UNITED STATES DEPARTMENT OF AGRICULTURE

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Weekly Cotton Market Review

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Spot cotton prices averaged sharply higher than the previous week, according to the Cotton Division, Agricultural Marketing Service, USDA. Merchant demand was fairly good and trading remained steady. Domestic mill buying was active. Export sales were very light. Rains slowed final harvesting throughout the south central and southeastern states. Harvesting made rapid progress on the Texas Plains and in Oklahoma, with rains occurring only in a few areas. Harvesting is well advanced in the western states. Numerous modules of seed cotton are waiting to be ginned. The decline of production in the United States is expected to account for most of the world's adjustment to excessive cotton supplies.

Spot cotton prices for grade 41 staple 34, mike 35-49, in the designated markets averaged 47.42 cents per pound during the week ended Friday, November 28. Prices ranged from a low of 46.87 cents on Monday to a high of 48.04 cents on Friday. A week earlier, prices averaged 45.68 cents and ranged from 45.30 to 46.48 cents. The New York March 1987 futures settlement price ended the week on Friday at 52.85 cents per pound compared with 49.11 cents a week earlier. The October 1987 settlement price was 54.40 cents against 51.00 cents a week earlier.

Trading was more active in the south central markets. Merchants were more willing to make purchases and most offerings traded. Domestic mill demand for cotton for prompt delivery remained strong. Mills were also making heavy purchases for forward delivery. Expor trading was slow. A light volume was purchased by both Far Eastern and European mills. CCC certificate trading was light. Cotton certificates traded at prices ranging from 95 to 97 percent of face value with some trading at par and generics at 110 to 115 percent of value. Purchases reported by cotton exchanges in the designated markets totaled 124,327 running bales in the week ended Friday, November 28. This compares with 140,340 bales reported a week earlier and 125,590 bales in the corresponding week last season. Trading was moderately active in the southeastern markets and consisted mostly of equity purchases. Prices ranged from $25 to $50 per bale equity. Merchants continued to trade both old and new-crop cotton among themselves as they filled existing orders. Spot cotton trading increased in the south central markets and was very active the latter part of the week. Merchant demand was very good. Most of the trading involved CCC loan equities and merchant-to-merchant transactions. Prices for equities ranged from $30 to $55 per bale. Some large, even running lots sold at prices of $10 to $20 per bale higher. Trading in the southwestern markets increased slightly. Harvesting was more widespread. Merchant demand improved; although, most prior sales were being filled from accumulated inventories. Several thousand bales of 1986-crop equities traded at $35 to $40 per bale, with a few bringing $60. Growers were asking $50 to $100 per bale for old-crop equities. Trading was moderately active in the western markets. The bulk of current ginnings was being delivered against forward contracts but uncommitted supplies held by growers continued to increase. Arizona cotton sold at prices of 53.50 to 56.75 cents per pound for grade 31, mike 35-49. San Joaquin Valley cotton sold at prices of around 73 to 77 cents, basis grade 31 staple 35, mike 35-49, UD, free on gin yard, with entitlements going to buyers.

Textile mill report. Mill buying was more active and purchases for deferred deliver increased. Interest was best for central belt medium and higher grades and purchas volume was fairly heavy. A light amount was also bought to cover spot shortages or for fill-ins. Problems with deliveries of earlier purchases seem to be easing somewhat. Textile sales remained good to excellent. With business at an active and sustained rate, most mills kept Thanksgiving closings at a minimum. Mills continued to operate five and six-day weeks, with some plants on seven-day schedules.

Cotton and Wool Situation and Outlook Report. New cotton legislation to make U.S. prices competitive in world markets became effective August 1, 1986. The program's major goals are to recapture lost export markets and reduce stock levels to 4 million bales.

Initially, the 1986 upland cotton program was expected to reduce stock levels to around 7 million bales during the first year, a 25 percent decline. However, stronger-than-expected demand and weather-related production problems have lowered expected 1986-87 ending stocks further.

U.S. mills used more cotton in 1985-86 than at any time since 1979-80. Last season, upland mill use totaled 6.3 million bales. Based on seasonally adjusted consumption rates in August and September, domestic mill use may increase to around 7.0 million bales in 1986-87. A strong consumer preference for natural fibers, and lower cotton prices under the new cotton program, are major factors underlying the increase. Domestic mill use is higher despite rising imports of textiles and apparels.

At the start of the 1986-87 marketing year, export sales of upland cotton had reached 3.1 million bales, the highest preseason export commitment in the 1980's. With one-fourth of the season completed, total export sales have reached almost 5.2 million bales. About 1.4 million were shipped by October 30. Competitive U.S. cotton prices and a fall in the dollar have increased the potential for U.S. exports this season.

Total 1986-87 exports of upland cotton are forecast at 6.7 million bales, an increase of 4.8 million from the previous marketing year. The U.S. share of global cotton trade is projected at 30 percent, compared with 10 percent in 1985-86 and 31 percent during the 1981-1984 seasons.

Spot cotton prices have continued to move higher after the initial drop of nearly 40 cents on August 1. New-crop futures prices have rallied almost 20 cents after setting life-of-contract lows near the end of July. Prices have been extremely volatile. The adjusted world price (AWP), used to compute cotton certificate values has risen from 22 cents per pound for base quality in August to around 38 cents.

Since August, over 2.5 million bales of 1984 and 1985-crop cotton under Government loan have been repaid. As of October 29, about 3.5 million bales remained under loan, and 800,000 bales of 1986 crop were in the loan program. Total CCC inventory on October 1 was estimated at 788,000 bales.

Some reduction in the world cotton surplus will occur in 1986-87 as production falls and consumption rises, but supplies will remain excessive. World production is forecast to fall more than 5 million bales to 74 million, the lowest since 1983-84 and 14 million below the 1984-85 record. Consumption will reach a fifth consecutive record, rising 2.5 million bales to 77 million. Exports are also expected to expand by more than 2 million bales, a 10 percent increase to the highest level since 1979-80. Thus, global stocks could fall from 48 million bales to 44 million by the end of the season, but will still be well above stocks of 20 to 25 million bales before 1984-85.

Lower prices have encouraged world cotton consumption and imports, but have had a much less dramatic impact on production. While the United States cut 1986-87 area by 10 percent, foreign area is estimated to have fallen by only about 3 percent. Nearly half of this reduction is in China, which is already in the second year of a program to limit cotton output. In most major foreign producing countries, cotton farm prices are insulated from changes in world market prices, at least in the short run. Area is down only slightly in major producing countries such as Pakistan and India.

The Secretary of Agriculture has announced several major provisions of the 1987 U.S. upland cotton program, including an acreage reduction program. Producers will be required to set aside 25 percent of cotton acreage base to be eligible for price support loans and other program benefits.

The target price for upland cotton will be 79.40 cents per pound. The Secretary announced a loan level of 52.25 cents per pound for the base quality of 1987-crop upland cotton. If the adjusted world price is below the loan rate, USDA will implement marketing loan plan B in 1987. Plan B allows producers to repay price support loans at the lower of the loan rate or the adjusted world price. However, if the world price is less than 80 percent of the loan rate, a repayment rate between the world price and 80 percent of the loan rate (41.80 cents for base quality) will be established.

USDA announced 1987 extra long staple cotton program provisions. The U.S. Department of Agriculture announced on November 21 a 15 percent acreage reduction, a national loan level of 81.40 cents per pound, an established target price of 97.70 cents per pound, and other provisions of the 1987 extra long staple cotton program.

Other provisions included:

-- No limited cross compliance requirement;

-- No offsetting compliance requirement;

-- No paid land diversion program;

-- No advance deficiency payments;

-- A recourse loan program for ELS seed cotton.

Sign up for the 1987 ELS cotton program will begin January 2, 1987, and will continue through March 30.

Loan levels for individual qualities of ELS cotton and micronaire discounts will be announced later.

Prices receivd by farmers for upland cotton averaged 54.90 cents per pound in mid November, according to the National Agricultural Statistics Service, USDA. This compares with 47.10 cents for the entire month of October and 56.50 cents in November 1985. These prices include cotton delivered against forward contracts.

Average prices received by farmers for upland cotton, in cents per pound, net weight, United States, calendar years, 1985-1986

Month	Year beginning January 1		Month	Year beginning January 1		Month	Year beginning January 1	
	1985	1986		1985	1986		1985	1986
	Cents	Cents		Cents	Cents		Cents	Cents
January	52.20	53.00	June	60.30	56.40	November	56.00	54.90 1/
February	49.50	55.40	July	60.50	58.60	December	53.30	
March	56.10	55.00	August	56.00	47.20			
April	57.00	56.40	September	55.10	47.40	Calendar		
May	57.50	56.90	October	56.70	47.10	year avg.	54.70	

1/ Mid-month price.
Source: National Agricultural Statistics Service, USDA

World market price, in cents per pound, adjusted to U.S. quality and location, for grade 41 staple 34, mike 35-49 upland cotton and the coarse count adjustment in effect from 12:01 a.m. Friday through 12:00 midnight Thursday

Description	1986				
	Oct. 31- Nov. 6	Nov. 7-13	Nov. 14-20	Nov. 21-27	Nov. 28- Dec. 4
Adjusted world price	37.44	37.70	39.20	39.54	40.07
Coarse count adjustment	3.93	3.70	3.59	2.98	2.07

Source: Agricultural Stabilization and Conservation Service, USDA

New York futures contract settlement, designated spot market average for grade 41 staple 34 and 'A' and 'B' Index cotton prices in cents per pound

Date	Grade 41 Staple 34						Grade 31	Coarse
	Futures Settlement					8 Mkt.:	Staple 35	Count
	Dec '86	Mar '87	May '87	Jul '87	Oct '87	Average:	'A' Index 1/	'B' Index 1/
Nov. 24	48.72	49.02	49.11	49.10	50.35	46.87	53.30	45.25
25	49.53	50.28	50.40	50.38	51.53	47.28	53.30	45.40
26	50.30	50.85	50.96	51.17	52.50	47.48	53.80	45.90
27			H O L I D A Y				54.10	46.10
28	51.98	52.85	52.96	53.17	54.40	48.04	54.10	46.10

1/ C.I.F. Northern Europe price furnished by Cotton Outlook of Liverpool.

U.S. upland cotton export sales and exports, in running bales, for week and year, marketing years 1985-86 and 1986-87

Description	Marketing Year			
	1985-86		1986-87	
	Through November 21		Through November 20	
	Week	Marketing Year	Week	Marketing Year
Outstanding sales	-	736,600	-	3,366,300
Exports	45,600	704,600	146,200	1,749,000
Total export commitments	-	1,441,200	-	5,115,300
New sales	31,000	-	90,400	-
Buy-backs and cancellations	27,400	-	10,300	-
Net sales	3,600	-	80,100	-
Sales next marketing year	2,900	17,200	1,200	102,500

Source: Export Sales Reporting Division, Foreign Agricultural Service, USDA

Upland cotton export sales during the week ended November 20 resulted in a net increase of 80,100 running bales, up sharply from the previous week, according to the Foreign Agricultural Service, USDA. The predominant purchaser was Japan with 42,600 bales, followed by South Korea 13,400 bales, Taiwan 5,900, Indonesia 5,800 and West Germany 5,300 bales. Exports for the week totaled 146,200 bales, up 10 percent from last week. Asian destinations accounted for 74 percent of the week's shipments, West European 20 percent, Africian 3 percent and Western Hemisphere 3 percent.

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