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Prices Feeling Pressure From Both Sides

The market is in a position that appears to lack strong direction. Prices have now “corrected” themselves twice since mid-July. USDA’s next production and supply/demand estimates are to be released on Wednesday, Sept 12th and could help firm up the direction the market will take in the short term.

After bottoming out at around 57 cents back on August 27, prices rallied back to 61.57 cents/lb on Tuesday this week. The rally could not be sustained, however, and prices closed the week 1.32 cents below Tuesday. The decline this week could be only in anticipation of next week’s numbers.

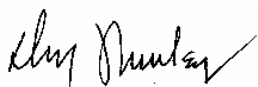


The market looks like it wants to feel comfortable around 60 cents. There is resistance at 62 and again around 64 and support at 57. Technically, it seems every time we get a rally, the market caves in and “corrects” itself downward. It is difficult to keep track of each and every market factor day-to-day and sometimes even week-to-week but this latest decline this week may be due to (1) improving US crop conditions overall, (2) mounting belief that crop prospects in China and India may be improving, (3) this weeks disappointing export report after several very good weeks, and (4) the reality that we still have large carry-in stocks from the '06 crop to work through.

Currently, cash offers for 41-4/34 are -2.5 cents basis October or -4.85 cents basis December. LDP/POP is currently only 1.10 cents. So total LDP plus cash sale is about 56.5 cents. This will improve as the A-Index and AWP decline relative to US prices.

Longer term, I believe the outlook has more upside potential than downside risk. Lower '07 production from the largest supplier of export supplies (the US) and increasing competition for '08 from crops such as corn and soybeans and wheat provides a bullish outlook if demand remains strong and unless production really improves greatly in foreign countries.

Dec08 cotton futures are currently around 69 cents/lb—about 8 ½ cents above '07 crop level. Is this sufficient to keep enough land in cotton to compete with corn and soybeans? Maybe or maybe not. I think something in the 70's could be more like it.



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