



COTTON MARKET COMMENTS

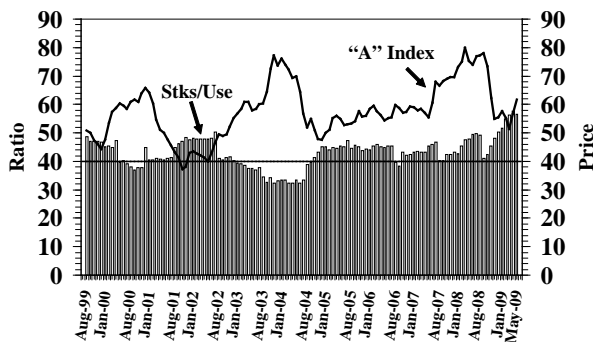
Higher Prices Reflect Uncertain 2009/10 World Crop Size

Carl G. Anderson
Professor Emeritus

May 12, 2009

The first USDA cotton projections for the 2009/10 U.S. crop include fewer supplies, offtake and ending stocks, compared with 2008/09. With the next crop estimated at 13.25 million bales, total U.S. supply for the new season will decrease to 20.1 million bales from 22.9 in 2008/09, and drop from 28.7 two seasons ago. Carryover stocks are projected at 5.6 million, a significant 18 percent reduction from the season before.

Cotton: "A" Index and World Stocks/Use, August 1999 – May 2009



World stocks in 2009/10 are expected to also decline because of slightly lower production and higher consumption. World ending stocks by August 2010 are projected to fall 7 percent to 57.8 million. Even so, this is a plentiful 51 percent of expected use.

Since mid March, December '09 futures has increased over 15 cents per pound. There are several reasons for a much higher price than expected just a month ago. Market

support stems from fewer planted acres, decline in surplus cotton stocks, an increase in foreign mill use, a rapid drop in Commodity Credit Corporation loan stocks of 10 million bales to less than a million, a weaker dollar, and increased speculative buying.

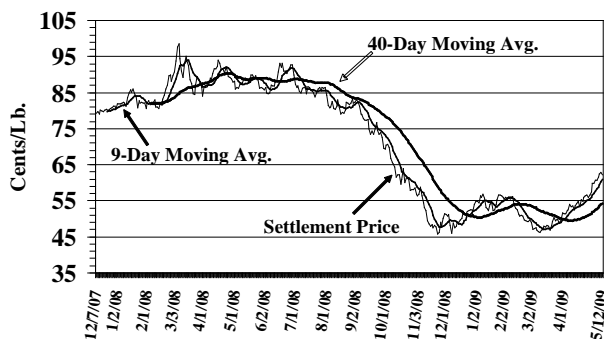
Furthermore, the decline in foreign acreage is uncertain. Too, abandonment of planted acreage in Texas could increase. Most of the dryland cotton acreage (400,000 to 500,000 acres) in the Texas Coastal Bend is being abandoned. Without timely rain before June 15, another 1.5 million Texas acres might be lost.

With over half of the U.S. cotton acreage in Texas, the U.S. 2009/10 crop could fall to 11 or 12 million bales from this year's 12.8 million because of abandoned cotton acreage.

The foreign mills that depend on the U.S. for their imported cotton might find U.S. cotton somewhat scarce. The USDA is estimating export shipments at only 11.00 million bales from the 2009/10 crop. Four years ago, the U.S. exported 17.5 million bales. However, the crop size was 23.90 million. China could purchase substantially more U.S. cotton than projected currently

Cotton futures are very forward looking. Thus, with next year's U.S. cotton supply threatened by adverse weather. December '09 futures may increase another 10 cents or so a pound before August. The market will likely be fairly bullish until the size of the 2009/10 foreign and U.S. crops are better known.

December 2009 Cotton Futures Settlement Price vs. 9-Day and 40-Day Moving Average



The Ag Market Network Teleconference will be Thursday, May 14, 2009 at 7:30 a.m. Central Time. Special guest speaker will be Jarral Neeper, CALCOT-President. Speakers – cotton panel are O.A. Cleveland, Carl Anderson, Mike Stevens, and John Robinson. 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 www.AgMarketNetwork.net. Weekly updates are made on Friday afternoon by Mike Stevens.

Partially funded by Cotton, Inc.