Cotton
• Cotton prices are expected to edge marginally downward in 2018/19, despite lower global production and an uptick in mill use. However, stock drawdown outside of China will not be required to help balance supply and demand. Improved production next year will allow another softening of prices before prices edge slowly higher over the next ten years.

• Stock accumulation by China has reversed, and that country’s imports have dropped, returning global cotton markets to a more-typical balance, resulting in moderate price levels.

• It is anticipated that China will draw down inventories further over the next few years, leading to steady import levels and little upward pressure on prices. Competition from other fibers, including man-made fibers will help keep cotton demand from rising rapidly, and dampen upward pressure on prices.

• Global cotton area dipped an estimated 500 thousand hectares below last year’s levels in 2018/19. In addition, global average yields are estimated to be markedly lower this year, resulting in a five million bale decrease in cotton production. Modest area declines occurred primarily in Australia, India, Pakistan, and the U.S. Brazil is expected to show an increase.

• Although global cotton area is expected to expand in 2019/20, in the long-term, flat cotton prices will not be sufficient to sustain area increases. Because of limited arable land, emerging environmental problems like erosion and competition from grains and oilseeds, cotton area will struggle to maintain next year’s levels.

• Technology is vital to increasing cotton production to meet expanding global needs. Adoption of higher-yielding varieties and genetic and agronomic improvements will be the basis of increasing production in the future.

• India, the world’s largest cotton producer, will see increased competition from other crops that will constrain cotton area below the high level of 2014/15 throughout the outlook. Stabilizing grain and oilseed prices will keep those crops competitive with cotton.

• Global cotton mill use is increasing, following a substantial decline from the high point in 2006/07 to the recent low in 2011/12. Declining mill use by China is the primary factor behind the previous decline, but that source of demand is expanding again and will continue to rise throughout the outlook.

• Cotton demand will increase in other countries, as well. India, Pakistan, and especially Bangladesh are projected to be significant sources of demand growth. Textiles industries are shifting from developed nations to developing regions with cheaper labor, and the U.S. textile industry is undergoing a long-term decline.

• The outlook is for a barely increasing per capita cotton consumption, an indication that a consistently expanding global population, and especially population growth in developing regions, will be the primary driver of clothing and textile demand.
Stable World Markets Keep Cotton Prices in Check
Cotton adjusted world price, cents/lb

New Varieties Boost Yields, Production

Cotton Demand Will Be Primarily Population Driven
Global cotton mill use
In 2014/15, China ended its massive cotton stocks buildup, also bringing to an end its outright domination of the global cotton trade. Stocks are being drawn down and the high cotton imports of 2011/12 through 2013/14 have not been sustained. This trend combined with steady expansion of textile and garment manufacturing in Bangladesh has propelled that country to the spot of the top cotton importer.

Pakistan, Turkey; and Bangladesh will account for a large proportion of the expected increase in cotton imports as they grow their domestic textiles industries.

One-quarter of global cotton production is expected to be sold on the world market over the next ten years, somewhat lower than the proportion traded during the previous run-up in Chinese imports.

The largest sources of cotton exports are Australia, Brazil, India, and the U.S, which together account for 90% of global sales. The U.S. will remain the largest exporter over the projection period but the growth in trade will also be met by Australia and India.

Nearly all inventory declines since 2014/15 occurred in China. But that country can still buffer short-term supply shortages that might occur. There is the potential for increased volatility within the Chinese market, but unless the causal shock is sustained beyond the short-term, Chinese stocks should still be able to mitigate impacts on its domestic market, thereby buffering the rest of the world from increased volatility.

Although China will continue reducing its cotton inventories for several years, it is still expected to hold approximately one-third of global stocks throughout the projection period. Nevertheless, a moderate supply shock in China will now be able to have measurable impact on that country’s market.

The ending stocks-to-use ratio for the rest of the world is similar as it has been historically and inventories will still be able to absorb a moderate supply decline in the future. Therefore, the world cotton market is not expected to be more volatile from short-term supply or demand shocks outside of China.
Bangladesh Passes China as Manufacturing Shifts
*Cotton net trade, mil. bales*

Stocks Will Be Adequate Even After China Adjusts
*Global Cotton ending stocks*