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Market Recovery Is Impressive

Most market pundits, myself included, warn of an eventual decline in prices and advise farmers to take protection. I have to be honest with you, I'm beginning to wonder. We've already flirted with 80 cents enough to make some growers want to hold off from doing much more or at least consider various alternative ways to take protection.

Two weeks ago, December futures had faltered and declined to just over 75 cents. This week, the market has recovered and closed at just under 80 cents on Wednesday before down yesterday and today. Still, we close the week just under 79 cents.



The stock market has rebounded somewhat- that has helped. Also this week, buzz was circulating about the World being "out of cotton". That's not true and not exactly accurate but it did get a lot of attention. US and World stocks are low and mill demand continues to show improvement but we've been in tighter situations than this before and we didn't "run out".

USDA's June supply/demand report last week estimated we'll carry 2.9 million bales of '09 cotton into the 2010 crop marketing year—that's only about 2 months' worth of use. World stocks are expected to be 52.2 million bales carry-in but decline further to 49.6 million bales by the end of the 2010-11 marketing year. That would be 41.5% or about 5 months of use and "tight" by historical standards but we've been here before. Nevertheless, things are tight enough to suggest that the market is justified to be where it's at. Therefore, there should be good support from both technical and fundamental standpoints.

The estimate for 2010 US production is very likely going to increase based on actual plantings that will show in the USDA Acreage report on June 30th. The crop is currently estimated at 16.7 million bales based on the March number of 10.51 million acres planted. Acreage will very likely be more than this and, therefore, production will increase also if weather cooperates. The market is already expecting this- larger acreage and production estimates should come as no surprise to anyone. Yet, the market has continued to assault the 78 to 80-cent area.

Supplies are tight and exports have been good. Expected increases in production for 2010 may eventually weigh on the market but it hasn't yet. The supply-side is dominating and may continue to do so for a while longer. The market is nonetheless still fragile as evidenced by the sharp turns made recently.

