



COTTON MARKETING NEWS

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Cotton Once Again In Need of a 4-Wheel Drive

Cotton once again seems to be meandering in the muck and mire and going nowhere. The recent rally to near the 65-cent area fizzled out and prices have since retreated back near the “old support” area of roughly 62 cents. December futures actually closed the week on good note—at 63.32, up 100 points for the day and up 56 points for the week.

Assuming the recent decline all the way to 60 cents will not be repeated (assuming the market has now “corrected” that error in its thinking) and assuming the old and now renewed support at near 62 cents can hold, the market appears to be negotiating a narrow trading range of mostly 62 to 65 cents.



There has been some discussion among analysts lately of the “spread”. This is the difference in futures prices between various contract months. This “spread” is typically positive and, among other things, reflects how much more or less the market is willing to pay for the commodity in the future versus right now. It can be a signal to the producer that the market wants the crop now or later.

October 30, 2015 Cotton Futures

	Close	Spread
Dec15	63.32	
Mar16	63.00	-0.32
May16	63.60	0.60
Jul16	63.95	0.35

Currently, March is at a discount to December. May is a 60-point premium to March; thus the Dec-May spread is +28 points and Dec-July is +63 points. These spreads will change (narrow or widen) over time and, again, this is a signal of the market’s

demand for the crop or lack of it. The current spreads alone do not warrant holding cotton. A profit from holding the crop will have to come from an increase in price and/or an improvement in the basis. Of course, if in the Loan, the AWP and MLG also come into play.

As we enter November, there are still uncertainties about the quality and eventual size of the US crop. The October USDA numbers did not include the impact of heavy rains in the Carolinas and Virginia. There is also now, uncertainty of the impact on rains that have recently moved through west Texas and across the Mid-South.

As of October 25th, the crop was pretty much on target or ahead of normal in development. With Kansas as the lone exception, the cotton in all other states is very near or even ahead of normal in bolls opening.

As of October 25th, harvest was behind schedule most notably in Georgia, Oklahoma, the Carolinas and Virginia, and Tennessee. The Louisiana crop is rated 21% poor to very poor, North Carolina 25%, South Carolina 34%. The Texas crop is 62% fair or worse. So, there is still uncertainty and concern about crop size. Whether this will materialize into a further boost for prices is anybody’s guess at this point. USDA’s November numbers will be out on November 10th.

The basis and fiber quality premiums in the Southeast remain strong. The basis for 41-4/34 is +25 points December and the premium for 31-3/35 is +325 points. The premium for 31-3 with a 36 Staple is +400 points.

The LDP/MLG for the week October 30 through November 5 is 4.86 cents—up from 3.63 cents for the week ended October 29. The “total money” from taking the LDP and selling 31-3/35 is currently 71.68 cents per lb based on today’s close.

Far East Price (5 lowest quotes) Oct 23-29	66.89	Dec futures on Oct 30	63.32
Adjustment for US location and base grade	-19.75	Basis 41-4/34	0.25
Adjusted World Price (AWP)	47.14	Premium 31-3/35	3.25
		Cash Price	66.82
US Base Loan Rate	52.00		
		LDP	4.86
LDP/MLG for Oct 30-Nov 5	4.86	Total LDP/MLG + Sale	71.68

The “total money” will increase if Dec futures increasing during the week. If Dec goes down, the LDP/MLG for the following week will go up. Hold off and reconsider the following week.

US fiber quality has been at a premium—especially for the last 2 crop seasons. This is expected to continue but it is uncertain for how long and for what price. The following table shows 2015 crop fiber quality to-date, by state and compared to last season.

Thus far, Color grades are better in the Mid-South compared to last season. Color grades in the Southeast and in Texas are to date not on par with last season.

In most states, Staple appears as good as or better than last season with the exception of the Carolina's, Virginia, and Florida. Louisiana is also running shorter than last year.

Uniformity is running a little lower in North Carolina. Strength is also lower in the Carolina's and Virginia. High micronaire, caused most often by plant stress, is also a problem compared to last season in the Carolina's and Virginia and in Louisiana and Mississippi.



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US Cotton Fiber Quality by State, 2015 Crop To-Date and Compared to 2014 Crop												
	Bales Classed ¹	Percent Production ²	% Color 31 or Better		% Staple 35 or Longer		Average Uniformity		Average Strength		Average Micronaire	
			2014	2015 To-Date	2014	2015 To-Date	2014	2015 To-Date	2014	2015 To-Date	2014	2015 To-Date
Alabama	127,813	24.3	63.3	56.0	80.2	84.5	81.3	81.6	29.2	29.9	4.7	4.8
Arizona	33,437	12.6	78.3	81.8	95.5	98.3	81.0	81.2	30.1	31.0	4.7	4.8
Arkansas	225,907	45.1	41.1	82.2	97.9	98.9	81.8	82.3	31.5	32.7	4.6	4.8
California	37,719	24.5	93.6	94.8	98.3	99.6	81.9	82.0	33.0	34.5	4.4	4.3
Florida	20,421	15.1	76.9	52.3	93.5	80.9	81.9	81.7	29.4	29.5	4.7	4.8
Georgia	319,304	14.4	62.3	36.9	81.3	89.0	81.3	81.6	29.0	29.5	4.7	4.7
Kansas	-	-	81.2	-	63.2	-	79.9	-	29.3	-	3.9	-
Louisiana	168,853	76.2	64.7	60.9	91.4	84.5	81.4	82.2	29.7	32.1	4.8	5.0
Mississippi	312,275	44.4	53.4	85.7	94.6	91.7	82.0	82.0	30.6	32.2	4.8	5.0
Missouri	149,561	39.8	36.3	80.4	95.6	99.4	81.9	82.3	31.5	31.8	4.6	4.3
New Mexico	-	-	84.9	-	98.7	-	81.1	-	29.4	-	4.0	-
North Carolina	133,179	19.6	51.7	7.1	85.3	48.2	81.3	80.6	29.3	27.9	4.5	4.9
Oklahoma	24,178	8.8	78.6	94.4	73.7	84.2	80.7	81.4	31.0	31.3	4.4	4.1
South Carolina	21,938	5.9	38.6	11.9	85.0	55.8	81.1	81.0	29.3	28.6	4.6	5.0
Tennessee	120,785	43.2	45.3	78.2	91.0	98.6	81.9	82.5	31.2	31.6	4.7	4.7
Texas	1,183,282	21.7	79.9	59.4	70.2	68.8	80.7	80.8	30.2	30.5	4.2	4.3
Virginia	40,291	22.0	68.0	2.1	93.0	71.2	81.8	81.4	29.3	28.2	4.4	4.8

1/ Bales classed for the 2015 crop season through October 29, 2015. Source: USDA-AMS, Cotton and Tobacco Program. Kansas and New Mexico data withheld to avoid disclosure of individual gin(s).

2/ Assumes bales classed weigh an average of 498 lbs each. Percent of state estimate- USDA, October 9, 2015 in 480-lb net weight bales.