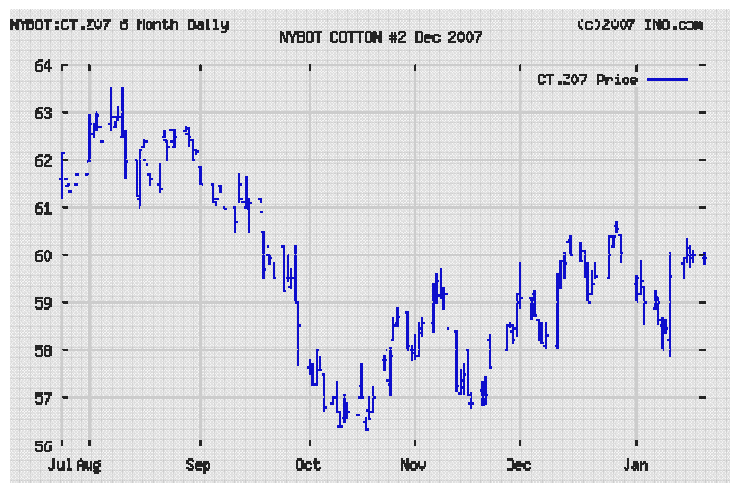


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**Market Shows A Little Resilience**

New crop December futures trended down in late December and early January. Prices gave us a little scare on January 12<sup>th</sup>—ranging from about 58 cents to just over 60 cents that day before closing toward the high end at 59.59. Over the past week or more, prices have recovered back to the 60-cent area and now have offset the downtrend started last month. After toying with the 58-cent area, new crop prices don't yet appear ready to give up optimism for something in the 60's.



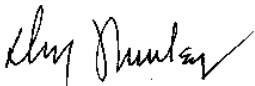
USDA's latest production, supply, and demand numbers were released on January 12<sup>th</sup> and reaction no those numbers was perhaps part of the reason for the wide price action that day. The numbers were potentially somewhat bearish but not so much so as to bother the market at this juncture. Prices appear to have support at 59 cents and further support at the 58-cent level.

The US average yield was increased and the 2006 crop estimate raised to 21.73 million bales—a 400,000 bale increase from the December estimate. The demand side (exports and US mill use) was lowered by 400,000. The result is an 800,000 increase in expected 2006/07 ending stocks. This could act to take some of the shine off the outlook for the '07 crop but not much!

Foreign production was raised but so was Use. So, foreign stocks were dropped just slightly. World stocks were increased about 800,000 bales—that's the same 800,000 bales US. The China crop was increased but expected imports decreased even more. Use was kept the same. So, ending stocks are expected to decline. Lower projected imports may explain the lower export number for the US. This situation is worth watching. Slow US exports could cause weakness in '06 crop prices and could spill over into the '07 crop—but, honestly, potential decline in acreage seems to be the "big" factor right now.

There seems little doubt that cotton acreage will be down this year. It's just a matter of how much. Acreage in Georgia could be down 200,000 acres or more. Most of this acreage will likely switch to corn. The obvious hurdles are having the combining, handling and hauling, and storage to make it work. Some growers have already taken care of that. A major concern is making sure you have a willing home for it.

From where we are now (the 60-cent area December) the 2007 crop would appear to have more upside potential than downside risk. But I will play the same tune I did last time in this space—ultimately the key determinants are US acreage and production, foreign production (will foreign acres be down also?), and exports. 65 cents or better could be in our future as well as 55 cents!

  
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