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What We All Knew Is Finally Realized

The 2009 US crop just got smaller by almost ½ million bales. USDA, in its monthly production and supply/demand report, today reduced the US crop from 13.44 to 13.0 million bales.

This should be supportive of prices as we now move earnestly into harvest time—but USDA's numbers today are not entirely bullish. In fact, if anything the numbers are neutral for now.

The Texas crop cut 400K bales and the Mid-South crop trimmed by 75K bales. The Alabama and Georgia crops were unchanged with expected yield at 806 and 897 respectively.

However, somehow we found another 140K bales of old-crop to carry into the 2009 crop year and US mill use was cut 100K bales. Projected exports were unchanged at 10.5 million bales. So, on balance, 2009-10 projected US ending stocks were cut 200K bales.

On the foreign side, China production was lowered 1 million bales but carry-in stocks were increased almost 1 million bales. China projected imports were unchanged. India production was raised slightly and projected India exports raised slightly. Foreign mill use was unchanged from the September report. On balance, foreign 2009-10 ending stocks were essentially unchanged. Foreign mill use was unchanged so the stocks-to-use ratio was also unchanged.

So, the US crop got smaller as we pretty much thought it would (and it could get a bit smaller before all is said and done) but other adjustments both here in the US and in other countries left the total supply/demand picture fairly neutral.

Regardless, the smaller US crop should be somewhat supportive of prices—although I see nothing that yells at 70 cents yet. The upside is likely still around 65 cents. Is it possible, however, that the “floor” has now been raised from 58 to around 60 cents?

Can we break through and negotiate the 65 to 70-cent area? I'd be foolish to say we can't if the specs decide to take us there. But ultimately, World supply and foreign export business will set the path. All eyes remain on the weather and the potential for an even smaller US crop. But let's be cautious-- just like this month's smaller US crop, the impact could be offset by other supply/demand adjustments and leave us trading water.


