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

# COTTON MARKETING NEWS

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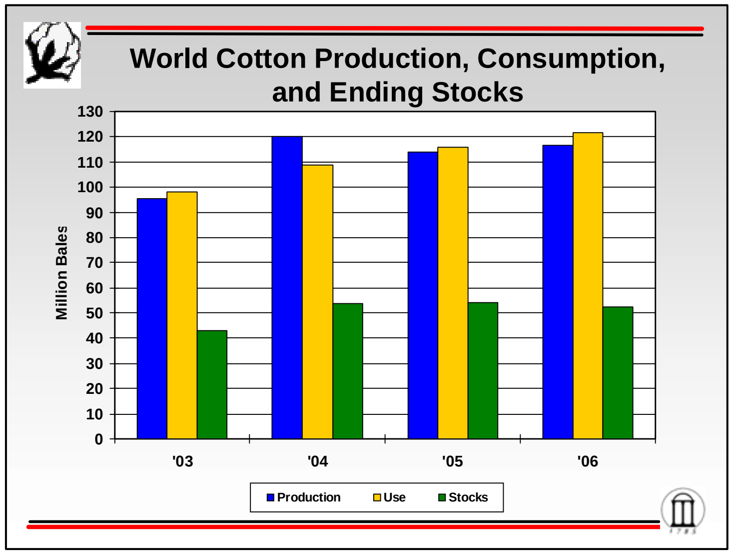
## Could Prices Improve For 2007 Crop?

Prices for the 2007 cotton crop (December futures) continue to hover in the upper 50's. As mentioned last time, prices for the new crop seem to have good support at 56½. But there is also some resistance around the 60-cent area.

Provided that US export sales are on-target, the near term price outlook for the '07 will hinge first on US plantings and then crop conditions, especially rainfall, as we move into summer. The sharp decline in US cotton acreage expected this year should be enough to provide near-term support for the market. Longer term will then depend on foreign production and US export opportunities.




World cotton consumption continues to trend upward, surpassing 121 million bales for the 06-07 crop year. Since the large 2004 crop, World use of cotton has again begun to outpace production resulting in a drawdown in stocks. The ratio of stocks-to-use (which is a measure of how "tight" supply is), is now at 43% compared to 46.6% for the 2005 crop and 49.5% for the 2004 crop. A decline to below 40% will likely be needed to get the market headed to higher ground.

US cotton acreage and production will be down in 2007. But, as we move toward planting time and look ahead to price prospects for the '07 crop, the first "obstacle" will be the increased carry-in stocks—i.e. although World stocks will be down, the US will have almost 9 million bales of old crop on hand as we begin harvest of the new crop (ouch!). So, even if the '07 crop is down, total supply could actually be more than 2006. So, price will have to deal with that first.

In its' recent Agricultural Outlook Forum, USDA economists projected that US exports will rebound to 18 million bales for 2007-08—a 3½ million bale increase from this seasons number and back to the 2005 crop level. The reasons given for the turn-around are continued growth in World demand, large US exportable supplies, and relatively stable World production. If this scenario plays out, World stocks would continue to decline and the stocks-to-use ratio, continue to tighten.

To date, cotton prices have lost ground to corn and soybeans. Cotton, however, stands to potentially gain some ground. But nothing is guaranteed… especially when 70% of your demand depends on forces outside the US. That's why the marketing loan offers an important safety net. The prospect for improved prices in 2007-08 is based on tight foreign supplies, continued growth in World demand, and a subsequent rebound in US exports. Let's hope improved US exports can also mean improved price rather than cheap cotton.

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