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The Roller Coaster Has Begun

I've long since been past the age where I care for the rides at the fair or amusement park. I go for the food, crafts, and the shows. The summer roller coaster ride of cotton prices has now begun. So, hold on and try not to lose your lunch.

The past week or so has been what could turn out to be an important set of events... at least for this early in the season. Rainfall has returned to the Southeast. I understand parts of Texas are still much in need but here in Georgia, at least, we are feeling much better than we did 2 weeks ago. Also, USDA numbers released today seem to be supportive of improved prices, or at the very least, should help stop the bleeding that has occurred since around the middle of April. December futures have now recovered to regain about half of April's losses with important "resistance" levels ahead-- so hang on and hopefully prices will continue to recover.



USDA projects the 2006 US crop at 20.7 million bales despite increased acreage this year. This is because USDA is using historical yield and abandonment. The result is a possible reduction in US stocks. HOWEVER, the fact is that IF yield and abandonment are closer to what we have experienced the past 2 seasons, the US crop could easily top 23 million. So, for the near term, this and continuing weather uncertainties should be supportive. Longer term, price outlook will depend on actual developing US crop conditions.

Today's report also shows USDA projections that the 2006 world crop will increase about 1.6 million bales from 2005. World use is expected to increase 4.8 million bales, however, and ending stocks decline by 5 million bales. Should this be realized, the stocks-to-use ratio would drop to 39% compared to 45% for the 2005 crop. One interesting note – there has been much in the news in recent weeks about China increasing acreage and production this year.... USDA projects China production to increase only 1.8 million bales. This would still be far short of the large 2004 crop. China's mill use is expected to increase 4.5 million bales but their imports increase only 1 million bales. Thus, China's stocks would drop.

US exports are forecast to be 16.5 million bales for the 2006 crop-- DOWN .5 million bales. So, foreign demand is going to increase 5 million bales (4 million in China alone) and yet US exports decline? We'll have to see about that but it is clear this will have an impact on the roller coaster ride. The key factors are US production (up or down from last year), China's crop (how big and how much other cotton will they buy), and US exports. The market should be poised to continue to improve. But don't get caught watching the paint dry. Puts at or near 60 cents December futures, or contracts at that level, or Calls at market lows are all viable strategies. Your goal is to somehow beat the minimum available through the loan program which in the Southeast is going to be around 59 cents +/- a cent or 2 (POP/LDP plus cash sale or Loan plus equity).



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