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**Not a Good Way to End the Year...
 But the Outlook May Still Improve**

The skid continues. March futures flirted with the 85 cents this week. March closed at 86.29 cents/lb today—down 4 cents for the week and breaking through previous support at the 90-cent area. New crop prices (Dec12 futures) have also plummeted. Dec12 closed today at 84.51 cents/lb.


The reasons for the decline in price over the past few months were *pretty well chronicled in the last (Dec 2) issue of this newsletter*. So, we don't need to unnecessarily plow that ground again.

Much has been made of the USDA's December report being bearish and its impact on prices the past week or so. *No doubt, dropping another 3 million bales off World demand was very bearish. But honestly, the cotton market has been in a bearish transformation for months now.* For the most part, it has been hope that demand would improve that provided price support. This month's report really put a pin in that balloon.

But not all is gloom and doom. As pointed out in the December 2 newsletter, demand has weakened and World stocks-to-use has improved. As a result, prices have declined 30 cents since the summer and 15 to 20 cents in the past few months. *When price declines, that's the market saying it doesn't want or need cotton.*

And you know what? That's exactly what will likely happen in 2012—less cotton (at least less acreage). The US planted 14.72 million acres this year compared to only 10.97 million in 2010. 2012 will likely be somewhere between 2010 and 2011. I can tell you that 80 to 85 cent cotton absolutely will not compete for acreage with corn and peanuts and maybe soybeans for a lot of growers with the agronomic flexibility to switch. *But that's what prices are supposed to do—act as a signal to producers.*

I saw a report this week suggesting that demand could improve 2% in 2012-13. That would be great but only a little over 2 million bales and not a cure to what ails demand. *Prices will find support and improve when demand improves—either improved sales or speculative (bullish) buying.* At some price, buying should improve if there's underlying demand. If demand improves and 2012 acreage and production declines, prices could begin to trend back up.



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