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<http://www.ugacotton.com>

### Demand Side Shows It's Importance

Since marching to the 80-cent level, prices (new crop, Dec08 futures) have “adjusted” down about 3 cents and consolidated at the 76 to 77 cent area.

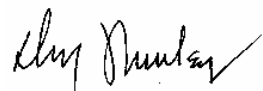
There continues to be a lot of discussion about how much cotton the US will (or will not) plant in 2008. Right now, one thing seems fairly obvious—if prices don't get back to the 80-cent area or better, the forecasts of possibly as little as 9 to 9.5 million acres planted are probably going to be realized. US plantings dropped over 4 million acres (29%) in 2007 and are widely expected to decline another 1 million acres or more in 2008.

This time of year and going into spring, the job of the market (price) is to attract enough acres planted to meet demand with a sufficient amount of carryover stocks. To date, most of the news and market has been focused on the supply side debating cotton's tug-of-war with high-priced corn and soybeans. The market decline we have seen the past 2 weeks or so, however, has been largely due to concerns from the demand side about the US economy and foreign economies and markets as well. What the market is saying is that all the hype about acreage, although important, means less if the demand is weakened.

Foreign cotton production has ratcheted up the past 4 years compared to the previous 4. India production, for example, has been up. But foreign production still cannot supply foreign mills. Filling this “gap” is the role of US exports. The economic health of the US (a portion of US cotton exports is exported back to the US as finished products) and foreign consumer is important. With 2 consecutive years of decline in US acres, the market (price) should remain strong as long as the demand side is strong. US exports tend to follow the supply available—so expect exports to possibly decline some in '08-'09 but US and World stocks should still decline.

I look for prices to rally back to the 80-cent area or better as we move into spring and summer. With another acreage decline on the way, the market would appear especially sensitive to weather and crop conditions.

*NOTE:* UGA crop budgets for 2008 and a net returns comparison tool, are available at [www.agecon.uga.edu](http://www.agecon.uga.edu). Click on “Extension”. On the next page, click “Extension” again. Look for “Printed Budgets” and “Spreadsheet Budgets” in Excel.



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