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

COTTON MARKETING NEWS

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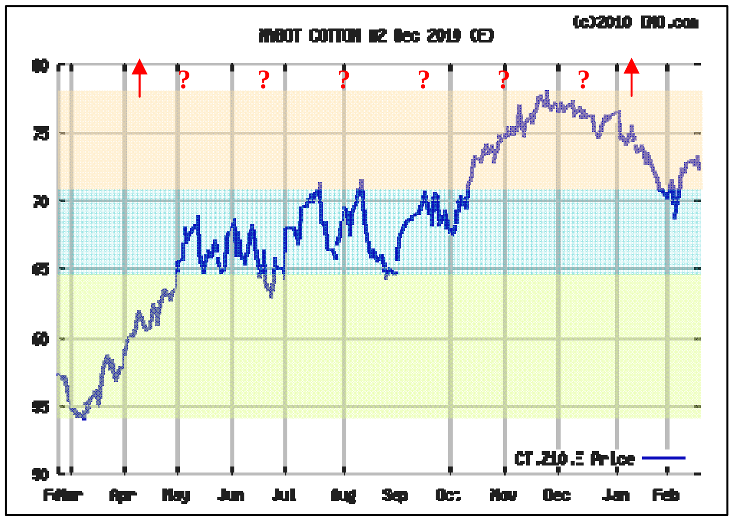
USDA February Report and a Nice Recovery: Slicing the Pie into 3 Pieces Now



Over a period of roughly 2 months (October and November 2009) the cotton market (December 2010 futures) gained about 10 cents. Then over the next 2 months (from roughly early December to early February) the market declined and gave back about 8 cents of that increase.

December futures bottomed out most recently at just under 69 cents/lb on February 5. Since that time, prices have rallied about 4 cents before closing down today. Dec closed today at 72.66 cents, down 68 points from yesterday, down 36 points for the week.

USDA's February 9 supply/demand report increased US 2009 crop exports to a projected 12 million bales—up 1 million bales from the January estimate. This has largely been the reason for this most recent rally-- it has restored confidence in US foreign mill demand and thus the need for US cotton exports. World mill demand, which declined 10% during the 2008 crop marketing year, is now expected to increase almost 5% for the 2009 crop marketing year.

World cotton demand is now estimated at 115.5 million bales-- up over 1 million bales from the January estimate. USDA's February report also showed that China has somehow found another 1.5 million bales of 2008 crop stocks. So despite the increase in use, 2009 crop World ending stocks were actually raised slightly.

Demand and US exports will be the key to prices for the 2010 crop. US cotton acreage will increase this year. If weather cooperates, we will make more cotton. Therefore, the key to holding prices at or near current levels will be continued rebound in the demand. There continues to be talk of cotton prices (Dec 2010 futures) eventually moving to the 80-cent level. Is that possible? Sure. March and May futures prices for both the '09 and '10 crops are already near that level.

Right now, however, I'd divide the 2010 market prospects/outlook (Dec futures) into 3 price ranges—the low level being roughly 55 to 65 cents, the mid level being roughly 65 to 71 cents, and the high level being roughly 71 to 78 cents. I don't see the low level being likely anytime in the near term. But if US and World production increases and demand weakens, prices could dip into that area. The mid level would be more likely in the near term if negative events occur. We've tested that area as recently as 2 weeks ago. So it can happen.

The high level (or higher) is where we want prices to be. This is a level where some producers have already taken some price protection. This is where you want to be with at least some of your cotton. If prices should slip to the mid level later on, you'll feel better about it if you've already priced some bales at the higher level. You want to avoid selling the majority of your crop at the mid and low levels. Try to stay out of there.

Cotton prices are looking good due to tightening World supplies and a nice recovery in demand. As the drunk assistant coach in the movie Hoosiers said, "don't get caught watchin' the paint dry".

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