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

COTTON MARKETING NEWS

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Cotton Hits A Bump In The Road

At winter county meetings around the state, the discussion often seems to eventually gravitate to not only price outlook but also production cost and what producers are thinking about planting.

Georgia farmers planted 940,000 acres of cotton in 2008 and I've been saying I expect our acreage to be about the same in 2009…… well, some folks don't think so. The talk right now seems to be about soybeans.

In some parts of the state, some acreage may again switch to beans but I'm not sure that holds statewide. We've had 4 very good years in a row with cotton yields, prices for fuel and fertilizer have moderated, and with the possible exception of soybeans, prices for other commodities like corn and peanuts are not as high and attractive as the past couple of years.

But this months' supply/demand report did not make this decision any easier and cotton prices seem to have hit a bump in the road. The US crop was lowered slightly due to a 33 lb per acre drop in expected yield from the December estimate. But US exports were again adjusted further down—a trend that has been ongoing for months. The result was a 300K bale drop in US 2008 crop ending stocks……… but,

The World picture now looks more bleak. Cotton use in foreign mills was once again adjusted down-- dropped this time by just over 1 million bales from the December estimate. The big hit again is from China were they now expect to import only 7.5 million bales of cotton (compared to 11.5 last year) and Chinese mills consume 48.5 million bales compared to 51.5 million last year).

World stocks are expected to decline but the stocks-to-use ratio (a measure of how tight stocks are relative to demand) has actually ballooned to 51.5%. It's been above 50% since the 2006 crop year-- hard to get the truck out of that ditch.

The good news is that farmers have responded with fewer acres planted to cotton which eventually is going to lead to much better prices when the demand side begins to improve. The present price problem is all the result of global economic weakness and instability. Right now, resistance is at 55-56 cents and we'll need to negotiate that before we can get back on track with what had been a fairly decent uptrend. Fortunately, the marketing loan, in the form of POP/LDP or loan gain or merchant equity, offers an important income safety net for the producer. When planning for 2009, consider POP/LDP when comparing enterprises.

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