

MARKET OUTLOOK FOR 1974

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The 1973 marketing year began with cotton carryover up slightly over the year earlier level but still substantially below the level that is considered to be normal. An especially strong export market combined with a U.S. market that is experiencing less competitive pressure from man-made fibers is the basis for a virtual certainty that carryover will be reduced substantially by the end of the 1973 marketing year. Spot cotton prices during the harvest of the 1973 crop and futures prices on the next crop at much higher levels than 12 months earlier have been reflecting the tightening supply outlook. Whether the market's forecast of prices during the 1974 harvest are realized depends upon the amount of cotton produced world-wide during 1974 and the effect of higher petroleum prices and availability on man-made fiber production. Production of cotton will in turn be importantly affected by cotton growers' reactions to high prices for cotton and alternative crops and the number of acres of cotton planted in 1974.

In January and February of 1973 the Arizona cotton grower seemed to be at a disadvantage in contracting because most were limited to contracting the sale of only one bale per acre. This limitation turned out to be something of a blessing in disguise as contract prices rose fairly continuously throughout 1973 and growers were later allowed to contract more than one bale per acre. The primary lesson that should be learned from the 1973 experience is that good marketing strategy requires that farmers disperse the sale of their product rather than fixing the price of their entire output on the price available on one day during the year. To fix the price of the entire output on one day is nothing short of pure gambling.

Good marketing strategy for Arizona cotton growers in 1974 may involve the contracting of 25 percent of their expected production in January and February. Shortly before the start of the planting period growers should make their final adjustments in acreage to be planted to cotton based upon the contract price then available and bring the level of contracting up to about 65 percent of expected production. The remaining 35 percent of production would be available to cushion the effect of uncertain yields and allow the harvest time price to enter into the average price received for the 1974 crop. Contracting should never be initiated unless the available price is high enough to assure that it will cover the full costs of production. In estimating their costs of production growers must be careful that their estimates include adequate allowance for rising fuel and fertilizer costs.

One of the major forces behind the strengthening foreign demand for U.S. cotton has been the change in the exchange rate of the dollar in relation to major world currencies that began in a small way in August of 1971 but shifted substantially after February of 1973. Especially in the case of the Japanese, the foreign buyer of U.S. cotton could use fewer units of his currency to buy each dollar's worth of U.S. cotton. By maintaining unrealistic exchange rates to other currencies the U.S. government had depressed the foreign demand for U.S. cotton. During the years of unrealistic exchange rates, foreign governments accumulated vast quantities of dollars as foreign manufacturers selling their goods in the U.S. market encouraged their governments to help to maintain the exchange rates because these rates strengthened the U.S. demand for their products. Part of the recent demand for cotton is simply the result of an effort to convert the past accumulation of foreign held dollars to tangible commodities. As paradoxical as it may seem, when the dollar is weak in the foreign exchange markets the foreign demand for U.S. grown cotton will be strong.

With the new government program in effect for the 1974 crop and the strong market demand in prospect for the remainder of 1974 it seems highly unlikely that the U.S. government will make any payments to upland cotton growers under the cotton program during 1974. Total Arizona cotton planting is almost certain to increase in 1974 but the increase will likely be less than 10 percent.