

SPOT COTTON QUOTATIONS

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Abstract

Spot Cotton Quotations are published daily by the Cotton Programs, Agricultural Marketing Service, U.S. Department of Agriculture (USDA) in Memphis, Tennessee on each trading day of the New York Cotton Exchange. USDA quotations are based on purchases or sales in the market, mixed lots, free of all charges F.O.B. car/truck which includes compression and any brokerage charges. Spot Quotations are established in seven upland markets. Five of these are used for settlement purposes on the New York futures contracts for tenderable qualities. These quotations represent commercial differences for settlement purposes for upland cotton on New York futures contracts.

Spot quotations include a price for the base quality and differences (premiums and discounts) for all other qualities. All qualities quoted are equal to the Official Standards. The AMS Cotton Program has four market reporters that interview buyers and sellers in the seven markets to receive price information. The Market News Branch in Memphis provides supervision, price analysis, administrative and clerical support.

Market reporters receive re-caps from cotton traders that describe quality price and terms of cotton that is bought and sold. Price information is received from cooperatives, merchants, ginners and manufacturers.

The quotations are of general interest to producers, ginners, merchants, textile manufacturers, news media, government officials, insurance companies and others. Spot quotations are of interest to foreign cotton merchandisers and manufacturers, also.

Introduction

The U.S. Cotton Futures Act requires that the USDA shall establish bona fide spot markets to report commercial differences for settlement purposes. The Agricultural Marketing Service's Cotton Program carries out the spot quotations responsibilities of USDA.

The average differences in five bona fide spot markets are used for settlement purposes for delivery of tenderable cotton on futures contracts. These five markets are: Southeast, North Delta, South Delta, East Texas/Oklahoma and the Desert Southwest. The tenderable qualities deliverable on New York futures contracts are:

Color Grades	Leaf Grades
11	1 - 5
21	1 - 5
31	1 - 5
41	1 - 5
51	1 - 5
12	1 - 3
22	1 - 3
32	1 - 3
• Staples:	33 and Longer
• Mike:	3.5 - 4.9
• Strength:	22.0 and Higher
• No Extraneous Matter	

In addition to these five markets, the spot markets in West Texas and the San Joaquin Valley complete the representation of the U.S. growth areas for upland cotton. American Pima spot quotations are also established in the Desert Southwest and San Joaquin Valley.

Spot cotton is any sale or purchase of cotton in the market, in mixed lots, free of all charges, F.O.B. car/truck which includes compression and any brokerage charges. Qualities quoted represent the Official Standards. The base quality for Spot Quotations is: color grade 41, leaf grade 4, staple 34, mike 3.5 - 3.6 and 4.3 - 4.9, strength 26.5 - 28.4, uniformity 81.

Quotations are established for different combinations of color grade, leaf grade, and staple. Additional premiums and discounts are reported separately for mike, strength, uniformity, extraneous matter and prep. Separate bark discounts are quoted only in Texas/Oklahoma markets. The premium (points above the base) and discount (points below the base) represent differences. This results in thousands of quality combinations.

Discussion

Market Reporters contact buyers and sellers daily either by personal visit, telephone or fax. Market Reporters receive Re-caps from buyers and sellers. Re-Caps include prices paid and terms of sale. The Re-caps are mixed lots of various color grades, leaf grades and staple lengths. They also show mike, strength, and uniformity ranges. The number of bales of various types of extraneous matter are listed. Average values are usually shown for leaf, staple, mike, uniformity, color readings for Rd and +b.

Sources for price information include producer sales, merchant transactions, cooperative sales and electronic marketing. Other sources of price information used in establishing spot quotations are basis sheets, sales to mills and CCC sales.

Forward contracting transactions are not used for Spot Quotations. Re-cap prices may need to be adjusted to reflect mixed lots, free of all charges, F.O.B. car/truck which includes compression or any brokerage charges. The USDA Market Reporter determines the spot price quotation of each Re-cap. The Re-caps are summarized and compared to the quotations. Adjustments are made to the base and/or differences as needed.

Re-Cap of Mixed Lot Sales

		FOB				
Price:	54.25 cents per pound	Terms:	Warehouse			
*Adjustment:	+3.00 cents per pound	Location:	South Texas			
		Date of Sale:				
Gross Price:	57.25 cents per pound	Date of Sale:	8-10-00			
Color/Leaf	33	34	35	Total	Mike	B/C
31 - 2	10	10	10	30	33 - 34	20
31 - 3	10	10	10	30	35 - 36	10
41 - 3	10	10	10	30	37 - 42	30
					43 - 49	20
Total B/C	30	30	30	90	50 - 52	10
					Total	90

* Adjustment is Compression and Load-out to truck charges.

Re-Cap of Mixed Lot Sale

Strength	B/C	Uniformity	B/C	Ext. Matter	B/C
25.5 - 26.4	20	80	30	Bark 1	5
26.5 - 28.4	20	81	30		
28.5 - 29.4	30	82	30	Total	5
29.5 - 30.4	20	Total	90		
Total	90				

Averages:

Leaf	2.7	Staple	34.0	Mike	4.04	Strength	28.2
Unif	81.0	Rd	78.0	+b	8.0		

Calculation to Determine Quotation Price of Mixed Lot

Example:

- East Texas/Oklahoma Spot Quotation August 9, 2000
- 58.50 cents per pound for base quality

Color/Leaf	Staple	B/C	Points	
31 - 2	33	10X	-375=	} -67
	34	10X	50=	
	35	10X	125=	
31 - 3	33	10X	-400=	} -75
	34	10X	50=	
	35	10X	125=	
41 - 3	33	10X	-450=	} -117
	34	10X	25=	
	35	10X	75=	
Average				-86

MIKE

Mike Range	B/C	Points	
3.3 - 3.4	20X	-150=	
3.5 - 3.6	10X	0=	
3.7 - 4.2	30X	0=	} -78
4.3 - 4.9	20X	0=	Average
5.0 - 5.2	10X	-400=	

STRENGTH

Strength Ranges	B/C	Points	
25.5 - 26.4	20X	-25=	
26.5 - 28.4	20X	0=	} 0
28.5 - 29.4	30X	0=	Average
29.5 - 30.4	20X	25=	

UNIFORMITY

Units	B/C	Points	
80	30X	0=	
81	30X	0=	} 0
82	30X	0=	

EXTRANEOUS MATTER

Type	B/C	Points
Bark - 1	5X	-300=
		-17
Base Quotation Price		58.50
Color, Leaf & Staple		-0.86
Mike		-0.78
Strength		0.00
Uniformity		0.00
Bark		<u>-0.17</u>
Quotation Price per Lot		56.69
Price paid per Lot		57.25
Price vs Quote		<u>-0.56</u>

This lot sold for .56 cents per pound higher than the USDA quotation. The market reporter will analyze this lot in with other mixed lots and determine if the base and/or the differences need to be changed.

Market Reporters gain insight and perception through regular personal visits and telephone contacts with buyers and sellers. Reporters discuss market conditions, obtain price information and may obtain buyers' basis. Reporters must use common sense with number sense. Quotations are established in seven growth areas on a daily basis by the Market Reporters and the Branch Chief in Memphis, TN.

Summary

Spot quotations provide timely and reliable information on a daily basis for the U.S. spot cotton markets. The differences from the seven markets are averaged from August through February for CCC loan purposes. USDA's Farm Service Agency usually averages these differences with the current year's loan to determine next year's loan. Quotations are disseminated by mail, fax, internet and e-mail to interested parties all over the world from the West Texas cotton producer to the Japanese mill buyer. The internet address for accessing the Daily Spot Quotations is <http://www.ams.usda.gov/cotton/mncs/index.htm>.