Southern Cotton Growers, Inc.
REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA

COTTON MARKETING NEWS

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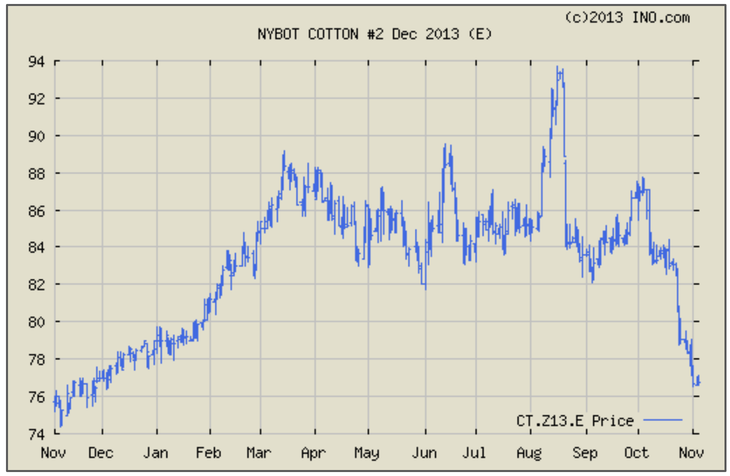
Cotton's Train Wreck



Cotton prices (Dec13 futures) have crashed right through what used to be strong support at the 82-cent level. It's been a horrible last 2 weeks. Counting today, Dec13 has closed lower for 11 straight trading days dating back to October 18—losing over 7 cents per pound in the process. Prices broke the 82-cent support level on October 23 and it's been a train wreck ever since. Dec13 closed today at 76.58 cents per lb.

Why the crash? Most reports seem to lay the blame on "heavy speculative long liquidation". I'll admit I'm not 100% sure what all that could mean, but generally it could be speculative funds that bought cotton futures sometime earlier and are now "cashing in" (selling) to take profit and/or prevent further losses.

Other possible factors sighted include:

- Prospects for a record crop in India. Sources peg the India crop at 29.3 million bales—actually just slightly above USDA's September estimate of 29 million bales.
- Weak US export sales. In the past, low prices have resulted in increased buying. Export data has sometimes been more positive but overshadowed by other negativity in the market.
- Improvement in US crop condition and harvest—although data doesn't really support this. For the week ending October 27, the US crop was 24% poor or very poor compared to 22% as of October 20. The Texas crop was 35% poor or very poor on October 27 compared to 30% on October 20.
- The lack of news due to the US government shutdown may have caused to traders to become nervous and they decided to bail out to reduce further uncertainty.
- It is generally believed that yields are coming in better than expected. This may be reflected in next week's USDA production and supply/demand numbers (on Friday/ 11/8).

One trader was quoted as saying "There's just too much cotton in the world". Really? This is hardly a news flash. The World stocks situation is certainly a factor but most stocks are in China and yet still "unavailable" for the market.

Yields may improve from the September estimate but it is worth noting that cotton harvest continues to run behind normal. Physiologically, development is about normal—92% bolls open on October 27 compared to 94% normal. So, yield potential is pretty much done but getting the crop out of the field is late. As of October 27, the crop was only 34% harvested compared to 44% normal. This could still negatively impact US yield.

The last 2 weeks have been rough going. There is some belief that prices have over-corrected (are oversold) and that some recovery is due. Producers looking for additional marketing opportunities could use the Loan, sell and purchase May or July Call Options, or store and sell later. Potential gain/loss and risks should be evaluated.

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