

Natural fiber runs with synthetics

By DAN CRUMMETT

GLOBALLY high oil prices have given cotton a shot at the inside track in its race with synthetic fibers, and the natural fiber has taken advantage of the situation.

Earlier this year, cotton prices fell to 77% of the price of polyester, down from 140% two years ago. The change was enough to shift the blend of product moving through mills across

southern Asia and China. Changing mill consumption has been a pillar in supporting prices during the period, says Skye Dixon, agribusiness economist with National Australia Bank.

"Over the medium term, this trend is likely to continue, with oil prices expected to remain relatively high, continuing to maintain the price-competitiveness of cotton," Dixon adds.

Fourth-quarter crude-oil prices per barrel have fallen from the low to mid

\$70s in June and July to the low \$60s in October.

Australia Bank's forecast for oil prices into 2007 sees \$67 per barrel as an average — sufficient to maintain cotton's favorable track position with synthetics.

Energy costs hit production

High energy expenditures are a two-edged sword for cotton, holding demand up on one side while also increasing

costs in the production arena, 80% of which is mechanized.

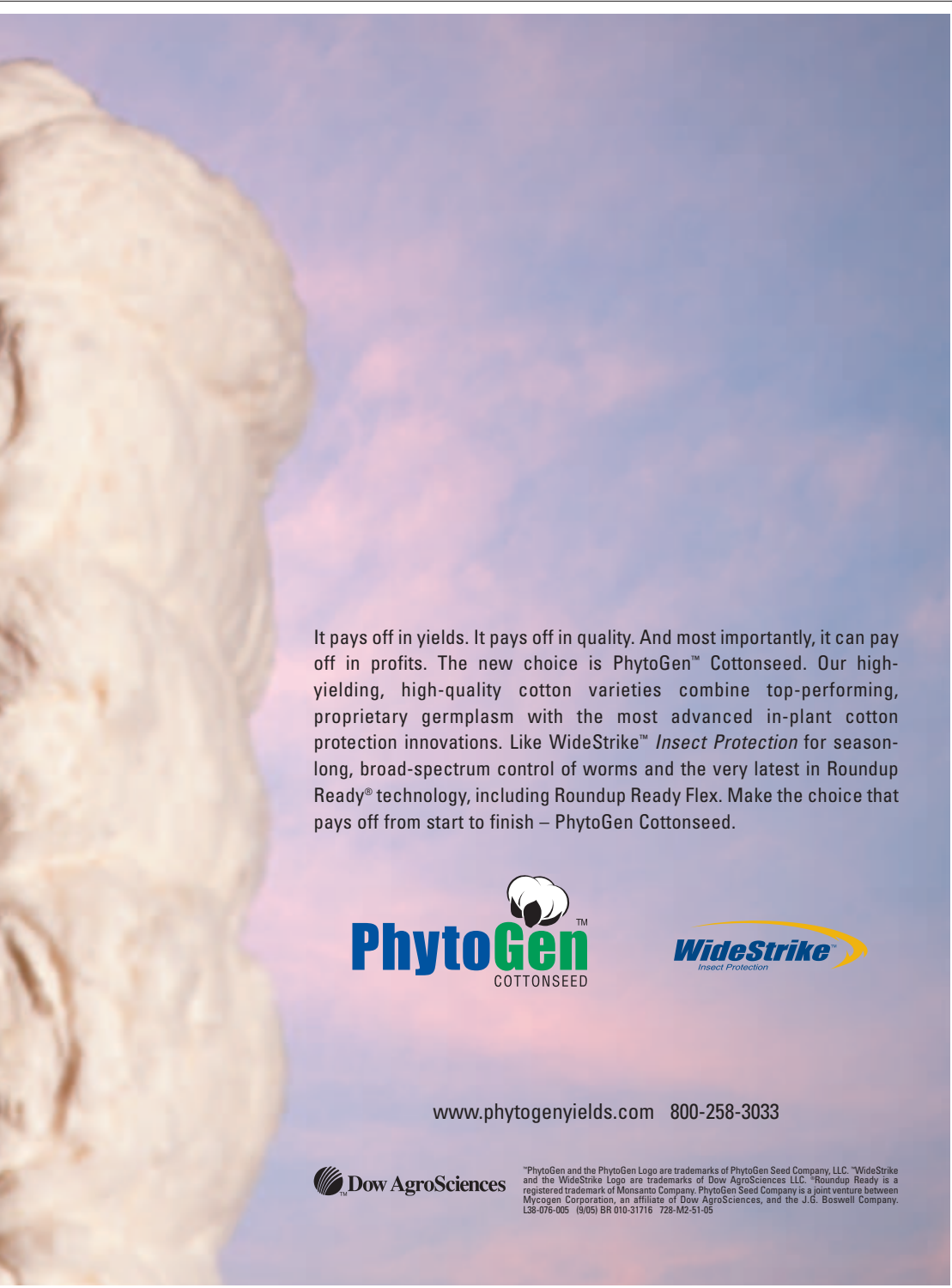
Overall, additions to the cost of inputs is pegged at 5% in the short term with fuel, fertilizer and freight expenses all taking jumps.

Cotton is one of the most energy-price-sensitive crops grown in the United States, says USDA's Economic Research Service. Overall, energy costs for cotton run about \$64 per acre, or about 20% of the total input for the crop.

Much of the energy cost for cotton production is attributed to fuel for irrigation — particularly in the High Plains of Texas. That cost obviously comes right off the bottom line, according to ERS economists.

Fertilizer costs jump, too, when oil prices climb, with nitrogen fertilizer's price about 70% to 90% dependent upon natural-gas prices. ERS reports that for 2006, fertilizer costs amount to 15% of cotton's total energy input expenses.

Dixon says new technology traits in cotton, along with rapid adoption of variable-rate technology for fertilizer application, will help moderate the exposure to energy cost hikes in the future, with plants requiring less herbicide, insecticide and water. However, in the short term, a rise in the price of oil will continue to have negative effects on the bottom line of producers.



It pays off in yields. It pays off in quality. And most importantly, it can pay off in profits. The new choice is PhytoGen™ Cottonseed. Our high-yielding, high-quality cotton varieties combine top-performing, proprietary germplasm with the most advanced in-plant cotton protection innovations. Like WideStrike™ *Insect Protection* for season-long, broad-spectrum control of worms and the very latest in Roundup Ready® technology, including Roundup Ready Flex. Make the choice that pays off from start to finish — PhytoGen Cottonseed.



www.phytogenyields.com 800-258-3033



*PhytoGen and the PhytoGen Logo are trademarks of PhytoGen Seed Company, LLC. *WideStrike and the WideStrike Logo are trademarks of Dow AgroSciences LLC. *Roundup Ready is a registered trademark of Monsanto Company. PhytoGen Seed Company is a joint venture between Mycogen Corporation, an affiliate of Dow AgroSciences, and the J.G. Boswell Company. L38-076-005 (9/05) BR 010-31716 728-M2-51-05



Australia Bank sums up view of price outlook

Positives

- The global economic outlook is expected to remain strong.
- Oil prices should stay high.
- Cotton is predicted to be favored by mills.
- China is expected to remain a strong importer, despite being the largest producer.
- Weather-related production problems exist in U.S. High Plains fields.

Negatives

- Global cotton carryover is high from the 2005-06 season.
- Asia and South American production is increasing.
- Market speculation is overshadowing fundamental market signals.