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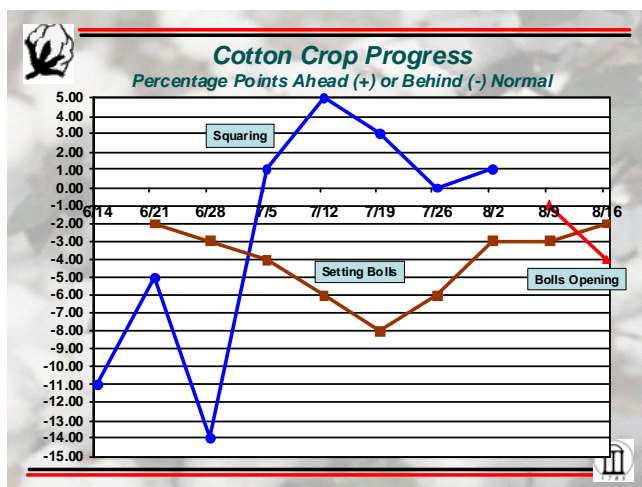
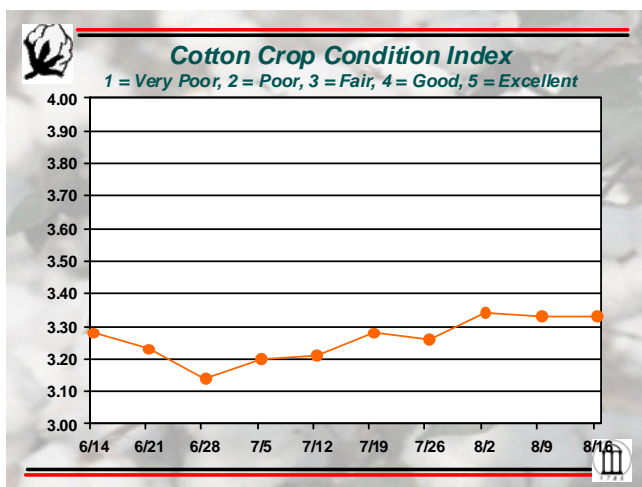
Looking Ahead To Harvest— It's Going to Be Interesting

USDA's August report pegged the crop at 13.2 million bales. This is based on 7.765 million acres planted and an average yield of 816 pounds per acre. This is an acreage abandonment of 14% and the yield just 23 lbs/acre below average.

The market (December futures) has come off its most recent rally and peak at about 64 cents and now seems to have settled in the 59 cent area. December closed today at 58.63 cents/lb—down 2.49 cents for the week. Thus far, support around 58 cents has held. This is an important “floor” both psychologically and technically. Provided we can stay above this level of support, another rally into the 60's doesn't seem too far-fetched. If we fall through, it becomes tougher.

As we prepare to move into September, this crop is still a question mark. Based strictly on crop condition ratings, this has been a mostly “Fair” crop from the start. Not much has changed. USDA's forecast yield of 816 lbs/acre is just slightly more than last year but 23 lbs behind the 5-year average. The crop at this date is about on par with last year. Texas has had rains recently. This may aid the crop there.

Based on last weeks crop progress numbers (as of August 16), the crop is a little behind in setting (2% points behind average) and opening bolls (4% points behind average). Looking at the averages, however, don't tell the whole story. To me, this is the biggest concern and unknown. Crop progress and condition is a real mixed bag. The crop is late and there appear to still be some potential trouble spots out there.



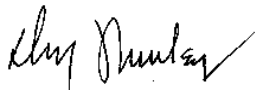
Here's what's in the bag:

- As of August 16, 71% of the US crop was in Fair to Good condition and 12% in Excellent condition.
- But in Texas, 26% of that crop was rated Poor or Very Poor.

- In Georgia, 56% of the crop is rated Good to Excellent. But 39% of the Georgia crop was planted after May 31 compared to 18% normally planted in June. Yet, USDA estimates the Georgia crop at 841 lbs/acre—only 8 lbs below the state record set in 2005.
- The Mid-South crop also appears behind normal. The numbers say it looks in pretty good condition but also behind. As of August 16, the Mississippi crop was 3% open compared to 14% normal. Arkansas, Tennessee, and Louisiana are also behind.

Prices have taken a bit of a tumble recently. Thus far this season, when this has happened the market (fueled by speculative buying) has recovered. The World supply/demand numbers don't justify cotton in the 60's or 70 cents. Yet, we have seen prices run in that direction in the short-term. Prices can only maintain any level if there is buying interest at that level. Thus far, this has been the hurdle.

As we move toward harvest time, what size US crop will we end up with? The next USDA production and supply/demand reports will be out on September 11. Overall the crop looks ok but there are potential pitfalls. The US crop is currently pegged at 13.2 million bales. Thus far, we've had 4 chances at December futures in the 60's. If the crop does better than expected, that may be too much to overcome unless something else can push us there. If the crop comes in shorter than expected, another rally would be possible.



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