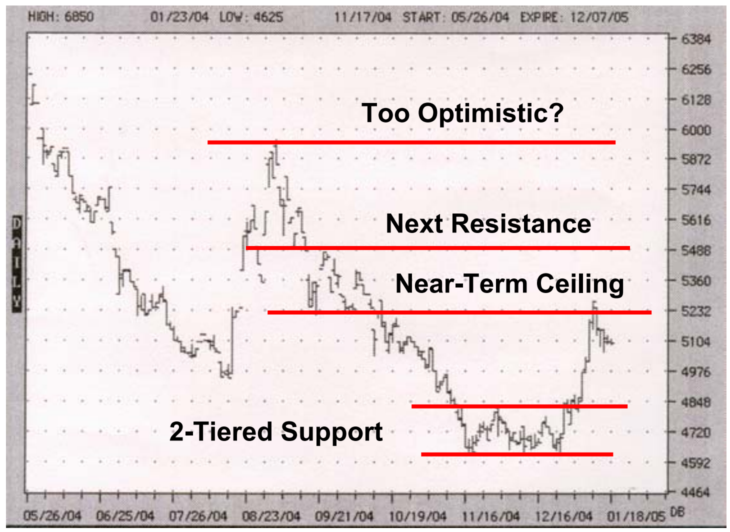
Southern Cotton Growers, Inc.
REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA

COTTON MARKETING NEWS

Volume 3 Number 2 January 14, 2005

This newsletter is also available in PDF format on the UGA Cotton web page at:
http://www.griffin.uga.edu/caes/cotton

An Early Prognosis on the Outlook For The 2005 Cotton Crop



Cotton prices (futures) have made a nice rally in recent weeks. New crop December prices pushed to almost 53 cents on January 10th before falling off a couple of cents later this week. USDA's January numbers released on the 12th have had little if any impact on the market .

What seems to be fueling such rallies are (1) an occasional air of trader optimism that spills over in the form of speculative buying and (2) strong demand for cotton which continues to show up in the form of good US export figures. However, with large cotton supplies and the producer mood still being more cautious than optimistic, when such rallies do occur it results in a scurry of producer selling which acts to then keep the train from running away-- puts the skid on prices.

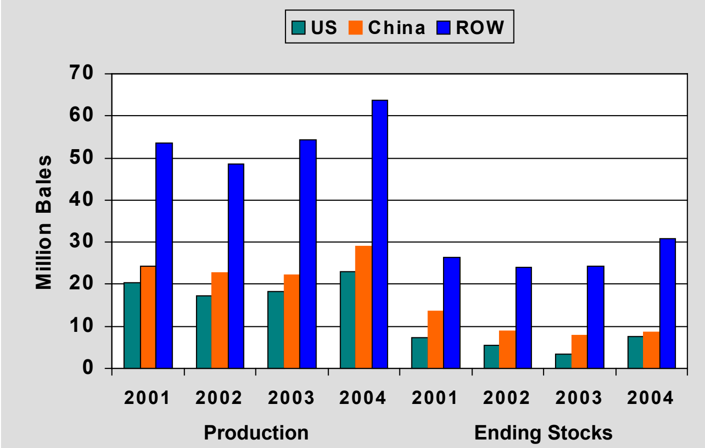
New crop, at present, appears to have strong support at the 47-48 cent area December futures. This is not to say things may not get worse, but that prognosis will have to wait until much more is known with certainty about 2005 crop production and demand. In all honesty, an argument could be made for 35-cents or 55-cents new crop depending on the supply/demand scenario that eventually develops.

World production for 2004 now stands at a record 115.6 million bales. Demand (use) is also at record level of 104.4 million bales-- but that's still 11 million bales less than 2004 production. As a result, the stocks-to-use ratio will balloon to 45% compared to 36% in 2003. The keys to the price outlook for the 2005 crop are simple – (1) the level of US and World production and (2) demand. Will 2005 production be near the whopper of 2004? Will demand continue to grow and remain strong? Simple, yes but far from certain.

The critical factor is China. China's textile mill industry has boomed. For 2004, China is expected to use 37 million bales of cotton compared to 29 million bales produced. And more importantly, that's 29 million bales based on increased acres in 2004 and very good yields. China is expected to import about 9 million bales-- or more, much of which will come from the US. It is likely that China may continue efforts to increase cotton acreage and production to support it's burgeoning textile industry. The need for imports will depend on it's own production and the pace/need of it's mill industry. Clearly though, the textile industry has outgrown China's production capacity.

US farmers planted 13.8 million acres of cotton in 2004 and had a record yield of 846 pounds per acre average. The crop is now estimated at 23 million bales. Total off-take (US mill purchases plus exports) are expected to be about 19 million bales-- a good level but still 4 million bales less than production.

It is likely that US cotton acreage will increase in 2005 (USDA's *Planting Intentions* estimate of plantings for 2004 was 14.4 million acres compared to the 13.8 actually planted). Lower prices for alternative crops and LDP protection provided for cotton prices may result in increased acreage this year (unknown but possibly offsetting factors, however, include high fuel cost, high fertilizer cost, and high seed cost). Assuming US acreage increases but yields return to more the norm and assuming China acreage remains near the 2004 level but at slightly less yield, the World cotton crop for 2005 could be 105-110 million bales compared to just 115.6 million bales in '04. The US crop would be about 20 million bales-- 3 million bales less than '04.



Production and Ending Stocks, 2001-2004
US, China, and Rest of the World (ROW)

If World demand can maintain 2004 levels or even continue to grow, you can see that production could be close to use. This would support prices. If production should come in at the high range of expectations, however, it will be difficult to hold prices at 2004 or higher levels unless demand grows significantly.

One worrisome statistic is the potential continued increase in US stocks. If the US makes a 19 to 20 million bale crop in 2005 and US mills purchase only 6 to 7 million bales, the US would have to export 13 to 14 million bales to avoid a further buildup of stocks. We could not do that without large exports to China. So again, China's production and need for imports are crucial.

As I have mentioned in previous issues of this newsletter, unless cotton futures can get to about 61 cents, the money to the producer is never going to change. It will all be a combination of cash plus LDP or loan plus equity that adds up to about the same money. So, it would seem to me that trying to position yourself with Puts and Calls to gain additional money off moves in the market might be one way to gain additional profits (at a risk). Going back to the 35 to 55-cent price outlook scenario, purchase of Puts at the top end of that range might be a reasonable strategy.

Don Shurley, University of Georgia
229-386-3512 / donshur@arches.uga.edu