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**Talk of Cotton's Acreage Decline in 2012
 Might be Overstated**

Since mid-December, new crop (Dec12) cotton futures have improved about 10 cents. *The trek north looks to have lost a little steam over the past week, "stabilizing" in the 93 to 94-cent area.* This morning as I write this, December is around 93 and change.

While cotton has shown a rebound in recent weeks, corn and soybeans have not. Corn futures (Dec12) are now below \$6 and soybeans (Nov12) hovering around \$12.

It is generally expected that cotton acreage will decline in 2012. I too believe that it will-- *but the magnitude of the decline may be overstated. The longer cotton stays above the 90-cent level, the less the acreage decline is likely to be.* Many farmers tell me that cash/contract cotton below 90 cents will likely result in acres shifting to other crops. This means futures in the low to mid 90's.



The decline in price we've witnessed from \$1.50 or more to now less than \$1, can be attributed largely to very weak demand (down over 4 million bales from last season) and a 10 million bale increase in foreign production. It seems clear to me that *2012 prices will depend largely on improved demand or a reduction in production to bring supply and demand in closer balance.* Stronger prices, while good for the grower, may lessen the acreage decline and stall any potential improvement in demand. *That is why prices at the current level are an opportunity for pricing—because the longer term outlook is potentially more downward than upward unless demand begins to show signs of improvement.*

Preliminary 2012 Crop Comparisons



Non-Irrigated Production

	Corn	Cotton	Peanuts	Soybeans
Expected Price	6.00	0.875	700	11.00
Expected Yield	85	700	2,900	30
Crop Income	\$510	\$613	\$1,015	\$330
Variable Costs	315	446	649	240
Net Return	\$195	\$167	\$366	\$90

Preliminary 2012 Crop Comparisons



Irrigated Production

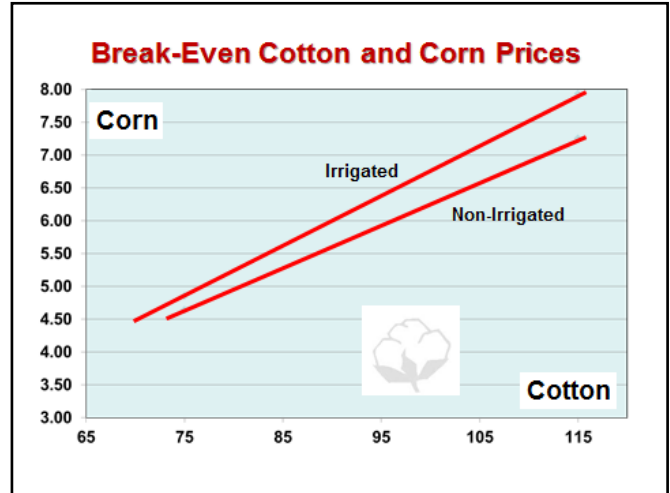
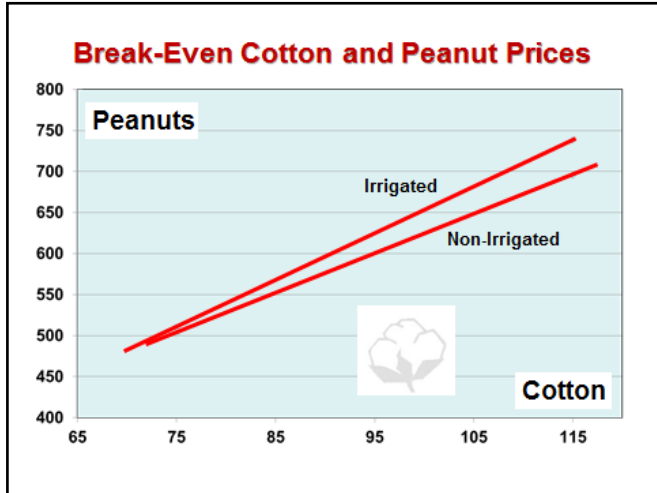
	Corn	Cotton	Peanuts	Soybeans
Expected Price	6.00	0.875	700	11.00
Expected Yield	200	1,200	4,200	60
Crop Income	\$1,200	\$1,050	\$1,470	\$660
Variable Costs	657	587	757	353
Net Return	\$543	\$463	\$713	\$307

Estimates by myself and colleagues at the University of Georgia show preliminary comparison of net returns on cotton compared to other crops. These estimates are based on Georgia production and the expected average prices shown, average yield, and variable costs (direct operating expenses) only.

Your state and farm will be different than our budgets, but based on these numbers, we expect peanut acreage to obviously increase. At \$700 per ton, no other crop is close to being competitive. *But we expect the peanut acreage increase to be "controlled" by contract price, contract pounds or acreage, and contract availability.* After contract peanuts, acreage decisions come down to un-contracted peanuts vs. cotton vs corn. Soybeans, at least under our conditions and assumptions, do not appear as attractive as other crops.

The following charts show the “Breakeven Price” of cotton, peanuts, and corn based on the yields and costs assumed. At 90-cents for non-irrigated cotton, a peanut price of roughly \$600/ton would be needed to provide the same net return. Likewise, at \$700 peanuts, cotton would have to be about \$1.08 for irrigated and \$1.15 for non-irrigated.

At \$6.00 for corn, cotton would have to be about 90 cents for irrigated production and 95 cents for non-irrigated. At 90 cents for cotton, corn would need to be about \$5.50 for non-irrigated and \$6.00 for irrigated. In Georgia, dryland corn is very risky so regardless of price, cotton likely maintains its advantage in non-irrigated situations.



Cotton acreage will likely decline in 2012. Survey estimates from the National Cotton Council will be out February 11. USDA estimates will be released on March 31. *Generally, I think the industry is expecting a reduction in the neighborhood of 15%. However, if prices remain strong (90 cents or better) into Spring, the eventual actual acreage planted may be more than we might currently expect.*

If US acreage does decline about 15% (to say 12.5 million acres), a US average yield of 800 lbs/acre and a more normal abandonment would produce a crop of 18 million bales—2.33 million bales more than this year. So, reducing the supply side (brining supply and demand more in balance), will depend even more so on foreign acreage and yield. Given strong prices for competing crops and given that foreign production was up significantly this year, total World production will most likely be down in 2012. *That being the case, if demand can mount a comeback, the price outlook looks a lot less bearish.*

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