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

COTTON MARKETING NEWS

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2011 Prices and Decisions

New crop Dec2011 futures hit over $1.30 per lb this week. Since the decline and low back in November, prices have now rocketed up 40 cents per lb. Prices (Dec2011) increased 15 cents just this week. Prices were up 4 cents on Wednesday and up the limit 7 cents on Thursday before closing down a bit today.

Factors contributing to the price increase include the tight World supply situation and very tight US situation, continuing good export sales (both old crop and new crop), continued strength in corn and soybean prices (cotton must remain competitive to bid in acres for 2011), and speculative buying.

The National Cotton Council released its 2011 planting estimates on February 5th. Their survey suggests that cotton producers will increase acreage by 14% this year. Media reports then suggested that this was on the low-end of expectations. It was not. I think most analysts expected an increase of around 15% so the Council's report was, in fact, right in line. This week's increase in price had little or nothing to do with the Council number. The Councils survey was conducted from mid-December to mid-January. I think the longer cotton prices stay at current levels, the more likely the increase is going to be around 20% if not a bit more.

Barring adverse weather events, the US and World will plant and produce more cotton in 2011. Unless demand can keep pace, the present tight stocks and supply situation will ease up. This typically means eventually weakening prices. I don't foresee this happening anytime soon but it's certainly something to be aware of. I do not know to what degree this 40-cent run in price has been fueled by speculative/investment funds, but I suspect it's a modest degree and, therefore, when those folks decide it's time to sell and jump ship it may not be pretty.

As I have said in this space before, I think many (most?) producers are already fairly well along on contracting their expected 2011 production. I've heard from an increasing number of producers who began booking back in the 85-cent to $1.00 range and feel they've safely done all they can do from a yield-risk standpoint for now and as a result, watch from the sidelines as prices have continued to increase. This is frustrating and they ask if there's anything else they can do?

The quick answer is "use Options" but it's not that easy a decision because Options have become so expensive. A Put Option provides protection from prices going down but unlike a fixed-price contract, leaves the up-side open in case prices continue to increase. To have such flexibility, you have to pay a premium.

2011 Crop Marketing

Cash Sales (Contracting)
- 1/3 priced already at 85–95 cents, 1/3-1/2 at $1 or better
- Consider moving up to ½ or worst case scenario at $1.00 or better
- Sit on the rest until acreage and yield are known

Dec2011 Futures	1.30
Basis	-0.03
Contract	1.27

		December Futures							
Put Option	1.250	0.800	0.900	1.000	1.100	1.200	1.300	1.400	1.500
-Premium	0.210								
Basis	-0.030								
Minimum Guarantee	1.010	1.010	1.010	1.010	1.010	1.010	1.060	1.160	1.260

Contract Plus Call SP=	1.35	December Futures							
Contract	1.270	0.800	0.900	1.000	1.100	1.200	1.300	1.400	1.500
-Premium	0.170								
Minimum Guarantee	1.100	1.100	1.100	1.100	1.100	1.100	1.100	1.150	1.250

With Dec2011 at $1.30, cotton could likely be contracted at 3-cents under basis the Southeast or at $1.27. Alternatively, a Put Option could be used but as the example shows, even an

"out-of-the-money" Put at $1.25 cost 21 cents/lb and would provide a "floor" or minimum guarantee of $1.01/lb. So, if you're a producer, would you rather have a sure $1.27 or pay 21 cents for the right to set a floor at $1.01 and potentially be better off if prices go to $1.50 or higher?

If you're already contracted and gone as far out on that limb as you feel you can go for now, your choices include going the Put Option route or, unfortunately, wait much later in the season until crop yield is better known and hope prices hold up. Another thing worth considering is that the projected (base) price on Revenue Coverage (CRC) for 2011 is currently $1.15 ($1.21 for VA). If you insure with Revenue Coverage and you know you have that certain amount of Revenue guaranteed, does that have any bearing on the amount of expected production you might choose to contract?

Another possible strategy is to contract then purchase a Call Option. You would still be obligated to deliver the specified # bales on the contract at the contract price but the Call Option would be used to make additional money if the market should go up after contracting. An out-of-the-money Call at $1.35 would cost 17 cents and combined with the contract, lock in a minimum price or floor of $1.10. So again, the question is would you rather take straight $1.27 or pay 17 cents and settle for worst-case $1.10 with the chance of making more if the market moves up?

These are not easy decisions.

Don Shurley, University of Georgia
donshur@uga.edu / 229-386-3512