1976 OUTLOOK FOR COTTON MARKETS AND MARKETING

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As 1975 came to a close, the market for U.S. upland cotton had completed a dramatic reversal from a year earlier. The price of middling, 1-1/16 inch cotton had increased by about 50 percent. Over the same period, soybean prices declined by more than 1/3 and grain prices were down by about 25 percent.

Soybeans is a close competitor for land in the Mississippi Delta area, and grain sorghum competes with cotton for land in the High Plains. The price changes that have occurred imply a substantial increase in total acres of cotton planted in the U.S. in 1976. The increased cotton planting will likely exceed 20 percent.

Arizona will show little or no increase in cotton planting in 1976. The reasons for this are, first, the large increase in wheat planting--up to 1/3 of Arizona's croppable land--will tend to limit land available for increased cotton production. Second, rising energy prices for pumping irrigation water will discourage any increase in total acres under irrigation. And third, soybeans and grain sorghum are not important competitors for land and water in Arizona as they are in other areas of the U.S. The only thing that could bring substantial increases in cotton acreage in Arizona would be large-scale contracting at prices above 55 cents prior to planting.

The carryover will be down significantly at the end of the current marketing year. This prospect of declining U.S. stocks has been the principal cause in the fairly continuous rise in cotton prices during 1975. While foreign stocks will also likely be down, they will continue to be at excessive levels through most of the next marketing year and will be a factor limiting U.S. exports.

If planted acres of U.S. cotton increase by 20 percent and more normal yields are obtained, the 1976 crop could reach 11.3 million bales which would be 1/3 higher than the 1975 crop. The U.S. economy and textile industry have made good progress in recovering from one of our worst recessions. But, with the slow market for exports the U.S. carryover from the 1976 crop will probably increase somewhat. The prospect of rising carryover will likely cause the average price of Arizona cotton to be at a level of 50 cents, plus or minus two cents at harvest time in 1976.

Alternative Techniques in Selling Cotton

Many cotton growers enter into call contracts on the expectation or hope that this will reduce their price uncertainty. For many cotton growers the result of entering into call contracts is to increase price uncertainty. The holder of a call contract must make his own decision on when to fix his price, but if the price declines over a period of time he may panic and set the price at a level that later turns out to be below the price available at harvest. Call contracting is a good general strategy only when the participants are naturally lucky or have access to good price forecasting that few if any have. The two major variations of the call contract are the sellers call contract, available to growers who are not members of cooperatives, and the call pool for coop members.

Members of cooperatives should use the call pool only when they need forward contracting to get financing for their production costs and the available price at time of initiating the call contract is favorable for immediate fixing. In most years the seasonal pool will yield a higher average price than the call pool.

Cotton growers who are not members of cooperatives should always be alert to the contract prices that are currently available to them. A good general strategy is to forward contract one-third of expected production in December through February when the available price will yield an acceptable return to the resources that they own. Contracting could be brought up to two-thirds of expected production at planting time if the price is favorable at that time. The amount of cotton actually produced which exceeds the quantity needed to fulfill the contractual commitments made prior to the end of planting would be sold after it is harvested.