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Cotton Under Demand Pressure

Texas remains dry. The Texas crop is already expected to take a hit. Georgia is also very dry and conditions are worsening. Poor stands are being reported and some farmers are considering replanting. Some cotton is being planted in very marginal moisture conditions in order to meet the crop insurance planting deadline. On the other extreme, flooding along the Mississippi will claim hundreds of thousands of crop acres including cotton.

So, the supply side is clearly a big question-mark right now. Yet, prices have taken a tumble over the past few weeks. That can only mean that the market seems to be focused more on demand issues right now than production and supply. These demand issues include 2010 crop export sales cancellations and good but sometimes erratic 2011 crop sales.

USDA released its first 2011 crop supply and demand estimates on May 11th but that report contained no significant surprises and considered pretty much a non-factor. The US crop was estimated at 18 million bales based on March acreage intentions and weighted average yield and abandonment.

Market support at the \$1.20 area was tested and broke through. The market (Dec2011 futures) now appears to be trying to set a new "floor" or support at the \$1.15 area. With the large uncertainty in the US crop, the potential for prices to move higher is still out there. Therefore, any significant drop in prices like that experienced over the past couple of weeks should/could be met with increased "bottom-feeding" (purchases)- thus providing support. After dropping just over 6 ½ cents last week to \$1.1561, prices rebounded 4 cents this week to close today at \$1.1976.

Looking ahead, new crop October will become the "nearby" futures around June 10th. The demand weakness that has caused old crop futures to decline could become expressed in new crop also unless things improve. But my guess is that production uncertainties should continue to hold new crop up. Planting progress (as of last week) is not that far behind but moisture conditions are poor and the present outlook calls for little or no improvement.

Cotton has proven it has the ability to withstand dry conditions and make a surprisingly good yield. That may happen again but we have a long, long way to go. Being this dry this early over such a large, major portion of the cotton belt is unusual. Looking for additional pricing opportunities, we can hope that this uncertainty continues to provided support and even a trend back up.



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