



COTTON MARKET COMMENTS

Growers Indicate Sharp Cut in 2007/08 U.S. Cotton Acreage

Carl G. Anderson
Professor Emeritus

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The January U.S. cotton estimates increased carryover to 7.1 million bales, up from 6.3 last month and the largest since 2001/02. The U.S. crop was increased 400,000 bales and domestic use and exports decreased. World estimates also increased production; but, higher consumption partially offset the larger crop. The result was slightly higher ending stocks. Stocks remain at an adequate level of 52.26 million bales. That is more than 5 months of world use.

Therefore, 2006/07 crop prices are not expected to increase much from around the current mid-fifty cent range. A maximum counter-cyclical payment is expected for 2006/07 cotton. Export nations (including the U.S.) have enough cotton to meet demand at current price levels. Foreign stocks outside of China are only slightly lower than a year ago. World stocks-to-use (s/u) is above 43 percent. For the market to gain support, it needs s/u at 40 percent or less.

In China, s/u at 28.7 percent is the lowest since 19.6 percent in 1989/90 when the "A" Index was 82 cents. However, world s/u was 28.7 percent and exports nations 24 percent. Even so, USDA lowered China's estimated import needs over a million bales from December to 16 million. It appears that China either has more cotton than estimated; using more man-made fibers; or, will need to import a substantial amount of cotton in the first half of this year.

Amount of acreage planted to cotton in U.S. and foreign countries in 2007/08 will be "the key" to price levels for the new crop. Given strong grain prices and the use of less money per acre to grow corn, sorghum, soybeans and wheat, cotton acreage may drop 20 percent (3 million acres) from last year's 15.3 million. Favorable planting

weather for grain this spring is a major factor in increasing grain acreage and cutting cotton plantings.

Most producers and consultants attending the Beltwide Conferences in New Orleans last week indicated the shift of cotton acreage to grain in 2007/08 would be in the 20 to 25 percent range. Assuming that only 12.3 million acres is planted to cotton, abandonment is 9 percent and yield 800 pounds per acre, the crop would be 18.5 to 19.0 million bales, compared to the 2006/07 21.7 million bale crop. With domestic use of 4.8 million bales and exports of 15.5, carryover would decrease somewhat but still be some 5.0 million, depending on growing conditions.

Provided foreign countries trim their cotton acreage about 2 percent, world carryover stocks would decline for the second year in a row to a level that supports the "A" Index in the 68 to 72 cent range. That would suggest the December '07 futures would trade in the low to mid-sixties. Prices received by growers would be in the low to mid-fifty cent level.

The counter cyclical 2007/08 payment may be reduced by several cents. Current futures prices and the average difference in farm price indicate an average season price of 55.15 cents.

Although the price outlook for the 2007/08 season is for only a little higher price, weather and international trade policies will likely cause prices to be volatile. Growers need a marketing plan that includes price risk management of both sharply higher and lower prices in the short-run during the first half of 2007.

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