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Baseball Bats and Shotguns

If you're a baseball fan, nothing is more frustrating than watching a batter for your team stand there and take pitch after pitch. I'll often yell "Swing, you just might hit something".

When I'm dove hunting (I'm a terrible shot), sometimes if a group of birds fly over, I'll just shoot at the middle of the group and hope to hit one of them.

This year's cotton market has thus far seen a mix of bullish news then bearish then bullish then bearish again. When you think prices should go down, they go up. You think prices are headed up, they go down-- it's like trying to hit a curve ball or shoot a fast moving target. As a producer, it's frustrating and almost impossible to deal with the uncertainty of events and the volatility in prices. Yet we know this volatility is part of the business and being able to somehow manage it (cope with it) is the key to profitability.

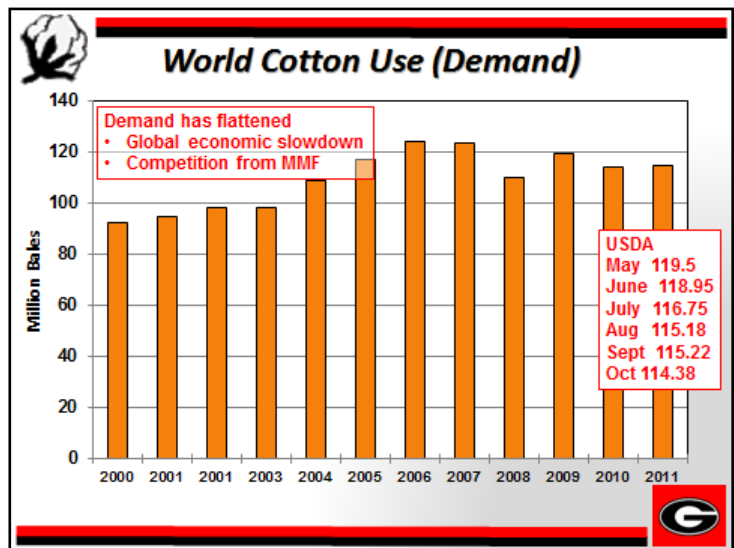


By all measures, this week's supply/demand numbers were bearish and should take another dime off this market. In time, perhaps that will happen. But thus far, the market has held up and given producers additional opportunity to price a few more bales if needed.

USDA now projects the World demand for cotton at only 114.4 million bales. That's 840K less than last month's estimate but, more importantly, it's a 4 to 5 million bale decline from even earlier estimates. This is evidence of global economic uncertainty and slowdown, competition from other fibers, and the lessening use of cotton in mills around the World.

The strange thing is that just a month ago, news and analysis was circulating that export and mill business was expected to pick up and that demand should begin to show signs of improvement.

So, World demand was dropped 840K bales from the September number. In addition, World production was increased 1.23 million bales. Australia, Brazil, India, and Pakistan were increased. Carry-in stocks from 2010-11 were increased so the net result of all this was an almost 3 million bale increase in 2011-12 Ending Stocks. The stocks-to-use ratio is now at a historically fairly comfortable level of 48%.




Earlier this week prices (Dec11) dropped to about 98 cents on Monday before closing around 99 cents. Prices improved on Tuesday to \$1.03 and remained there on Wednesday despite the bearish USDA numbers. Yesterday and today, Dec11 has hovered mostly around \$1.01 to \$1.02.

USDA's numbers on Wednesday upped the US crop slightly to 16.61 million bales. The Texas crop was cut another 200K bales but the Georgia crop was raised 200K, so they offset. The Georgia yield was raised from an estimated 789 lbs/acre in September to 853 lbs/acre this month. This yield and production is still highly uncertain and will depend on conditions the remainder of the season. Some of the GA crop still has a long way to go. A yield of this level would be phenomenal given the dry start we had, erratic rainfall all season, reoccurring dry conditions in August and September, and cooler than normal temps in October.

US 2011-12 exports are now projected at 11.5 million bales, down 500K bales from the September estimate. This reflects to further deterioration in demand and increased foreign production.

Prices seem to be resilient despite more bearish news. This could also mean more likely future volatility. If export sales and demand are weak, I suspect that further upside potential will be limited unless the supply side (US and/or foreign production) in fact comes in under current projections. A near-term price range of \$0.90 to \$1.10 seems most likely but outside this range is also possible.



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