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Market “Bounced”... But Confirmation Denied After Today’s Report

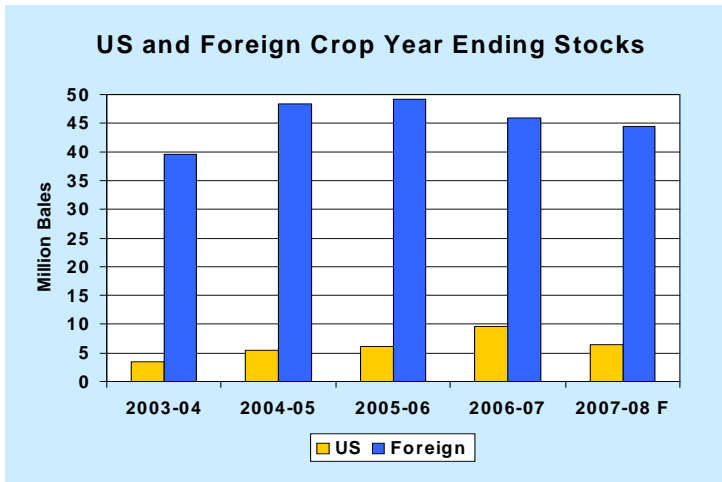
This morning, USDA released the latest estimates for the 2006 crop and its first forecast/estimate for the 2007 crop year.

The market (2007 December futures), which has been in a tailspin since early April, has recently shown a little recovery (a “bounce”) from below the 53-cent area back closer to 54.

Today’s USDA numbers, although not really a great surprise to anyone, failed to provide any immediate support for the market. Prices were down for the day and December closed back below the 53-cent mark.

For the 2006 crop, today’s report dropped US mill use and exports from the April numbers and this resulted in increasing the estimate of ending stocks from 9.2 to 9.5 million bales. An increase in stocks has been anticipated by most observers and stocks may go even higher before all is said and done.

In its first estimate, USDA pegs the 2007 crop at 18.8 million bales. US mill use is expected to continue to decline but exports are expected to recover to 17.5 million bales—4.25 million bales better than this year and only ½ million bales below the record high of 18 million bales in 2005. As a result, ending stocks are forecast to decline down to 6.4 million bales. Again, these are numbers (among the possible scenarios) that have been floating around for at least a month and thus should be of no big surprise to most.



The rumor/thought of prices moving into the 40’s continues to circulate. Today’s drop in price despite a report that contained really no new negative data certainly has to be concerning. In the longer term, however, it is anticipated that the expected decline in US and Foreign stocks and a significant rebound in US exports, if it materializes, should keep this from happening (or prices staying there long) and should eventually lead to an improvement in price. But with 9.5 million bales from ’06 carried into ’07, it could be a long road ahead.

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