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Rally May Be Near Its' End

When I last wrote in this space (September 23rd) I prognosticated on possible impacts of Hurricane Rita... implying crop loss was likely and that prices could move to the mid-50 cent area as a result. Well, we've made the move up but the reasons for it appear a little suspect or at least different than anticipated. Prices (December futures) now stand at about 56-57 cents, moving as high as almost 58 cents yesterday before closing back near 56.

USDA released its October numbers on Wednesday. Overall, the report was marginally bullish. Just like there are now those that curse the Atlanta Braves for not going further in the post-season, anyone who paid attention should have known better than to think that team could run the table. So, while this latest run is impressive, let's not get overly optimistic. We've still got a ways to go to prove the market can sustain prices much above the mid-50's.



Numbers worth noting ... In the October report, the US crop was increased about ½ million bales to 22.7 million bales, projected exports were raised 700,000 bales to 16.0 million bales, and US mill use was raised 200,000 bales to 6.0 million bales. For China, the projected crop was cut 1.0 million bales and imports were raised 1.2 million bales and mill use was raised ½ million bales. Projected world ending stocks are still at almost 51 million bales or 45% of use-- a number typically large enough to keep the A-Index (world price) from rising much higher than it is currently (around 60 cents).

The China crop is projected to be 4.5 million bales less than last year while mill use is projected up 3 million bales-- thus, the gap is growing and China's imports are projected to be 9 million bales above last year! China will need US exports, but at what price? Price direction (55 cents or higher vs. a retreat back closer to 50) will depend on export sales reaction to higher prices.

Longer term... With soaring production costs, how much longer US farmers will plant 13-14 million acres of cotton even with LDP's. Will prices have to eventually move higher? And what about the impacts of possibly losing Step 2?



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