



AGRICULTURAL ECONOMICS SERIES

TIMELY INFORMATION

Agriculture & Natural Resources

AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY, AUBURN UNIVERSITY, AL 36849-5639

2002 Cotton Marketing Options for Farmers

Bob Goodman, Extension Economist

Farmers in Alabama face another low price cotton market this year. Current spot prices hover around 40 cents per pound, and with the AWP at 36 cents, a 14-16 cent POP or LDP is now available. Thus, the current market seems to be offering the farmer around 54-56 cents for base quality cotton. The other marketing option available to farmers is the non-recourse loan at about 53-54 cents. However, I believe farmers will place a significant amount of their cotton in the loan for the following reasons:

1. Premiums to the base quality (41-4-34) that traditional forward contracts do not offer.
2. The farmer is guaranteed a base of 51.92 "base location". That translates to around 53 cents in most of Alabama. The base loan is regardless of the warehouse tariff.
3. There is hope that a future equity may be better than the current spot price. In other words, either the AWP falls or the spot price rises, or some combination so that the gap between AWP and spot price increases.
4. Farmers who own an interest in a gin that has warehouse interest want it in the loan because the chance of the cotton sitting the warehouse longer while under loan is greater than if the cotton is sold as a spot bale. If a merchant buys two bales of similar cotton, one in the loan and one "spot" and needs to ship one immediately, he will be much more likely to ship the "spot" bale (Rule 5) than the bale that he purchased as a loan option.
5. There is a chance are that a loan bale may have more value vs. a spot bale because of the ability of the loan to carry the bale for the owner, farmer or merchant, at no carry. The risk lies with the movement of the AWP.
6. The current supply and demand situation will push cotton into the loan. Supply of cotton in the short run will clearly outstrip demand at least until spring.
7. Farmers who drew the LDP and didn't sell their cotton until much later in past years will think twice about drawing the LDP and not selling the cotton. Any cotton not sold will go into the loan.
8. Farmers may exceed their marketing gain limits via LDP's on grain and/or cotton, and will have to use the loan to take advantage of generic marketing certificates.

However, some areas will really be pressed for warehouse storage space, and that might be one thing that will affect loan entries in those areas.

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