Southern Cotton Growers, Inc.

REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA

COTTON MARKETING NEWS

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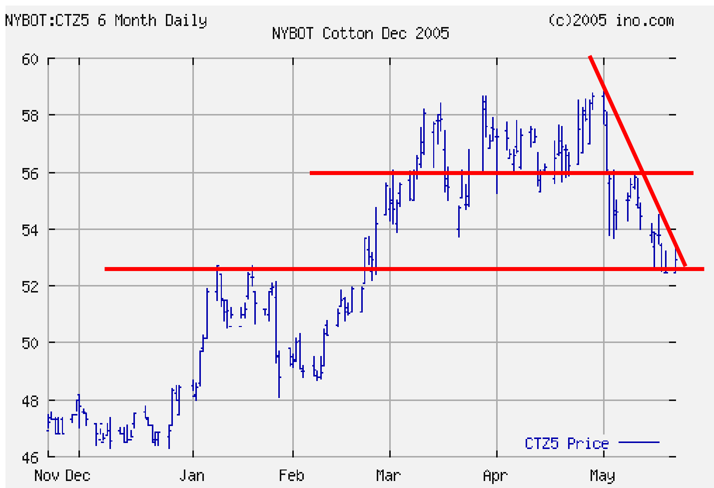
Cotton's Rose and Thorns



Cotton prices dropped below the 54-cent support area and made their way to 53 cents where they appear to have found new support (we discussed on 5/6/05 that the 53-cent area would be the next area of support or "floor" if news could not support 54 cents.

The market has reacted negatively to news released on 5/13/05 that sanctions would be imposed against major categories of Chinese textile apparel imports into the US. We now face a stronger downtrend in prices that, in my mind, will take the bulls a little longer to pull us out of. We will have to successfully negotiate the 54-cent area again before we can say we have pulled out of the downtrend and must get back to 56 or better before I would truly say the market has "recovered".

China is both a "rose" and a "thorn". Simply put, because of the decline in the US mill industry, if US cotton farmers are to continue planting and making 19-20 million bale crops, about 13-14 million bales will need to find a home overseas. Presently, this is not possible without major purchases from China. Fortunately, China's mill industry is growing in relation to it's cotton production and therefore, is expected to continue to need US cotton (when China needs cotton it's track record is to get 50-60% of it from the US).

China is a "rose" in the fact that it is a major buyer of US cotton. But China is also a "thorn" in the fact that it is a source of large textile exports to the US-- which hampers the US mill industry. The recently announced import sanction against China has some observers worried that China may retaliate against the US by purchasing less US cotton. Some say any sanctions will have no impact. The fact is nobody knows.

Import sanctions against China may allow the US mill industry to adjust (lead to increased use of US cotton). Producers should welcome a stronger, more vibrant US mill industry. Any growth domestically provides stability in demand and reduces dependence on foreign markets. But any recovery in the US mill industry will not significantly diminish the importance of exports. The producer is interested in total US demand (off-take). If Chinese purchases of US cotton were to be reduced by more than the US mill industry increases, total off-take would be reduced.

For the US producer, the name of the game is exports. Anything that negatively impacts our ability to sell cotton overseas (Step 2 payments, WTO, Brazil production) is a major concern.

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