

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

# COTTON MARKETING NEWS



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**Cotton Really Takes It on the Chin**

Dreadful supply/demand news hammered cotton prices yesterday and today. Dec12 closed at just over 79 cents (down 4 cents) yesterday and as this is being written, is down another 3 cents today.

No one saw this magnitude of downturn coming.

Rain has also returned, and while needed and good for the crop, this combined with continued bearish economic news has really hammered the cotton market. While recent rains have improved planting moisture and aided early development, this does little to yet alleviate the longer term drought situation. Rain of mostly ¼ to 1½ has been widespread over the Cotton Belt during the past 7 days. Some areas have had more especially in central and south Texas and in smaller areas elsewhere. Prices had already begun to weaken over the past week or so due to the rain and expected improved crop prospects. But yesterday's USDA numbers added even more supply-side burdens and prices have tumbled as a result.

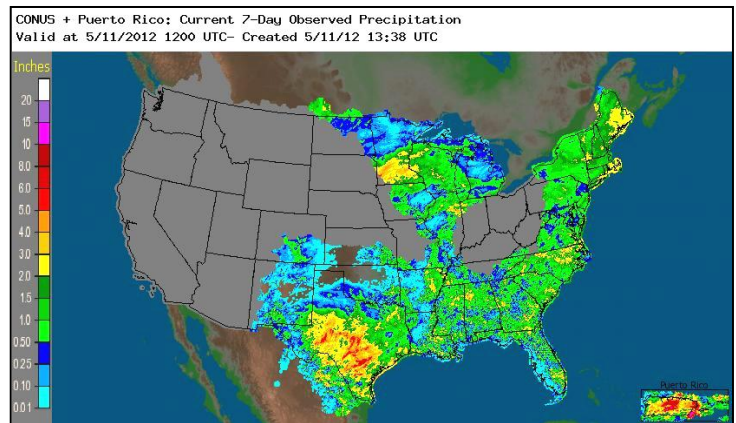
So, cotton has really taken it on the chin and is now backed up against the ropes. Will prices fight back and recover? The answer is, probably so. Dropping 6 to 7 cents in 2 days is not that uncommon anymore and this may end up being an over-reaction. But the more pertinent question is how much can prices come back if they do? Not much good can be done by panicking and selling at this point.

Let's get out of panic mode and lay emotions aside and take a closer look at the numbers.....

USDA projects the 2012 US crop at 17 million bales (9% above 2011) based on the March planting estimate of 13.16 million acres. Because of weaker prices over the past 2 months, however, actual acres planted may come in at less than this—in the neighborhood of maybe 12.8 to 12.9 million acres. We'll find out in the end of June report. The drought situation is not over and we will likely still be in a weather market the rest of the season and especially so if acreage comes less than 13 million.

World production for 2012 is expected to be down by 6.35 million bales. Production in the US is expected to be up but China down, India down, Pakistan down, Australia and Brazil down.

World cotton consumption for 2012/13 is expected to increase by almost 3½ million bales. This is good news but although production will be down, it will still outpace demand by almost 7 million bales. As a result, 2012 crop Ending Stocks are expected to balloon to almost 74 million bales—almost 7 million bales more than 2011. It is this potential continued growth in stocks hanging over the market that has caused prices to tumble. As mentioned in previous newsletters, this problem has been building for months now. USDA's May report for 2012 just further exacerbates the situation.



So, recent rains withstanding, although we could still be in a bit of a weather market, this large stocks situation in plain terms means the market doesn't need to care as much about that. This means that although a weather-driven rally is still a possibility, it will likely be a tougher hill to climb. At this point, prices have fallen so far so fast that you hate to panic and jump in to add to sales now. It might be risky but it seems better to wait for a recovery first. That being said, given the stocks situation, a rally back to the 83 to 85-cent level would be quite an achievement.

The end of June USDA *Acreage* report will have some influence. The March number for Georgia was 1.4 million acres. I thought at the time that was a little too much. With prices weakening, cotton acreage has likely slipped nationally but perhaps not as much here. I think GA acreage will likely be around 1.3 million. We are long past prime corn planting time and soybeans, although attractive price-wise, are too risky in non-irrigated situations. Cotton wins in non-irrigated situations. Soybeans may gain some acres but at this point in time, I think the swing acreage is between cotton and peanuts. Weaker cotton prices tend to play in favor of peanuts but cotton remains more attractive from a risk management/crop insurance perspective (94 cents Projected Price).



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