



# COTTON MARKET COMMENTS

## *World Cotton Demand Weakens*

Carl G. Anderson  
Professor Emeritus

September 15, 2008

The cotton market, faced with decreased worldwide demand and a surplus of U.S. cotton, has weakened substantially since June. December '08 futures closed at 82.24 cents per pound June 16 and by September 11 had dropped to 63.86, a decrease of 18.38 cents. The marketplace now recognizes there is too much cotton for too little demand.

The latest USDA supply/demand report increased world stocks and lowered the 2008/09 U.S. season's estimated price 3 cents to a range of 57.0-69.0 cents. World use was decreased slightly with production holding steady.

September USDA forecasts include lower U.S. supplies and offtake than the month before. The result is higher ending stocks. World forecasts show lower consumption and trade with higher ending stocks. Cotton use was reduced in China, India, Pakistan, and Turkey because of deteriorating world economic conditions and less demand for textiles.

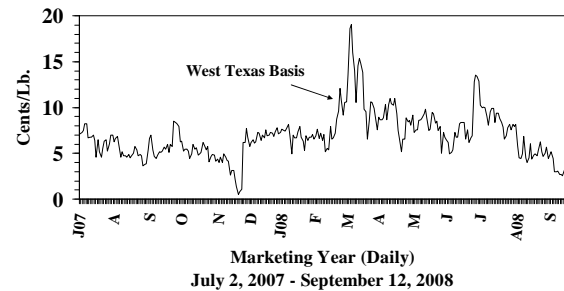
Export sales and shipments remain weak. The 2007/08 crop in China was increased 1.2 million bales to 37 million, up from 35.5 the year before. Five years ago Chinese cotton production was 23.8 million bales. With China the main buyer of U.S. cotton, their production increase translates into less need for importing American cotton.

For Texas, planted acreage was increased by 200,000 acres to 4.9 million, the same as last year. Estimated harvested acreage of 3.4 million reflects 1.5 million acres have been abandoned due to adverse weather conditions. Production was increased 100,000 bales to 5.3 million, compared to 8.25 million last year. Texas Southern High Plains cotton needs several weeks of warm weather and sunshine to mature.

The basis (difference between cash price and futures price) for West Texas cotton has decreased to more normal levels of 3 to 6 cents. The market's response to the fundamentals of supply and demand is more realistic than last March when speculative trading overpowered market fundamentals.

However, the futures market needs more regulatory controls to assure that another market disaster of around 20 cents basis does not happen again.

### Basis for West Texas\*



\*Nearby Futures Up to First Contract Notice Day minus West Texas Spot Price

The market situation continues with too much U.S. cotton on hand, causing lower prices. Yet, futures prices will need to increase substantially by next spring to encourage growers to plant more cotton instead of cutting acreage for the third year in a row.

Higher production costs with little relief in sight threaten to reduce acreage unless December '09 futures trades above 85 cents per pound for the 2009/10 planting season next spring. The old price/cost squeeze has regained new strength. If the cotton market does not signal improved cash flow, the U.S. cotton industry will become even smaller.

*The Ag Market Network Teleconference will be Tuesday, September 16, 2008 at 7:30 a.m. Central Time. Speakers – cotton panel are O.A. Cleveland, Carl Anderson, and Mike Stevens. 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](http://www.AgMarketNetwork.net); or you can listen to a recording around noon at [www.AgMarketNetwork.net](http://www.AgMarketNetwork.net). Weekly updates are made on Friday afternoon by Mike Stevens.*

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