# Cotton acreage cuts needed

## Cotton Outlook

By **JOHN OTTE**

### Key Points

- Cotton situation has shifted from panic and scarcity to relatively abundant supply.
- Producers should sell old-crop supplies on rallies to the 90-cent to 95-cent area.
- A 2012 U.S. crop large enough to build stocks could let prices go below 80 cents.

COTTON prices are in defensive mode. Plus, they'll stay that way for a while.

A few key phrases characterize the 2011-12 marketing year cotton situation:

- foreign crop up
- foreign use stumbling
- world supply rises
- world demand falls
- stocks build
- U.S. crop dismal
- export demand for U.S. crop falters
- prices tumble

The strength of the U.S. market hinges on potential improvement in export demand, at least until traders begin to worry about 2012-crop cotton prospects.

"Once the market broke through the 95-cent to $1 support level, it has little support below 90 cents until it reaches the 80- to 85-cent level," notes Carl Anderson, a Texas A&M University economist. "Normally, the market trades in a sluggish mode through February. Selling any remaining 2011-crop cotton on rallies above 90 cents may be desirable."

### Longer-term prospects

The outlook for 2012-13 depends on how much world growers cut plantings for harvest in 2012 due to faltering prices.

"Growers would need to trim world acreage by 6% in order to align 2012 production with expected mill use," calculates Anderson. "Plus, production equaling use would still leave the world with too much cotton to support prices above 90 cents. That's one reason to move remaining 2011-crop stocks on rallies above 90 cents.

"U.S. plantings for the 2012-13 season might be 12 million acres, compared to 14.7 million acres in 2011," he says. "If so, with an 18% beltwide abandonment, harvested acreage would end up near 2011's 9.85 million harvested acres. Abandonments of 2011 plantings totaled about 33% of the total 14.7 million planted acres.

"Harvesting 9.85 million acres in 2012 would yield a U.S. crop around 16.4 million bales. That means the U.S. would need to export 12.6 million bales in the 2012-13 market season to keep from boosting U.S. carryover stocks above 3.5 million bales," says Anderson. "That scenario would likely push December 2012 cotton futures below 80 cents."

Demand news is not all dismal. The China National Cotton Reserve Corp. has bought large quantities of both foreign and domestic cotton to defend the price floor the government is providing for the 2011-12 crop. Trade chatter hints China's 2012 crop could drop significantly. Such a development could help support prices.

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## Reality check

AS traders got caught in the euphoria of the 2010 unrealistic cotton futures-price surge above $2, the U.S. average cash price received by growers remained less than $1 a pound. Still, the world cotton industry responded to the surge.

Foreign cotton production and consumption are now about equal. U.S. export demand is basically reduced to rebuilding foreign cotton supplies. That means U.S. cotton price moves are tied to foreign mill use rising to outpace production and countries wanting to build supplies.

The August 2010 speculative buying surge has slowed because of weakening demand due to a downturn in world economic conditions, and the threat of deliveries on March 2012 cotton futures contracts.

The longer high prices persist, the more consumption weakens. Fallout from the summer-2010 price surge points to fairly stable to weak consumption for this season and the next, as well as lower prices.