UNITED STATES DEPARTMENT OF AGRICULTURE

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Weekly Cotton Market Review

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Spot cotton prices strengthened and averaged sharply higher than the previous week, according to the Cotton Division, Agricultural Marketing Service, USDA. Trading was moderately active. Demand was good and grower offerings traded readily. Domestic mill demand for cotton continued strong. Export sales increased. Harvesting continued to gain momentum in the late producing areas of the Cotton Belt but was stopped by rain in some localities. Upland cotton ginned prior to November 1 this season contained a larger proportion of Light Spotted grades than any crop since comparable records began in 1958. CCC loans disbursed in December will remain at 5.75 percent.

Spot cotton prices for grade 41 staple 34, mike 35-49, in the designated markets averaged 50.17 cents per pound during the week ended Friday, December 5. Prices ranged from a low of 49.07 cents on Monday to a high of 51.55 cents on Friday. A week earlier, prices averaged 47.42 cents and ranged from 46.87 to 48.04 cents. The New York March 1987 futures settlement price ended the week on Friday at 54.75 cents per pound compared with 52.85 cents a week earlier. The October 1987 settlement price was 56.18 cents against 54.40 cents last week.

Trading was moderately active on spot cotton markets. Demand was good and offerings traded readily. Domestic mill demand remained strong. Purchases included cotton for prompt through December 1987 delivery. Inquiries from foreign mills were more numerous and sales for export increased. Purchases were made by Far Eastern, Central and South American mills. CCC cotton certificates traded at 95 to 100 percent of stated value and generics traded at prices ranging from 110 to 114 percent of value. Purchases reported by cotton exchanges in the designated markets totaled 485,459 running bales in the week ended Friday, December 5. This compares with 124,327 bales reported a week earlier and 133,423 bales in the corresponding week last season. Grower offerings increased in the southeastern markets and trading was moderately active. Demand was very good and most offerings traded. Merchants paid $35 to $55 per bale for equities and additional premiums were offered for selected lower qualities. Demand was very strong for even running, truckload lots of cotton that could be shipped promptly. Trading remained very active in the south central markets. Merchants were more willing to make purchases and the volume of transactions was large. Most of the activity involved CCC loan equity and merchant-to-merchant spot sales. Prices for CCC equities ranged from $30 to $50 per bale. Large, even running lots, or lots containing selected qualities, brought higher prices. A limited acreage of 1987-crop cotton was forward contracted at 500 to 625 points off December 1987 futures, basis grade 41 staple 34, mike 35-49. Trading increased slowly in the southwestern markets and was mostly of west Texas cotton. CCC loan equities of 1986 crop traded at prices ranging from $35 to $60 per bale and old-crop equities for $60 to $90 per bale. Merchant demand was best for cotton needed to cover nearby commitments. Moderately active trading was reported in the western markets. Most of the crop has been harvested and growers offered uncommitted supplies freely. Merchant demand was good. Arizona cotton sold at prices of 61.00 to 61.30 cents per pound for grade 31 and around [illegible].50 cents for grades 60 and 52. CCC loan equities traded at prices ranging from $80 to $99 net per bale, depending on quality. San Joaquin Valley cotton sold at 76 to 79 cents, basis grade 31 staple 35, mike 35-49, UD, free on gin yard, with buyers keeping entitlements. A light volume of 1987-crop cotton was contracted at 63 cents per pound, basis grade 31 staple 35, mike 35-49, UD, free on gin yard, with growers receiving the loan deficiency payment.

Textile mill report. Domestic mill buying continued fairly active. Purchases for forward delivery increased. Central and California growths remained in best demand and a sizeable volume was recently booked for shipment into last quarter months of next year. Inquiries for and purchases of selected low grades continued as concern for the availability of Texas cotton heightened. Shipper asking prices were firm to slightly higher. A strong textile demand kept most mills on full to extended work schedules. Mill usage of cotton remained at high levels.

Cotton outlook for 1987-88. The 1987-88 cotton marketing year is expected to begin with almost 150 days of carry over stocks, compared to a nearly 400 day supply at the start of 1986-87, according to the "Cotton and Wool Situation and Outlook" report. However, stocks are relatively high. If inventories are to be reduced further, then disappearance must surpass production again in 1987.

The Secretary of Agriculture has announced several provisions of the 1987 upland cotton program, including an acreage reduction program. Producers will be required to reduce their cotton acreage by 25 percent of their base to be eligible for price support loans and other program benefits. In 1987, producers will not be able to adjust cotton bases by reducing (or increasing) bases of other program crops. Also, limited cross compliance will be in effect for all program crops, except extra long staple cotton. To be eligible for loans or payments for upland cotton, acreage planted for harvest in other program crops may not exceed their established acreage bases.

Cotton producers will be allowed to participate in the 50/92 under planting provision in 1987. The 50/92 provision allows producers who plant at least 50 percent of their permitted acreage and devote the remaining permitted acres to a conserving use, to be eligible to receive deficiency payments on 92 percent of the permitted acreage. However, non-program crops cannot be produced on 50/92 acreage.

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 (SLM 1-1/16 inch, micronaire 3.5 through 4.9, at average U.S. location). Also, i the world market price (adjusted for quality and location) 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 adjusted 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 the base quality) may be established. If the adjusted world price is above 80 percent of the loan repayment rate, the loan repayment will equal the adjusted world price.

The sign up period for the 1987 upland cotton program began November 17 and will end March 30. Participating producers may request 30 percent of their estimated deficiency payments upon sign up. The estimated payment rate is 27.15 cents per pound. Fifty percent of the advance will be paid in cash, and the balance in generic commodity certificates.

Recent Federal budget legislation will likely influence acreage enrolled in the 1987 program. In October, Congress established a new ceiling of $250,000 on total farm payments, which will become effective with all 1987 commodity programs. The new payment ceiling will include the $50,000 payment limit for regular deficiency payments and land diversion payments, as well as all other Government payments except price support loans, grain reserve storage payments, upland cotton first handler marketing certificate payments, and rice marketing certificate payments.

Program enrollment in 1987-88 could drop from this year's 91 percent participation rate, due to an improved supply and demand situation and the new limit placed on total program payments. As a result, planted acreage could increase from 1986's 9.5 million acres. Depending on yields, the 1987 crop will likely range from 9.5 to 13 million bales.

With trend yields, the crop could approach 12 million bales. Demand prospects for U.S. cotton should continue to remain strong, assuming prices remain competitive i domestic and foreign markets. While U.S. mill consumption may about match the 7 million bales expected to be used this year, exports could total 5 to 7 million bales in 1986-87, and may further reduce U.S. cotton stocks during the 1987-88 marketing year.

In summary, the provisions in the 1985 Food Security Act are designed to bring U.S. cotton supply and use into better balance. Under the act, U.S. cotton is competitively riced in international markets, and in the United States, cotton is more competitve with man-made fibers. Increased cotton use worldwide, with little or no incentive for major increases in foreign production, may achieve the stock goal set out in the market-oriented U.S. farm legislation during the 1987-88 season.

Ginnings. Upland cotton ginned prior to November 1 this season totaled 5,254,643 running bales compared with 6,227,355 bales a year earlier. American Pima ginnings totaled 36,019 bales against 18,481 a year earlier, according to the Bureau of the Census.

Quality of ginnings. Upland cotton ginned in the United States prior to November 1 this season contained a larger proportion (46 percent) of Light Spotted grades than any crop since comparable records began in 1958. The predominant quality was grade 42, at 30 percent of ginnings. This was also the first time a Light Spotted grade was the predominant quality since records were established. Average staple length was 34.7 thirty-seconds inches, down from 35.0 a year earlier. Mike 35-49 accounted for 83 percent of ginnings, the smallest proportion since 1981 and down from 87 percent a year ago. Fiber strength averaged 25.7 grams per tex, up from 24.8 the previous year.

Grade. Grade 42, at 30 percent, was the predominant grade of upland cotton ginned prior to November 1 this season. This was the first time a Light Spotted grade was the predominant quality since comparable records for these grades began in 1958. A year earlier, grade 41 was the predominant quality at 36 percent. Light Spotted grades, combined, made up 46 percent of ginnings, the largest proportion since records began in 1958 and up from 25 percent a year earlier. The white grades, combined, accounted for 52 percent of ginnings this season, the smallest proportion since records began in 1938 and down from 75 percent in 1985. Spotted grades made up 2 percent this season against 1 ercent the previous year.

Staple. The average staple length of upland cotton ginned prior to November 1 this season was 34.7 thirty-seconds inches, down from 35.0 a year earlier. The predominant length was staple 35 at 39 percent. A year earlier, the predominant length was staple 35 at 44 percent. Staples 31 and shorter accounted for 1 percent, the same as a year earlier. Staples 32 and 33, at 12 percent, were the largest proportion since 1981 and were up from 5 percent in 1985. Staples 34 and 35, at 65 percent, made up the largest proportion of ginnings since 1978. A year earlier, staples 34 and 35 comprised 62 percent. Staples 36 and longer made up the smallest proportion of ginnings prior to November 1 since 1981 and accounted for 22 percent. A year earlier, these longer lengths made up 33 percent.

Mike. Average mike of upland cotton ginned prior to November 1 this season was 44 compared with 43 a year earlier. Cotton in the mike 35-49 range accounted for 83 percent of ginnings. This was the smallest proportion in this range since 1981 and was down from 87 percent the previous year. Cotton with mike 34 and lower comprised 4 percent, down from 5 percent a year ago. Cotton with mike 50 and higher, at 13 percent, made up the largest proportion of ginnings in this group since 1981 and was up from 7 percent a year earlier.

Strength. The average fiber strength of upland cotton ginned prior to November 1 this season was 25.7 grams per tex. This was up from 24.8 a year earlier. Cotton with strengths of 19 grams per tex or lower accounted for less than 1 percent of ginnings. This was the smallest proportion since comparable records were established in 1980 and was down from 2 percent in 1985. Strengths of 20 and 21 accounted for about 3 percent, down rom 8 percent in 1985. The 22 and 23 strength range made up 13 percent against 21 percent the previous year. Upland cotton with strengths of 24 and 25 accounted for 33 percent, up from 30 percent the previous year. This was the largest proportion of ginnings in this range since 1983. Cotton with strengths of 26 and 27 comprised 30 percent, the largest proportion since records began and up from 20 percent a year earlier. Fiber strengths of 28 grams per tex and higher accounted for 22 percent against 18 percent the previous year.

United States: . Percentage distributon of grade, staple, mike, and fiber strength, for upland cotton classed prior to November 1, 1986 1/

Grade	Staple: 26 and shorter	28	29	30	31	32	33	34	35	36	37	38	39	40 and longer	All staples
White:															
11	-	-	-	-	*	*	*	*	*	*	*	-	-	-	*
21	*	-	-	*	*	*	0.1	0.1	0.5	0.3	*	-	-	-	1.0
30	-	-	-	*	-	*	*	*	*	*	*	-	-	-	*
31	*	*	*	*	*	0.3	1.3	2.9	7.6	7.7	0.2	*	*	*	20.0
40	-	-	*	*	*	*	0.1	0.3	0.4	0.5	*	*	*	*	1.4
41	*	*	*	*	0.1	0.4	2.4	7.9	9.1	3.7	0.3	*	*	*	23.7
50	-	*	*	*	*	*	0.1	0.4	0.6	0.3	*	*	*	-	1.4
51	-	*	*	*	*	0.1	0.4	1.2	1.6	0.7	0.1	*	*	*	4.0
60	-	-	-	-	*	*	*	*	*	*	*	*	-	-	*
61	-	-	*	*	*	*	0.1	0.1	0.1	*	*	*	-	-	0.2
70	-	-	-	-	-	-	*	*	*	*	-	-	-	-	*
71	-	-	*	*	*	*	*	*	*	*	*	-	-	-	*
Lt. Spotted:															
12	-	-	-	-	-	-	-	*	*	-	-	-	-	-	*
22	-	*	*	*	*	*	*	*	*	*	*	-	-	-	0.1
32	*	*	*	*	*	0.2	0.8	1.9	2.7	1.1	0.1	*	*	*	6.9
42	*	*	*	0.1	0.2	0.6	2.8	8.8	12.2	4.9	0.5	*	*	*	29.9
52	*	*	*	0.1	0.3	0.4	0.9	2.1	2.9	1.2	0.2	*	*	*	8.0
62	*	*	*	0.1	0.2	0.2	0.2	0.3	0.3	0.1	*	*	*	-	1.4
Spotted:															
13	-	-	-	-	-	-	*	*	*	*	-	-	-	-	*
23	-	-	*	*	*	*	*	*	*	*	*	-	-	-	*
33	*	*	*	*	*	*	*	*	*	*	*	*	-	-	0.1
43	-	*	*	*	*	*	0.1	0.3	0.3	0.1	*	*	*	*	0.8
53	-	*	*	*	*	*	0.1	0.2	0.2	0.1	*	*	*	-	0.5
63	-	*	*	*	*	*	*	0.1	*	*	*	*	*	-	0.2
Tinged:															
24	-	-	-	-	-	-	*	-	-	*	-	-	-	-	*
34	-	-	*	*	*	*	*	*	*	*	*	-	-	-	*
44	*	*	-	*	*	*	*	*	*	*	*	-	-	*	*
54	-	-	-	*	*	*	*	*	*	*	*	-	-	-	*
Stained:															
25	-	-	-	-	-	*	-	*	*	-	-	-	-	-	*
35	-	-	-	-	*	*	-	*	*	*	-	-	-	*	*
Lt. Gray:															
16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	-	-	-	-	-	*	*	*	*	*	-	-	-	-	*
36	-	-	-	-	*	*	*	*	*	*	*	-	-	*	*
46	-	-	-	-	*	*	*	*	*	*	*	-	-	-	*
Gray:															
17	-	-	-	-	-	-	-	-	*	-	-	-	-	-	*
27	-	-	-	-	-	-	-	*	*	*	-	-	-	-	*
37	-	-	-	-	-	-	*	*	*	-	-	-	-	-	*
47	-	-	-	-	*	-	*	-	-	*	-	-	-	-	*
Below Grade 2/	-	*	*	*	*	*	*	*	*	*	*	*	-	*	0.2
All grades	*	*	0.1	0.3	0.9	2.2	9.4	26.5	38.5	20.6	1.4	0.2	*	*	100.0

Mike	26 and below	27-29	30-32	33-34	35-49	50-52	53 and above	Average mike
Percent	0.1	0.3	1.3	2.1	83.3	8.9	3.9	44

Fiber strength	1/8" gage (grams per tex): 17 and below	18-19	20-21	22-23	24-25	26-27	28-29	30-31	32 and above	Average strength
Percent	*	0.3	2.6	12.5	33.1	29.6	14.4	6.4	1.2	25.7

1/ Ginnings, Bureau of the Census, 5,254,643 running bales.
2/ Lower in grade than the lowest grades of the official standards.
* Less than 0.05 percent.

Average staple...................... 34.7
Percent tenderable.................. 47.9
Percent Average Rule Used (ARU)..... 1.1
Percent grade reductions............ 4.5