CYCLES OF COTTON SPECULATION

High, Low and Average Prices of Cotton for Last 10 Years—Chart Showing Fluctuations for Each Season—Low Prices and Narrow Fluctuations Before 1898—High Prices and Wide Fluctuations Since 1902—Production by Seasons—Price of Cotton Steadily Advancing in Face of Increasing Production—Rise Not Explained by Local Causes or Temporary or Artificial Influences—Some Powerful Force at Work—All Prices Advancing—Speculators Should Realize That Purchasing Power of Dollar is Declining—Prices of Past Years are Obsolete.

BY

THOMAS GIBSON.

THE accompanying chart, formed on the same plan as the diagram illustrating the movements of stocks in MOODY'S MAGAZINE for May, develops some interesting features in the movements of Cotton for the last ten years.

For the benefit of those readers who did not follow the Stock chart, it may be said that each circle represents the fluctuations for a single year. The bottom rim of the circle rests on the lowest price during the period, and the top rim on the highest price. The average price is, of course, established at the axis.

The chart illustrates speculative extremes in cotton, the figures on which it is based are not the prices of Spot cotton, but extreme high or low prices for all options. The result, however, would have been only slightly changed had Spot cotton prices been employed.

The diagram is based on fluctuations of 25 points, or ¼ cent per pound; the prices shown, therefore, are not exact, but they serve to illustrate comparative movements with sufficient accuracy. The high and low figures are not those of a calendar year, but of a fiscal, or crop year, ending August 31 of the years named; thus the prices for 1896 represent the fluctuations of the season 1896-1897. As production is necessarily a vital factor in making prices, this method was adopted to prevent confusion in examining the price effects of lean or abundant production.

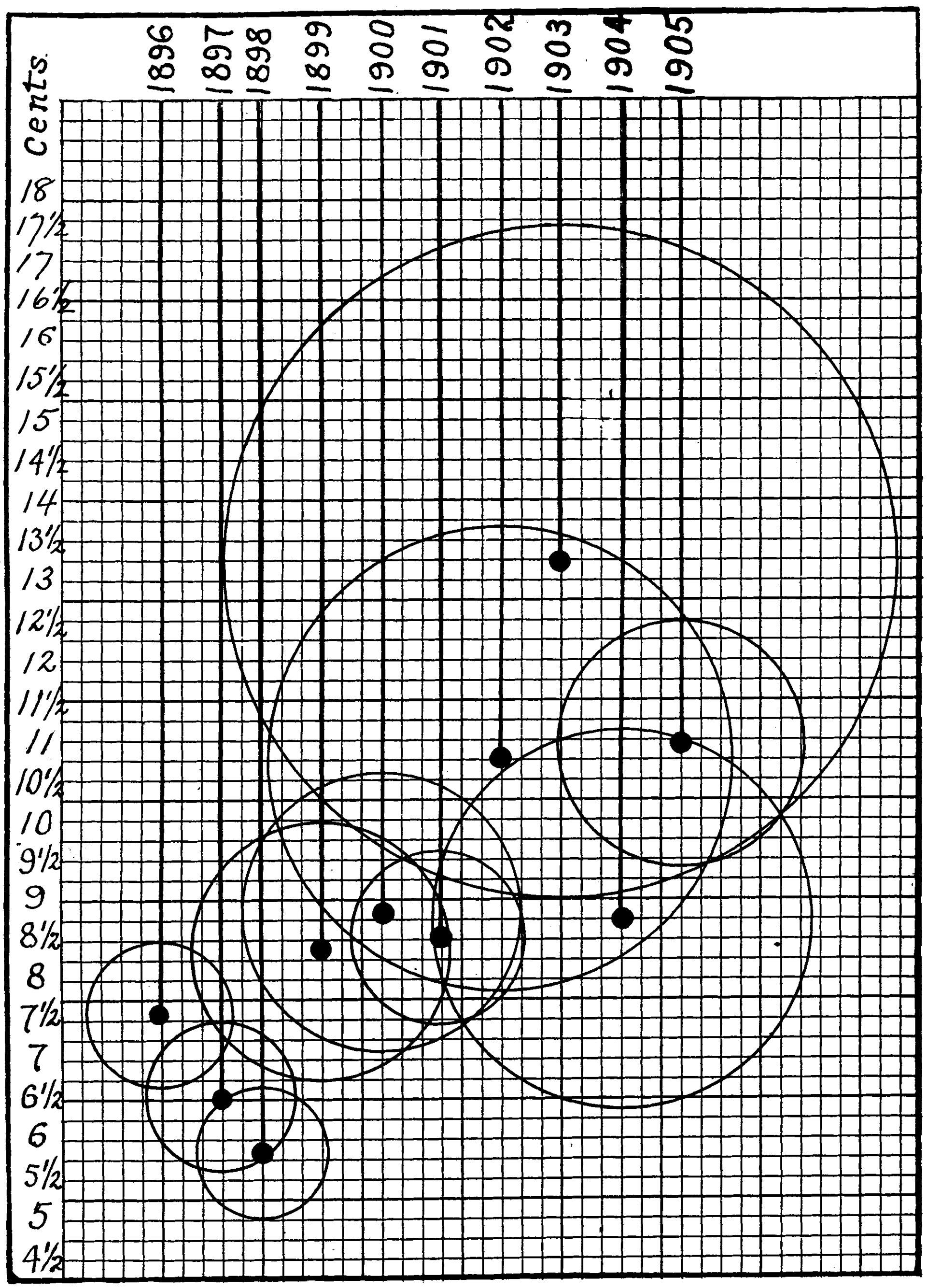
The range of prices for the period considered (1896 to 1905 inclusive), was as follows:

Season	High	Average	Low	Fluctuation.
1896-97	8.50	7.59	6.69	1.81
1897-98	7.50	6.50	5.62	1.88
1898-99	6.73	5.84	4.96	1.77
1899-00	10.00	8.38	6.76	3.24
1900-01	10.60	8.80	7.01	3.59
1901-02	9.67	8.51	7.35	2.32
1902-03	13.75	10.81	7.87	5.88
1903-04	17.46	13.23	9.01	8.45
1904-05	11.15	8.77	6.39	4.76
1905-06	12.54	10.93	9.32	3.22

In the first three years considered we find low prices, and naturally restricted speculation. The speculative price range for the entire three-year period is only a shade more than 3½ cents per pound. This was occasioned by two things; first, the general depression following the panic of 1893, and second, over-production. An examination of the prices of staples generally shows that unusually low figures prevailed in 1898 and 1899. Corn, for example, averaged 27 cents in 1897, and 31½ cents in 1898. Wheat shows high average prices, but the show-

FLUCTUATIONS OF COTTON PRICES FOR TEN YEARS.

[The rims of the circles touch the average high and low prices of cotton each year for 10 years.]



ing is a result of fictitious speculative figures established by the Leiter deal, and cannot be considered a fair criterion. It may be added, however, that wheat sold as low as 64 cents in 1897, and 62 cents in 1898.

The question of over-production will be made apparent by reference to the following table:

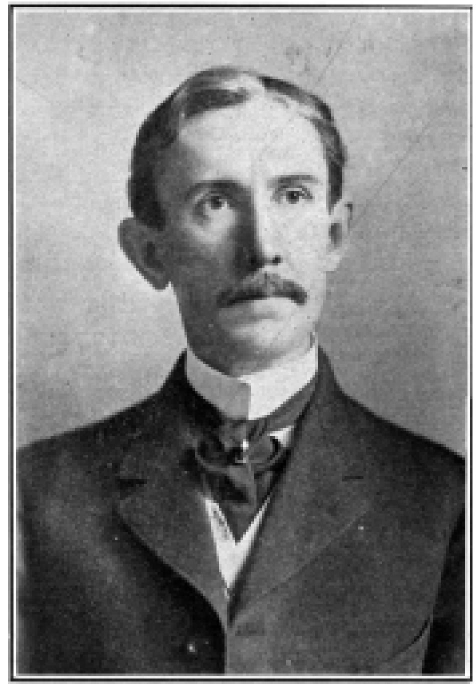
Season	Crops in Bales
1896-97	8,714,000
1897-98	11,180,000
1898-99	11,235,000
1899-00	9,439,000
1900-01	10,425,000
1901-02	10,701,000
1902-03	10,758,000
1903-04	10,123,000
1904-05	13,556,000
1905-06	10,697,000

Prior to 1897 no crop of over 10,000,000 bales had ever been made; the two bumper crops of 1897-98 and 1898-99 coming together, naturally brought about very low prices, particularly as they occurred in a period of general depression.

In the season next following, 1899-1900, there is a marked falling off in production, which is again reflected in a higher average price. But from that time on, we do not find prices and production in such perfect accord.

It is generally considered now that 10,500,000 bales is a fair crop. In the four seasons from 1900-01 to 1903-4 inclusive, we raised normal crops, while prices advanced. It would be manifestly unfair to consider the year 1903-04 as reflecting with any degree of accuracy the normal price of cotton, for in that period occurred the disastrous Sully campaign. Making due allowance for this, however, it may be assumed that prices would have advanced if no such deal had occured. This statement is supported by the fact that the bursting of the bubble did not put prices below 9 cents at any time.

Now the most important part of the



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period is reached, the seasons of 1904-05 and 1905-06.

In 1904-05, in the face of an unprecedented crop of 13,600,000 bales, and in spite of the depressing influence of a speculative debauch in the previous year, the average price of cotton was 8¾ cents.

Still later, in 1905-06, a crop only a little below normal was raised and sold at an average price of 10.93.

Eliminating speculative extremes, and the temporary effects of large or small crops, it appears that the price of cotton is steadily advancing. This is the principal fact for the speculator to consider.

No one pretends to dispute the fact that the prices of all staples—food stuffs, metals, and other commodities, as well as labor—have advanced materially in the last ten years. Yet with that pertinacity in error which distinguishes the ordinary speculator, he ignores this broad general principle, and seeks specific causes for the re-adjustment in cotton prices. And even this research is seldon conducted intelligently. The investigator attempts to explain higher cotton prices by pointing to reduction of acreage, diversification of crops, and organizations formed for the purpose of withholding supplies from the market. He disregards the fact that while these influences play some small part in the matter, cotton is also seeking a higher level in common with every commodity that is bought and sold.

The contention is frequently heard that 10,500,000 bales, or even 11,000,000 bales of cotton can no longer be considered an average crop; that the supply should steadily increase in order to keep pace with consumptive demand, and that the crop of 1904-05 was therefore small, and the crop of 1903-04 not so large as it would appear. As this is the most common of the numerous explanations offered as to the recent high prices of cotton, it will be briefly discussed.

In order to arrive at a clear view of the ratio of increase in production, a considerable period must be consulted. The statistics of crops from year to year, or even for two or three years, will not do. Let us cover a long period, jumping ten year at a time:

Season	Crops in Bales.
1866-61	3,849,469
1870-71	4,352,317
1880-81	6,605,750
1890-91	8,652,597
1900-01	10,383,432

This exhibit shows that if a sufficiently long period is consulted, a steady increase in production is shown; the *average* production is also well maintained in the five years from 1901-02 to 1905-06, if the bumper crop of 1904-5 is distributed over the entire period.

The contention is all right, but its formulators do not take the pains to ascertain that what they claim *should* occur is exactly what *has* occurred.

The gist of the whole matter is this: Regardless of all temporary or artificial influences, some powerful force, not related to supply and demand, is shouldering prices steadily upward.

To the speculator this fact recognized, analyzed and properly applied should be of incalculable benefit. If he understands *why* prices have been advancing he will be able to determine with facility how long the influence will probably endure. Instead of being misled, or rendered over-cautious by obsolete records of the past, he will be able to calculate from these same obsolete records the reasonable expectations of the future. Temporary changes will, of course, be brought about by temporary causes. Fundamental values will still be influenced by supply and demand, but if an independent and submerged force is also at work, due allowance must be made for its operation.

That such a force *is* at work is written large between the lines of compiled statistics; to ignore its existence is an error rank with mischief. The speculator who does not consult this influence may easily make the mistake of selling at low prices because they are high by comparison with prices which obtained a few years ago.

On the other hand, a clear understanding of the matter will enable the trader to decide with more or less accuracy what now constitutes a low price for cotton, and what will be the probable price of the future.