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

COTTON MARKETING NEWS

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Don't Get an Itchy Trigger Finger

New crop prices (Dec09 futures) have displayed some weakness this week. This is troublesome but not for the reasons you may think. As we have discussed in this space many times, basis the Southeast, the cotton producer can pretty much count on 55 to 60 cents per lb +/- quality adjustments as the floor provided by the marketing loan and LDP. The current low level of prices simply means more of the producers income may be in the form of POP/LDP or Loan Gain and less from the crop.

December closed today at 48.72 cents per lb—down only .52 cents for the week but more importantly, the "mini-rally" we experienced over the previous couple of weeks all of a sudden seemed to have stalled.

USDA's *Prospective Plantings* report will be released on Tuesday, March 31. The 2009 US cotton acreage numbers that have floated around thus far have been 8.1 to 8.5 million acres. If Tuesday's number is in this range, the market is not likely to show much reaction to it. A number higher than 8.4 to 8.5 could move the market just a little lower and something around 8.1 or lower could move the market just a bit higher. But either way, anything within the 8.1 to 8.5 range will likely have little overall impact.

At meetings all winter and even as recently as this week, I've been telling producers that the market may eventually rally to 60 cents. I'll be the first to admit we've got a long way to go and this week's action makes me feel a little uncomfortable about that prognostication.

With another (3rd consecutive year) cutback in acreage coming and stocks tightening, a weather event or other situation that would negatively impact the yield and production of 2009 crop could rally the market. To get to 60 cents, we've got to negotiate resistance at around 52 cents and then around 57 cents. A more important question is this—if the market were to rally based on *supply side* events, can it stay there? It can only if the *demand side* supports the move—i.e. foreign mills are willing to buy cotton at that price.

This brings up a critical decision for the producer. If and when this market offers something better than the worst case scenario (55 to 60 cents mentioned in the first paragraph), will it stay there and do you pull the trigger or not? If the market never get's to this point, there's no incentive to do anything. Take your finger off the trigger. If the market does get to 60 or better, choices include contracting or buying Puts. Contracting, if the market then moves lower into harvest, works well. If the market moves higher, however, the outcome is not a happy one. Using Puts rather than contracting would not necessarily put more money in your pocket but would provide more flexibility.

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