



# Cotton Market Outlook

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New Mexico Cotton Ginners' Association  
July 8, 2011

# December Futures



# Wait a minute...aren't we in a drought?

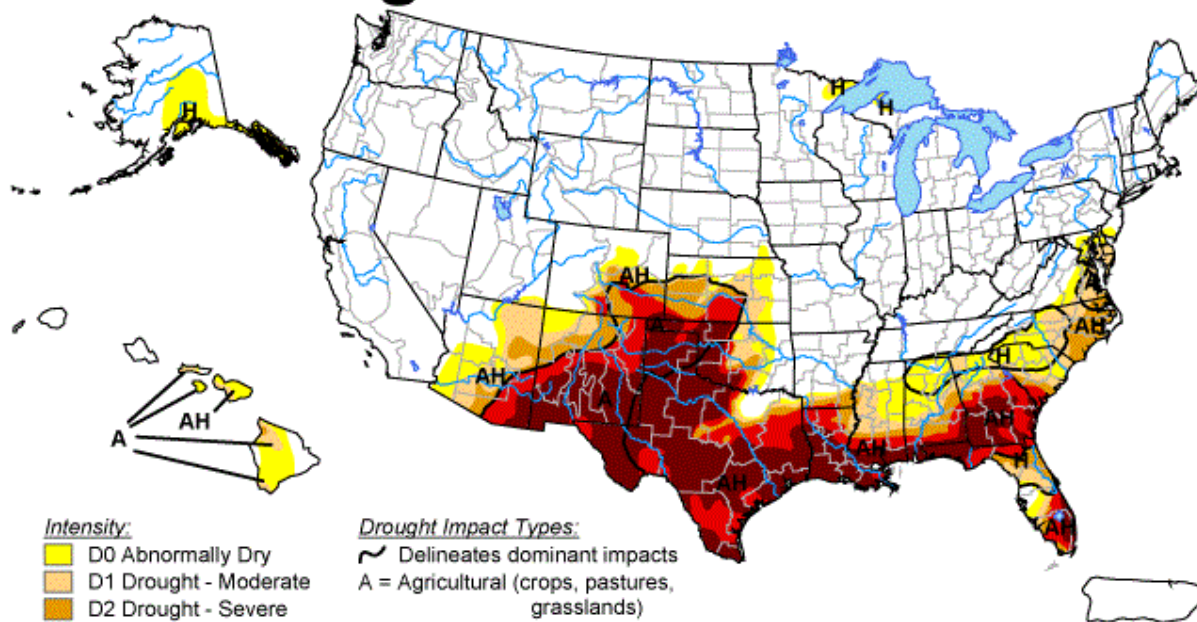
	World		Foreign		U.S.	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
<b>Supply</b>	<i>(USDA 6/9/11)</i>	<i>(USDA 6/9/11)</i>	<i>(USDA 6/9/11)</i>	<i>(USDA 6/9/11)</i>	<i>(USDA 6/9/11)</i>	<i>(USDA 6/9/11)</i>
Planted Acres (million)	---	---	---	---	10.97	12.57
Harv. Acres (million)	---	---	---	---	10.70	10.80
Yield (lbs./ac.)	---	---	---	---	80.0	800.0
Beginning Stks.	44.28					2.25
Production	114.28					17.00
Imports	35.95					<u>0.01</u>
Total Supply	194.51					19.26
<b>Disappearance</b>						
Mill Use	115.51	118.95	111.71	115.15	3.80	3.80
Exports	35.90	39.42	20.90	26.42	<u>15.00</u>	<u>13.00</u>
Total Domestic Use	---	---	---	---	18.80	16.80
Unaccounted	-0.14	-0.19	-0.15	-0.15	0.01	-0.04
Ending Stks.	43.24	48.25	40.99	45.75	2.25	2.50
Ending Stks./Use	37.4%	40.6%	36.7%	39.7%	12.0%	14.9%

# Historic Drought



## U.S. Drought Monitor

June 21, 2011  
Valid 8 a.m. EDT



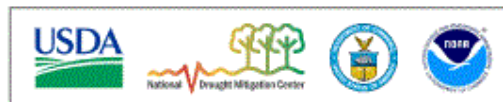
Intensity:

- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:

- Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.



Released Thursday, June 23, 2011

Author: Brian Fuchs, National Drought Mitigation Center

<http://drought.unl.edu/dm>

# New Reality

- Could be at or near record abandonment
- Lower average yields in Texas and New Mexico
- Making some generous assumptions, we are probably closer to 15-16 million bales, not 17



# New Look



	World		Foreign		U.S.	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
<b>Supply</b>	<i>(USDA 6/9/11)</i>	<i>(USDA 6/9/11)</i>	<i>(USDA 6/9/11)</i>	<i>(USDA 6/9/11)</i>	<i>(USDA 6/9/11)</i>	JR
<b>Planted Acres (million)</b>	---	---	---	---	10.97	12.80
<b>Harv. Acres (million)</b>	---	---	---	---	10.70	9.98
<b>Yield (lbs./ac.)</b>	---	---	---	---	75.0	725.0
<b>Beginning Stks.</b>	44.28	43.24				2.25
<b>Production</b>	114.28	121.85				15.08
<b>Imports</b>	35.95	<u>39.42</u>				<u>0.01</u>
<b>Total Supply</b>	194.51	204.51				17.34
<b>Disappearance</b>						
<b>Mill Use</b>	115.51	118.95	111.71	115.15	3.80	3.80
<b>Exports</b>	35.90	39.42	20.90	26.42	<u>15.00</u>	<u>13.00</u>
<b>Total Domestic Use</b>	---	---	---	---	18.80	16.80
<b>Unaccounted</b>	-0.14	-0.19	-0.15	-0.15	0.01	-0.04
<b>Ending Stks.</b>	43.24	46.33	40.99	45.75	2.25	0.58
<b>Ending Stks./Use</b>	37.4%	38.9%	36.7%	39.7%	12.0%	3.5%

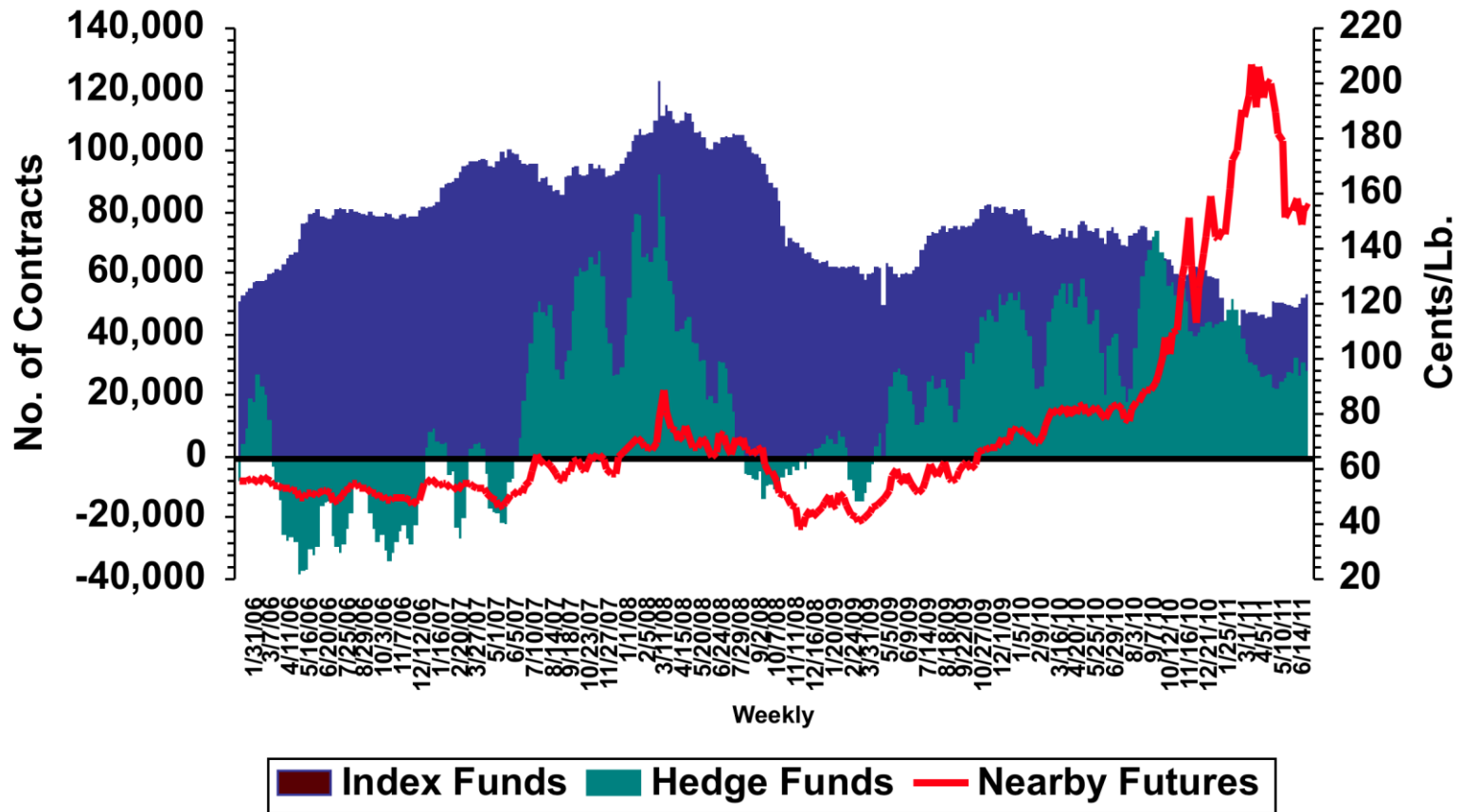
More planted acres, 22% U.S. abandonment, and a lower avg. yield could give 15M bales.

# So why the downward trend in price?



- Factors not present this year:
  - Buying panic—buyers have refilled pipelines and have, in fact, begun cancelling orders at a faster rate than new orders
  - Weakening dollar—despite the overall weak dollar, it has strengthened a bit; could be anticipation of higher interest rates...pulls money out of commodities
  - Speculators—Speculative cash has departed the markets to some extent

# Speculative Pressure Off?





# Variables to Watch

- US exchange rate/interest rates
  - Higher rates = lower commodity prices
- Chinese and Indian crop developments
  - So far, looks ok on reportedly higher acreage
- Continued drought developments in SW
  - Running out of water...lower irrigated yields



# Conclusions

- Probably less upside surprise due to drought than some hope
  - Countervailing forces of lower demand and lower supply...also, any upward pressure on price being offset by exit of speculator cash (higher probable interest rates)
- Prices are likely to remain strong
  - \$1.10-\$1.30 is a probable trading range, with the \$1.20 a center of gravity (maybe even \$1.20 providing some short-term resistance)
  - May be another 10-15% downward possibility if we see a significant rise in interest rates this year (very iffy)

