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Cotton Prices Rebound

Since hitting lows near the 82-cent mark early this month, prices (Dec futures) have shown steady improvement and are currently approaching 87 cents today. Prices jumped yesterday and are showing further improvement today.

As we approach harvest, if your crop is far enough along and you have a pretty good handle on your yield potential and if you need to price additional bales, this week's recovery might be a good opportunity. There will likely be some resistance at the 87 to 88-cent area and we're approaching that now.

The "floor" at 82 to 83 cents appears to be holding. Prices were boosted this week by continued concerns over the late and possibly even smaller US crop and by new reports that the China crop may be quite a bit less than USDA's current estimate.

The cotton market is being impacted by a combination of many dynamics. We have, for example, been able to hold prices in the 80's and even make several (brief) advances to 90 cents or better despite having a record level of World stocks.

Although World stocks stand at 94.7 million bales, available stocks outside of China (ROW) have been trending down while China has been building stocks over the past 3 years. Prices are impacted by China's policies on use of these stocks and eventually this will come to bear as the supply pipeline and import/export of cotton is impacted.

Since the large 2011 crop, World acreage and/or production have declined. Consumption (use) has recovered and begun to slowly trend upward. Production still outpaces use but the gap has narrowed. This narrowing is mitigated by the buildup of stocks.

Cotton for next season (Dec14 futures) is currently around 80 cents—roughly 6 cents discount to this year's crop. This year's crop was at 80 cents or less at one time too.

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