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

This is the first edition of the newsletter since the week before Christmas. With Christmas, New Years, the Beltwide Conference, and then snow and ice closing the Southern-Southeastern offices this week- it's been a while since CMN has gone out. Before I get started on this week's analysis and commentary, I want to say a few words about Bob Goodman, my CMN co-contributor from Auburn who retired the end of December. I've known Bob for 30 years both as a professional colleague and a good friend. They don't come any better than Bob. Bob was down-to-earth and an excellent communicator. Extension ag economists at Auburn, Georgia, Clemson, and Florida have been especially close over the years. Many of "the group" have already retired and others will soon and positions not replaced due to budget cuts and/or the allure of other priorities. Bob was "old-school". In my book, that's a good thing. Both he and his work will be missed. "War Eagle"….. I can't believe I said that!

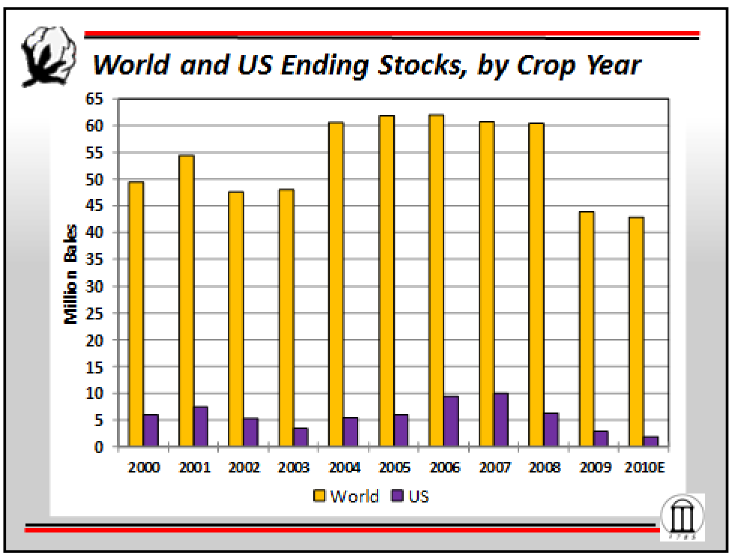
Observations From Beltwide

The 2011 Beltwide Cotton Conference was held in Atlanta last week. I attended the Crop Insurance Workshop, Options Workshop, Outlook Symposium, and the Economics and Marketing sessions. The mood was upbeat-- $1 cotton will do that. I didn't take notes and don't remember everything that was said, but several comments stood out:

- Prices should stay strong and may even continue to track higher. Acreage will increase but stocks are very tight- tight enough to keep prices strong even with an increase in supply.
- Cotton use is slipping. Due to high cotton prices, substitution of man-made fibers is already taking place. The consumer prefers natural fibers (cotton) but cotton-polyester blends will increasingly find their way to the retail shelves unless consumers "push back" and demand cotton.
- The 2012 farm bill debate is going to be contentious. It's already started. Because commodity prices are high (and payments, therefore, low) some will use this as evidence that a farm income "safety net" is no longer needed. Some, for example, are already proposing that Direct Payments be cut or eliminated. While this is faulty logic, it will get traction.
- There are changes in crop insurance for 2011. Producers need to meet with their insurance provider and get on top of these changes—understand the changes in polices and coverage, the implications for their farm(s), and make the best informed decision possible.
- Congratulations to Dixon Farms of Berrien County, GA- winners of the Cotton Marketer of the Year Award.

Supply/Demand Update

USDA's January supply/demand numbers were released on Wednesday this week. World 2010 crop Ending Stocks were tightened a bit more from the December numbers due primarily to a very slight reduction in the World crop and a slight improvement in Mill Use. Ending Stocks are estimated at 42.84 million bales—down 550K bales from the December estimate.



The little up-tick in demand (mill use) is good to see but it's worth noting that World Use for the 2010 crop year is actually almost 2 million bales below 2009. With acreage and production very likely to increase in 2011, a flat, stable, or declining demand will make it tougher to keep prices at current levels. There is already evidence that export sales are being cancelled due to high prices.

The US is the World largest cotton exporter. We are often considered a "residual supplier"—but a major and (depending on other country production and foreign demand) a much-need source of cotton nonetheless.

If USDA projections are realized, the US will have only 1.9 million bales of 2010 cotton on-hand when the new 2011 crop year begins on August 1. This is barely 1 months' worth of US export plus mill use. In other words, if projections hold, the US will essentially be out of cotton.

World supply is tight and, as a result, prices have increased. But I think even more of a factor, the World's largest supplier of cotton to foreign mills that import cotton is essentially out of it.

Prices and Marketing

Further evidence of this is clear. Oct2011 futures prices are about 12 to 13 cents per pound higher than Dec2011. In other words, the market is willing to pay substantially more for cotton that can be delivered earlier because there is very short supply of it.

Dec2011 has been above the $1 mark and farmers (basis the Southeast) able to contract cotton for $1 or better for the first time this week. In conversation with producers, I get the impression that many are already pretty far along in locking in prices on their expected 2011 production. The move above $1 this week, I think, speeded the process up even more.

Prices (Dec2011) reached over $1.05 this week but as of this writing are down about 3 cents today and back down below $1.

Producers priced most of their 2010 production in the 70's and 80's, a good level by any measure, only to watch the market march to $1.50 later. So, it would be tempting to hold off doing much on the 2011 crop for fear of getting burned again. But, we are already 30 cents higher than last year this time. So, again, I think contracting or purchasing Put Options has likely been pretty heavy for this early in the year.

Right now, the consensus seems to be that the market will remain high (90 to 95 cents or higher) perhaps at least through planting season. Cotton has to remain competitive in bidding for acres with other crops. I see 80 to 85 cents as the possible downside risk, if for no other reason, because that is where we were before the top was blown off the 2010 crop. But, I can't see that scenario playing out anytime soon. With an increase in World and US acreage and production likely on the way, could prices explode again? The answer is "yes" because stocks are projected to be even tighter than when we started the 2010 crop year and even with an increase in acreage, prices will still be sensitive to crop conditions. The "downside risk" scenario is a situation where US and World production is expected to increase significantly and demand (use) goes flat.

There are "tools" available like Put Options and Call Options that can be used to add some flexibility to your marketing—once you contract, that price is fixed whether the market goes up (like 2010) or down. Options aren't perfect and they can be expensive but they are a way to try to add some flexibility to your marketing. There is no perfect solution but prices have become so volatile and uncertain that producers just have to find ways to be more flexible and hopefully end up with more money in their pocket.

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