



COTTON MARKET COMMENTS

World Production, Use and Stocks Estimated Lower for the Next Year

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World cotton forecasts for this season show lower supplies, use, and ending stocks than last season. World ending stocks have decreased to only 41% of use. This is down from 49% last year. Foreign stocks, Chinese stocks, export nations, and U.S. stocks have decreased substantially from a year ago.

The “A” Index has gradually increased for the last 12 months to almost 80 cents and is expected to average about 10 cents more than the 74 cents for the last season.

The U.S. crop was lowered slightly, exports were increased for this crop, and ending stocks were decreased, compared to the July report. At the beginning of the season, crop size and exports are subject to considerable adjustments as the crop season matures.

The Texas upland cotton crop was placed at 5.2 million bales, 3.0 million less than last year’s 8.25 million. Harvested acres at 3.4 million is 1.3 million less than planted. That is, 28% of the Texas acreage is abandoned. Yield per harvested acre at 734 lbs. is more than 100 lbs. less than last year. Yields are below average for the Rio Grande Valley, Coastal Bend, and Blackland areas. Cotton across the High Plains and Rolling Plains is still young and needs another two months of favorable growing weather. There are nearly 2 million acres of irrigated cotton in this region that has good potential. However, the Texas crop remains vulnerable to dry weather and lower temperatures in September and October.

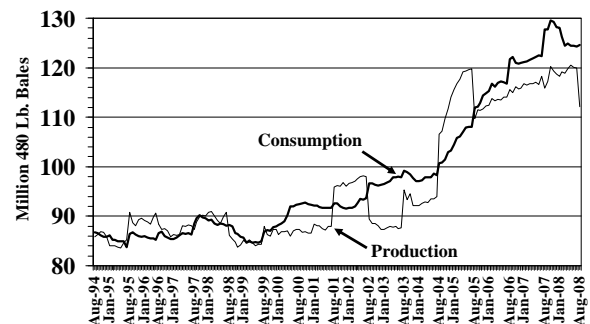
Fewer acres and reduced yields are the main reasons for a 28% estimated drop in U.S. production from last season for the smallest crop since 12.2 million bales in 1989. The result is the expectation of dropping the surplus of over a 10 million bale carryover from last season to less than 5 million by the end of the 2009 crop year.

A smaller excess supply a year from now sets the stage for limited cotton stocks in 2009/10. December ’09 futures price will have to rally well above 85 cents per pound to encourage more acreage, unless grain prices decrease substantially. However, the current glut in cotton stocks will hold December ’08 futures to an estimated 65 to 75 cent range because of weak export demand.

The demand for textile goods has been reduced due to higher fuel, food costs, and general inflation in the U.S. Also, the generally weak economies in many foreign developed and developing countries contribute greatly to the decreased buying of cotton goods.

The price of cotton is gaining support from reduced world production that more than offsets a slow down in mill use. The world price has already increased. World ending stocks-to-use is now projected to decrease to 41% by end of this season. That would be the lowest stocks/use since 1994/95 when the “A” Index averaged 91 cents for the season.

Cotton: World Production and Consumption, August 1994 – August 2008



The cotton futures market has returned to responding somewhat to the fundamentals of supply and demand. However, the price and basis (difference between futures and cash markets) remain very volatile and unpredictable. The cotton marketing system that worked reasonably well in the past does not exist at this time.

Price discovery and price risk management are not reliable enough to effectively plan ahead. Hedging cash price is not reasonably reliable. The net effect is lower prices for producers because of increased marketing costs.

The income and price “safety net” provided in the 2008 Food, Conservation and Energy Act did not take into consideration that production costs have soared to new levels. Thus, with forward pricing also more expensive, preparing a net cash flow for 2009 will not be easy for agricultural lenders and producers.

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