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

# COTTON MARKETING NEWS

**Volume 5** **Number 17** **April 27, 2007**

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***http://commodities.caes.uga.edu/fieldcrops/cotton***

## December Crashes and Burns


Cotton prices continue to wilt under the pressure of high CCC loan stocks and low export numbers. Exports have occasionally shown flashes of improvement but only at lower prices. Like I have said before, exports are important (we are in an export-driven market, as you all know) but equally important is at what price can US cotton be sold. I think we know the answer to that by now—CHEAP!

2007 crop prices (December futures) lost 2.19 cents this week to settle at less than 55 cents per pound yesterday and today. If there was anything positive that happened it would be that the market resisted the threat to close near or below 54 cents. Prices have declined almost a nickel per pound since the most recent peak back on March 29. Let's hope this little "bounce" off the 54-cent mark signals some new support… meaning that export sales will hopefully improve and that demand will hopefully pull prices back up. Or to put it another way, let's hope this downtrend in price will turn more folks to the bullish side of the market to offset the bleak bearish tone that has developed over the last month.

It was announced recently that China will begin a subsidy program for its cotton producers to encourage production and thus reduce the countries reliance on imports. China is the largest buyer of US cotton and the US typically supplies about 40-50% of China's import needs. A reduction in sales to China would be a major blow (adjustment) to the US cotton industry. We have already seen this season the impact of slow exports and the resulting increase in stocks. The buildup of stocks threatens prices for the '07 crop.

This next week will hopefully see some recovery back toward the 56-cent area—which will now be a ceiling of resistance that will have to be negotiated if prices are to improve further. I still hold out hope of better prices to come eventually but large carry-in stocks into '07 hamper the process. A rebound in exports will be needed to key better prices but as we have already witnessed, improved prices also result in reduced sales. This is even more-so as the result of losing Step 2.

I don't want to take off running a new rabbit now that I'm near the end of the page, but all of this should cause us to ponder the implications of possible changes forthcoming in the 2007 farm bill. I believe the next farm bill could shape the future of US cotton. What type of safety net is necessary for cotton as an export-driven commodity? What would be the implications of lower loan rates (and possibly lower LDP's) in exchange for a shift toward more DCP Payments (which are received whether cotton is grown or not) and conservation programs? What would be the implications of changes in payment limitations and the AGI test?

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