/10

World Cotton Production, 2009/10

World cotton production in 2009/10 is estimated at 102.7 million bales, down 4 percent from the previous year and the third consecutive year of decline. The 2008 global financial crisis, continued strong prices of competing crops, and rising costs of production constrained cotton area in some major producing countries. World 2009/10 harvested cotton area is expected to decline 1 percent to 30.4 million hectares from the previous year. If realized, this will be the lowest area in more than two decades. Global yield is estimated at 734 kg/ha, down 3 percent from a year earlier, as yields are below trend in India, the United States, and Central Asia.

Estimated Changes in World Production, 2009/10 compared with 2008/09



China, the world's leading cotton producer is expected to produce an estimated 32 million bales in 2009/10, down 13 percent from a year earlier and the largest year-to-year decline in 17 years. Availability of farm labor and limited mechanization of cotton production remain a serious constraint. Although the Chinese authorities have implemented support programs for cotton growers, farmers were disappointed by lower prices received for the 2008 crop, and some opted for food crops with similar government support and higher market prices. China's cotton area is estimated to decline 13 percent to 5.3 million hectares, representing the lowest cotton acreage since 2003/04. Cotton yield is estimated at 1,327 kg/ha, about even with the previous year.

India's production in 2009/10 is estimated at 23.5 million bales, a 4-percent rebound from the preceding year. Area increased 9 percent to a record 10.3 million hectares, as government purchases of 2008-crop cotton above prevailing market prices encouraged farmers to expand acreage. The erratic monsoon also boosted cotton area because delayed moisture favored cotton over some alternative crops. Some of the area increase was offset by reduced yields due unfavorable conditions, which delayed harvesting and damaged the crop in parts of Maharashtra, Gujarat, and Andhra Pradesh. Despite widespread adoption of Bt cotton, yield in 2009/10 was estimated at 499 kg/ha, down 5 percent from the previous year.

Pakistan's production in 2009/10 is estimated to rise 9 percent to 9.8 million bales, indicating a reversal in recent years' declining production trend. Area in 2009/10 is estimated at 3 million hectares, up 3 percent from the previous year. Yield is expected to rise 5 percent to 711 kg/ha in 2009/10.

Brazil's 2009/10 production is estimated at 5.6 million bales, up slightly from the previous year when output fell due to the credit crisis, higher returns on alternative crops, and rising input prices. Cotton area, which has been declining in recent years, is estimated at 820,000 hectares in 2009/10, down 3 percent from a year earlier. While area fell, the yield is forecast to rise due to improved growing conditions.

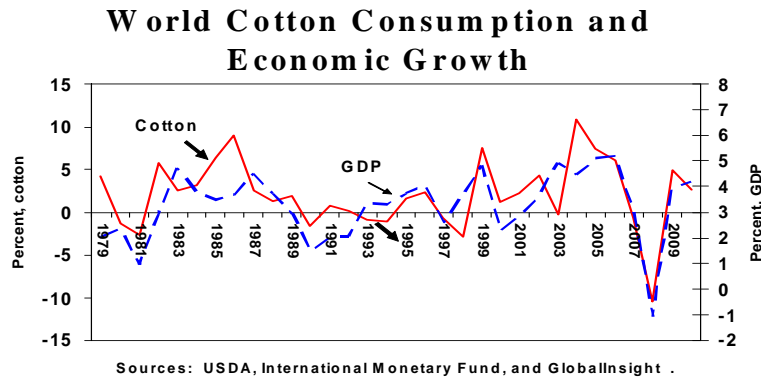
Central Asia's 2009/10 production is estimated to decline 10 percent to 6.4 million bales from the previous year, as the region's government reduced targets for cotton area due to weak prices and excessive stocks accumulated in 2008/09. Yields improved from the previous year but remained below average due to cool, wet weather at planting time.

Australia's production in 2009/10 is estimated to rebound 17 percent to 1.75 million bales, strengthening the upturn in production which began in 2008/09 as irrigation conditions improve. Area is estimated at 195,000 hectares, up 19 percent from the previous year. Cotton yields in Australia rank as the world's highest and the average yield is estimated at 1,954 kg/ha in 2009/10, marginally below last year.

World Cotton Balance Sheet

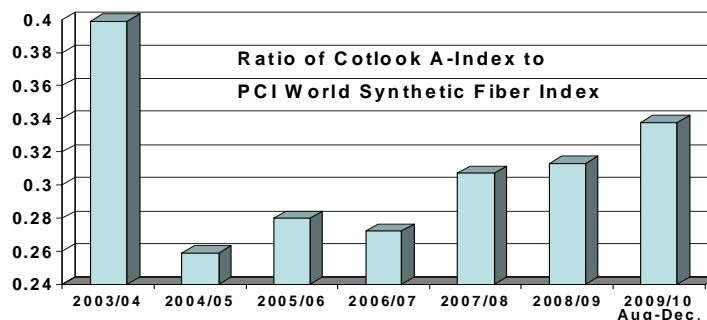
	<u>2008/09</u> (mil. bales)	<u>2009/10</u> (mil. bales)	<u>Change</u> (%)
Beginning Stocks	62.7	62.4	-0.4
Production	107.5	102.7	-4.4
Imports	<u>30.1</u>	<u>33.8</u>	<u>12.3</u>
Total Supply	200.2	198.9	-0.6
Exports	30.2	33.8	11.7
Consumption	<u>110.1</u>	<u>115.5</u>	<u>4.9</u>
Total Use	140.3	149.3	6.4
Residual	-2.6	-2.5	
Ending Stocks	62.4	52.1	-16.6
Stock/Consumption %	56.7	45.1	
A-Index (cents/lb.)	61.0	75.0	

World Cotton Consumption, 2009/10



World 2009/10 cotton consumption is estimated at 115.5 million bales, reflecting above-average growth of 5 percent from 2008/09. Strong growth in cotton consumption is characteristic of periods of economic recovery, as restocking of inventories throughout the textile supply chain magnifies the effect of a rebound in retail demand. The restocking effect is likely to be especially pronounced in 2009/10, due to the very sharp decline in world GDP, which fell 3.5 percent from its peak in the second quarter of 2008 to its trough in the first quarter of 2009 (Global Insight). The decline was followed by a rapid recovery through the end of the calendar year, which exceeded earlier expectations, particularly in the developing Asian economies. However, despite this season's growth, world consumption remains at its second-lowest level since 2004/05. The main factors contributing to this weakness are continued high unemployment rates and weak household balance sheets, especially in the developed economies, and higher cotton prices relative to polyester. Based on data for August-December 2009, the ratio of the Cotlook A-index to the PCI world synthetic fiber index is estimated at 34 percent, compared with 31 percent in the preceding year. If maintained through the rest of the marketing year, the cotton-polyester price ratio will be the highest in six years.

Cotton-to-Polyester Price Ratios: 2009/10 Reaches Six-Year High



Mill use is expected to rebound in several cotton consuming countries in 2009/10. Consumption in China, the world's leading cotton consumer, is expected to rise 8 percent from the previous year to 47.5

million bales. China's aggressive economic stimulus program and an impressive expected economic growth of 10 percent in 2010 are expected to rejuvenate domestic demand for the fiber. India's 2009/10 cotton consumption is estimated at a record 19.2 million bales, up 7 percent from a year earlier. Pakistan is expected to increase mill use by 4 percent from the previous year to 12 million bales. Turkey is expected to raise its 2009/10 consumption by 2 percent to 5.1 million bales from the preceding year. In Brazil, 2009/10 mill use is expected to remain unchanged at 4.3 million bales. Bangladesh's mill use in 2009/10 is estimated at 4 million bales, up 7 percent from the last season. Cotton consumption in Bangladesh has risen sharply since 1993/94, and Bangladesh now ranks as the world's fifth largest consumer, close behind Brazil.

China's Domestic Consumption and Trade

China Cotton Balance Sheet

	<u>2008/09</u> (mil. bales)	<u>2009/10</u> (mil. Bales)	<u>Change</u> (%)
Beginning Stocks	20.5	22.4	9.1
Production	36.7	32.0	-12.8
Imports	<u>7.0</u>	<u>9.0</u>	<u>28.6</u>
Total Supply	64.2	63.4	-1.3
Exports	0.1	0.1	0
Consumption	<u>44.0</u>	<u>47.5</u>	<u>8.0</u>
Total Use	44.1	47.6	7.9
Residual	-2.3	-2.5	11.1
Ending Stocks	22.4	18.3	-18.2
Stock/Use %	50.8	38.5	

China's cotton production fell sharply in 2009/10 at the same time that consumption rebounded from recession-driven lows. Supplies to mills in the fall of 2009 were further constrained by the government's "macro-control" policies, which restricted imports while making cotton available by auction from the national reserve. As free stocks tightened, mills in China purchased about 12 million bales from the reserve between May and December 2009 at prices which rose to the equivalent of more than \$1.00 per pound at their peak. The drawdown of reserve stocks and surge in prices prompted the government to relax import restrictions, releasing a total of about 8.7 million bales of new import licenses in January 2010. China's imports are forecast to rise 2 million bales to 9 million in 2009/10. China's stocks are projected to decline about 4 million bales to 18.3 million, of which an unknown amount is still held in reserve by the government.

World Trade, Ending Stocks, and Prices

A turn-around in world consumption coupled with the third consecutive smaller global crop has helped raise total 2009/10 world import demand by 12 percent to 33.8 million bales. A 2-million bale increase in estimated imports by China accounts for over half of the world increase. With U.S. exportable supplies at their lowest level in nearly a decade, U.S. exporters were unable to capture any of the gains in world trade, and U.S. exports fell to their lowest level since 2002/03.

The world ending stocks forecast of 52.1 million bales for 2009/10 is down about 17 percent from 2008/09. Stocks are tightening in nearly all of the world's major cotton-producing and cotton-consuming countries.

The A-index (Far East) has averaged 70 cents per pound for August 2009-January 2010, compared with 61 cents for 2008/09 and 73 cents for 2007/08, and has exceeded 80 cents per pound as of mid-February.

U.S. Cotton Situation, 2009/10

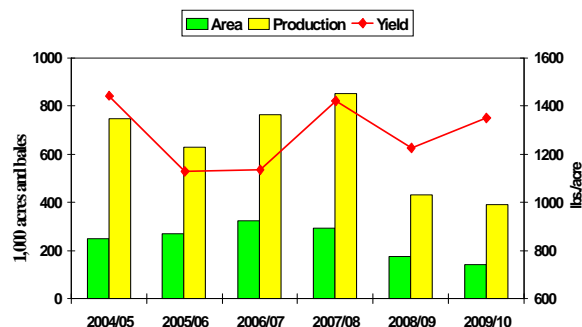
Area and Production

U.S. Cotton Area, Abandonment, Yield, and Production

		<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>
Planted acres	mil. acres	14.2	15.3	10.8	9.5	9.1
Harvested acres	mil. acres	13.8	12.7	10.5	7.6	7.7
Abandonment rate	%	3.1	16.6	3.1	20.1	15.9
Yield/harvested acre	lbs./acre	831	814	879	813	774
Production	mil. bales	23.9	21.6	19.2	12.8	12.4

U.S. cotton production in 2009/10 is estimated at 12.4 million bales, compared with last season's 12.8 million bales. The 2009/10 season marks the lowest U.S. output since 1989/90, resulting largely from the smallest planted area since 1983/84 and the lowest national yield per harvested acre since 2003/04. Despite recent technological advances—including new varieties, improved irrigation, and precision farming techniques—that have boosted U.S. yield potential, unfavorable growing conditions in some key regions depressed yields. Southern Texas experienced extreme drought conditions throughout the 2009 growing season. Meanwhile, spring rains helped alleviate the drought in the Southeast, but record harvest precipitation hurt Delta cotton quality and yields, while increasing abandonment. The U.S. cotton yield is estimated at 774 pounds per harvested acre in 2009/10, 39 pounds below last season and more than 100 pounds below the 2007/08 record. Upland production is currently estimated at 12.0 million bales, with an average yield of 763 pounds per harvested acre. Although the 2009/10 extra long staple (ELS) cotton average yield is estimated higher at 1,353 pounds per harvested acre, the ELS crop is projected to be the lowest since 2000/01, at 390,000 bales, due to a reduction in area.

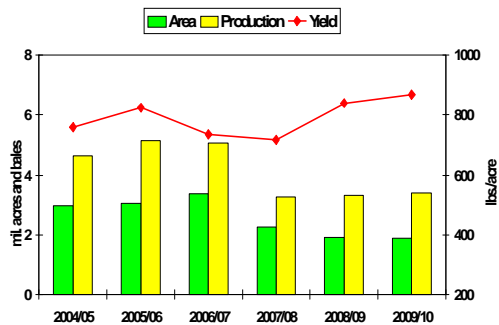
ELS Cotton Area, Production, and Yield 2004/05 to 2009/10



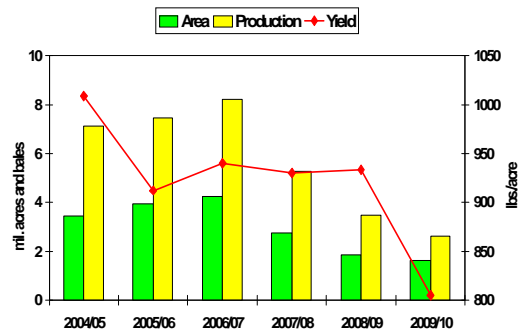
Compared with last season, the 2009/10 regional upland cotton crop was mixed. The Southeast produced a 2009 crop slightly above a year earlier. Both planted and harvested area in 2009 were marginally below 2008, at approximately 1.9 million acres. However, the region produced back-to-back record yields. For 2009, a yield of 869 pounds per harvested acre is estimated, 30 pounds above a year earlier, resulting in a Southeast crop of nearly 3.4 million bales, or 2 percent higher.

In 2009, the Delta cotton crop reached only 2.6 million bales, the smallest since 1983/84, largely due to a third consecutive acreage decline to a record low of 1.6 million acres. Also contributing to the lower output this season was a higher than average abandonment rate (4 percent) and a lower than average yield (805 pounds per harvested acre).

Southeast Region
Upland Cotton Area, Production, and Yield
2004/05 to 2009/10



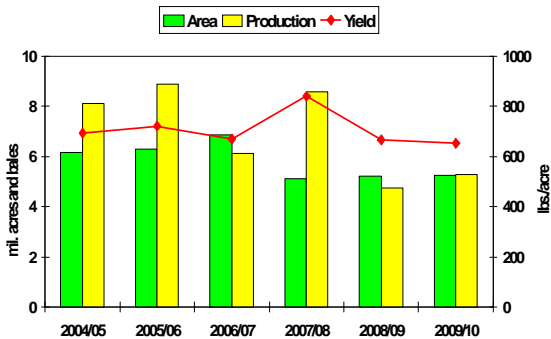
Delta Region
Upland Cotton Area, Production, and Yield
2004/05 to 2009/10



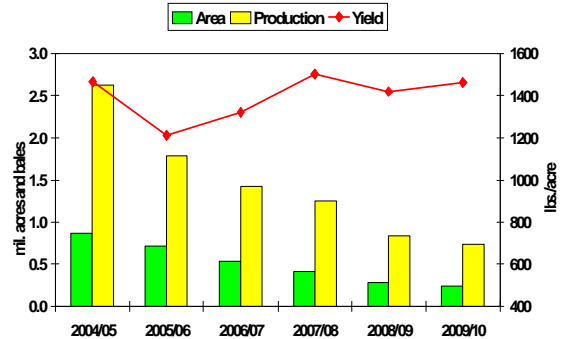
In the Southwest, upland production is estimated at 5.3 million bales, 535,000 bales (11 percent) above 2008/09 but 2 million bales below the 5-year average. The declines experienced over the last two seasons have resulted from above-average abandonment rates and below-average yields. The regional abandonment in 2009/10 is estimated at 26 percent while the yield per harvested acre is reported at 653 pounds.

In the far West, upland area declined for the fifth consecutive season to 247,000 acres—the region's lowest since 1922/23—as upland area in the West continued the downward trend experienced since the early 1980s. However, an above-average yield of 1,462 pounds per harvested acre helped moderate the region's decline this season. The upland crop in the West totaled only 740,000 bales in 2009/10, the lowest since 1945/46; the region accounted for only 6 percent of the total upland crop this season, about half the level of just 5 years ago. The ELS crop remains concentrated in the far West. Planted area in 2009/10 was at its lowest since 1987/88, while the yield was the third highest on record.

Southwest Region
Upland Cotton Area, Production, and Yield
 2004/05 to 2009/10



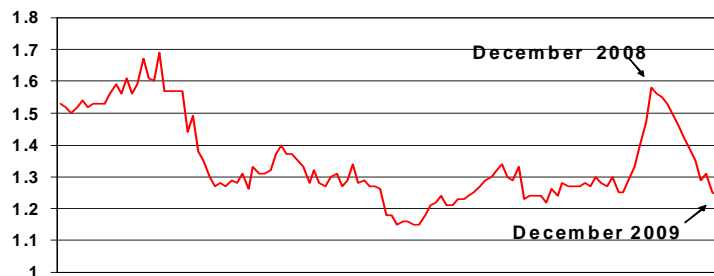
Far West Region
Upland Cotton Area, Production, and Yield
 2004/05 to 2009/10



Domestic Mill Use

Domestic cotton mill use is forecast at 3.4 million bales for 2009/10, 200,000 bales or 6 percent below the 2008/09 estimate. The current mill use projection is about half the level of cotton consumed by U.S. mills just 5 years ago and would be the lowest in over a century. However, with indicators suggesting that the general U.S. economy began improving late in calendar year 2009, demand for cotton and cotton products also has seen some improvement. U.S. cotton mill use expanded during the last quarter of 2009 and expectations are for stable to further improvement during the first half of 2010 as textile product inventories are replenished.

U.S. Textile Inventory-to-Shipment Ratios
 January 2000-December 2009

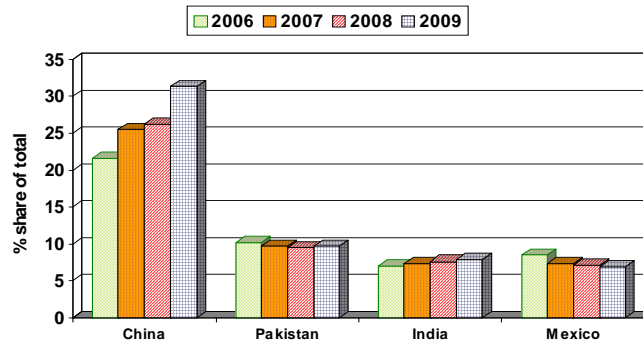


Source: U.S. Bureau of the Census

The declining trend in U.S. cotton mill use since its 1997/98 peak has resulted from increased competition of imported textile and apparel products. When the final apparel quotas were lifted in January 2005, the U.S. industry faced additional pressure from imported products, particularly from China. In calendar year 2005, China replaced Mexico as the leading supplier of cotton textile and apparel products to the United States, accounting for about 19 percent of the 2005 total. U.S. imports are increasingly made in Asia, as China's share surpassed 31 percent in calendar year 2009, with Pakistan continuing to account for about 10 percent of the U.S. market. During 2009, India's shipments to the United States accounted for nearly 8 percent of total cotton product imports, while Mexico's share

remained at about 7 percent. Bangladesh and Vietnam have also become important suppliers to the U.S. market in recent years, contributing 6 percent and 5 percent, respectively, in 2009.

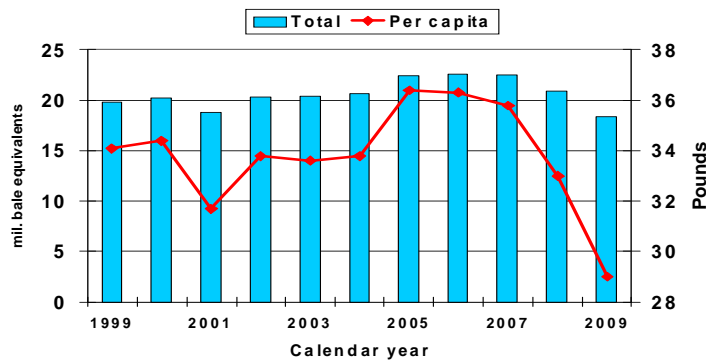
**U.S. Cotton Textile Imports
Share by Origin from Leading Suppliers**
(raw fiber equivalent basis)



For the entire 2009 calendar year, however, U.S. cotton textile trade saw reductions for a second consecutive year. During 2009, U.S. cotton textile and apparel imports reached an estimated equivalent of 18.1 million bales of raw cotton, nearly 12 percent below 2008. In comparison, cotton product exports declined about 20 percent to an estimated 3.1 million bale-equivalents in 2009, or roughly 93 percent of domestic cotton mill use. This share continues to trend higher and is well above the 71 percent recorded just 5 years ago in 2004.

With the slow recovery from the 2008-09 U.S. recession and the ongoing changes in U.S. cotton product trade and in the domestic spinning industry, U.S. household cotton consumption, as measured by U.S. mill use plus net textile trade, is expected to decline once again in 2009/10. In calendar 2009, U.S. domestic consumption of cotton decreased to an estimated 18.3 million bale-equivalents, compared with 20.9 million in 2008. Similarly, U.S. per capita cotton consumption fell below 30 pounds in calendar 2009 for the first time since 1996.

**U.S. Domestic Cotton Consumption:
Total and Per Capita**



U.S. Cotton Balance Sheet

	<u>2008/09</u> (mil. bales)	<u>2009/10</u> (mil. bales)	<u>Change</u> (%)
Beginning Stocks	10.0	6.3	-36.9
Production	12.8	12.4	-3.2
Imports	0.0	0.0	0
Total Supply	22.9	18.7	-18.0
Exports	13.3	12.0	-9.6
Consumption	3.6	3.4	-5.2
Total Use	16.9	15.4	-8.7
Residual	0.3	0.0	
Ending Stocks	6.3	3.3	-47.9
Stock/Use %	37.6	21.4	
Farm Price (cents/lb.)	47.8	62.0	29.7

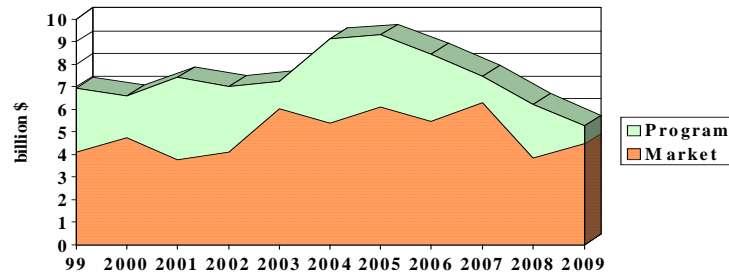
Exports and Ending Stocks

U.S. exports are forecast at 12.0 million bales, a reduction of 10 percent from 2008/09, due mainly to a significant reduction in the exportable supply. Foreign import demand is rising, as world production has fallen below consumption for the third consecutive season, and U.S. cotton is competitive in world markets. Nevertheless, the U.S. share of world trade is forecast to drop from 44 percent in 2008/09 to 35.5 percent in 2009/10. U.S. ending stocks are expected to fall to 3.3 million bales, the lowest since 1995/96. The forecast stocks-to-use ratio of 21.4 percent is the lowest since 2003/04.

Prices and Farm Income

Gross upland cotton farm income from the 2009 crop is estimated 15.3 percent below 2008 at \$5.3 billion. With respect to market income, higher prices more than offset a slightly smaller crop to raise income 16.7 percent to \$4.5 billion. Program payments are expected to fall by 67 percent as higher prices erase marketing loan benefits and greatly reduce countercyclical payments. The upland cotton marketing year price has averaged 60.5 cents per pound for August through December 2009, an increase of nearly 10 percent from the same period a year ago. Prices are expected to rise for the remainder of the season, and the 2009/10 marketing year average price is forecast at 62 cents per pound.

**Gross Cotton Farm Income
1999/2000 through 2009/10 est.**



World Cotton Outlook, 2010/11

Global cotton production in 2010/11 is projected to rise 10.5 percent to 113.5 million bales from the previous year. If realized, this will represent a sharp upturn from the consecutive declines seen in the previous three marketing years. The production forecast includes expected gains in all major cotton-producing countries. Sharply higher world cotton prices, lower prices for competing crops, easing of credit, and an assumption of normal weather will raise production in countries such as China, India, the United States, Pakistan, Brazil, and Australia. World cotton area in 2010/11 is projected at about 32 million hectares, up 5 percent from the previous year. Global yields are expected to rebound 6 percent from the previous year to 775 kg/ha.

China's 2010/11 production is forecast at 35 million bales, up 9 percent (3 million bales) from 2009/10. Area harvested is forecast to expand 7 percent to 5.6 million hectares, but to remain well below the 6.0 million hectares planted during the three years 2006-2008. Producers realized sharply higher prices from the 2009 crop relative to 2008, and the government continues policies to support cotton production, including price stabilization and seed subsidies. At the same time, however, cotton will have difficulty competing with alternative crops in some areas of eastern China due to labor shortages, strong demand for crops such as fruits and vegetables, and government subsidies for grains. China's yield in 2010/11 is projected to rise 3 percent from the previous year to 1,361 kg/ha.

India, currently the world's second-largest cotton producer, is projected to produce 25 million bales in 2010/11, an increase of 6 percent from the previous year. Planted area is expected to decline slightly from the 2009 record to 10 million hectares. Industry sources expect both domestic and foreign demand for the crop to be strong, resulting in favorable prices in the 2010/11 marketing year. Yield in 2010/11 is forecast at 544 kg/ha, an improvement of 9 percent, assuming timely and adequate monsoon rains.

Pakistan's 2010/11 crop is projected at 10 million bales, up 2 percent from the previous year, as area responds to strong demand and prices. Area is projected at 3.1 million hectares, up 100,000 hectares from a year earlier.

Brazil, the world's fifth largest cotton producer, is forecast to produce 6.4 million bales in 2010/11, up 15 percent from the previous year, as producers there respond to stronger cotton prices relative to soybeans, cotton's main competitor. The expected increase in production will come from acreage expansion, which is forecast at 950,000 hectares—up 16 percent from the previous year. Brazil's

location in the southern hemisphere gives its cotton growers better market and price information prior to planting than its northern hemisphere competitors. Brazil produced 7.0 million and 7.4 million bales of cotton in 2006/07 and 2007/08, respectively, and thus has the capacity to increase production beyond the current projection.

Central Asia is projected to produce 6.8 million bales in 2010/11, a 6-percent increase from 2009/10. Central Asian governments are likely to encourage some expansion in planted area due to rising prices and declining stocks.

The African Franc Zone (AFZ) is projected to produce 2.5 million bales, up 2 percent from 2009/10. The region continues to be gripped by socioeconomic, financial, and infrastructural malaise which has eroded production in recent years. AFZ farmers are expected to derive only limited benefits from the current high world market prices due to structural rigidities which constrain price transmission.

Australia's production in 2010/11 is projected at 2.0 million bales, up 2 percent from a year ago. With normal weather conditions, the recent improvement in water availability is expected to continue into the next crop year, enabling farmers to respond to favorable prices for cotton relative to competing crops. Australian yields, currently the world's highest, are forecast to increase 3 percent to 2,008 kg/ha from the previous marketing year.

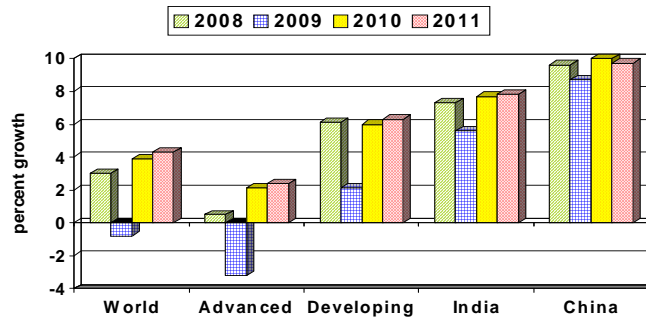
World Cotton Balance Sheet

	<u>2009/10</u>	<u>2010/11</u>	<u>Change</u>
	(mil. bales)	(mil. bales)	(%)
Beginning Stocks	62.4	52.1	-16.6
Production	102.7	113.5	10.5
Imports	<u>33.8</u>	<u>37.0</u>	<u>9.6</u>
Total Supply	198.9	202.6	1.8
Exports	33.8	37.0	9.6
Consumption	<u>115.5</u>	<u>118.5</u>	<u>2.6</u>
Total Use	149.3	155.5	4.2
Residual	-2.5	-2.5	
Ending Stocks	52.1	49.6	-4.8
Stock/Consumption %	45.1	41.8	

World Cotton Consumption, 2010/11

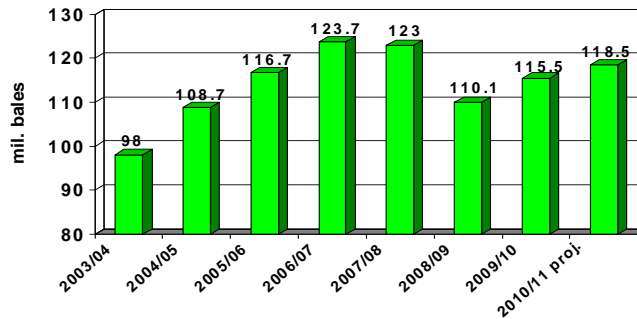
World cotton consumption is projected at 118.5 million bales, a 2.6-percent increase from 2010/11. Continued economic recovery, especially in developing countries, will boost world consumption growth modestly above the long-run average of about 2 percent.

IMF Economic Growth Projections January 2010



At the same time, cotton consumption growth will be limited by high unemployment, by limited supplies, and by higher prices of cotton relative to polyester which are likely to constrain cotton’s share of world fiber demand. The projected 2010/11 consumption level is above the most recent two recession-affected marketing years but below both the 2006/07 and 2007/08 levels.

World Consumption 2003/04 through 2010/11 proj.



World Trade and Stocks, 2010/11

World trade is expected to grow significantly in 2010/11 for the second year, reaching 37 million bales, more than 3 million bales above the 2009/10 level. Higher imports by China will be coupled with slight increases in imports by other countries.

China Cotton Balance Sheet

	<u>2009/10</u> (mil. bales)	<u>2010/11</u> (mil. bales)	<u>Change</u> (%)
Beginning Stocks	22.4	18.3	-18.2
Production	32.0	35.0	9.4
Imports	<u>9.0</u>	<u>10.0</u>	<u>11.1</u>
Total Supply	63.4	63.3	-0.1
Exports	0.1	0.1	0.0
Consumption	<u>47.5</u>	<u>49.0</u>	<u>3.2</u>
Total Use	47.6	49.1	3.1
Residual	-2.5	-2.5	
Ending Stocks	18.3	16.8	-8.5
Stock/Use %	38.5	34.2	

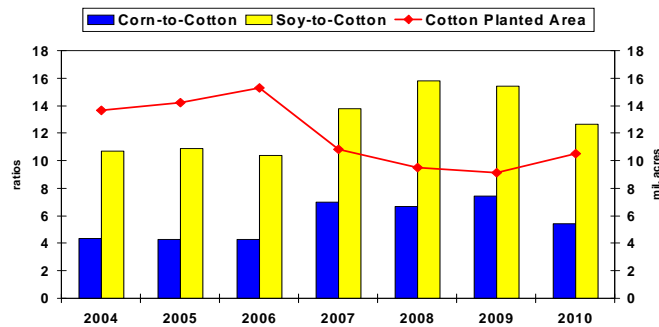
U.S. Outlook for 2010/11Area, Production, and Supply**U.S. Cotton Area, Abandonment, Yield and Production**

		<u>2009/10</u>	<u>2010/11</u>
Planted acres	mil. acres	9.1	10.5
Harvested acres	mil. acres	7.7	9.3
Abandonment rate	%	15.9	11.4
Yield/harv. Acre	lbs./acre	774	825
Production	mil. bales	12.4	16.0

USDA is currently projecting that U.S. cotton producers will plant 10.5 million acres in 2010, reversing three years of consecutive decreases. If realized, the 2010 plantings will mark the biggest year-on-year increase since 1995. Cotton planted area fell 3.4 percent in 2009 to its lowest level since 1983; as in 2008, higher prices for corn, soybeans, and wheat combined with higher input prices to constrain cotton area. Unlike a year ago, price relationships between cotton and most alternative crops are more favorable to cotton. Early industry expectations for 2010 are for gains in cotton plantings. The National Cotton Council's (NCC's) survey, released February 5, indicated that cotton area in 2010 would increase by just over 10 percent to 10.1 million acres. Since that survey, prices for grains, soybeans, and cotton

all moved lower, mirroring the rise in the U.S. dollar. More recently, cotton has rallied from its January declines, leaving relative prices more favorable to planting cotton than at the time of the NCC survey. The improvement in cotton's expected net returns relative to competing crops, a return of some acreage to cotton for rotational purposes, and relatively favorable soil moisture bode well for increased cotton planting. However, weather and price developments in late winter and early spring will still impact farmers' final planting decisions.

Harvest Futures Prices as of February Ratios of Corn and Soy to Cotton (2010 based on Feb. 15, 2010)



With prices of major commodities above their respective loan rates, 2010 planting decisions will be based mainly on expected market returns rather than government program benefits. While harvest futures prices in mid-February for corn (\$4/bu) and soybeans (\$9.25/bu) are about the same as last year, December cotton (73 cents/lb.) is up over 40 percent compared to last year. Winter wheat seedings were down 6 million acres (14 percent) in 2009 from a year ago. One million acres of that decrease were in Texas alone. In contrast with a year ago, subsoil moisture in Texas is considered adequate to excellent, an encouraging sign for cotton plantings and yields. The NCC survey indicates that cotton acreage will increase in all regions, with the largest increase for the state of Texas and the largest percentage increase in the West. An increase in California is expected as alfalfa area is reduced due to lower dairy feed requirements, and biotech Pima seed is available for the first time in 2010. On March 31, USDA's National Agricultural Statistics Service will provide its first survey-based producer intentions for 2010 crop acreage.

USDA is projecting production of 16.0 million bales, based on average abandonment of 11 percent, and a national yield of 825 pounds per harvested acre. Abandonment in 2009 was higher than average, although some Southeastern states had lower abandonment and record yields. Dry conditions in South Texas and the Delta delayed planting, while record rainfall at harvest hurt yields and quality, as well as raising abandonment, in the Delta. In addition to assumed normal weather, 2010 yields are likely to benefit from more abundant moisture, which could give the 2010 crop the foundation for a robust start. A rebound in acreage in the Delta and the West, the two highest-yielding regions, provide grounds for a higher expected yield in 2010.

If realized, the production forecast would be 3.6 million bales more than in 2009. This projected production, in combination with the current beginning stocks estimate of 3.3 million bales (down 48%), results in U.S. cotton supply in 2010/11 of 19.3 million bales, a 3-percent increase from last year.

U.S. Cotton Balance Sheet

	<u>2009/10</u>	<u>2010/11</u>	<u>Change</u>
	(mil. bales)	(mil. bales)	(%)
Beginning Stocks	6.3	3.3	-47.9
Production	12.4	16.0	29.3
Imports	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Supply	18.7	19.3	3.2
Exports	12.0	12.6	5.0
Consumption	<u>3.4</u>	<u>3.4</u>	<u>0.0</u>
Total Use	15.4	16.0	3.6
Residual	0.0	0.0	
Ending Stocks	3.3	3.4	2.7
Stock/Use %	21.4	21.2	
Farm Price (cents/lb.)	62.0	64.0	3.2

U.S. Disappearance and Farm Price

U.S. domestic mill use is projected to remain stable in 2010/11 at 3.4 million bales. U.S. consumer use of cotton will likely rise as the economic recovery continues, but U.S. mills will lose some market share to textile imports, consistent with recent trends.

U.S. 2010/11 exports are projected to rise to 12.6 million bales, an increase of 5 percent from 2009/10. Foreign stocks outside of China are projected to fall to their lowest levels since 2003/04 and, therefore, importers are likely to draw upon U.S. supplies to the limit of their availability. The U.S. share of world trade is projected at 34 percent, modestly below the 10-year average of 37.5 percent.

Based on these projections of supply and use, U.S. 2010/11 ending stocks will equal 3.4 million bales, about even with the 2009/10 level. Tighter supply-demand conditions in the U.S. and world will support prices and the U.S. marketing year average price received by farmers is expected to rise 2 cents per pound to 64 cents, the highest since 1997/98.