

TIMELY INFORMATION

Agriculture & Natural Resources

The Black Swan

This update is being written early Monday morning, I am on my way to Harpersville in a few minutes to help harvest the variety trials on Phillip Barber's farm. It's a pretty big test, so it should take all day. Friday was very hectic and I didn't get everything done I should have, but the market closed with December 07 cotton up 24 points at 6463 and the December 08 contract at 7573 up 48. July 08 Wheat was \$6.73 up nine cents.

I just finished reading a book Mark Hall loaned me by a stock market analyst that was very interesting. The title, "The Black Swan" refers to the fact that before black swans were discovered everyone thought that all swans were white. Nobody could even imagine that a black swan could exist. That's a kind of innocuous example of how we find out about more important things that radically change our lives that we are completely unable to forecast, but after the fact we spend a lot of time trying to rationalize and explain. The book has an important insight into commodity markets. We (analysts) try to explain every little market move based on either fundamentals (supply and demand) or technicals (charting), but mostly we do it after the fact. It is a joke with a good bit of truth that economists and weathermen are the only people who can make a living by explaining why they were wrong. Nobody knows what the price of cotton is going to be next week, much less next year. Futures market gives the current consensus best guess, but events will overtake us that will change that estimate daily. I guess the point of this is that if you can't know the future price you either have to take the price being offered or gamble that it will be higher. Sometimes that's a good bet, sometimes it isn't. Right now, it doesn't look like such a good bet to me with cotton. We keep hearing that the price will have to rise to get enough acres planted next spring, but how much is "enough"? The market is driven by energy prices so much that until a real shortage appears on the cotton market, I just don't believe we will see much price improvement. We saw a 20 cent selloff in the corn market the first of this month, but it has already recovered. Same thing with soybeans, but the November contract is back around \$10 already. We just don't see that kind of strength with cotton. Cotton has recovered about half of what it lost since the end of September. I highly recommend the book. Although it is not an easy read, it does offer some strategies for coping with this environment of "unknown unknowns".

The “other” energy crop

The only thing favorable about cotton I can say is that there are two products from growing cotton – lint and seed. While cottonseed isn't traded on the futures market, maybe it should be. If cottonseed is 20% oil, the value of that oil has doubled since last fall. Soybean oil has gone from 20 cents to 40 cents. At 20%, a ton of cottonseed that had \$80 worth of oil last year, and now it has \$160 worth. Of course, you can't get it all, and getting it costs money, but the value of cottonseed has increased tremendously while the price, except in California where the demand is very strong, has not. I don't know what it will take to move the cottonseed market, but it needs to move higher. Maybe gins need to have an oil press on-site and market their own meal and oil separately. That technology is certainly available and pretty cheap. But this brings up another pet peeve of mine, which is the way seed salesman talk about turnout. They brag that the turnout on their cotton is high. If you offered me a variety that had 2- bale yield but low turnout, or the same yield with high turnout, I would take the low turnout every time. Every percent increase in turnout reduces cottonseed production by about 60 pounds, which is \$3 at \$100 per ton or \$6 at \$200 per ton. That's not much, but every dollar helps. Anyway, if we can get cottonseed up to around \$200 per ton, which is about two thirds of what the meal and oil are worth, we are looking at an additional \$144 dollars in revenue for a two-bale crop, before ginning costs. It's not enough to make cotton competitive with corn, wheat, and soybeans, but it would help.

That's enough of that. I'm off to Harpersville. I picked some by hand up there last week and it's going to run about 400 pounds lint per acre, which is pretty good for the year we had. There are some problems with skips in the field so I don't know what we are going to do with these yield numbers, but we went to a lot of trouble on this test so we are going to carry it through. Besides, its going to be a nice day and I might as well spend it outside in the field.

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