

Cotton Prices Are In Beginning Of Uptrend

Don't despair! The best is yet to come. While we will continue to hear of severe economic difficulties in the U.S., Europe and Asia (especially China), the world cotton sector has led the decline and is now set to stabilize and begin the long and painful journey back to economic success. The "depression" word will be used more and more with respect to the world economy. Cotton is already in a depression as evidenced by U.S. domestic mill use and world consumption. There are a few bright spots on cotton's horizon, but there are some. The cotton industry will continue to suffer from poor demand as consumer income marches lower and lower. Prices will mark time in anticipation of both planting news and plant development.

After finishing higher in six of the prior seven sessions, New York futures have now moved lower for three consecutive days. The net gain over the past eleven sessions was about two cents. Despite declining 2009 plantings and the very dry weather facing Texas, world carryover and declining consumption will hold cotton prices within the very wide ten cent range (50-60 cents) for some time to come.

Consumption woes became very clear with the U.S. Department of Commerce's domestic mill consumption report for December 2008. U.S. consumption during December totaled an annualized 3.07 million bales, a true depression era statistic. The year ago December level was 4.74 million bales, or some 1.7 million bales higher.

Continuing with consumption woes, the weekly export sales report for the week ending 1-15-09 reported net sales of 110,500 RB with Upland sales of 107,200 RB and Pima sales of 3,300 RB. Primary sales of Upland were to China (19,700 RB); Pakistan and Indonesia. Primary sales of Pima were to Indonesia (2,300 RB) and China. Shipments totaled only 138,400 RB with Upland deliveries accounting for 138,100

cotton outlook

**O.A.
CLEVELAND, PH.D.**

Agricultural Economist
Mississippi State
University



RB and Pima shipments of only 300 RB. The primary destinations for Upland were Mexico (26,700 RB); Bangladesh and China. The primary destination for Pima shipments was Japan (200 RB). The current level of export shipments now falls below the mark needed to reach USDA's export forecast of 12.0 million bales for the 2008-09 marketing year.

The market is in the early stages of focusing on the long standing drought in Texas, very significant due to the more than fifty percent share of the U.S. acreage to be planted there this season. The USDA Drought Index places Texas as the driest location in the U.S., equal to the 100 percent irrigated Imperial and San Joaquin desert valleys of California. Thus, not only is cotton production in question in that state, but so is all row crop production. The cotton market will focus more on this as time passes. Yet, it is far too early to write off moisture falling in that area. However, both the intermediate and long term weather forecasts call for Texas to be abnormally dry throughout the planting and production seasons.

Cotton prices are in the beginning stages of an uptrend in price. Yet, we must remain very patience as cotton consumption will not improve significantly until consumer income begins to rise and that could be as much as a year away. Price support will come from declining stocks. Δ

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