



# COTTON MARKET COMMENTS

## Cotton Acreage in 2010 Expected to Increase

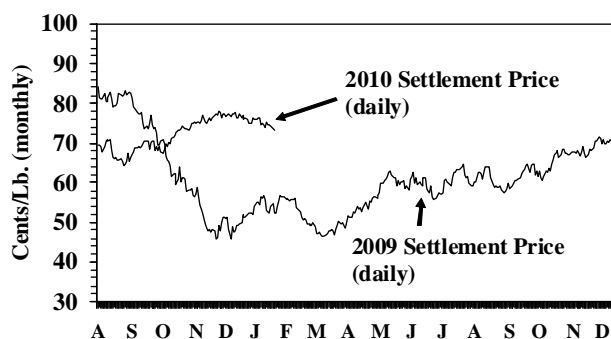
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Cotton futures prices have traded in a fairly narrow 72-75 cent per pound range since January 4, 2010. The market appears satisfied with current cotton supplies worldwide.

Because of higher prices since last September 2009, U.S. cotton acreage is expected to increase some 10 percent from the 9.1 million the year before. The resulting 10.0 million acres may produce 14-16 million bales, about the same as projected use.

**December 2009 vs. December 2010  
Futures Settlement**



Soil moisture conditions in Texas are much better than have existed for the last two years. Near ideal growing conditions in 2007 produced a Texas crop of 8.25 million bales, followed by 4.45 million a year later, and an estimated 4.90 million this season due mainly to dry weather. Clearly, the Texas cotton crop has substantial impact on size of the U.S. crop.

The January USDA supply/demand estimates were little changed from a month earlier. Production in China was increased 500,000 bales to 32.0 million, and the crop in India was cut 300,000 bales to 23.5 million. World ending stocks remain adequate at 51.7 million, but down from a surplus 60.9 million a year earlier.

Market support stems from a sharp decline in world stocks-to-use from 54.8 percent a year ago to 45.23 percent now, the lowest level since 1994/95. Yet, the supply of cotton is sufficient for prices to trade sideways in the mid-seventy cent level. With acreage expected to increase, December 2010 may continue trading below 80 cents this spring, but well above the 10 year average December contract high of 72.5 cents.

The key to strong cotton prices is exports, which make up 75 to 80 percent of total use in the U.S. In the first week of January, net U.S. upland cotton sales of 437,000 bales were a marketing year high. Estimated exports of 11.0 million bales from the 2009 crop may be exceeded by August 1.

The cotton market can shift without warning because of complex market forces. Today, the market is not only made up of supply and demand, but also speculators (index funds and hedge funds), and trade and domestic policies of all countries. Thus, price levels and basis are highly volatile.

Therefore, producers need to plan ahead how they are going to manage price risk. Physical cotton can be sold by contract, use of CCC loan programs, marketing pools, marketing associations, or individually. The use of futures alone to manage price risk includes tremendous margin risk. The futures price can turn drastically overnight in either direction. Options premiums are expensive because of the price volatility. As a result, spreads of buying and selling options are frequently used along with purchase of puts and calls.

Partially funded by Cotton, Inc.

A Cotton Price Risk Management Seminar coordinated by Cotton Incorporated will be held on February 17, 2010 at the Peabody Hotel in Memphis, Tennessee. The instructors are Dr. Carl Anderson and Dr. John Robinson. They will discuss when and how to use a variety of option strategies including: fences, 3-ways and calendar back spreads. Dr. O.A. Cleveland will be discussing the Cotton Market Outlook. No attendance fee; lunch will be provided. To register contact Kay Wriedt at 919-678-2271 or kwriedt@cottoninc.com.