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### Reflections from Meetings in Georgia, South Carolina, and Virginia

Last week, we held our annual Georgia Cotton Commission Annual Meeting and Cotton Production Conference. Previously last month, I had the privilege of presenting the 2012 cotton outlook to the South Carolina Cotton Growers Annual Meeting. This week I also presented at the annual Virginia Cotton Meeting. It is always good to have these opportunities to present and visit with growers and cotton industry folks but especially in other states. I always come away having learned as much or more from them as they perhaps did from me.

*Growers are encouraged by the recent improvement in price.* Obviously, the big questions on everyone's minds are (1) will the uptrend continue and (2) when should growers begin, if not already, to contract or take some other form of price protection and how much?



We all recognize that we are in a very different market/marketing environment now that we were just a few years ago. Obviously, prices are determined globally by forces beyond our control and what happens or doesn't happen in the US is only one portion of the equation that determines price. *But more important than that*, when cotton is \$1 (well above the Loan Rate) the impact of not making a good decision on marketing can be disastrous compared to when cotton was in the 50's and 60's.

A question was asked (and I'm paraphrasing here), "What advice can you give (what should be a producers marketing plan or strategy) to deal with the new realities?" To be honest with you, *I didn't have a good answer.* I don't think there is a good answer or there certainly is no perfect answer. The canned answer is always "use Options" but I don't think it's that simple. It needs to be investigated, but the success of using an Option I think depends on at what Strike Price, for how much premium, and when you buy it. *More precisely and importantly, I think a grower needs to build flexibility into his/her marketing decisions.* By this I mean, take a profit when available to reduce some of the exposure to potentially lower prices but then also leave yourself the opportunity to get a higher price should that happen. *That's flexibility—and whatever form a producer can comfortably achieve that in is just fine.*

I'll admit I don't know where 2012 cotton prices are headed. No one does. In 2010-11, few thought cotton would even go to \$1 and it ended up at \$2. *So trying to predict price is a game no one will win.* Likewise, thinking you can pick the top and sell your crop at the top is also a futile attempt. What is important to understand, however, are the price trends and the events that will impact prices as we move forward.

The 2 charts of Dec12 futures on the previous page show where prices have been. *Over the next 3 to 9 months, I see the following 5 factors as major keys to where prices may go.* Based on these factors, at what time, and combination they occur, prices for the 2012 crop could move above current levels to the \$1.05 to \$1.10 area or move lower into the into the 80's.

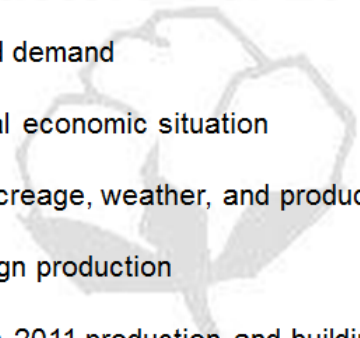
The National Cotton Council will release its 2012 planting estimate tomorrow (February 11). That number will probably be 10 to 15% less than 2011 acreage. I also think that's what the market (the current level of prices in the 90's) is expecting. We'll not go into all the factors at this point (they've been mentioned in previous newsletters) but I will say that *World demand (and China more specifically) is crucial.* If World production is down in 2012 (Foreign may be down although the US may be up even with less acreage depending on the weather) and if demand improves, the optimistic price scenario is likely. If not, the pessimistic scenario becomes more likely.

I told growers at all 3 big meetings over the past month that if I were a cotton grower, my objective for the 2012 crop would be *"to take no less than 90 cents on as much of my crop as practical"*. In other words, you don't want the pessimistic scenario to play out and you be holding the majority of your crop. Likewise, if the optimistic scenario should come about, you want to be in a position to take advantage of that. *Being flexible is the key.*



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## Factors For 2012

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- World demand
  - Global economic situation
  - US acreage, weather, and production
  - Foreign production
  - China 2011 production and building stocks