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

COTTON MARKETING NEWS

Volume 7 Number 6 February 13, 2009

This newsletter is also available in PDF format on the UGA Cotton web page at:
http://www.ugacotton.com

February's Hobnailed Boot

In 2001, Georgia is on the road playing at Tennessee. We (UGA) are trailing by 4 with just 10 seconds to play. Here's legendary radio announcer Larry Munson's call:

"Ten seconds. We're on their 6. Michael Johnson turned around asked the bench something. And now, Greene makes him line up on the right in the slot. We have three receivers. Tennessee playing what amounts to a 4-4. Fake and there's somebody. Touchdown! My God, a touchdown! We threw it to Haynes. We just stuffed them with five seconds left! My God almighty, did you see what he did? David Greene just straightened up and we snuck the fullback over! Haynes is keeping the ball! Haynes has come running all the way across to the bench. We just dumped it over, 26-24. We just stepped on their face with a hobnailed boot and broke their nose. We just crushed their faces!"

My apologies to all UT fans that might be reading this (sorry to bring up such bad memories). But this is a good analogy to what has happened, at least temporarily, to the cotton market. USDA's February supply/demand report released this week was not kind. Our nose may not be broke and face crushed necessarily, but we are sure bleeding bad. The National Cotton Council's 2009 acreage estimate, released today, may slow the bleeding.

As we all know, cotton use (demand) has been slumping due to US and global economic slowdown. US producers have responded to higher net return opportunities for other crops are cut way back on cotton acres—so the production side has responded but weak demand has nevertheless kept cotton prices low.

Well, this weeks USDA report dropped foreign mill use by another 2+ million bales from its January estimate, dropped US mill use to now below 4 million bales, and raised World ending stocks by 2.3 million bales. US exports of the 2008 crop were dropped ½ million bales meaning that 2008 cotton carried into the '09 crop year beginning August 1 will be a little larger than expected. What this does is #1- provide more cotton in the pipeline to compensate somewhat for less acreage in '09 and #2- continue to fuel concerns about when the demand side will start to improve. It WILL eventually improve but WHEN is the unknown. December futures closed at 51.31 cents per pound today and lost almost 4 ½ cents for the week.

2009 Acreage

A decline in price, should the market stay at this level or lower into harvest time, means an increase in the LDP. The world price (A-Index from which the Adjusted World Price (AWP) and LDP is calculated) also declined this week meaning an increase in LDP/Loan Gain.

The National Cotton Council released it's 2009 survey-based acreage estimate today. The Council projects 2009 acreage at 8.11 million acres—down 1.36 million acres or 14% from 2008. This is within the range of what most observers and analysts are expecting in '09. USDA's *Prospective Plantings* report will be out at the end of March and then the first official USDA estimate at the end of June. But for now, the market will deal with the Council number.

The Council estimates 782,000 acres of cotton here in Georgia-- down almost 17%. Among other Southeast region states—Alabama down 33%, Florida up 2.5%, North Carolina down 12%, South Carolina down 18%, and Virginia down almost 23%. Texas is estimated to be down about 9% and the Mid-South is again expected to be down big—the Southeast, if the Council estimate holds up, would have more cotton acreage in 2009 than the Mid-South.

The Council estimate is based on a mid-December to mid-January survey of producers. But as we near planting time, there are still a lot of dynamics at play:

- Fertilizer prices have come down. As the price of nitrogen comes down, this reduces the net return advantage that soybeans otherwise might have relative to cotton and corn.

- Peanuts are grown in 10 cotton states with the largest peanut states being Georgia, Texas, Alabama, Florida, and North Carolina. The question has been asked how might the recent salmonella outbreak effect peanut acreage (and thus cotton acreage) in 2009. A farmers decision to plant peanuts is no different than making that decision for any other crop—you look at expected cost of production, expected yield, and expected prices (in the case of peanuts this means the availability of contracts and/or contract prices). According to my colleague, peanut economist Nathan Smith, even prior to the salmonella outbreak a bumper 2008 crop was already weighing heavily on the market. Thus far, shellers have not offered contracts for 2009. Depending on cost of production and yield, peanuts near the Loan Rate of $355 per ton or slightly higher at $375 are not expected to be competitive with corn and cotton. Contracts of $400 per ton would be more competitive and might be available on a limited basis if it is anticipated that acreage might drop too much.

- Prices are unknown. When making decisions, producers need to consider not only current market levels but possible variability also. Factor in both optimistic and pessimistic outcomes. Consider marketing loan, LDP, and other protections in case of low prices.

- Crop insurance as a risk management tool is always a consideration. The 2009 APH price elections look very good for corn, cotton, peanuts, and soybeans. The CRC Base Price does not look good for cotton but does for corn and soybeans. CRC is not available for peanuts.

Below are our latest estimates of how Georgia crops compare for 2009. Cotton price includes LDP and basis the Southeast. This could vary from around 56 cents to 60 cents. This also assumes $200/ton for cottonseed. The tables also show the breakeven (BE) price and yield for other crops to provide equivalent returns to cotton. Using 58 cents for cotton would drop non-irrigated cotton below corn and equal to soybeans. On irrigated cotton, this would drop cotton below soybeans but still above corn.

Non-Irrigated Production, Avg of Conventional and Strip-Till, 2009 Estimates

	Cotton	Corn	Peanuts	Soybeans
Expected Price (Incl. LDP if applicable)	0.59	4.00	375	8.50
Expected Yield	700	85	2700	30
Crop Income Per Acre	413	340	506	255
Variable Costs	377	302	542	226
Net Return Per Acre	36	38	-36	29
BE Price to Equal Cotton Net Return		3.98	428	8.73
BE Yield to Equal Cotton Net Return		84.5	3084	30.8

Irrigated Production, Avg of Conventional and Strip-Till, 2009 Estimates

	Cotton	Corn	Peanuts	Soybeans
Expected Price (Incl. LDP if applicable)	0.59	4.00	375	8.50
Expected Yield	1100	185	3700	55
Crop Income Per Acre	649	740	694	468
Variable Costs	471	591	636	289
Net Return Per Acre	178	149	58	179
BE Price to Equal Cotton Net Return		4.16	440	8.48
BE Yield to Equal Cotton Net Return		192	4340	54.9

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