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**USDA February Report is Bearish  
 But Not for the Reasons You Might Think**

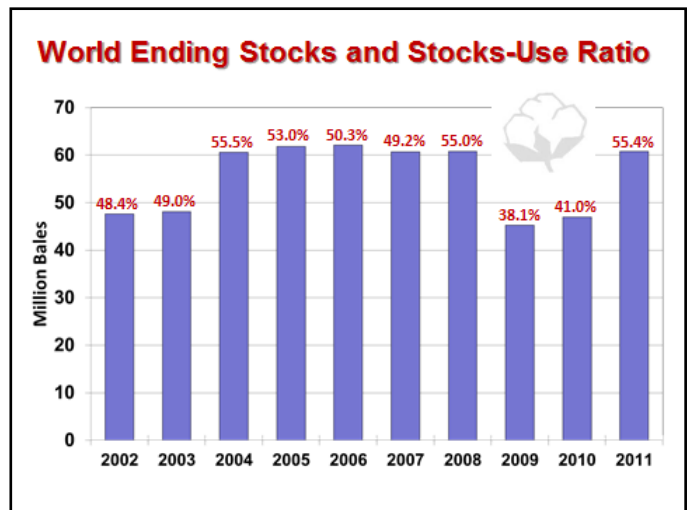
The outlook for cotton has changed this week. I'm not a pessimist all of a sudden, but *the outlook is a bit more cautious now than a week ago...* and it shows you how rapidly things can change. The market is volatile and will continue to be.

Two weeks ago, cotton (Dec12 futures prices) was bumping 97 cents. Today, prices have retreated and we're in the 92 to 93-cent area. What's happened?

Last weekend, the National Cotton Council released its survey results of expected 2012 US cotton acreage. Their survey suggests that acreage will be down 7.5% from last season. Acreage being down is no surprise. But I think that number is a little lighter than what the industry was expecting. If harvest and yield are "normal", that acreage projects to a crop of 18.3 million bales—2.5 million bales more than this past season. Again, a possible larger crop is no surprise but the acreage reduction is probably smaller than some in the industry expected. *If prices stay at 90 to 95 cents or higher, I think acreage will be in the neighborhood of the Council's number.*

USDA's February supply/demand numbers were a surprise. The bottom line is that the report added another 2.4 million bales to projected 2011 crop year Ending Stocks. This pushes stocks to up over 60 million bales and puts the stocks-to-use ratio at a burdensome 55.4% and *the highest level since the 2004 crop year.*

*The "surprise" was not an actual change in 2011 crop supply and demand.* The production and economics of the 2011 crop directly were essentially unchanged. What happened was that the 2009 World crop was revised upward by almost 1 million bales and the 2010 World crop was revised up by over 1 million bales. Those 2 revisions explain 2 million bales of the 2.4 million bale increase in stocks. The rest of the increase comes from a ½ million bale increase in foreign production from the January numbers and a slight reduction in US and foreign demand.



Despite the somewhat more bearish tone now in the market, prices are still above 90 cents. Prices may test what should be support at 92. *A fall below that takes us to 88 then 84 but I don't think that happens anytime soon.* Prices below where we are now will likely get a reduction in acreage greater than the Council's 7.5%. Cotton needs to compete with corn, soybeans, and peanuts and prices much below where we are now won't do that for most growers.



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