

There's no such thing as a supply or demand curve

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I know it sounds like heresy, but there really isn't any such thing. There's no big chart somewhere that controls the price of something like cotton. I agree completely with Don's analysis last week – the cotton market “seems” like it “wants” to be “happy” in the lower '60's.

It might even “want” to climb up into the mid '60's. In reality, it only seems that way because so many people are involved in trying to buy or sell cotton that the history of their actions, taken all together, makes a price path that you can chart. Just because the last bale sold at \$62.55, for example, doesn't necessarily mean that the next one will be priced anywhere near that. It usually is, of course, but it isn't automatic. The guy buying it wants a lower price, and the guy selling wants a higher one. They reach a bargain somehow.



We have all been waiting for cotton to jump on the commodity market bandwagon and move on up. “Everyone” says it's just a matter of time. With corn at \$3.50 and beans at \$9.60, we should be looking at \$0.80 cotton just to get a crop planted next year. The chart certainly looks like cotton futures “want” to go higher, but even the December '08 contract is just a little bit over 70 cents. I keep waiting for the market to “buy” some '08 cotton acreage and it doesn't seem to be happening. Maybe it's just too early yet, but it's been hard for me to figure out what is going on. I have been thinking about it for some time, and what I think is happening is that what we are seeing now in this market is just another manifestation of our (the US's) relatively new status in the world cotton market as “the residual supplier”. I think that before we see higher prices, we will have to see a serious reduction in world stocks to the point that the textile industry giants get serious about buying US cotton. They won't do that until all the other sources have been used up.

So, the catch-22 is that it may be difficult for current crop year prices to move higher without causing increases in world acreage (and production) for the following year. Since May, the AWP has risen over 10 cents, and is somewhere around 52-53 cents right now. That's about a 25% increase, and what I think that means is that prospective '08 crop overseas cotton producers have already been given a pretty big incentive, and I don't think the market is worried that there won't be any cotton produced next year.

I would watch this market real close, and if (when) it shows signs of losing steam, I think I would price some cotton. It might not even get to 65 cents, but if it does that might be it as harvest-time price pressures increase. Otherwise, we will be back playing that same old residual supplier game, with our cotton in the loan and agonizing over the export figures every month until next year this time. The 64 thousand dollar question is whether a 55 cent AWP will get 120 million bales produced next year. There have been, in the course of things, many, many people who slowly gone broke while explaining how stupid their potential customers were by not buying their product. The customer is always right, no matter what. Right now the customer is telling us that there is enough cotton, but not enough corn or soybeans.