

Texas Cotton Desert Boosting Costs for Makers of Clothing

By Marvin G. Perez - Apr 9, 2014

The layer of dust on Jeremy Brown's cotton fields in west [Texas](#) is increasing the chance that Americans will start paying more for underwear or blue jeans.

The drought that parched cropland and pastures across the state since 2011 has left Brown's farm in Dawson County looking like a desert less than a month before he will sow 1,900 acres of cotton. Brown said crop conditions "are as bad as last year," when he abandoned 60 percent of plantings.

Crop prospects are worsening in Texas, the top grower, as inventories before this year's harvest head for a 36 percent plunge in the U.S., the world's biggest exporter. Futures in New York are up 20 percent from a low in November and may rally 12 percent further to \$1.017 a pound by year end, a Bloomberg survey of analysts showed. Higher costs will boost pressure on cotton buyers including [Hanesbrands \(HBI\) Inc.](#), which already is increasing prices on some clothing.

"The stockpiles are very tight, but there are also significant concerns about extreme weather," said Christian M. Wagner, the Wilmington, Delaware-based chief investment officer of Longview Capital Management who oversees \$250 million, including investments in cotton. "Uncertainty typically leads to higher prices."

Cotton is up 6.8 percent this year, trading at 90.4 cents a pounds on ICE Futures U.S. in New York today, topping the 3.2 percent gain for the Standard & Poor's GSCI Spot Index of 24 commodities. The MSCI All-Country World index of equities was up 0.4 percent, while the Bloomberg Treasury Bond Index gained 2 percent.

Agriculture Rally

The prices of agricultural commodities have been rallying this year as unusually extreme weather threatens global harvests. Coffee surged 79 percent, more than any other raw material tracked by the S&P GSCI, during the worst drought in decades in [Brazil](#), the world's biggest grower and exporter. Wheat reached a 10-month high on March 20 after a polar vortex draped U.S. fields in a deep freeze, compounding stress on fields already suffering from dry soil. The S&P GSCI Agriculture Index of eight crops jumped 16 percent in 2014, the best start to a year since at least 1970.

U.S. cotton inventories will drop to 2.5 million bales by July 31, the lowest since the season ended in 1991, the U.S. Department of Agriculture said today in a report. That was 11 percent less than the government forecast last month and below the 2.53 million expected on average by 11 traders and analysts surveyed by Bloomberg.

The government also cut its estimate of domestic production in the season that ends in July, to 12.87 million bales, down from 13.19 million expected in March and the smallest harvest since the crop year ended in 2011. A bale weighs 480 pounds, or 218 kilograms.

Raising Prices

Hanesbrands will make “mid-single-digit price increases this year in several key categories” to maintain profit margins as higher cotton costs spur “inflationary pressures,” Gerald Evans, the chief operating officer, said on a conference call with analysts on Jan. 29.

In 2011, when cotton reached a record \$2.197, Winston Salem, North Carolina-based Hanesbrands raised prices by as much as 30 percent in some categories, Chairman Richard A. Noll said on the call. While the commodity is down from that peak, it is almost double the cost in 2008, creating a more “inflationary environment” for apparel makers, Chief Financial Officer Richard D. Moss said on a Feb. 27 call.

An index of U.S. [apparel prices](#) has risen for three straight years, and in December was the highest to end a year since 2000, Bureau of Labor Statistics data show. The gauge is up 7.6 percent from a low in January 2009, during the recession, trailing the 11 percent gain in the broader consumer price index over the same period.

Planting More

Farmers are eager to increase production after cotton rallied 7.5 percent in the past 12 months, compared with corn prices that are down 20 percent over the same period and wheat that tumbled 4.4 percent. U.S. plantings for the season that starts in August will increase 6.7 percent from a year earlier to 11.1 million acres, the USDA said March 31.

Even after the drought, Brown plans to boost acreage by 73 percent, including new land he is leasing. Only 30 percent of his fields are irrigated, so the rest need rain to survive.

“My first choice is cotton because it does well here,” said Brown, who will start seeding in early May. “We’re hoping to get enough rain, otherwise we will probably plant more of the other crops,” including sorghum or sesame, he said.

Global cotton output will exceed demand for a fourth year, with world stockpiles on July 31 reaching 96.92 million bales, the USDA estimates. That’s almost double the amount held in 2011 and is enough to make

about 16 t-shirts for every person on the planet, industry data show. [China](#), the biggest consumer, will hold 58.81 million bales, five times more than in 2011.

Bullish Speculators

Hedge funds and other money managers are betting on more cotton-price gains, holding a net-long position of 63,305 futures and options contracts as of April 1, U.S. government data show. The holdings rose in four of the past five weeks and have climbed 46 percent this year.

While larger stockpiles in China prompted mills to import less fiber, the nation's purchases of cotton yarn jumped 31 percent in the 12 months through Feb. 14 to a record 2.1 million metric tons, said Gary Raines, the chief economist for fibers and textiles at INTL FCStone in Nashville, who cited Chinese customs data.

Worsening Drought

About 27 percent of Texas was in extreme-to-exceptional drought as of April 1, up from 5.8 percent at the start of the year, according to the U.S. Drought Monitor. Since Jan. 1, some parts of West Texas, the biggest growing region, got less than 25 percent of normal precipitation, according to [Drew Lerner](#), the president of World Weather Inc. in Overland Park, [Kansas](#).

Four straight years of drought “makes the situation significantly worse in some aspects,” John Lipe, a hydrologist with the National Weather Service in Lubbock, said in a telephone interview. “The water supply as well as the aquifer are all starting to get lower levels.”

Since the beginning of the year, areas around Lubbock, in the heart of the Texas cotton belt, an average of 0.5 inch of rain fell, less than the average of 2.78 inches for this time of year, according to the NWS.

“If we get good rains by April or May, we can still have a good crop,” Lipe said.

Eddie Smith, a 62-year-old farmer in Floydada, Texas, said he is glued to the Weather Channel, watching forecasts on television and checking for updates on his iPhone and iPad. Signs of rain would encourage him to plant more cotton, about 3,000 acres. Otherwise, he may dedicate some of the land to sunflowers or wheat.

“It's now drier than it was a year ago, very dusty,” said Smith, who will start planting in early May and farms the land with his 36-year-old son. “It's as dry as it was in 2011.”

To contact the reporter on this story: Marvin G. Perez in New York at mperez71@bloomberg.net

To contact the editors responsible for this story: Millie Munshi at mmunshi@bloomberg.net Steve Stroth