The University of Georgia
Cooperative Extension Service
College of Agricultural and Environmental Sciences

Georgia Cotton

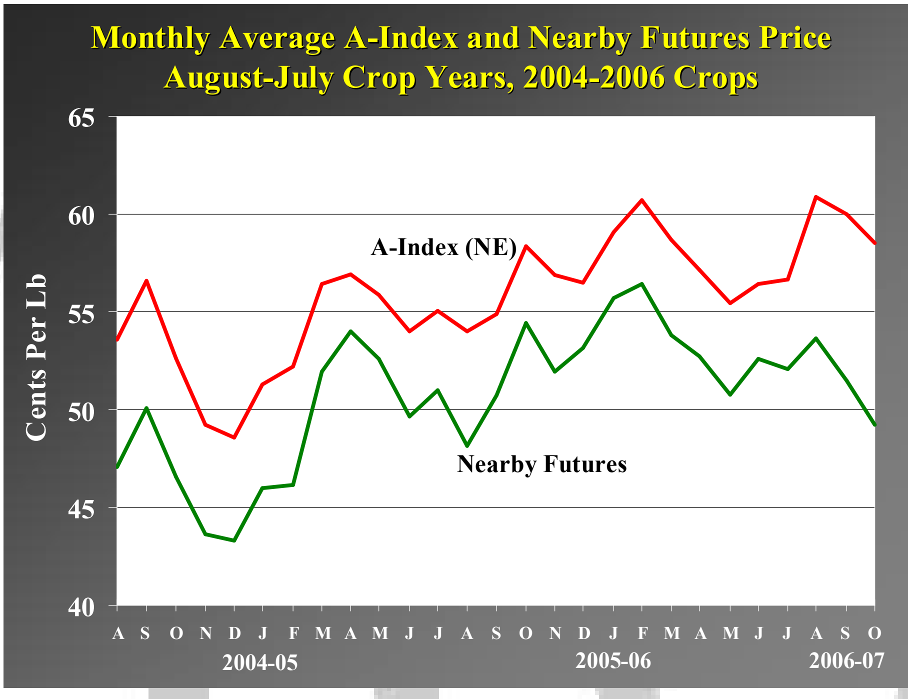
October 20, 2006 www.ugacotton.com

Crop Situation. (*Brown*) By mid-October, 35 to 40 percent of the crop in Georgia was harvested. USDA's October estimate of production in the state did not change from the September figures, 1.7 million total bales harvested from 1.33 million acres for an average of 614 lb/A. Quality-wise, short staple and high mic are problematic, but given our season, they are not unexpected. In recent columns, we have expressed the thought that our crop would be considerably below the USDA estimate. However, over the past couple of weeks, growers have reported better-than-expected yields, particularly in the southwest and south central portions of the state. Reports from east Georgia are also encouraging. Conversely, growers in central Georgia who saw drought stricken fields recover because of late summer rains have seen those same fields wilt because of the lack of an extended period without rain. [Perhaps the October drought has contributed to the surprisingly good yields.] Scattered frost – nothing to damage bolls – has been reported in east and central Georgia. So it truly is a "mixed bag" and over the course of the season, depending on time and location, yield reports have ranged tremendously. The real question is how many acres will not be harvested. The USDA numbers probably over estimate final harvested acreage and maybe total bale production.

LOSS OF STEP 2: WORLD-US PRICE SPREAD WIDENING, WILL IMPACT PRODUCERS. (*Shurley*) The "total money" received by the cotton producer for cotton depends on a very important relationship– the "spread" between the A-Index (the world price) and US price. This is because the Loan Deficiency Payment (LDP) is calculated from this A-Index. Depending on how the producer markets his/her cotton, the producer will either (1) receive an LDP, forgo the Loan, and sell the cotton, or (2) place the cotton in the Loan and later redeem the cotton realizing a Loan Gain, or (3) place the cotton in the Loan and later receive a merchant equity through an Option-To-Purchase agreement.

While this sounds complicated, the important thing is that in all three scenarios the LDP or the Loan gain or the equity payment are all dependent on the "spread" or relationship between the A-

Index and the US price of cotton. When this spread widens, either the A-Index (world price) is going up in relation to US prices or US prices are falling in relation to the world price. Neither is good. Effective August 1, the Step 2 provision (a subsidy paid to US exporters and mills) was eliminated as the result of Brazil's successful complaint in WTO against the US cotton program. There is evidence that the loss of Step 2 has weakened US cotton prices in relation to world prices.



The above chart shows the monthly average US cotton futures prices and A-index beginning in August 2004 with the 2004 crop and up to October 2006 with this year's crop (October 2006 is for the first half the month). Note that US and world prices tend to move together and that the "spread" has averaged mostly about 5 to 6 cents per pound. _The fact that they move together is important_ because as US prices go down, so does the A-Index, which results in a larger LDP to offset lower US prices. This is an important safety net for the producer.

What has happened in recent months is that this spread has widened from the more typical 5 cents to currently about 8 to 9 cents. US prices (cotton futures prices) have weakened about 3 to 4 cents per pound in relation to the A-Index or world price. This widening of the "spread" does not change the LDP but, because of weaker prices, results in less total money received.

The example below illustrates approximately the current situation. Total money to the producer has dropped 4 cents due to the wider spread. Had the A-Index declined as US futures declined and maintained the typical 5-cent spread, the lower A-Index would have resulted in a larger LDP and offset the lower cash market to the producer. Or, had US prices simply been able to maintain the 5-cent spread rather than weakening, total money would have been unchanged.

Example of Futures, Cash Price, and LDP Depending on A-Index Spread

	5 Cents Spread	9 Cents Spread
A-Index	**59.00**	**59.00**
Minus Spread	-5.00	-9.00
New York Futures Price	**54.00**	**50.00**
Basis [1]	-3.00	-3.00
Local Cash Price	**51.00**	**47.00**
Adjusted World Price (AWP) [2]	42.90	42.90
LDP [3]	**9.10**	**9.10**
Total Cash Plus LDP	**60.10**	**56.10**

1/ Grade 41-4/34
2/ A-Index minus the "adjustment" for grade and location of 16.1 cents/lb
3/ Loan Rate (52 cents/lb) minus the AWP

This widening of the "spread" could be due to the loss of the Step 2 provision. Without the Step 2 payment, US cotton would need to be cheaper to remain as competitive on the export market. This spread could change (could improve/narrow?) as we move through the marketing year. Producers should be aware that their "total money" depends not on local prices or LDP alone but on the combination of the A-Index, the "spread", and the local cash basis and how these move in relation to each other. Because the spread has widened, the producer has lost money. The producer can improve his/her position by taking advantage of opportunities when the spread and basis narrow.

Dr. Phil Jost Departing for Position with Dow AgroSciences. (*Brown*) Dr. Phil Jost, Extension Agronomist-Cotton & Soybeans located in Statesboro, has accepted a position in the cotton group of Dow AgroSciences and will leave UGA at the end of the month. He came to UGA in January 2001 and has made tremendous contributions in Extension activities in cotton in east Georgia and throughout the state. His leadership and publications on the UGA Cotton Web page have elevated and extended the quality of all our efforts as has his work on fiber quality. His creative and broad applied field research program has provided answers in the realm of varieties and technology, plant growth regulators, and replant decisions, and his work on the Asian soybean rust issue literally saved U.S. producers tens of millions of dollars. He and a small cadre of helpers have delivered superb research and outreach programs at Southeast Research and Educational Center at Midville. He will be sorely missed.

Cotton Production Workshop

February 20-21, 2007, Tifton

Your local County Extension Agent is a source of more information on these subjects.
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