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December Marches On— What Price Is High Enough, But Also Costs

Futures prices for next years crop (Dec08) closed at almost 76 cents per pound today and the market has now gained another 4 cents since the most recent decline and low on October 8th. The market gained over 2 cents this week.

US farmers planted 10.85 million acres of cotton in 2007—down 4.4 million acres (29%) from 2006. There seems to be wide-spread expectation that acres will, at best, be about the same for 2008. More specifically, the question seems to be how high the price of cotton needs to go to keep acreage at 2007 levels or higher.



The US crop is now estimated at 18.15 million bales at a yield of 826 lbs per acre (USDA, 10/12/07). This is a good crop from that acreage due also to very low acreage abandonment expected. Depending on acreage for '08, the outlook could be a crop of 16 to 19 million bales. An 18 million bale crop being achieved with this year's big decline in acreage (not to mention weather problems), in my mind, adds even further to the uncertainty in '08 crop potential as we look ahead.

USDA's October numbers *raised* the US crop slightly from September. The World crop was raised about 3 million bales and World use increased about 2 million bales. World ending stocks were raised about 3 ½ million bales—but it is worth noting that this is largely due simply to the fact that China's beginning stocks were raised approximately 4 million bales (i.e. China somehow found another 4 million bales of the '06 crop).

Assuming World use continues to trend upward, further reduction in stocks will occur unless production increases. It seems a conclusion (or at least a lot of discussion has been centered on) the likelihood that US cotton acreage and production could be down again in 2008 and thus prices (Dec08 at 76 cents currently) are attempting to bid acres into production. A key and largely unknown component will be how other major cotton producing countries respond—acres planted and yield.

This begs the question whether or not prices are already high enough. What will it take to keep acres at 2007 levels? Basis the December futures, price currently would be the low 70's. If my conversation with Georgia farmers to date is any indication, this may not be enough. But it's much more than price. It's cost of production. Nitrogen is high, fuel is high, and early word is that tech fees may increase for '08. In other words, even at much improved prices for the '08 crop, cotton still has a cost disadvantage compared to other crops. As long as corn and soybean prices are high, even higher cotton price may be necessary to coax land into production unless costs moderate. The challenge in cotton has as much to do with cost of production as it does price.



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