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

COTTON MARKETING NEWS

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Continued Bearish Fundamentals Too Much Weakness Asserts Itself

It has been a volatile 2 weeks since the last newsletter. Prices (Dec12 futures) last week managed to hold support at the important 90-cent area *but this week have been unable to repeat that*. December closed today at 88.28 cents per pound, down 2.08 cents for the week.

I have said many times that 90 cents is a critical level for producer decision-making. That has not changed. This week's move below 90 cents, should prices remain at this level or even lower into planting time, will likely result in additional acreage shifted out of cotton and into corn, soybeans, and peanuts. *But, that is the role of the market—to guide the allocation of resources among competing uses*. Price has dropped about 8 cents since early February—sending a signal that less cotton is needed. Cotton acreage will be down in 2012 as early reports/estimates have already indicated. But this most recent market weakness could even further the anticipated decline.

One significant advantage that cotton still may hold in it's favor is the crop insurance Projected Price. This price is 93 or 94 cents per pound depending on the state where produced. This compares to $5.90 or $5.68 or $5.66 for corn depending on the state, $12.60 or $12.55 or $12.27 or $12.20 for soybeans and $0.288 for peanuts. So, from a risk-management standpoint, cotton may compare favorably for some/many producers.

The India export ban (the elimination or resumption of it) is still not fully resolved. It has been reported that previously committed sales will be exported but further sales/exports are still on hold. The situation is still subject to further review and official decision. Dec12 futures closed just over 93 cents on March 5 on news of the ban but *prices have since lost almost 6 cents—down for 8 consecutive days until today holding even with yesterday*.

But, the India situation has not been the biggest negative factor impacting prices. For the second consecutive month, the USDA numbers have been bearish. In its March supply/demand report, USDA again revised (slightly) numbers from the 2009 and 2010 crop years—resulting in a 270K-bale increase in 2011 crop Beginning Stocks. For the 2011 crop year, expected production was increased in Brazil and Pakistan and World demand (use) was revised downward including reductions for the US, Brazil, and China. *All combined, further revisions to 2009 and 2010 and new estimates for 2011 resulted in a further increase in 2012 crop carry-in stocks of 1.55 million bales*. It's now projected we'll carry 62.32 million bales in to the 2012 crop year beginning August 1. If realized, this would be the largest stocks since the 2006-07 crop year and the highest stocks-to-use ratio since 2001-02.

In your marketing decisions, downside risk has increased because conditions as described have deteriorated. Further weakness takes us to the 85-cent area if the 88-cent level fails to hold. Hopefully, producers priced a portion of expected production above 90 cents. Continue to add to sales on rallies.

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