

Decline In Cotton Stocks Supports Prices In Upper 60-Cent Range



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The 2008 New Year for cotton gives every promise to being "The Year of the Bull." With respect to promises, I am reminded that cotton promises less and gives more than any other crop. Said another way, 2008 will be the year of "High Cotton." (Of course the other part of that market adage is that cotton promises more and gives less than any other crop.) It all depends on the hat you wear. Yet, with the nearby March seemingly comfortable at 68 cents, just slightly above its dominant range, but still within its long term price range, the reality of the upcoming significant decline in both U.S. and world cotton stocks appears to have creped in the market and is supporting prices at the upper end of the range. We must watch the level of New York certificated stocks as well as demand, but just as 63 cents, basis the nearby futures, was the price low in from early October forward, it may well be that 67 cents will be the price low for the remainder of the year.

The annual Beltwide Cotton Conferences will be held next week with the venue in Nashville. There will be more than a few folks lining up to listen to the pundits discuss just how big the grain fed cotton bull will get before the slaughter. For me, I would think that bull will fatten up all the way into 2009.

The big export sales we have often seen through the New Year holidays failed to materialize this year. However, prices have once again left the textile mills behind...just as they did back at the 63 cent level in September-October. While a price setback is in order, the slip-page will be both minor and short lived. World demand continues robust. A few examples include record monthly yarn output in China in November; strong apparel imports by Korea, and Japanese retail sales reaching a yearly high in November. This is not to imply that there is not some congestion around the globe. Europe is a bit slow, but Asia and the Subcontinent remain strong. On a positive, USDA has suggested that its estimate of Chinese consumption for 2006 domestic use may be as much as 2.1 million bales above its original estimate. Noting that, the per capita consumption boom for cotton is exploding in both China and the Subcontinent.

U.S. textile mills used cotton at an annualized rate of 4.8 million bales in November. However, the U.S. department of Commerce lowered the usage rate for October by 100,000 bales, reducing it to 4.7 million. Yet, U.S. consumption for the first four months of the 2007-08 marketing year is 200,000 bales above the current USDA estimate for the year of 4.6 million bales. Nevertheless, it should be noted that higher cotton prices will reduce U.S. consumption.

Certificated stocks have slipped to 530,591 bales. With none are waiting review, a key to higher prices is a continued downtrend in certificated stocks. The market is higher, but the 70 cent barrier will be breached. Yet, for now that barrier is all but impenetrable. Δ