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Market Takes A Tumble

Cotton has had a bad week.... but then so has much of everything else. Cotton (December futures) lost 3.74 cents/lb this week, soybeans (November futures) lost 44 cents/bu and even corn (September futures) dropped 4.2 cents/bu.

Cotton has lost approximately 11.4% of its value the last 2 weeks (since August 3rd- which incidentally was the last time I wrote in this space sounding rather optimistic).

The market fundamentals have changed slightly but not appreciably so it is somewhat of a mystery to fully understand (if that's possible) the reasoning behind why the market has done so poorly. Either the rally we had experienced in recent weeks was all a fluke or this decline is— it's either one or the other or maybe a little of both.



USDA numbers on August 10 lowered the 2007 US crop estimate slightly, lowered expected exports, and increased expected US mill use—bottom line was a 100,000 bale slight reduction in Ending Stocks. Foreign production was increased about 300,000 bales (China was unchanged) and foreign use increased 420,000 bales—bottom line was a 740,000 bale increase in World Ending Stocks but about 500,000 of this was due to an increase or “adjustment” in Beginning Stocks. The China crop was unchanged and Chinas mill use also unchanged—yet export sales to China (imports) were dropped ½ million bales.

Let's not take further time and space plowing that ground again-- the facts remain that World production is still expected to be down, use up, and stocks down. So, World supply/demand is still tightening/tighter compared to last year. In short, don't panic. The crop is not made yet and we've got 2 storms that could impact Texas. If 68 cents and then the repeat rally to around 65 was too much for the market to bear then perhaps this recent decline will prove to be too much of a correction. For now, maybe the “true price” lies somewhere in the middle.

Although the market (US) has declined, so has the A-Index (World). After weeks of LDP/POP at zero, the A-Index has now also dropped-- to around the 65-cent area. What has been lost for now in the cash market can possibly be gained back in the form of higher LDP if lower prices continue.

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