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Not A Pretty Picture

The market continues to weaken and, as it does, chances for a “full recovery” also diminish. The market (December futures) has now lost another 3 cents since trying to stabilize around the 52-cent area. A recovery to the mid-50’s area, should it occur, would seem quite an achievement right now, much less the dream of something better.

Today’s close at 49.09 December, places cash spot prices at 45.59 cents/lb—342 points under December for 41-4/34. Prices are 250 points higher for 31-3/35. Thus far, fiber quality seems better than anticipated and getting better. Weather has cooperated thus far. A little higher

price for quality will help some, but both low yield and low price in the same year really hurts especially when you consider high costs on both non-irrigated and irrigated production.



Economists often are accused of being too negative. I’m trying to not be and trying to find something positive to say. But, I’m sure you’ll all agree, it’s difficult to be positive sometimes. Being “negative”, in my mind, is often just another way of being “cautious” or “conservative”. The market continues to show weakness which likely reflects uncertainties (cautiousness and thus lack of aggressive buying) about the size of the US crop, the size of the China crop, and the import demand by China. The current numbers as we know them would not support the weakness we are seeing in the market—but yet here we are at below the 50-cent level. This likely means that the market is working off different expectations and that being (1) the US crop is going to be better than we think, (2) the China crop (and foreign crop in general) may be better than we think, and (3) US exports have mostly been disappointing. US mill consumption has also been below par (even lower than it’s already low level).

It has been forecast all along that US exports would be less than last year-- so being behind last year’s pace, in and of itself, should not be a problem. But, if the US crop is better than anticipated and exports remain weak, then this signals a potential buildup of stocks (or more stocks than expected) and compounds the situation.

The fact that the US could have a “short” crop and, by all accounts, still a reasonably good level of exports and yet we see prices at this low level signals the importance and influence of factors beyond our own country and beyond our control that impact the US producer. It also proves that the US cotton Marketing Loan (LDP), while offering a good level of income support, is not sufficient alone to guarantee profitability and sustainability. The next farm bill and policy changes regarding WTO issues will be crucial to the future of US cotton production and trade. As the demand for cotton and the world’s population continue to grow, how can/should the US position itself to be a competitive producer and major supplier of cotton to foreign mills while providing a safety net and keeping cotton a profitable crop for the producer?

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