Southern Cotton Growers, Inc.
REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA

COTTON MARKETING NEWS

Volume 5 Number 37 September 21, 2007

This newsletter is also available in PDF format on the UGA Cotton web page at:
http://www.ugacotton.com

US Cotton as a "Residual" Supply
In an Environment of $4 Corn and $9 Soybeans

The US is the World's largest cotton exporter. With the decline of the US textile industry since the mid '90's, that business has now gone overseas and what the US once sold to our own mills is now shipped to other countries such as China, Turkey, and Mexico. The US accounts for 35 to 40% of World cotton (bales) exported.

An often used terminology is that the US is a "residual" supplier of cotton. We hear this quite regularly from many sources within the US cotton industry. What does this mean? If the US is a "residual supplier" of cotton to countries who need imports (our exports) to support their mill industry, what does this mean?

I have always been puzzled by the fact that the US is the largest single exporting country and foreign mills could clearly not meet their demand for cotton if it were not for the US…..yet, we are referred to as a "residual" supplier? That's like saying you're going to keep your biggest and best tailback on the sidelines and only give him the ball if you absolutely have to?! But he still ends up carrying the ball over 33% of the time.

What do you think of when you hear the word "residual"? To me residual means that the US is the supplier of "last resort". It would mean other countries buy our cotton "if and only" when they have to. It would mean our cotton producers get the market that's "left-over" after buyers have no other sellers of what they are looking for. I'm not sure I like the way that sounds-- and neither should you. Assuming this is true, why is the US in the role of a residual supplier? I'm not sure but price, currency exchange rates, fiber quality, trade policies, policies in competing countries, etc. would all be factors.

Here we are on the front door step of a new farm bill. We also have a very competitive environment for alternative crops-- $4 corn, $9 soybeans, and $6 wheat. If acres are to be bid into cotton, the price of cotton must keep pace. Yet, what would such higher cotton prices do to the demand for cotton and, more importantly, our ability to export cotton if we are the "residual supplier"?

Cotton (2007 crop) closed up 2.47 cents for the week and have now gained 9.33 cents over the past 3 weeks or so. Prices (Dec07 futures) now stand at just over 66 cents. Prices for the 2008 crop (Dec08 futures) are now over 74 cents per pound. Meanwhile, corn futures are now over $4 for the '08 crop and soybeans over $9.

In the end (longer term), supply and demand accurately determine price. In the meantime, "other forces" such as speculative interest certainly can and do come into play in the shorter term. It is the role of futures markets to predict what prices should be at some future time based on knowledge available now. Actual price will be higher or lower depending on how reality matches up to expectations. Much has been written recently wondering if recent speculative activity has bid prices too high. Will the recent run-up in '07 crop prices be justified? Is cotton in the low 70's still too low for the '08 crop? Price cannot be so high that it retards exports of the '07 crop. The result would be that prices adjust downward. Enough land must be bid into cotton to meet world demand for the '08 crop realizing that higher prices themselves may reduce demand itself somewhat. We may be a "residual supplier", but the world's demand for cotton has surpassed the ability to meet that demand without US cotton *unless foreign production increases significantly—now there's the kicker*.

Don Shurley

Don Shurley, University of Georgia
229-386-3512 / donshur@uga.edu