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**Will We Float or Sink at 90 Cents**

New crop Dec12 futures are at a critical juncture. Prices have dropped 7 cents since early February and have tested the 90-cent level. If the boat doesn't stop taking on water, we could sink to the 88-cent area.

As we get closer to planting time over the next couple of months, final decisions will be made on what to plant. Cotton in the 80's will not be attractive. Did you ever think we'd be saying we're disappointed at less than 90 cents for cotton? But when you consider the escalation in costs and the net return opportunity in other crops (\$6 corn, \$600 peanuts, \$12 soybeans), cotton at less than 90 cents just may not cut it.



Since testing the 90-cent area a week ago, prices tried to rally but failed to break through a "technical barrier" at 92 cents. Since then, market sentiment has turned more bearish. As this is being written today, Dec12 is at 89 and change—down about 1½ cents from yesterday and about 1 cent for the week.

Where do we go from here? Do we float or sink? I think the outlook can still get better. There's not much doubt the odds are a little more on the pessimistic side now than 2-3 weeks ago, but prices could still improve and as a grower, you have to be ready for those opportunities.

At the USDA Outlook Forum last week, projections were given for the 2012 crop and it was mixed news. Ending Stocks are expected to continue to grow. This is the most obvious reason for the more bearish tone these days. S/U at this level is burdensome. On a more positive note, demand is expected to improve after 2 consecutive years of decline and World production is expected to decline. US production is expected up even with less acreage planted but will be offset by a larger decline in foreign production.

**2012-13 World Projections**

	2010-11	2011-12	2012-13	Change
<b>Beginning Stocks</b>	45.3	47.0	60.8	
Production	116.5	123.3	118.5	-4.8
Imports	35.7	37.4	39.0	
<b>TOTAL SUPPLY</b>	<b>197.5</b>	<b>207.7</b>	<b>218.3</b>	<b>+10.6</b>
Use	114.6	109.7	114.5	+4.8
Exports	35.7	37.4	39.0	
<b>TOTAL DEMAND</b>	<b>150.3</b>	<b>147.1</b>	<b>153.5</b>	<b>+6.4</b>
<b>Ending Stocks</b>	<b>47.0</b>	<b>60.8</b>	<b>64.8</b>	<b>+4.0</b>
<b>S/U Ratio</b>	<b>41.0%</b>	<b>55.4%</b>	<b>56.6%</b>	

SOURCE: USDA Outlook, ICC

Typically this combination (increased demand, decreased production) would lead to higher prices—but the growing stocks number could keep a lid on that. Assuming foreign production declines and demand improves, prices could still make a comeback rally particularly if the US has another dry year. Producers should consider taking some protection above 90 cents and some already have. If not, look for opportunities to get caught up.



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