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

COTTON MARKETING NEWS

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Market Update. After testing the waters over 85 cents, the market (Dec08 futures) has since returned to the 80-cent area. Dec08 closed today at 80.04 cents/lb—down 2.84 cents for the week. Prices should find support around 80 cents. A break below this could take us to the 75-cent area but this is not expected.

2007 crop prices Southeast are -7.5 cents July for 41-4/34 and -6.5 cents for 31-3/35. The availability of bids is unknown but this wider than normal basis certainly signifies the volatility in the market and "cash discount" by merchants to compensate for the risk.

Availability of contracts on the 2008 crop is also unknown. Prices have declined 15 cents/lb since the speculative-driven run to over 95 cents that chased merchants off the market. We are past prime corn planting time (at least in my neck of the woods) and I would think most farmers have pretty much decided what they will plant if weather and planting conditions cooperate. The inability of new crop Dec08 cotton futures to maintain the 85 cent area and the lack of contracts (or wide basis on contracts, if available) has not favored cotton in the minds of farmers trying to make decisions on those last acres. The futures market is suppose to be a tool to help producers and merchants manage risk. The volatility that has been experienced in the market this year and the resulting lack of contracts is evidence that this mechanism has failed.

Energy Impacts, Long-Term. Two years ago when corn prices began increasing due to ethanol demand, we all wondered if it was "for real". Would it last? Since that time, everything has skyrocketed—corn, soybeans, wheat. Cotton, having to compete for acres, has followed suit. Fuel and fertilizer prices have skyrocketed. It would now appear that these increases are not a "flash in the pan". Two years ago we were wondering if the price increases were for real… now, there's no denying it's for real. Now we're wondering if in fact this might not be the way things will be for quite some time. If fuel and fertilizer prices remain high, crop prices will also have to remain high enough to maintain profit margins or some acres will leave production. The longer that grain and soybean prices remain high, the more likely it seems that the cotton industry will have to adjust and deal effectively with the consequences.

Farm Bill Update. The farm bill discussions have now been extended to May 2nd. House and Senate conferees continue to struggle to finds ways to fund the bill. The Administration continues to threaten not to sign the bill—disagreeing over proposed methods to fund the bill and lack of reforms in the bill itself. With each stalled attempt and extension, it seems increasingly likely that the current 2002 bill may eventually just be extended for another year or more. Conferees would prefer to get a new bill in place if funding issues can be resolved.

It's ironic that funding is being debated when, at current price levels, CCP and LDP payments are almost non-existent. Direct Payments (DP) would be the only payments made and some argue that even these payments should not be made when prices are so high. But let's not forget first of all that the purpose of the farm bill is to provide a "safety net". Second, DP is WTO compliant. DP, CCP, and LDP's are the safety net in place if and when needed. You don't throw the safety net mechanisms out the window just because prices are high.

Don Shurley

Don Shurley- University of Georgia, 229-386-3512 / donshur@uga.edu