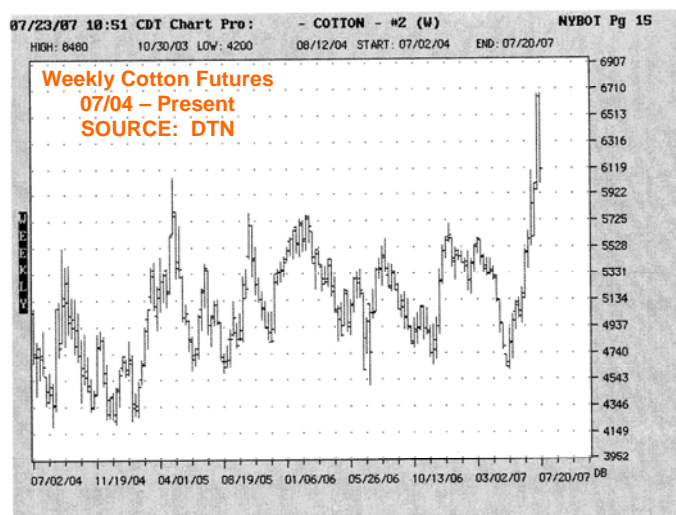


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<http://commodities.caes.uga.edu/fieldcrops/cotton>

### Market Makes Adjustment

I hope you were able to take advantage of the recent run-up in '07 cotton prices. The chart on the right shows weekly "nearby" cotton futures prices dating back 4 years. Breaking the 60-cent level a few weeks ago took us to the highest prices since April 2004. The weekly chart is useful to picture longer term trends and to help understand where we have been and where we might be going.

The current "nearby" month in the chart is October. December futures peaked at just over 68 cents but has since declined to close at just under 63 cents today. The market lost 5.66 cents for the week.



The rally in prices experienced over the past month or more was long overdue and was good to see. The market had too long ignored the decline in US acreage. A market with a 6 in the front is justified. Something closer to 70 cents may be too optimistic but 60 or around 60 is both fundamentally and technically justified. With the decline in US acreage, the crop will be down—the degree is dependent on weather. Where we can take this market from here depends on weather and demand for exports.

With such a strong uptrend since the low point in May, this "correction" should not have been unexpected. We're in the midst of that correction now-- but the market should have decent support around the 60-cent area and around 57 to 58 cents below that. I wouldn't necessarily rule out the possibility of the market making another run before harvest... but it would take weather or some other supply/demand news on the foreign side to take us there. Be ready to take advantage if that happens particularly if you didn't lock-up some of your crop during this most recent rally. Otherwise, it is likely that prices will range in the upper 50's to low 60's maybe higher to around 65 again on occasion.

It is no secret that 2008 acreage will, in part, depend on parameters of the 2007 farm bill (particularly loan rates and LDP's) and what corn and soybean prices do... will cotton face stiff competition again? It is worth noting that Dec08 cotton futures are around 70 cents, Dec08 corn around \$3.85, and Nov08 soybeans around \$9.00. Coming off a potential '08 crop of only 18 million bales, if world demand remains strong (if US export potential remains good) it will be the markets job to bid land into cotton production.

This year, the market chose to ignore the obvious and the rally came late (as the above chart shows). The fact that Dec08 is already at or near 70 cents is an indication that the rally for '08 is perhaps already being realized.

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