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Market Meltdown

It may be time for us to sit back and reflect on the 2006 crop price situation/outlook. The reason I say this is because there continues to be comment and discussion out there that 60 cents is still a possibility for this crop..... and yet at every turn, the market seems destined to prove otherwise.

New crop futures (Dec) lost 128 points (1.28 cents per lb) today. A previous "meltdown" occurred when prices dropped 322 points on June 22 and 23. The market has now lost almost 7 cents/lb since the most recent high back on June 12.

The USDA *Acreage* report released last week on June 30, pegged this years crop at 15.28 million acres planted—up 642,000 acres from the March intentions number and 7.2% above 2005. Much has already been said concerning the impact or lack thereof of this unexpected increase on the market. So we don't need to plow that ground again. Granted, the final US crop will depend on acreage abandonment and yield but regardless there's another 642,000 acres to throw in the mix. If 15% of this additional acreage were abandoned and the acres harvested yielded 750 lbs/acre, this would add roughly 853,000 bales to the expected US crop.

Within the realm of a possible 114-115 million bale World crop (USDA's June estimate), another 850,000 bales (less than 1% increase) is not going to be the difference between 50-cent cotton and 60-cent cotton. It's just not. Whether or not we stand a chance to recover some or all that has been lost depends on the eventual final size of the US crop and world demand (more specifically, the demand for US exports as impacted by foreign production). In my mind, this is still as much a demand-driven market (perhaps more so) than it is supply-driven.

The US is the largest cotton exporter (accounting for 39% of world exports). A smaller US crop would likely drive world and US prices back up unless offset by good crops in competing countries. Given the decline that prices have taken over the past month and given the continuing concerns over US crop conditions, I would think that some recovery can and should be expected. How much, no one can know with much certainty. The US crop could still make 20 to 21 million bales... could be less.

I see no incentive to do much of anything at this point unless you're willing to purchase Call Options at this low. Otherwise, wait for recovery.



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