

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

COTTON MARKETING NEWS



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Taking Protection

For now, prices seem to have moderated over the past couple of weeks and found a seemingly comfortable area to stabilize—mostly in the \$1.20 to \$1.30 area (Dec2011 futures). How long this will last and in what direction the next “break-out” will be is anybody’s guess.

At this juncture, my \$0.02 worth is that the risk of a downturn is limited in the short-term but not completely unlikely as we look further down the road. It is not an unreasonable strategy for producers to take some protection or set a price “floor” under the crop in some way. I think many have done so.

USDA’s monthly update of US and World supply and demand estimates was released yesterday and, although there was nothing of major consequence in it, should nevertheless be supportive of prices and the current level. US production, exports, and ending stocks for the 2010 crop year were unchanged from last month. Projected World ending stocks were dropped by about ½ million bales. This was due largely a to a 300K bale drop in foreign production and a slight increase in foreign mill demand. The only individual county numbers worth noting were a slight reduction in the China crop, a reduction in India’s stocks, and 1 mb reduction in the India crop.

USDA’s *Prospective Plantings* report for 2011 will be released on March 31st. Any cotton acreage number around 12.5 to 13 million acres (a 15 to 20% increase) should be a surprise to no one and have little if any immediate impact on the market. The market’s job has been to bid acres into cotton. Done.

Weather permitting, US and World cotton production will be up this year. Yet, the market is currently saying cotton this Fall is worth over \$1.20. That’s \$1.20 based on what the market knows now and what it *expects* to happen between now and then—plantings, World Production, and perhaps most importantly Demand. Prices (Dec futures) are currently about 50 cents above last year this time but well below the 2010 crop high of \$2.

Odds are that the presently tight World supply/demand situation is going to ease up—perhaps by only a modest amount or perhaps quite significantly. It depends on how much the production increase is expected to be based on plantings and growing conditions and what happens on the demand side.

In my mind, the demand side is the scary unknown in the equation. The recent escalation in oil prices and the impact that could have on US and global economic growth is a major concern. Export sales have been good but based on reports seem to fluctuate wildly perhaps based on price. China is already buying the 2011 crop.

I think it’s probably a safe bet that the demand side, even if it remains good, will not grow enough to offset the possible increase in 2011 production and supply. This means stocks will increase. Prices could still go higher based on any production/supply concerns or trend down if production/supply outstrips demand.



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