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### Pre-Planting 2006 Price Outlook

The National Cotton Council released it's plantings estimate for 2006 back at the end of February. The 2006 estimate is 14.44 million acres—1.7% above last year. Using the 2001-2005 5-year average yield and acreage abandonment as an estimate for 2006, this would peg the 2006 crop at roughly 21 million bales. However, the crop could easily vary from 17 to 24 million bales depending on actual yield and acreage abandonment.

Much has been made of all the unknowns as we gear up toward planting time-- moisture, etc. The only big unknown I see is the fact that we have had 2 successive good years (when was the last time we had back-to-back years of yield over 700 lbs US average, much less over 800 lbs—NEVER). THIS ALONE creates a lot of uncertainty as we look out to potential US and world supply in '06.

Foreign mill demand is a driving force. Foreign mill use, driven largely by China, increased to over 110 million bales in 2005. Foreign production, after increasing sharply in 2004, fell back to more normal/trend levels in 2005. As a result, the gap between use and production widened and US exports have increased.

IF mill use remains strong, IF foreign production remains near 2005 levels, and IF US production is near the 21 million bale range, supply-demand conditions would tighten considerably.

However, IF foreign mill use remains strong BUT foreign production increases AND US production is at the upper end of the possible range, the supply-demand would be at a much more comfortable level.

Look for prices (December futures) to likely bounce around 56 to 60 cent area for a while. This range seems to either spur demand or curtail it. Tighter supply-demand balance as described would push prices to the upper end or higher. The more abundant supply scenario would trigger prices at the lower end and even lower.



Don Shurley, University of Georgia  
 229-386-3512 / [donshur@uga.edu](mailto:donshur@uga.edu)

