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

COTTON MARKETING NEWS

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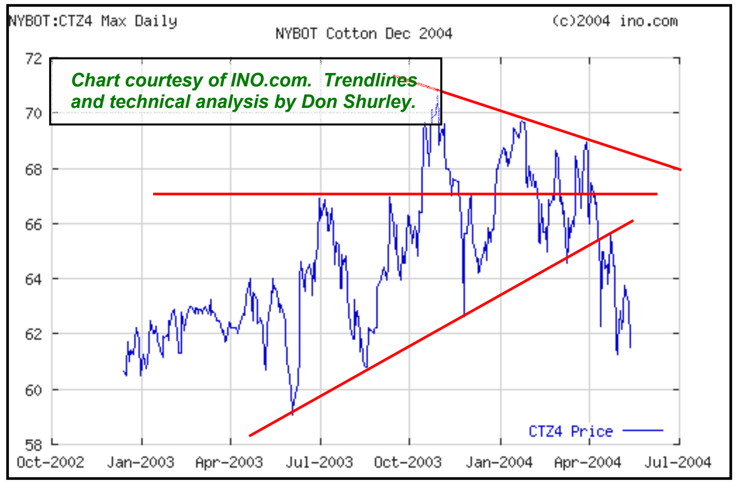
Marketing 2004 Cotton- Is There A Decision In Your Future



Prices for the 2004 cotton crop (as reflected by December futures) have taken an ominous turn in recent weeks. The WTO news as discussed 2 weeks ago and now this week's 2004-05 USDA projections have not been kind to cotton prices. Prices are struggling to stay above the 61-62 cent mark.

Coming off a 2003 crop year that saw prices strong early then decline and now seeing the tumble that '04 prices have taken, I doubt many producers are willing to step out and make a cash pricing decision on the '04 crop until a recovery takes place. Whether or not a recovery and/or pricing decision is in our future or not is hard to tell-- but the market may have to show improvement before producers will make added sales. I am sure some sales were made when cotton was 66-68 cents December.

The 2004 US crop is forecast at 17.6 million bales-- actually down about 600,000 bales from last year. This is based on the March estimate of 14.4 million acres planted and assuming typical or average abandonment of 12%, and using the 1999-2003 average yield of 665 lbs/acre. US yield last year was 730 lbs/acre. In reality, the crop is likely to be anywhere between 16 and 19 million bales. The market knows this and will react as more is known. For now, 17.6 is as good a number as any and the market will work with that.

In March, US farmers said they intended to plant 14.4 million acres-- up 7% from 2003. Many, including myself, believed that number to be high due to high prices and increased competition from soybeans and corn (and peanuts, in some cases). It's likely the number is still high, but it could be closer to accurate than earlier thought… for example, preliminary acreage enrolled in the Boll Weevil Eradication Program here in Georgia is 1.4 million acres. This compares to 2003 Georgia acreage of 1.3 million and USDA's March estimate of 1.35 million.

In it's May 12th *Supply and Demand* report, USDA projected 2004-05 world cotton production to top 100 million bales for the first time ever. The estimate is 102.5 million bales compared to just 93.5 million last year and 88.2 million in 2002. The estimate assumes increased acreage and production in foreign countries and normal (more favorable) weather. Foreign production is expected to increase by 9.7 million bales. World demand is expected to rebound somewhat after a slight decline this season. Stocks are expected to rise by about 4 million bales. US exports are expected to decline from 13.8 million bales this season to 11.5 million next season.

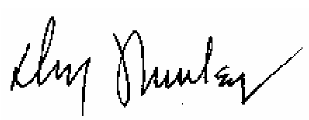
At first glance the report certainly seems bearish… a potential whopper of a crop, only a small improvement in demand, increased stocks, and smaller US exports. But our purpose here is not to argue the numbers… that serves no good at all. Instead, what we need to think about is what it means for prices now and in the future and the implications for making decisions on what to do with the ’04 cotton crop... keeping in mind that markets react based on how reality mirrors expectations.

With that thought in mind, it seems to me the supply/demand numbers at present paint a rather optimistic picture. There certainly seems to be plenty of room for error on the supply side. Odds favor the world crop being less than 102.5 rather than more. Also, although stocks are projected to increase, the world stocks-to-use ratio would increase only from 33.4% to 36.8% and still somewhat on the low side by historical standards.

What I am suggesting is that all is not lost… not yet. A return to consistent prices above 62 cents would signal the market has calmed down from the shocks and news of recent weeks. If you are a strict cash marketer (you deal in cash sales and/or contracts only and don’t or are not willing to deal with Puts and Calls) there is little incentive to jump in at this point… an LDP + spot sale or Loan + equity should net you in the upper 50’s regardless of what the market does. If the market should recover to the 65 cent area or better, pricing would be advised.

For hedgers, if the market fails to recover above the 62 cent area, this could signal the likelihood for even further weakness as we move into June if the crop gets off to a good start. Put Options could be used to provide a floor while allowing you to sell or contract later if prices should improve.

The summer months often bring weather or some other crop conditions factor into the market. Often this causes a price rally-- provided the market is not already too high to begin with or provided there are not other overriding circumstances. Ways to use such a situation would include a Call Option while the market is lower, in anticipation of such a rally or using such a rally as an opportunity to contract or purchase Puts.



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