

TIMELY INFORMATION

Agriculture & Natural Resources

Big Days at the Markets (NYCE, CBOT)

I had three good topics picked out for this week's column. The August market doldrums were winding down and cotton seemed to be trying to move higher, finally moving into the zone where increases in price are not offset by decreases in LDP, where farmers can actually benefit from higher prices, but nothing really exciting was going on. Then USDA put out the crop numbers. Yesterday '07 crop corn was up 11 cents, soybeans were up 18 cents, and wheat was up 18 cents. In the corn market, old crop and new crop were equally strong. In beans and wheat, the new crop prices were a little softer. But even there, prices were nothing to sneeze at. Cotton was up too, even in the face of some dismal trade numbers, but not as much as the others. December 07 cotton closed at \$66.67, up 72 points, December 08 closed at 74 cents and change. But cotton could not hold onto all its gains even on such a record-setting day. The Dec 07 contract very nearly touched 68 cents just before the close, but ended up below 67. All the other crops closed near their highs.

Then the other shoe hit the floor as the market opened Friday morning. Corn and Soybeans gains were wiped out on the open but later recovered some lost ground. Old crop wheat skyrocketed, adding another 20 cents and dragging July '08 along. Cotton lost all its gains and then some, bottoming out at about 64.50 on the December contract, before rebounding some. I would not be surprised if the market does trade a little lower over the next few days, as profits are taken, but the new ground has been staked out and everybody knows just where it could go again. Experts see very limited downside potential in the long run, although harvest pressures might make a dent short-term.

You don't see a wild ride like this every day, thank goodness. There was a pile of money changed hands over the past two days, more than you or I will ever see in a lifetime many times over.

The point has been made, over and over again, that there is a war on in the cotton market as price needs to stay low to get excess cotton sold right now, but needs to move much higher to get some cotton planted next year. I don't know which side will win. We could see '08 cotton well up into the upper 70's, maybe 80's before planting time. With \$10 soybeans I guess the sky is the limit. But old crop cotton is in trouble unless we see some amazing trade figures in the near future especially given the harvest reports coming out of Texas. If USDA overestimated the Alabama crop by 100 pounds per acre, they might have underestimated the Texas crop by nearly as much, and there are a heap more acres of cotton in Texas than in Alabama.

But given enough time, new crop contracts become old crop contracts and the fundamentals of the trade will begin to bear. In other words, the market may bid the 08 crop acreage up, but once it is in the ground the fact that World carryover is still very high, the fact that there is no cotton shortage like there is in the grains, the fact that trade is sluggish and China is reluctant to buy cotton and my subsidize cotton seed again, will begin to weigh on the market.

I was amazed to hear it, but I heard a farmer yesterday say that he wasn't interested in beans or wheat, that he didn't have a good combine and he had to pay for his cotton picker whether he used it or not, so he was planting cotton no matter what. I know some farmers feel that way, and I could go into why it's not good economics, but let's just say the market is shouting "no more cotton, we want wheat", and the customer is always right. If you do plant cotton next year, signs right now are that you should book it early.

I'll have to leave my discussion of the role and impact of USDA crop reporting in a global market, the importance to agriculture of intellectual property rights in WTO discussions, and market strategies for the "residual supplier" for another day.

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