



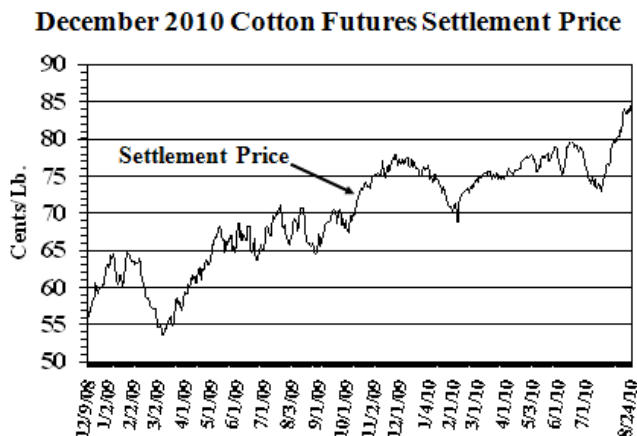
COTTON MARKET COMMENTS

Price Strong Despite Weak Economic Activity

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The cotton market made a substantial increase in price from 80 cents on August 11th to 85 cents on August 24th for December futures. Several market forces turned bullish together. Foreign cotton stock estimates were lowered by USDA, bad weather in Pakistan, China and elsewhere, price of competing crops very strong, and optimistic futures buying by hedge funds and others.



Weak economic data and decline in U.S. stocks were pushed aside for the time being. However, consumers are being cautious in buying cotton goods.

So, it appears that the actual demand for cotton at futures above 80-85 cents has yet to be tested. While the export market is strong, the price of export sales is not clear.

Speculative buying may have driven price up faster than consumer demand. If so, with the new harvest season underway, the supply of cotton will rapidly increase in the next two months and price could level off and decline into the mid-seventies.

A key indicator of demand strength will be the speed of accumulation of certificated cotton available for December delivery. A rapid increase of certificated stocks would suggest that price will get in line with demand before year end because of potential delivery on futures contract.

In Texas, cotton harvest is underway in the Coastal Bend and beginning in Central Texas. The southern region of Texas has the potential to soon harvest a million bales of high quality cotton.

At this time, this year's Texas crop condition ratings are somewhat better than in 2007, which indicate high yields. As of August 23rd of this year, the USDA cotton progress and condition report for Texas indicates 67 percent of crop is in good to excellent condition, 26 percent fair, and 7 percent poor.

In 2007, when Texas upland cotton yielded a record 843 pounds per acre, the crop condition on August 26th was only 56 percent good to excellent, 30 percent fair, and 14 percent poor. Comparing 2010 conditions with those of 2007, the crop could exceed the 8.8 million bale forecasted in August this year, based on 768 pounds per harvested acre.

Producers are encouraged to take advantage of 80 cent and higher prices by use of options, contracting, or pooling cotton. Markets driven by speculative trading, such as in cotton now, are subject to sudden moves over night. It is highly desirable to use low financial risk price fixing strategies. Be careful with any strategy that is subject to unlimited margin calls.

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