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

COTTON MARKETING NEWS

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The first planted acreage forecast for the 2005 crop was released by the National Cotton Council on January 28. The Council estimate is 13.73 million acres—up 75,000 acres or .55% from last year. Most analysts, early on, I believe have felt that 2005 acreage would be much higher than this. Thus, the NCC number should be supportive of prices. USDA's acreage estimate will be released on March 31.

2005 Cotton Planting Estimates, National Cotton Council Thousand Acres			
	2004 Actual	**2005 (Est)**	**% Chg**
SOUTHEAST			
Alabama	550	530	-3.6
Florida	89	84	-5.6
Georgia	1290	1268	-1.7
N. Carolina	730	702	-3.8
S. Carolina	215	201	-6.5
Virginia	82	78	-4.9
Total	**2956**	**2863**	**-3.1**
MIDSOUTH			
Arkansas	910	926	+1.8
Louisiana	500	576	+15.2
Mississippi	1110	1199	+8.0
Missouri	380	418	+10.0
Tennessee	530	544	+2.6
Total	**3430**	**3663**	**+6.8**
SOUTHWEST			
Kansas	85	95	+11.8
Oklahoma	220	235	+6.8
Texas	5871	5872	0.0
Total	**6176**	**6202**	**+0.4**
WEST			
Arizona	243	217	-10.7
California	775	701	-9.5
New Mexico	79	88	+11.4
Total	**1097**	**1006**	**-8.3**
TOTAL US	**13659**	**13734**	**+0.5**

The industry seems to be so keyed up over 2005 acreage prospects—somewhat unusual, I think, for this early in the year. In my last newsletter I tried to lay out some of the factors in the price outlook for the '05 crop. No doubt, US production and the demand for US exports are key components in the scheme of things. As long as export sales are on good pace and as long as there is this air of uncertainty about '05 acreage, again that should be supportive of prices.

The acreage situation for 2005 is shaping up to be a real mystery. There are so many changes/adjustments in the mix that have all come to bear at the same time… higher nitrogen prices, higher fuel prices, costs and uncertainties of soybean Asian rust, increased tech fees for cotton seed, and lower prices for alternative crops such as corn and soybeans compared to this same time last year.

We at the University of Georgia have prepared costs and net return estimates for 2005 based on estimated costs, expected average yield, and current new crop futures price. Rather than project what prices might be (rather than crawl out on that limb only to have it sawed off behind us), one approach is simply to look at what the market is currently telling us. What signal is currently being sent?

The following table is based on current futures prices. Corn is basis the September contract, soybeans are basis the November contract, cotton is basis the December contact plus POP/LDP, and peanuts are the estimated average price (beginning contracts may be less than this). Corn and soybeans are not expected to have an LDP at the prices shown.

Based on the assumptions and estimates made, peanuts and cotton continue to offer potential net returns above corn and soybeans. The cost shown for soybeans does not include costs for Asian rust control. Non-irrigated corn includes cost for ½ of the bushels dried only. Peanuts, at $380/ton, offer higher potential net returns than cotton at 58 cents (including POP or LDP). This explains why cotton acreage could be down in the Southeast as shown in the NCC numbers. HOWEVER, it is also possible that the peanut expansion could come from soybean and corn ground—acreage of soybeans increased in 2004 due to expected high prices. The point is that, yes, peanut acres will increase in 2005 but it is not certain that it will at the expense of cotton acres on balance across the region.

2005 Georgia Crops, Per Acre Enterprise Costs and Return Estimates				
Crop	**Current Price**	**Expected Yield**	**Variable Cost**	**Net Return**
Non-Irrigated				
Corn	$2.45	85	$189	$19
Cotton	$0.58	650	$332	$45
Peanuts	$380	2500	$395	$80
Soybeans	$5.10	30	$149	$4
Irrigated				
Corn	$2.45	185	$374	$79
Cotton	$0.58	1000	$402	$178
Peanuts	$380	3500	$470	$195
Soybeans	$5.10	50	$183	$72

The price outlook for 2005 will, in part, hinge on US production and export potential (will foreign production, China particularly be at a level friendly to US export demand). USDA currently estimates that 7.7 million bales of the '04 crop will be carry-in to the 2005 crop marketing season on August 1. The table below shows estimates of 2005 US crop ending stocks based on production, mill use, exports. A number above 7.7 would be an increase in stocks from this year and would tend to keep prices on the weak side. A number less than 7.7 would tend to be supportive of prices at current levels or maybe higher.

	Acres Planted										
Exports	13.5	13.6	13.7	13.8	13.9	14.0	14.1	14.2	14.3	14.4	14.5
12.5	7.9	8.1	8.2	8.4	8.5	8.6	8.8	8.9	9.1	9.2	9.3
13.0	7.4	7.6	7.7	7.9	8.0	8.1	8.3	8.4	8.6	8.7	8.8
13.5	6.9	7.1	7.2	7.4	7.5	7.6	7.8	7.9	8.1	8.2	8.3
14.0	6.4	6.6	6.7	6.9	7.0	7.1	7.3	7.4	7.6	7.7	7.8

Calculated based on:
7.7 million bales carry-in stocks (USDA, January 2005)
US mill use 6.25 million bales
90% acres harvested and average yield of 750 lbs/ac.

If US planting are 13.7 as the NCC number projects, it would leave little margin for a production shortfall and should be supportive of price provided exports are near 2003 and 2004 levels. If acreage should come in at 14 million acres or more, assuming the yield and harvest estimated, it would take an extremely large (record) export year to keep from a further build-up of stocks… and again, foreign production and mill use will determine the level of US exports.

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