

— NEW YORK FUTURES —

# 2008-09 ICE futures near first price hurdle

By Ed Jernigan, Chairman/CEO, Globecot Inc

The 74.00 to 75.00-cent area in December 2008 ICE futures is providing the first significant price resistance of the current rally. The main reason for this is that as futures reached this level, some US growers are able to net near 70.00 cents at the gin, basis a SLM 1-1/16" base grade, which represents an over 20-cent per pound increase from the average 2006-07 farmgate price.

As futures moved above 65.00 cents, US domestic trade switched from focusing on CCC loan equity to a Rule 5 basis level, which varies from region to region. For example, today's basis level on Rule 5 terms range from 400 off December futures in the southeastern belt to 833 points off December ICE futures in West Texas.

Very little cotton has been contracted yet, but the 2008-09 basis is now at near 300 to 400 off December 2008. In the Memphis Territory region, for example, growers today could sell forward at 350 off December, Rule 5 terms, with December 2008 at 75.00 cents, which would net 71.50 cents.

Growers then face approximately 400 points additional costs in warehouse charges, which would reduce the net to 67.50 cents. The standard practice in the region has warehouses heavily competing for cotton, which suggests growers will be able to obtain a 500 to 600 warehouse rebate. Such a rebate would raise the net to above 71.00 cents on such contracts.

Most contracts have a 50 to 100-point premium for grades above the base — so cotton could, in theory, be hedged at 72.00 cents. For irrigated growers with an average of 1000 pounds or more, this would mean an income per acre of \$US735.00 per acre. Estimating production costs at approximately \$US500 to 525 per acre, with fertiliser costs sharply higher, this meant a profit of approximately \$US210.00 per acre. Growers still will receive some government subsidies, but this will depend on which version of 2007 Farm Bill is passed.

The problem for the farmer lies in the continued explosion of grain prices. For example, a wheat/soybean double crop in the Memphis Territory offers more profit. Currently, July 2008 wheat futures are \$US6.73 per bushel and November 2008 soybeans are at \$US9.68 per bushel. Even at this profit level for cotton, soybeans currently offer growers over \$US324.00 per acre profit for 2008. A wheat and soybean double crop combination increases the profit to \$US400.00-450.00 or more per acre, which is double that for cotton.

So it appears that December 2008 futures has reached its first significant resistance level — but the continued rally in soybeans and wheat is undermining its significance.

## DECEASED ESTATE

### ONE OF THE TWEED'S PREMIER CANE FARMS

62 ha, house, 3 sheds, crop, plant & equip., mill shares & harvester equity. Riverfront, 1 min to Murwillumbah, 25 min to Gold Coast.

**\$1.5m**



**EXCELLENT RETURNS:** 53 hectares under cane. Average crop yield, actual to est. over last 15 years = 122.5%. 2007 anticipated 6459 tonne. The farm boasts some of the best producing soil, laser leveled paddocks and no need for irrigation. Part of one of the best and cheapest harvesting groups. Bitumen access road, central cane pad, town water with no restrictions, private heli-pad with undercover parking and workshop.

**LIFESTYLE OPPORTUNITY:** Situated in the picturesque Tweed Valley this property is just 1 km from the Murwillumbah post office and Main Street's trendy cafes, 4 km to the Condong Sugar Mill, 6 min to the local airfield and 25 min to Gold Coast airport.



**PROPERTY:** Lot 1 DP347 824, Lot A DP430 282, Lot 1DP 654 247, Lot 1 DP 727 319 & Lots 1 & 2 DP 727 324, Local Gov. of Tweed; Parish Murwillumbah, County Rous.

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PO Box 62 Murwillumbah, NSW 2484

More information: [www.diysell.com.au](http://www.diysell.com.au) — property ID P16273

### US Memphis Territory 2008 cotton versus soybean profitability

US dollars per acre

Irrigated cotton		Soybeans	
December 2008 futures	74.00	November 2008 futures	9.68
Rule 5 basis	-4.00	Basis	-0.25
Warehouse charges	-4.00	Net per bushel	9.43
Warehouse rebate	-6.00		
Net before grade adjustment	72.00		
Grade bonus	0.50		
Net in US cents per pound	72.50		
Total gross income per acre	725.00	Total gross income per acre	424.35
Estimated growing costs	525.00	Estimated growing costs	100.00
Net income per acre*	200.00	Net income per acre*	324.35

\*No government benefits are included