DJ Cotton Nears 2-Month High on Lower Production Forecast

By Tatyana Shumsky

NEW YORK--Cotton prices ended at a nearly two-month high on Thursday after the U.S. Department of Agriculture lowered its outlook on U.S. production and stockpiles of the fiber.

Cotton for December rose 0.95 cent, or 1.4%, to 68.09 cents a pound on the ICE U.S. Futures exchange. This was the highest closing price since July 14.

The U.S. is expected to produce 16.54 million bales of cotton in the year ending July 31, the USDA said, down 5.5% from its previous estimate. Analysts surveyed by The Wall Street Journal had expected production to slip to 17.3 million bales.

The USDA said its new forecast was based on estimates of reduced cotton harvests in Texas, Georgia and Arkansas.

"About a quarter of the crop is grown in Texas, and the weather conditions there are very poor," which is pressuring cotton prices higher, said John Payne, senior market analyst with Daniels Trading in Chicago.

The dry weather is also raising concerns about the quality of the crop just as farmers prepare to begin the harvest, Mr. Payne said.

Cotton prices have fallen about 20% this year on expectations of higher supplies, but Mr. Payne said Thursday's move higher reflects the market's shifting outlook.

The USDA also reduced its estimate for the amount of cotton sitting in warehouses at the end of the current season. U.S. cotton stockpiles are likely to total 5.2 million bales by July 31, down from a previous forecast of 5.6 million bales, the USDA said. This was a steeper drop than the decline to 5.4 million bales predicted by analysts.

In other markets, coffee prices rose as some bearish traders returned to the market as buyers to lock in gains after prices hit a one-month low a day earlier.

Arabica coffee for December delivery gained 4.2 cents, or 2.3%, to $1.8545 a pound.

Still, prices are likely to resume their declines amid pressure from a stronger dollar. Coffee producers are incentivized to sell more of their beans when the greenback rallies because the profits in terms of their home currencies rise.

"The recent weakening of the Brazilian real and Colombian peso is generating some exporter selling from origin countries," said Julio Sera, a senior risk management consultant at INTL FCStone in Miami.

Raw-sugar futures extended their four-year low to 14.36 cents a pound amid signs that greater supply from Brazil, the world's top sugar producer, would increase the global sugar glut.

In other markets, December cocoa fell 1.1% to $3,028 a ton, its lowest settlement since May 23. Frozen, concentrated orange-juice futures fell 1.2% to $1.4715 a pound, a two-week low.

Write to Tatyana Shumsky at tatyana.shumsky@wsj.com

(END) Dow Jones Newswires
09-11-14 1519ET

Chain Link: [CS20140911002745]

[Related Stories]