



# COTTON MARKET COMMENTS

## *Higher Price Expected*

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February 4, 2008

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The U.S. cotton perspective for the 2008/09 season includes decreased supplies, a slowdown in demand, and a higher price than last year. Expectations for another decrease in U.S. acreage has provided support for December '08 futures to increase 10 cents per pound since last August to 76 cents at the start of the new year.

A short rally on January 14<sup>th</sup> moved December '08 price to the 80-cent level for several days. A week later price had dropped 5 cents to less than 75 cents. That was a \$25 per bale move. The rapid market swings clearly show the extreme volatility of the market. Managers of large funds can move the market limit up or down in a day for no fundamental supply or demand reason. These speculative traders are relatively new to the cotton market.

Cotton prices are sluggish compared to wheat, corn, and soybeans. Cotton acreage may decrease to 9 million acres this season, compared to the 10.85 million last year. Thus, the U.S. crop potential is around 14 to 15 million bales. Yet, domestic mill use and exports are expected to be some 20 million bales.

The result appears to be a drop of U.S. stocks to a rather tight 4-million bale level by end of the 2008/09 season. Foreign stocks have also declined substantially for the last two years. Consequently, December '08 futures have strong support to trade in the 75- to 85-cent range.

World production is expected to fall around 5 million bales short of consumption. However, because of weak U.S. and foreign economies, mill use of cotton will likely slow down from the rapid growth rate of the last four years.

Although world stocks may decline several million bales, projected carryover stocks will likely be sufficient to discourage a large surge in 2008/09 prices.

But, the drop in 2008/09 U.S. planted acres since two years ago should not only tighten U.S. stocks but world carryover as well. In 2009, December '09 futures could increase above 95 cents and might go well over a dollar if grain prices remain competitive for cotton acreage for another year.

At the end of the first six months of 2007/08 season, cotton shipments totaled only 6.1 million 480 pound bales. Exporting the 16.0 million bales USDA has estimated for the season looks bleak. Another 9-million bale surplus carryover of U.S. stocks is possible. Thus, a 14- to 15-million bales harvest would provide adequate stocks for another year.

For old crop, watch for technical rallies to sell cotton on hand for a modest equity over CCC loan value. With around 500,000 bales certified for delivery on New York futures, nearby March futures will likely decline to the mid sixty cent level prior to the February 25<sup>th</sup> first notice day. Speculators are not interested in owning physical cotton. Therefore, they tend to sell nearby futures and buy more distant futures.

Futures prices for December '08 are likely to increase because 12 to 18 percent fewer cotton acres are expected compared to last year. During price potential rallies to mid 80 cents, buying out-of-the-money put options would provide a low risk strategy to insure a price floor.

### **Cotton Price Risk Management and Pricing Strategies for 2008/09 Crop (Sponsored by Cotton, Inc.)**

#### ➤ Workshop Dates and Locations:

- February 13th, Memphis, Tennessee, Peabody Hotel
- March 26th, San Joaquin Valley-Harris Ranch, California
- April 2nd, Lubbock, Texas, Holiday Inn Civic Center

Instructors: Carl Anderson, Mike Stevens, Kelli Merritt, John Robinson, O.A. Cleveland

Partially funded by Cotton, Inc.