

This newsletter is also available in PDF format on the UGA Cotton web page at:
<http://www.ugacotton.com>

**High Cotton
 A Look at 2011 Prices and Competitiveness**

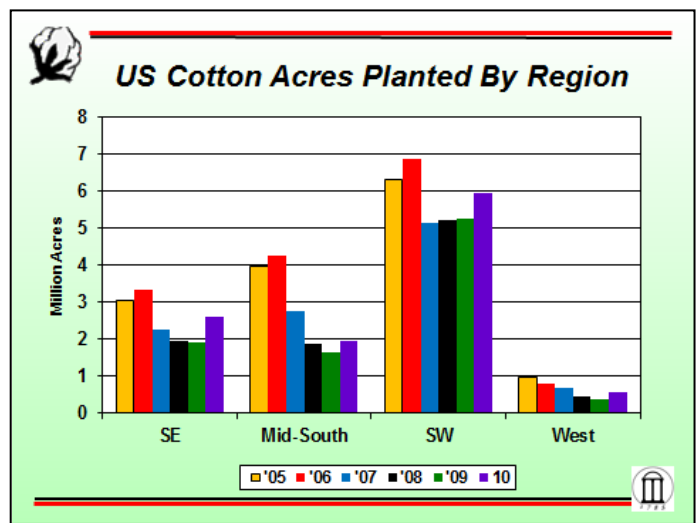
Dec2011 cotton futures closed today at just under 98 cents (97.96 cents/lb). Prices for both this year's crop and next year's crop continue to climb. Dec2010 closed today at just over \$1.42. Demand for cotton has remained strong and aided by the weakening dollar. There remains uncertainty about the China crop that also adds strength to prices. USDA's November supply/demand report will be released on Tuesday, Nov 9.

The 2010 crop is mostly already sold and the remainder should be sold when the bales are available. Producers should strongly consider pricing a portion of the 2011 crop. The US will plant more cotton in 2011. Prices for competing crops like corn and soybeans are also high but we will likely still plant more cotton. Contract prices for peanuts are also expected to be competitive with other crops.

Today, 2011 cotton is over 90 cents. Corn is over \$5.50 and soybeans are over \$12. These are futures prices—you can adjust these for your typical harvest time basis to determine the equivalent cash price. I understand a peanut contract is now available at \$500 or better on limited poundage. Although prices are up, costs are also expected to be up compared to 2010. Fertilizer and diesel are both expected to be up compared to this year. Other costs are not known at this time. Crop insurance premiums are also expected to be up because price elections will be higher and thus value of coverage higher.

After 3 consecutive years of decline (2007-2009) US cotton acreage increased in 2010. Acreage has rebound in all regions but the decrease was more pronounced and the increase has been slower to materialize in the Mid-South. Corn and soybeans have been relatively more attractive compared to cotton, even at higher cotton prices for 2010. US cotton acreage is very likely to increase in 2011 but the Mid-South may be the key factor in how much the increase will be.

As we begin to look ahead to next season, rarely have prices been so attractive for most/all crops in the same season. All crops look set to compete for acreage. Expected yield, price, volatility in price, costs, weather, and crop rotation are all factors that will determine what is actually planted.



Prices will change between now and planting season and once planted, between then and harvest. Planting decisions are made based what prices are expected to be for the crop or on relative prices at a given point in time—in other words, no one knows what prices will actually be but if all prices were to change by the same proportion, the ranking would not change.

Below are EARLY estimates of comparative costs and returns for 2011. This is based on UGA Extension budgets for 2010 adjusted for estimated increase in fertilizer and fuel prices only. Costs and yield are the average of irrigated and non-irrigated production and using conventional tillage practices. Prices will change and will also depend on the cash market basis in your area, but these net returns are based on how prices stand as of right now. Costs will also change. Cotton is priced at 90 cents which is actually a little cheap since Dec2011 futures are currently at 98 cents.

	Corn	Cotton	Peanuts	Soybeans
Expected Yield *	135	900	3400	43
Current RELATIVE Prices	5.25	0.90	500	11.00
Expected Income	709	810	850	473
Variable Cost **	420	455	566	259
Return Above Variable Cost	289	355	284	214

* Average of irrigated and non-irrigated, conventional tillage.

** UGA Extension 2010 estimated cost adjusted for fertilizer and fuel only.

Chances are, cotton acreage will increase in 2011. Weather permitting, production will also increase. Common sense tells us that with an increase in supply, prices will eventually decline. Perhaps so-- but let's also remember that we will be going into the 2011 crop year with already very tight supplies. Should production problems develop in the US or key foreign countries like China, India, etc. like we've seen this year, things could get interesting even for next year's crop. The demand side is also important. With increased supply possible (likely), prices will tend to weaken unless demand growth can match the increase in supply. Taking action at current levels on at least some portion of the expected 2011 crop seems like a good idea and I get the impression that growers are already doing that.



Don Shurley, University of Georgia
donshur@uga.edu / 229-386-3512