

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

# COTTON MARKETING NEWS

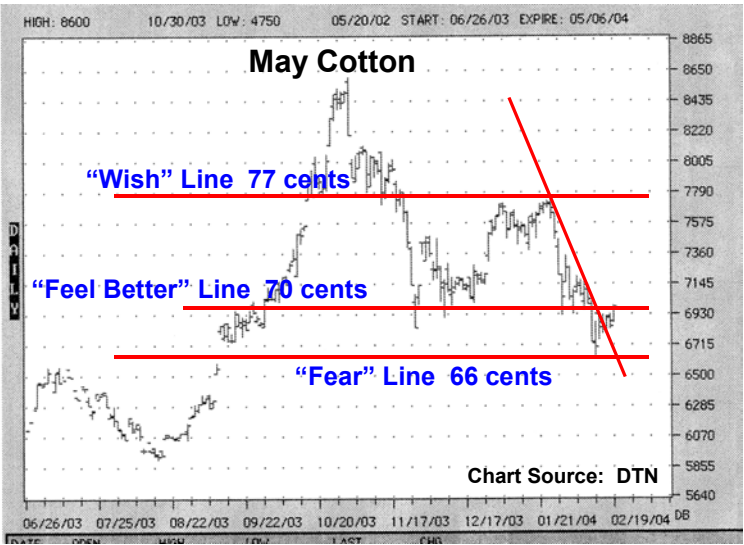


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The cotton market seems determined to make fools of folks like me (as if any help was really needed) who pretend to know at least a little about what's going on.

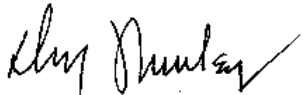
Cotton prices, over a period of 2 ½ weeks or so, declined by roughly 8 to 10 cents before trying to establish a bit of an uptrend over the past few days. Prices on February 11<sup>th</sup> reached the lowest point since September and fell below the most recent low set back in late November.

Fundamentally (in terms of supply/demand forces) not much has changed that would indicate a reason for the downturn. So, it's especially difficult to explain situations like this when they occur. The best explanation I can give is what is called "technical and speculative considerations". Eventually, supply and demand will rule, but in the short term sharp declines (and sharp increases as well) can take over. In the case of technical declines, prices will find support only when someone steps forward to buy cotton (either physically or a position with Futures or Options).



Well, that's way too much jargon. The bottom line is this-- the outlook is still *most likely up* but what has happened in recent weeks ought to cause us to seriously re-evaluate the riskiness of the market. In my mind, the market for remaining '03 cotton has 3 price levels as shown on the chart above. I said in my last newsletter to you on 2-6-04 that the market would likely show its true colors over the next 30-45 days and I'll stick to that. If price falls below 66 cents or so, that would be a bad sign and recovery from that illness would be difficult. If prices can rally and remain above 70 cents, the outlook is brighter and recovery more likely. If you are still holding a portion of the '03 crop, 70 to 77 cents on May futures is your decision range. We may wish and be tempted to hold for a rally all the way to 77 cents but a less risky approach would be to begin to sell off remaining bales in lots as prices show improvement. We are still fighting a wide basis (currently -575 May for 41-4/34) so for base grades it's going to be very tough to cash in for 70 cents. If you are at all uneasy about continuing to hold cotton, an out-of-the-money Call Option for 150-200 points might not be a bad strategy while the market is now (hopefully) at its low end.

Lastly, increasing signs point to lower prices very likely for the '04 crop. Early price protection is advised. More on '04 crop strategies next time.

  
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