



COTTON MARKET COMMENTS

Consumption Slows, Supply Adequate for 2007/08 Crop

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The latest USDA report indicates there is plenty of cotton to meet world consumption needs for the 2007/08 crop. Thus, a sluggish market is expected. With the December '07 futures expiring under 60 cents, the March '08 contract will likely continue trading in the low to mid-sixty cent range.

Equities offered for cotton placed in the CCC loan are expected to be only a few cents, if any. Market prices appear just high enough to pay storage costs. Keep alert for day-to-day, technical moves that may be strong enough to provide a price slightly above loan value. The market (futures and cash) needs to be watched closely for opportunities to sell.

World ending stocks were increased slightly, mainly because of weakening consumer demand. Foreign economies are slowing a little because of economic and policy reasons.

The big question is how much cotton acreage will be planted in the U.S. next season. Alternative crops continue to offer favorable prices compared to cotton. Cotton acreage might slip below 10 million acres. Texas is the only state where 2008/09 acreage may remain stable. The Delta states have the greatest flexibility to reduce cotton acreage. The Southeast and Western regions will also reduce cotton plantings. Two seasons of sharp cuts in cotton acres will tighten U.S. carryover stocks substantially for the 2008/09 crop.

With foreign acreage expected to remain stable next year, the key to the U.S. price is how much cotton foreign countries will import from the U.S. to fill the USDA 2007/08 projected 24 million bale deficit gap between production and consumption.

If the U.S. acreage is 10 million or less next season, production of 16.3 million bales would be a good crop. However, only 4.5 million is needed for domestic use. That leaves about 11.8 million bales plus, say, 7.7 million carried over from the 2007/08

crop. The total available 2008/09 exportable supply would be around 19.5. A carryover of 4 million bales is fully adequate to fill specific quality orders. The result strongly indicates a world price ("A" Index) in the vicinity of seventy cents.

In the past, the U.S. futures price has averaged some 5 cents per pound less than the world price. The world price could rally substantially if growing conditions threaten yields in any major producing country.

Foreign production and consumption have little reliable information from which to project expected supply and demand. There is the possibility that world consumption may be overestimated and production underestimated. The market is still not very concerned that 2008/09 supplies will be short.

Marketing strategies should include placing a floor on favorable price moves while allowing the benefit of a higher price. Options are the primary pricing tool. Options and futures can be used to place synthetic puts. Various types of spreads will also be useful. An export-driven market makes for unexpected market moves.

Best Wishes for a Happy Holiday Season and a Prosperous New Year!

The Ag Market Network Teleconference will be Thursday, December 13th, 2007 at 7:30 a.m. Central Time. Special Guest Speaker is Peter Egli – Plexus Cotton Limited. Speakers – Cotton Panel are O.A. Cleveland, Carl Anderson, and Mike Stevens. Pat McClatchy is the Ag Market Network Moderator. The conference will be live on radio station KFLP 900 AM Floydada, Texas; live over the Internet at www.AgMarketNetwork.net; or you can listen to a recording around noon at

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