



The End of Cotton?

Many in the commodities markets feel 2009 will be a break-out year for cotton - some even say that cotton could reach one dollar per pound! There are a number of signs that support this. There is a mounting surge in cotton news, and we must be diligent in recording new information as it is announced.

Speculators & Hedge Funds

Speculators are long a record amount futures contracts and believe that the economic downturn in the global economy will play a factor in its rise. Did you know that farmers are swapping out cotton fields to grow other crops such as soybeans? This is what speculators are seeing and reacting to. Now that speculators have to put their money where their mouth is, we have a clearer view on what side speculators are taking. Hedge funds are looking for the next gold rush, and now that they have sold their positions in yellow gold many are flocking to the soft, puffy gold we call cotton. As people become disgusted with the stock market they have a tendency to shut themselves off to the markets altogether – during this time is when hedge funds corner the market.

Supply & Demand

With ethanol being the future fuel of the world, farmers are planting more corn than cotton. As time goes on, less and less cotton fields will be in existence - causing a supply shortage with much higher prices. Farmers want crops that have more profitability, and let's be honest: they want government subsidies. If they grow more corn, they will make the government happy - in return, they may receive more tax breaks and other handouts associated with growing certain crops. Legislation that has been going through Congress is trying to take away the farm subsidies available to cotton farmers as well as the guaranteed price they are used to. The federal government is giving them no choice but to swap out cotton to grow wheat, soybean, and/or corn. It comes down to dollars and cents, and we need to put ourselves in the farmer's shoes - to make a living they will have to switch to more productive types of crops. If cotton slips below 10 million acres in 2009, the U.S will export less to foreign countries that rely on the supply. As alternate crops offer more favorable prices compared to cotton, the more land will be taken away from cotton production. Analysts in farming regions across the U.S. have indicated that there is a reduction in most of the states - especially the southern states - and in the past few years, cotton has declined by 14% or more and is expected to worsen during 2009.



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Growth of Foreign Nations

China has seen the writing on the wall and has reacted in an appropriate fashion. They know that they need to secure natural resources to keep with its growing economy. China created Zhengzhou Commodity Exchange - its own futures market - to capitalize on commodities. Daily contract volume on cotton has risen 10% since its inception and averages 75,000 contracts a day. This may not seem like a huge number, but to put this in perspective we should look at the numbers of the past. It took the NY Cotton Exchange over 120 years to hit that number of contracts, while the ZCE did it in only one year. China's growth is driving markets around the world and following the resources it needs and the resources they import from us can help you make the proper decision when it comes to purchasing certain commodities. Chinese production for 2007 and 2008 was lowered by over 2 million bales, showing that cotton is becoming scarce in places besides the United States.

Much of the reason there is a huge demand for cotton is Brazil, India, and China's explosive population growth. Many residents and business owners are becoming wealthy because of new-found opportunities in these countries. The main fiber used by these popular countries is cotton due to the people having enough money to improve living standards.

These statistics should raise a flag for you on what countries will be hurting for cotton if the supply is decreased. These countries lead cotton consumption in the world: China 32%, India 24%, and Pakistan and the U.S. make up 16%. China, India, and Pakistan are import-driven, and with the rest of the market going to see a slow down a surge in cotton prices can be forecasted.

Reality

Reality is the U.S. and many other countries are going to have less land to produce cotton and a high demand from many growing foreign nations. If the U.S. is going to slow production, speculators are still buying, and the demand is growing, there should be no reason not to be bullish on cotton. Don't shut down when buy signals are all around you!



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