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### Market Recovers Ahead of August USDA Numbers

New crop prices (December futures) improved this week—recovering some of what was lost during the recent decline. December closed at 64.89 cents per pound today—up 1.39 cents for the week and up 2.17 cents since the most recent low back on July 20<sup>th</sup>.

The important thing to take from this most recent rally/recovery is that the overall tone of the market is still optimistic. December had lost about 5½ cents and has now gained about 40% of it back.



This has been an important recovery. The market could have been pressured to the 60-cent level but instead stopped the retreat around 62 to 63 cents. To have another rally this late in the growing season is a little contrary to seasonal tendencies (normally the market is weakening by this time). So again, this recovery is a good sign.

USDA will release its first survey-based production estimate of the '07 crop on Friday, August 10<sup>th</sup>. Based on average yield (800 lbs/acre) and abandonment (5%), the current estimate for the US crop is 17.5 million bales. This compares to 21.6 million bales last year and 23.9 million in 2005. Pre-report estimates are 17.5 to 18.5 million bales. A report on the high side of this range may take some of the steam out of this most recent rally, but not completely—a crop on the high side is still going to be 3 million bales less than last year. A number on the low side of this range would certainly provide further support for the improved level of prices we have been seeing.

The longer-term outlook will be more demand-driven. USDA's current estimate is for 17.0 million bales in exports. This would be a big improvement from last year but still a little less than 2005-06. I have said before in this space that higher prices can only remain high if supported by demand. Can we have prices in the 60's and still export 17 million bales or better? This depends on the strength of demand and the supply of cotton exports from other countries. Thus far, export numbers have been encouraging—we've added 10 cents to this market in recent months and thus far exports have supported it.

The House has finished its business on the farm bill. The legislation must now be taken up by the Senate. The House version is not a dramatic departure from the current farm bill. Thus, there may be some pressure on the Senate to come up with something closer to what the Administration is looking for.



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