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

COTTON MARKETING NEWS

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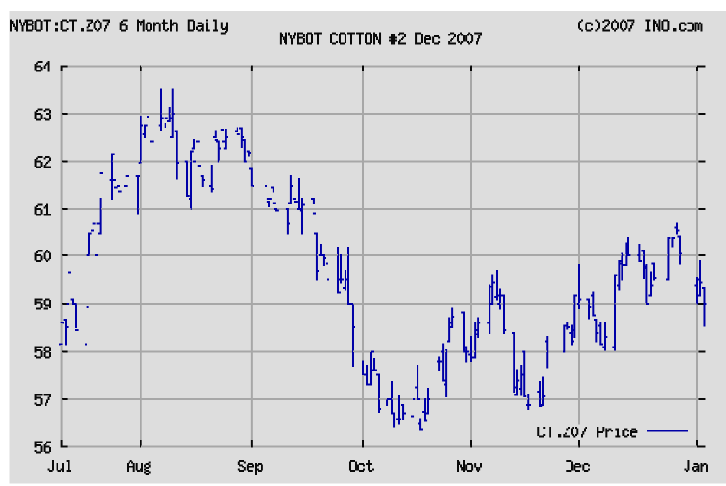
http://www.ugacotton.com

2007 Outlook Update



The market (December futures) is likely to hang around the 60 cent area (give or take 2 cents or so) for a while. Corn and soybeans continue to pose serious competition for acreage and cotton price will have to be sufficient to bid enough acres into production.

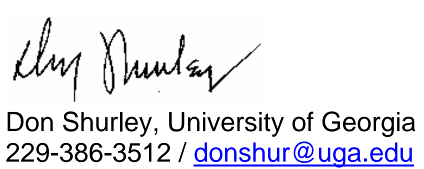
How much is sufficient? That's a tough question. I think at this point it is likely that cotton acreage will be down in 2007 unless prices can get to and stay above 60 cents. It is likely that prices (futures) will stay around the 57-62 cent area or perhaps higher through planting time. Once the crop is planted, prices during the summer and fall will then depend on how the US and world crop is progressing and world demand.

Lower cotton acreage is not necessarily sufficient to produce higher prices. Price will depend on production (yield) and demand. Lower acreage and production can and certainly would lead to high(er) prices *provided that world cotton demand continues strong*. It is demand, as much as supply, that will impact price. What this means is that if US acreage and production is down, unless offset by an increase in foreign production, and provided that US exports can remain strong there is reason to be optimistic about the outlook and 60+ cent cotton could be in our future.

I think any opportunity above 60 cents is worth considering in the form of a contract or Put Option. Strategies should aim to provide protection from prices below 60 cents while also leaving the upside open to opportunity for higher prices. Such alternatives might include a Put Option, a price or basis contract plus Call Option, or a minimum price contract.

In recent years, I have become somewhat less a proponent of contracting… or should I say that the benefits of contracting may come at a cost. Price contracting provides good risk management (as it should) but often comes with the specification (at least here in the Southeast) that "no ups" are paid for fiber quality. Often, Loan Differences (discounts) apply to quality below Base but no premiums are paid if the producer delivers higher quality fiber. The Loan offers premiums as does the cash (spot) market. So, in these times when the producer is being told to improve quality, and quality has in fact been very good in recent years, not being paid for quality on contracts just seems counter-productive to me.

If contracts could provide at least some quality incentive or if the producer were able to obtain a very favorable basis to offset the lack of premiums, this could be a remedy. OK, I'm waiting for comments……. be nice!



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