

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

COTTON MARKETING NEWS



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**Thoughts on Supply/Demand,
 Acreage, Prices, and Decisions**


In the midst of the county Extension meeting season, I had the honor and privilege this week to present at the annual South Carolina Cotton Growers Meeting. There was a big crowd- \$1 cotton will do that. In a couple of weeks, I'll also speak at the annual Virginia Cotton Meeting. So, I'll use this weeks newsletter to share my \$0.02 worth and analysis on questions that have come up in this environment of \$1+ cotton.

\$1.70 Cotton. 2010 crop prices (March 2011 futures) reached almost \$1.73 yesterday. Incredible. Prices are down a bit today. Looking back, I'd venture to say that most growers priced most (not all, but most) of their 2010 crop in the \$0.85 to \$1.00 range prior to harvest. I know of no numbers to back this up but it's just based on conversation with growers. There is no way this doubling of cotton prices could have been projected because, in large part, it has been based on news and a chain of events beyond our control that could not have been predicted-- such as floods, the India export ban, etc. The pricing decisions at 85 cents to \$1 were and remain good and rational decisions at the time. But what has transpired just shows how volatile and unpredictable global markets can be. I don't know that there is a perfect solution to deal with this type of environment. It's easy to say "use Options"- but Options have become so expensive that I sometimes wonder if they are as useful of a hedging tool for the grower as they once were. I don't know..... just wondering. One thing is for sure, marketing needs to become more flexible if we expect to deal better with years like 2010.



2010 World Cotton Supply/Demand Estimates

	2010 Crop Estimates By Month					
	Aug	Sep	Oct	Nov	Dec	Jan
Beginning Stocks	<u>47.58</u>	46.98	46.69	43.65	44.00	<u>43.85</u>
Production	116.85	<u>116.95</u>	116.68	115.25	115.53	<u>115.46</u>
Imports	38.25	37.96	38.08	38.86	38.66	38.32
TOTAL SUPPLY	202.68	201.89	201.45	197.76	198.19	197.63
Mill Use	<u>120.87</u>	120.53	120.77	116.82	116.25	<u>116.58</u>
Exports	38.24	37.96	38.08	38.85	38.68	38.35
TOTAL USE	159.11	158.49	158.85	155.67	154.93	154.93
Ending Stocks	<u>45.61</u>	45.44	44.66	42.20	43.39	<u>42.84</u>



What the Numbers DON'T Show. I am willing to concede that there is obviously (must be) something going on behind the numbers that the market is reacting to. 2010 crop futures prices have doubled from 80 to 85 cents in August to \$1.70 this week. Despite the numerous events that have transpired over this time that can be pointed to as causing the price increase, one event stands out to me (see table above). In November, USDA adjusted/revised World stocks down by 3 million bales-- with the stroke of a pen, all of a sudden the World had 3mb less cotton than we thought. Supply was all of a sudden 3 mb tighter and the market hasn't been the same since. For all the talk of floods and export bans and China reserves, etc., etc., the majority of the change in World supply and ending stocks can actually be accounted for by the 3mb adjustment in November. In fact, World Supply (down 5mb) relative to Use (down 4mb) is about the same now as it was way back in August. Another thing that we don't hear much about is that projected World Use for the 2010 crop year has declined over 4mb and if USDA projections are realized, Use will actually be 2mb less than 2009-10. Is this evidence that high prices are already having an impact at the mill and consumer level?

The US is Out of Cotton. Another factor that we don't hear enough about (and I mentioned this in my last newsletter) is that the US is essentially out of cotton. The US is the 3rd largest producer of cotton and the largest supplier of exports to foreign mills. If USDA's projections are realized, the US will have only 1 months' worth of 2010 cotton on hand when the 2011 crop year begins on August 1. The World's largest exporter is out of cotton. This along with the 3mb USDA revision, I think, explains a lot of why prices have done what they've done.

2011 Crop Prices. US and World cotton acreage will be up this year. How much, we'll find out later. If weather cooperates, US and World production and Supply will increase. This is where the demand side (World Use) becomes important. If Supply increases and Use does not keep pace, Ending Stocks will obviously increase--i.e. tight supply is going to ease up a bit. This typically means an eventual downturn of some degree in price. The US and World stocks and supply situation is tight enough,

however, to keep this from happening anytime in the near future. Supply is tight and the market needs to bid more acres into cotton. As long as corn and soybeans are high, cotton will have to compete.


We will actually go into the 2011 crop year in a tighter supply situation than was the case coming into the 2010 crop year. So although acreage is going to increase, prices will nevertheless be very sensitive to crop conditions. I'm asked the question, "Will cotton go to \$1.50+ again? Well, we're already over \$1.10. If crop concerns develop, the possibility of another 2010-type would not seem too far-fetched. Having said that, if it looks like World production and Supply is going to increase significantly relative to demand (Use), it seems likely prices will weaken. How much? At present, the "worst-case scenario" would appear to be in the 80 to 85-cent area, because if for no other reason, that this is where prices were before the roof got blown off the 2010 crop. But right now, the market appears to have good support around 95 cents to \$1.



I get the impression that many growers are already pretty far along on pricing the 2011 crop. The move over \$1, I think, got a lot of growers attention. Pricing is NOT about trying to pick the top of the market. It's about managing risk and being comfortable with your position both price-wise and yield-wise. With prices over \$1, get to a comfortable level. If prices move even higher and you feel good about it, take more protection. Your objective is simply to avoid, if possible, having to sell the majority of your crop at the worst-case scenario price level should that develop.

2011 Acreage. With the push in 2011 prices to over \$1, the longer they stay there the higher 2011 US acreage is likely to be. The National Cotton Council will release its planting estimate on February 5th and the first USDA number will be out the end of March. There will be other private estimates also floating around. How much of an increase we get, I think, depends on how the Mid-South responds to \$1+ cotton relative to \$13 soybeans and \$5.50 corn. I've been asked the question "Should I price more of my crop before the acreage estimates come out?" The answer depends on how far along you are already. The prices you see on the market right now (\$1.12 for Dec11 today, for example) already take into consideration the expectation for higher acreage in 2011. When the numbers start coming out, if they're in line with market expectations, little impact can be expected. I think the market is expecting an increase of around 15% but the longer cotton stays well above \$1, that number could grow.


In Georgia, all our major row crops declined last year except cotton and peanuts. Cotton and peanuts were the only crops to see an acreage increase. So, we're starting from a position that all other crops are already down. I think GA cotton could be 1.5 to 1.6 million acres... but the question is, "Where are these acres going to come from?" A part could come from soybeans. I don't think corn will decline much if at all. Some acreage could come out of vegetables, turfgrass, and pasture. The real unknown is peanuts. Our UGA budgets and net return comparisons suggest that peanuts need to be in the \$600/ton area or higher to compete with cotton. This is consistent with what farmers tell us they would need. It appears GA acreage may largely be a war between cotton, peanuts, and corn. Right now, cotton seems to be leading the charge.



**Cotton Will Increase
Where Will the Acres Come From?**

Georgia, 7 Major Row Crops, Acres Planted
(1,000 Acres)

	2004	2005	2006	2007	2008	2009	2010	2011
Corn	335	270	280	510	370	420	300	
Cotton	1290	1220	1400	1030	940	1000	1330	1550
Peanuts	620	755	580	530	690	510	565	
Grain Sorghum	45	40	40	65	60	55	45	
Soybeans	280	180	155	295	430	470	275	
Tobacco	23	16	17	18.5	16	14	12	
Wheat	330	280	230	360	480	340	170	225



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