

This newsletter is also available in PDF format on the UGA Cotton web page at:
<http://www.ugacotton.com>

That Wascally Wabbit

When I was a kid, one of my favorite cartoons was Bugs Bunny. Elmer Fudd would forever try to trap and shoot the “wascally wabbit” only to always be out-smarted by Bugs.

The cotton economy and market is proving itself to be a bit of a “wascally wabbit” as we try to figure out what’s going on and find our way through the early part of the 2009 crop season.

Prices (Dec09 futures) have made an impressive run (improvement) over the past 4-5 weeks—gaining around 7 cents per lb (about 15%) since early to mid-March. Dec09 closed yesterday at 53.35 cents/lb after closing at almost 54 cents on Wednesday. The big question on everyone’s mind is how much further can this go? Can this continue and, if so, how much further?




This improvement is good to see. But looking at supply/demand fundamentals, much higher prices aren’t quite justified right now. Not yet anyway. Challenging the 57-cent level is a possibility but beyond that would be a stretch. US acreage is going to be higher than expected and USDA’s April supply/demand numbers released yesterday don’t yet look like a bullish train.

The 2008 US crop was trimmed slightly and expected exports raised ½ million bales. If realized, this tightens things a bit more heading into the 3rd consecutive down year for acreage in 2009. But the report also shows foreign mill use continuing to slide (down another 1.2 million bales from the March estimate) and as a result, ending (carryover) stocks even higher going into the 2009 crop marketing year. It has been said in this space many times, demand is the key to a price recovery, not acreage adjustment. Prices may rally (improve further) this summer based on weather-related supply-side concerns but are sustainable only if demand begins to show a rebound.

We will continue to look for higher prices..... that “Wascally Wabbit”.

Change in AWP and LDP Calculation. Effective today (for the week April 10-16), the cotton LDP will be based on a new/revised calculation for the Adjusted World Price (AWP). The AWP is the “world price” of cotton (referred to in the industry as the “Far East” quote or A-Index) *adjusted* for transportation cost back to the US and for differences in grade. This “adjustment” to-date has been 18.59 cents/lb. The adjustment will now be 16.77 cents per lb—transportation cost lowered by 1.82 cents. This means cotton LDP will now be 1.82 cents/lb lower than it otherwise would have been.



Don Shurley, University of Georgia
 229-386-3512 / donshur@uga.edu