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Where Is The Path of Least Resistance Now?

Wow, cotton prices (December futures) have made quite a run. Prices closed today at 62.37 cents per pound—up almost 2 ½ cents for the week. Prices have now improved about 15 cents since the lows back in March.

USDA's May supply/demand estimates will be released on Tuesday, May 12th. A pre-report survey of analysts shows they expect the report to continue to tighten up on stocks both for the 2008 crop and 2009 crop.

This rally, from what I have tried to find and read, seems more speculative driven than actually supply/demand driven. We are not yet to the point of last March but we should be reminded of the problems that caused for the cotton industry. Such a rally can be sustained only if we can continue to be competitive and export cotton at these prices.



The US stock market has improved and there seems to be growing belief that the Chinese and other economies around the World are also recovering. If when this is realized in fact, prices stand a much better chance of staying in the 60's. Until such time, it's just a spec rally which represents a good opportunity for producers.

Previous resistance was at around 56 to 57 cents. I thought prices might top out there again but instead blew on through. This 56-cent area now becomes the new floor if and when this rally plays out or supply/demand news becomes negative. It is hard to say which way this market might go from here. A "correction" back to the 56-cent area could be forthcoming but it would take something below that to put an overall negative tone back in the market. Right now, I'd have to say the path of least resistance is level to up.

The latest numbers will be released Monday afternoon but as of May 3rd, planting was behind schedule. As of May 3rd, Alabama is quite a bit behind as was Virginia, Missouri, and Arkansas. Rains this past week have probably now got the Mid-South behind schedule. As of May 3rd, Georgia was 10% planted compared to 17% average. Texas was slightly behind schedule.

Under the 2008 farm bill, the Target Price for cotton was lowered from 72.4 to 71.25 cents per pound. This lowers any possible Countercyclical Payment. The Direct Payment remains at 6.67 cents. So, subtracting this from the Target Price, the Countercyclical Payment goes to zero if the MYA (Market Year Average Price) is 64.58 cents or higher.

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