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**Prices Uncertain But Find Support—
 Many Factors Impacting Prices**

Crop Condition. The 2012 cotton crop (growth and development) is ahead of schedule and has been from the beginning of planting. The crop appears to be about a week ahead of normal.

This means, on average, there is probably a little less time available from here on out for rain to help the crop. It may also mean that boll opening and then harvest will also be ahead of schedule and, in that instance, too much rain is not wanted at that point.

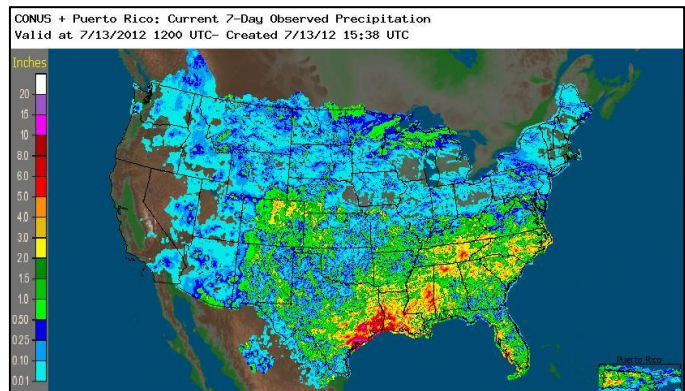
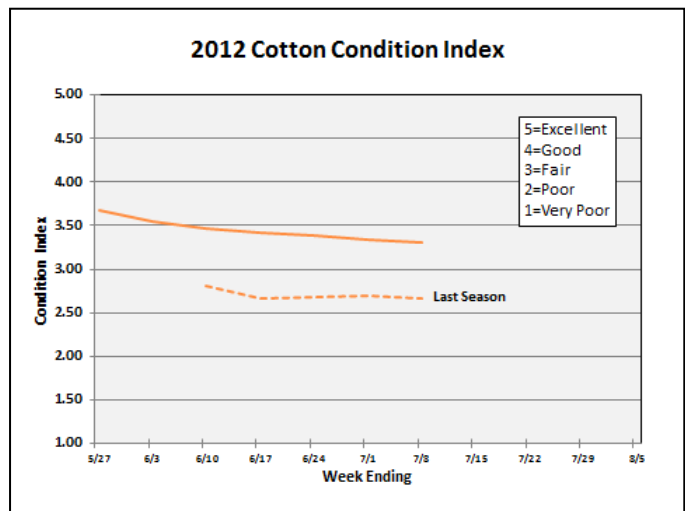
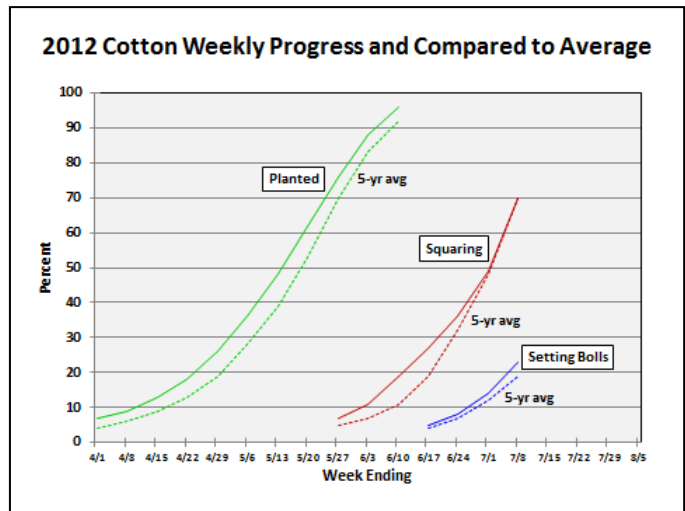
The overall condition of the crop has slowly and steadily deteriorated throughout the season. The “crop condition index” for the most recent week available is 3.30 compared to 3.67 at the end of May. This is still considerably better than where we were last season, however.

For last week ended July 8, 24% of the Texas crop was rated poor or very poor. Missouri was rated 42% poor or very poor and Tennessee 22%. Among Southeast states, Georgia is mostly (81%) fair to good, North Carolina 83%, South Carolina 90%, and Virginia 99%. Alabama is 75% fair to good but also 24% poor to very poor.

The US Drought Monitor continues to show most of Texas in severe to extreme drought. Almost the entire state of Arkansas is in extreme drought with severe drought stretching into west Tennessee. The DM also shows portions of Georgia, Alabama, and South Carolina with severe to exceptional drought.

Despite the DM status, the Georgia crop for the most part is doing very well due to timely rainfall. The DM reflects a long-term moisture situation. In the short-term, crop conditions can more closely depend on more recent precipitation. Rainfall of .5 to 1.5 inches has been received over much of the Cotton Belt with heavier amounts into the Carolinas and across the Mid-South. Amounts across the Texas High Plains have been generally less. More has been received mainly north and east of Corpus Christi.

Depending on the amount of rainfall received and the growth stage and condition of the crop at the time, rainfall could be helpful or too late. Based on rainfall this week, crop conditions may show slight improvement.



US and World S/D Numbers. USDA released their July US and World production, supply, and demand estimates this week. The numbers, in my opinion, were somewhat bullish and supportive..... but in the short-run, the market doesn't always pay attention to economics (or just economic fundamentals).

Next month's August report will be the first actual survey-based estimate of 2012 harvest acres and yield. Expectation seems to be that the US crop may get a little smaller than the current 17 million bale estimate. Whether this will provide additional spark to the market remains to be seen. If there continues to be US and global economic concerns and demand uncertainty, shorter supplies become less of a concern.

Bullish/supportive news in the July report included a 200K bale increase in expected 2012 crop year US exports, expected 2012 foreign production was cut 1.5 million bales (accounted for almost entirely but cuts in India and Pakistan), and World 2012-13 expected ending stocks reduced by just over 2 million bales. On the bearish/negative side, World demand was trimmed slightly but essentially unchanged from the June estimate (reduced 500K bales for China) and as a result Chinese ending stocks raised by the same amount. In short, the numbers are "supportive", but only marginally so and can easily be impacted by any number of positive and negative factors as we move forward from here.

Cotton Price and Competitiveness. Cotton seems to have set a "floor" or "bottom" around the 70-cent area. Dec12 futures today are currently around 72½ cents—up around 2½ cents from yesterday and about 3 cents for the week.

But let's be clear, prices have moved sideways the entire month of July. There has been little movement within a band of roughly 70 to just under 73 cents. Prices have rallied today but were down 109 points (1.09 cents) yesterday—paying little attention to USDA's July numbers.

Prices seem to have stabilized and improved from the earlier lows in the 65 to 68-cent area based on a combination of the June acreage numbers, the July numbers, occasional good US economic news, changes in the relative value of the dollar, and export reports. Today's rally was in-part sparked by good economic news out of China. In turn, US markets and commodities re also up.

USDA-AMS reports that only 10% of the expected 2012 crop has been contracted to date. Considering that cotton was above 90 cents for months, this is surprising. Because so little is priced, as prices rally producers may increase sales/contracting. If demand is weak, a large amount of selling could cap prices or widen the basis.

Due to drought in the mid-West and reduced yield prospects, corn and soybean prices have skyrocketed. Soybeans (Nov futures) are over \$15 and corn (Dec futures) over \$7. If cotton remains flat and corn and soybeans remain high, cotton acreage will decline in 2013.

It is not automatic/certain that cotton will need to get in a bidding war with corn and soybeans for acreage. Demand is weak and stocks are very high. So, how much cotton needs to be planted? Improved demand and beginning to pull stocks down is the only cure for prices.

Having said that, as we approach next planting season, if corn and soybean prices are high for 2013 production, cotton will most likely increase some. This could pull remaining prices for the 2012 crop up with it and provide post-harvest marketing opportunities.

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