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

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"Pickings" From the Beltwide Cotton Conference…

The 2004 Beltwide Cotton Conference was held in San Antonio, TX this week January 6-9. During the Conference, I had an opportunity to meet with others, hear opinions and ideas expressed, and discuss the current and future of economic events shaping the cotton industry. There seemed to be rather widespread agreement on several key issues. There also were a few ideas expressed that I find interesting and/or disturbing that we need to begin to consider. I want to use this space this week to share these important issues and ideas with you.

Use The Latest Rally to Get Caught Up… The recent improvement in cotton futures prices to the 75-cent area is a good opportunity to increase sales. The Southeast basis also continues to improve-giving us around 70 cents or better cash price for "base" 41-4/34 cotton. Prices may improve further—let's hope they do. But the recent rally shouldn't be ignored. The closer we get to the 80-cent area the more risk on the downside. So, if you're not already (1/2) to (2/3) sold on '03 production, now's the time to get there. The rally has little fundamental supply/demand reason for it-- even more reason to take advantage of it.

2004 Prices Will Likely Be Down… If you believe that higher prices attract more acreage, then it is not unreasonable to expect that, if growing conditions cooperate, 2004 US and world cotton production will be higher than 2003. Unless offset by a stronger demand side, world production and stocks will increase-- placing pressure on US exports and weakening prices. Of course, no one knows the future with certainty. But odds favor 2004 crop prices closer to 55-60 cents rather than 70-80. Decisions and strategies, however, should consider any likely LDP and CCP (Counter Cyclical Payment). Look for more information and analysis on this later.

It's a New Ballgame… The US is (and has been for several years now) producing primarily for the export market. This is not likely going to change anytime in the foreseeable future. Two-thirds or more of US production will be sold to foreign mills. Depending on acreage and yields, the US will likely produce 17-20 million bales annually. With US mills purchasing only about 6 million bales, 11-14 million bales must, therefore, find a home overseas. This is tough but not impossible. Just consider it as 5 million bales of US mill demand that has been lost to (replaced by) foreign mills. The US is the world export leader so we can expect US (and world) prices to more closely follow US production and export sales. Cautions to watch for-- Brazil has tremendous potential for increased acres, foreign mill use (even in China) may be slowing, if/when exports slow and we also make a big crop-- well, thank goodness for the US government cotton program loan, LDP, CCP, and Step 2 provisions. In the past, when 11 million bales went to US mills and only 6-7 to export, the US cotton producer was largely insulated from world supply/demand, trade polices, and foreign government decisions. No longer is this the case. Prices are/will be more variable and uncertain… 80 cents one year followed by 50 cents the next, for example, will not be uncommon. Producers must deal with this successfully.

"Base Cotton" is More Difficult to Move… Color 41/Leaf 4 or better, Staple 34, and Strength 27 to 28 is the "base grade" for US cotton. This cotton is often referred to as Strict Low Middling (SLM). This is the "bread and butter" grade for the Southeast producer. Under good growing and harvest conditions we can and often do better (Color 31 and/or 35 Staple or better) on some bales but 41-4/34 is our "expected" production. This cotton is becoming less desirable, particularly by foreign mills. Some merchants express difficulty in moving this cotton. Further study is needed, but if this is the case, I suspect this means it is purchased at an "unrecognized" price discount (in the form of a wider basis to the grower). If the market for this cotton is truly more difficult, the implication is that producers will need to find ways to not produce it-- to avoid the price discrimination. Often, Color and Staple are largely determined by the weather-- factors beyond the farmer's control. But Staple and Strength particularly are also very often a function of variety. Regardless of what the weather may or may not deal us, start with a variety that has the genetic potential. Look for high yielding, high Staple, high Strength varieties. Color grade can be improved through timely defoliation and harvest.

Expected Cotton Acres For 2004… The Southeast planted 3.038 million acres in 2003-- down 452,000 acres from '02 and down 562,000 from '01. This cotton acreage has largely been displaced by peanuts, corn, and soybeans. Higher prices for the '03 crop and presently on '04 crop futures may reverse this downward trend but there remains uncertainty about what producers will do in '04. Based on current futures prices for '04 and expected average yields, cotton offers better net returns than corn and soybeans in most situations. Peanuts, however, are competitive with cotton. Contracting opportunities in the $400/ton area offer net returns that rival cotton in the low 60's.

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