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

COTTON MARKETING NEWS

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Cotton Prices Have a Rough Week but Recover

Just over a week ago, on February 17th, old-crop futures (March 2011) stood at $2 and new-crop Dec2011 hit over $1.30. I had a call that same day from a lucky GA farmer that still had some bales of the 2010 crop left to sell and he was wondering what he should do. At that same time, the 2011 crop could be booked for around $1.25 (GA basis) or better. Prices for new crop have been running well above 2010 crop prices compared to the same time last year.

But, prices were hammered last Friday and further this week. But not just cotton- corn and soybeans have also been down. As long as prices move in the same direction proportionately, such swings will have little or no bearing on 2011 planting decisions. A $600/ton contract was available last week in the Southeast for Runner-type peanuts and likely sparked more producer sign-up. While still not competitive with cotton even at that price, it could be high enough to coax some producers to maintain peanut acreage due to rotational advantages.

Cotton (Dec2011) was down limit (7 cents) last Friday (2/18) and then again on Tuesday this week. Prices recovered a bit on Wednesday before dropping another 5 cents yesterday—closing at just under $1.16/lb yesterday. Prices appear to be recovering again today and stand at around $1.23 (up limit) as this is being written. With cotton being so high and optimism so great, when you see a quick downturn like this week, it only remains us how volatile these markets are. It's downright scary for everyone up and down the chain- from producer to mill.

Losses over the past week can likely be attributed to (1) political unrest in the Middle East and the resulting increase in oil prices and (2) selling (profit-taking) by speculators/investors. The current and 2011 crop demand for cotton can be impacted by consumer incomes and continued economic recovery in the US and around the World. Increasing oil prices could stall or slow economic recovery and consumer spending. Since cotton acreage will increase in 2011, production will also likely increase, so the demand-side will be an important key to eventual price direction.

USDA Chief Economist Joe Glauber, speaking at the annual USDA Outlook Forum this week, projects that World cotton demand will increase by 3% in 2011-12. Production is forecast up over 10%. This means World stocks will increase above 2010-11 levels and the tight supply situation ease up a bit. Of course, the supply side assumes no weather problems and the demand side likely assumes continued economic recovery.

The news seems to be bombarded with stories about the high price of all commodities and the pending increase in prices at the retail level and impact on consumers. USDA's projection for growth in demand, therefore, is encouraging when you consider this and also the fact that cotton demand (use) for 2010-11 is currently projected to be actually down 1.7% from last year.

Although prices have slipped recently, the market appears to have strong underlying support. This means prices shouldn't completely fall out of bed. Prices will not get out of line with what it takes to bid-in additional acreage. 2011 prices look wide open. Prices could eventually fall to the 90 cents to $1 area or less or, with any US or World production problems, blow the top off again.

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