

This newsletter is also available in PDF format on the UGA Cotton web page at:  
<http://www.ugacotton.com>

### A Big Econo**mess**

We are beginning to receive calls from county Extension agents requesting farmer meetings asap to discuss the crops outlook, budgets, and planting decisions for 2009. Considering the tailspin that commodity prices are in, along with the rising costs of inputs (especially fuel and fertilizer), farmers are in a quandary as to what to do. Some are already considering just laying land out of production in '09.

Cotton futures showed some life today, closing up limit at 52.57 cents/lb (Dec08). Next years crop (Dec09) also closed up the limit at 63.88.


Both 2008 and 2009 cotton has dropped around 30 cents since late August. That hurts. It takes any profit away from this year's crop (even with an LDP) and it doesn't make cotton competitive for next season.

Other prices have dropped too. Corn (Sep09 futures) has dropped from just over \$6.00 to now about \$4.50. Soybeans (Nov 09 futures) have dropped from \$12.00 to now about \$9.50. Still, it's going to take cotton in at least the mid-70's to compete—today, Dec09 was about 64.

With today's up limit move, have we seen the bottom now? There is little doubt that the market is oversold (too low). Export sales have improved recently (I would hope so, look at the prices). With mounting global economic issues and the weakness and uncertainties in demand this has created, the big question really becomes how far cotton (and other commodity prices as well for that matter) can rally and still meet with buyer demand. In the case of this year's cotton, improvement back to the 55 to 60-cent area would be the first test. If we can negotiate that hurdle, perhaps more is in store. But this market is so hammered right now, it's almost like we've got to learn to walk again before we can run.

Today's close at roughly 52 ½ on December puts us at just under 50 cents cash price +/- quality differences. Next weeks LDP is 7.56 cents (10/17 – 10/23). So, that puts total money in the producers pocket right now at just under 57 ½ cents and if you want to hope for a rally, buy a cheap Call Option. Alternatively, you can put the crop in Loan or take the LDP (POP) and hold the cotton to sell later. But this latter opinion is certainly the riskiest one.

Next year is going to require some real homework. Price, costs, net return, and risk all have to be considered. Fuel price has come down and hopefully that will continue. Hopefully, we'll also see a break in high fertilizer prices due to lower fuel cost and reduced demand for/shift away from high use crops. Soybeans and peanuts have looked attractive for 2009 but for some farmers, soybeans are a risky crop in a non-irrigated situation. Corn, especially if irrigated, despite high fertilizer cost can still be attractive due the favorable basis in many areas of the Southeast. For a lot of farmers, however, cotton is still the crop of choice in non-irrigated situations. But the market will have to improve relative to other crops if the industry expects to avoid a 3<sup>rd</sup> consecutive year of declining acreage.



Don Shurley, University of Georgia    229-386-3512 / [donshur@uga.edu](mailto:donshur@uga.edu)

