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

COTTON MARKETING NEWS

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Early Outlook For 2006

This is actually being written on Wednesday, February 8. Forgive my being late… it's been a hectic past couple of weeks with meetings and research project deadlines, etc.

The price outlook for the 2006 cotton crop has taken on a somewhat optimistic tone. New crop (December futures) prices have been on a steady upward pace for over 2 months. December peaked at over 61 cents/lb on Monday (2/6) before breaking down sharply yesterday (2/7) and now rest just below 60 cents.

Export numbers have been good. But this does not explain all the optimism. The optimism also stems from an increasingly bullish outlook for strong demand, particularly China's need for imports to support it's growing mill industry. In 2004, China's production was 9.5 million bales short of their use. For 2005, the gap is projected to be 18.5 million bales. Some think this "gap" is likely to continue to grow…. meaning use will continue to outpace production.

All this is well and good but I'm not foolish enough to pretend to know what will happen 12 months from now. Demand is strong and may (is likely to) remain strong but the supply side was down about 8 million bales this year compared to 2004 so that also plays in the equation. A rebound in production (particularly foreign production) in 2006 would augment some of the demand growth and temper prices. We are also uncertain about the impact of eliminating Step 2.

The cotton farmer (basis Southeast) is given a floor or worst-case scenario of about 60 (58 to 62) cents per pound in some combination… LDP/POP plus cash sale, or cash sale plus loan gain, or loan plus merchant equity. If this is the "floor", then it seems to me one approach to take in marketing/risk management would be to search for and evaluate opportunities to do better if and when they present themselves. Taking action in the form of contracting or Puts above 60 cents would be one such opportunity. If prices then fall into harvest time, you would have a high contract plus large LDP or Put profit plus cash sale plus LDP. The risk would be that if prices rise, you would end up with a relatively low contract and little or no LDP. The Put would be a better way to handle this type risk.

President Bush, on February 6, released his proposed 2007 budget. The proposed changes in commodity programs and crop insurance are projected to save $4.99 billion over the 5-year period 2007-2011. The proposed changes are the same as proposed for the 2006 budget including a 5% reduction in all payments, reducing the payment limit to $250,000 per individual, eliminating the 3-entity rule, and reducing crop insurance premium subsidies. The proposal, like last year's, has already been met with opposition and may be rejected or modified in total or in part as the process moves forward.

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