

# TIMELY INFORMATION

## Agriculture & Natural Resources

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**“The outside markets are in turmoil, with gold up nearly \$20 and crude over \$98. The dollar is sliding against all the major currencies.” – DTN**

If that headline isn't enough to make you worry, I don't know what would. In the last month, the US dollar is down nearly 4%, continuing a year-long slide. The nearby futures contract on crude oil is up over 20%, Gold, Dec Corn and Nov Soybeans are all up over 10%. December '07 Cotton is up 3%. New crop prices on corn and beans are up about the same percent. I have heard there are some even some '08 peanut contracts out there at over \$500 while December '08 cotton is only up 4%. Unless this market changes its tune in the next month, it looks to me like the profit potential, barring another extreme weather event, will heavily favor all the other agronomic crops in 2008. In the past, dryland cotton production has been a much safer bet in the southeast due to the ability of the cotton plant to “weather” periods of adverse growing conditions. However, at some point the “drought advantage” is going to be negated by higher technology and seed costs and by the opportunity to sell corn at \$4.50 or soybeans at nearly \$10. At current futures prices and given above-average yields, we are looking at returns over variable expenses for cotton in the \$100 (or less) range dryland and around \$200 irrigated. The only scenario where corn, soybeans or peanuts do not significantly outperform cotton is for planting peanuts following peanuts. Of course, these decisions should be made on a field-by-field basis, but if you do not put a pencil to your own cost, yield, and price estimates you are going to do yourself a disservice. This assumes you do not already have a wheat crop in the ground. I have seen the grain drills rolling all across Alabama this fall. It seems to me that a pretty good strategy coming off this disaster would be to harvest that wheat and decide then if there is enough moisture to warrant a crop of beans.

Of course, cotton is still going to be the answer for some fields and for some farmers. The USDA numbers released today have the US crop at 18.9 million bales, with ending stocks raised by 1.2 million bales to 7.6 million. Apparently Texas had a good year. Exports were lowered by half a million bales to 16.2 million, which is still about 3 million more than last year. Not a very bullish report in any case. World numbers continue to hold hope for the future: Production – 120 million bales, Consumption – 129 million. Sooner or later we will run through the excess, but probably not soon. Given these fundamentals I would probably market my 2007 sooner rather than later. Another small impetus toward selling the crop rather than putting it in the loan is that apparently the CCC will soon start charging farmers for storage and compression for cotton put in the loan. Carl Anderson took note of these changes in an article I read last week, so you may want to check on that.

As for new-crop cotton, many farmers I have talked to expect cash prices to come up to the 75 cents offered on the board, but it is at least as likely that the 75 cent futures price will come down to the current 60 cent cash price. However, I really doubt there is a lot of downside potential with the AWP where it is. Of course the wild gyrations in the stock market will probably make fools of all us prognosticators. In general, let me add that all these commodity markets are extremely volatile right now. Farmers should be aware that prices can/will change radically from one day to the next. My practical marketing slogan has been “don't plant anything you haven't already sold” for several years now, and it looks to me like I might want to use it again this year. I might add a corollary that would be “don't sell anything for which you haven't already bought the nitrogen” if you're looking at cotton or corn.

Bob Goodman, 334-844-5633, [goodmwr@auburn.edu](mailto:goodmwr@auburn.edu)