

Cotton Threading The Needle

Think quickly: How much does your shirt weigh? Or any item upon your person right now made from cotton, including those dainty unmentionables? Chances are you have no idea and even if you did, the answer would be, “Not much.”

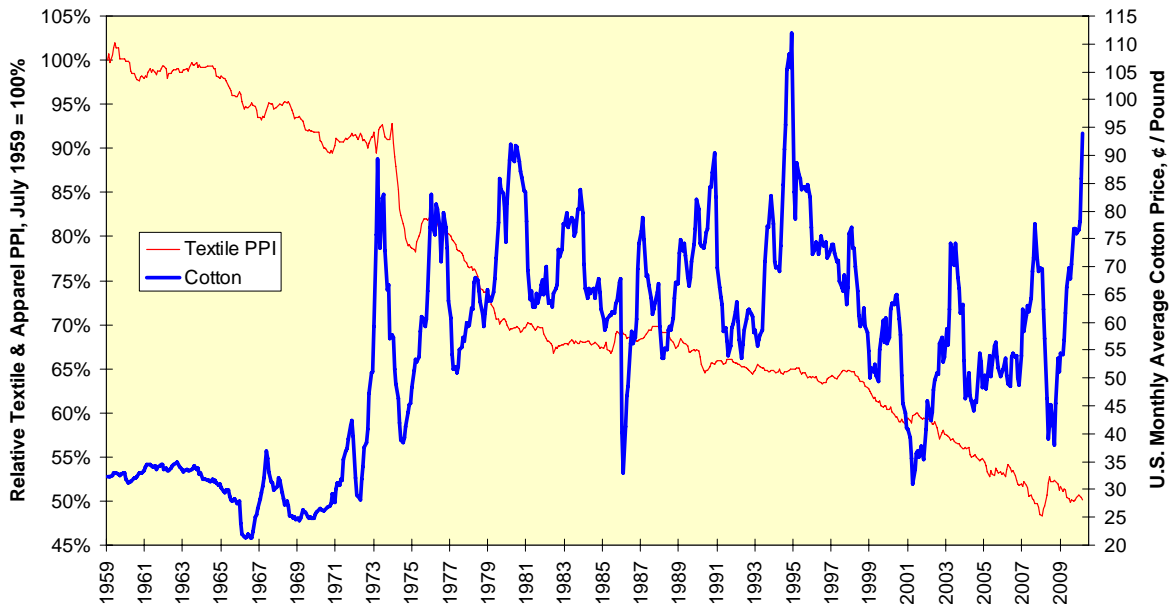
Now if I were to tell you the price of new-crop December cotton futures has jumped more than \$0.40 per pound from mid-July through late October, would you start making back-of-the-envelope calculations whether it would be cheaper to get arrested for indecent exposure and pay the associated costs than to buy some threads (Arbitrage: It’s a way of life)? No, you would not.

Now, here is the final question for those of you who have not been paying attention to the excuses made for rising prices over the years: Will the price of cotton textiles rise by more than \$0.40 per pound? As they say in more northerly climes, you betcha.

The Whole Cloth

Textiles are one of the first steps in any country’s path to industrialization; remember all of those seemingly pointless lessons about the spinning jenny and the like back in grammar school? The price of the raw material, be it cotton, wool, polyester or rich Corinthian leather pales in comparison to the prices paid for labor, marketing, capital equipment and other production costs. This is why textile mills always flee to the cheapest zone of production and why the Producer Price sub-index for textiles and apparel – yes, there is one – has advanced only half as much as the PPI itself over the past half-century. Any reading of the chart below would have to concur this PPI sub-index is unaffected by cotton prices.

Textiles & Apparel Prices Have Been Immune To Cotton Prices

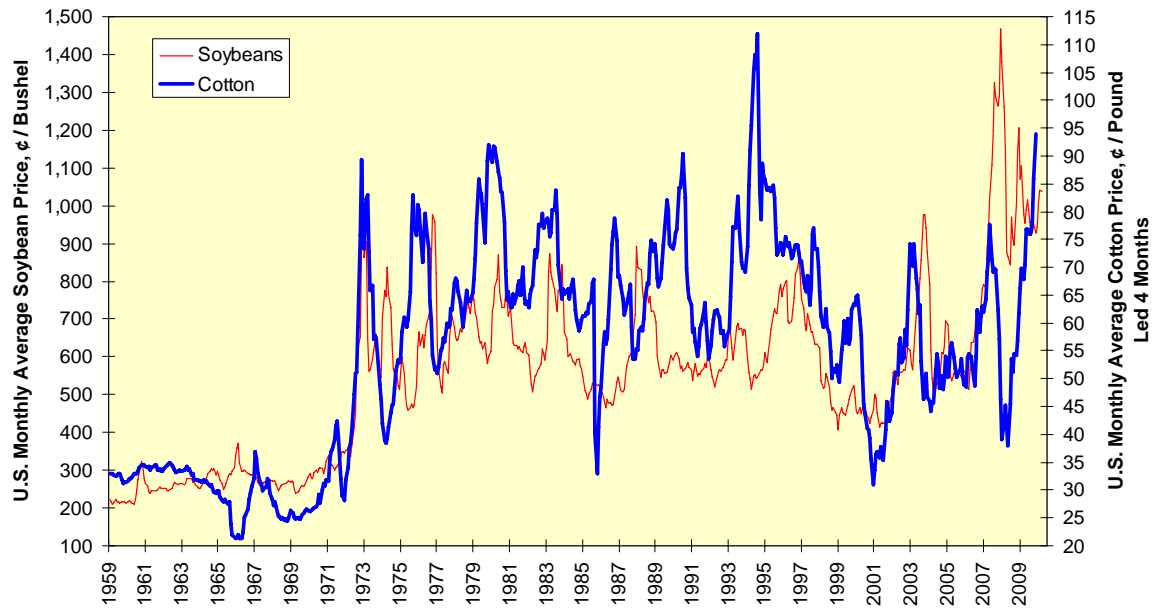


Cotton Doesn’t Grow On Trees

No, it is the seed boll of a scrub plant that can grow almost anywhere, including the American South, California, Australia, Egypt, India, Pakistan, China and Uzbekistan. In the U.S. cotton competes for acreage in the South with soybeans, which in turn compete for acreage in the Midwest with corn. As the price of corn has skyrocketed and will continue to be pushed higher by [ethanol-distillation](#) demands, look for U.S. farmers to start favoring corn in the Midwest in 2011 and for the acreage competition between soybeans and cotton to get especially tight in the South. Much of the final planting decision will be the result of this winter’s Southern Hemisphere soybean and cotton crops.

Over time, soybean prices have led cotton prices by about four months, which suggests soybeans drive this planting decision and cotton follows. If soybean prices remain high as a weak dollar promotes export demand, look for cotton prices to jump in 2011 even beyond what they have done now.

Soybeans Lead Cotton



If the dollar continues to be weak, look for foreign textile mills to try to raise prices to protect their already-small margins. The shirt on your back will become more expensive and won't that make the Federal Reserve happy when this component of consumer prices rise? Of course, they are so worried about deflation they probably will move textiles off with food and energy in that "non-core" category on the theory no one in the U.S. eats, drives, heats or wears clothes.

Keep up this dreadful money-printing policy, and that will be truer than you care to believe.