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

COTTON MARKETING NEWS

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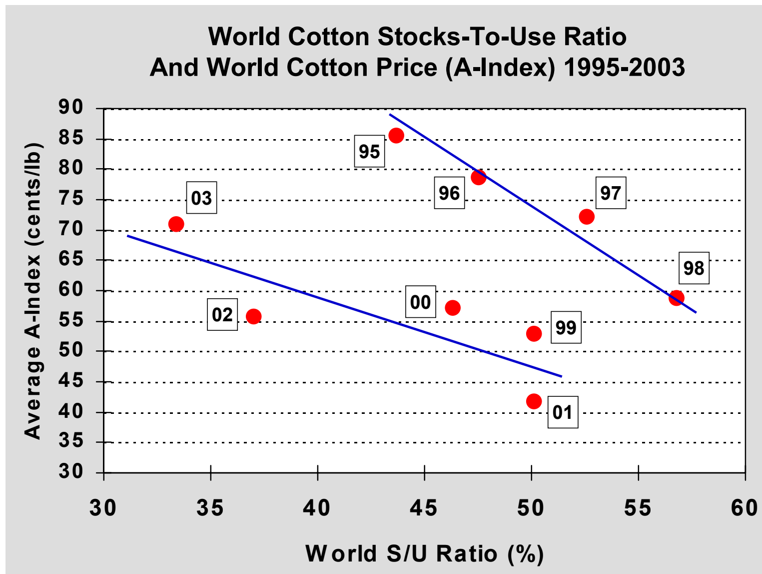
2004 Cotton-- A Surprising Look at World Cotton Supplies and Prices



2004 cotton prices (Dec futures) continue to show signs of early season weakness and have struggled to stay at or near something with a "6" in front of it. At the present time, December is trying to "stabilize" in the 58-59 cent area-- having broken through what I identified in my last newsletter to you as a critical area at 60-62 cents.

Opinions differ, but I still contend the market has taken this trend downward prematurely. US crop conditions are nothing to shout about at this point and the predicted record world crop is a long way from materializing. But I must admit that it becomes harder and harder to remain positive with each passing week that some type of positive news does not result in a rally. Producers wishing to take price protection must be prepared to take action on rallies. Without a rally and with cash prices basis the December futures at now only 3 cents or so above the loan rate, the risk of otherwise doing nothing seems minimal.

I have included the chart above to illustrate that it appears there has been a fundamental shift in world cotton market fundamentals in recent years. This certainly has a bearing on current and next year's cotton prices. The world stocks-to-use ratio is calculated as ending stocks divided by mill use and is expressed as a percentage. It is one measure of how tight supplies are relative to demand. The chart shows, as we might expect, that when supplies are tight (S/U ratio is smaller) prices tend to increase.

There are many factors that impact prices and I want to make sure we understand that this chart represents a simplified look at only one such factor. But it appears that over the past 5 years there may have been a shift in the supply/demand-price relationship for cotton. For the 2001 crop year, the S/U ratio was 50% and the world price of cotton (A-Index) averaged 42 cents. For 1999, again with a 50% S/U ratio the "A" averaged 53 cents (higher but "in the ballpark"). Compare this to a little earlier in the decade of the 90's. In 1997, the A averaged 72 cents with a S/U of 53%. And in 1998, the A-Index averaged 59 cents even with a S/U ratio at a whopping 57%. *For 2003, it took a S/U ratio of 33% to achieve essentially the same prices as in 1997!*

Again, I'll admit this may be an oversimplification and it has not been thoroughly researched. But it may be that the world is not willing to (nor need to?) pay for cotton as it once did. Which, if true, brings us to ask the questions-- Why? What has changed?

Several things have changed over the years if you compare the mid-late 90's with more recent years and today:

1. 1999 and 2000 saw recovery from the SE Asia crisis and China has been an increasingly important component of demand.
2. Trade policies and farm programs are always a part of the mix.
3. The US textile industry declined and now the US supplies 40% of world cotton trade compared to less than 30% 10 years ago.
4. The value of the dollar and exchange rates are increasingly important.
5. Imports have increased and are now the major supplier to the US consumer of cotton products.

The world ending S/U ratio for the 2003 crop year is forecast by USDA at 33%-- the lowest since 1993. The A-Index thus far for the 2003 crop year has averaged 71 cents/lb. For 2004, USDA has forecast the S/U ratio will increase to 37%. Based on the relationship as illustrated in the chart, this could signal a drop in the A-Index of 5-10 cents/lb. If realized, this would place the average 2004 crop A-Index at 61-66 cents/lb.

In recent years, the US average price received for cotton has been 9-12 cents below the A-Index. This differential has 2 components-- New York futures prices have been about 5 cents under the A-Index and cash prices another 5 cents under futures (basis). If a large world crop is realized and the S/U ratio increases as projected, an A-Index in the 60's could translate into cash prices for US cotton farmers in the 50's.

So, the market is clearly anticipating all of this and incorporating what we think we know and expectations into the prices we have today… December struggling around the 58-59 cent level. But the crop is yet to be made and rallies are still possible. Strategies to protect against downside risk while leaving flexibility in the event of higher prices would be worth consideration.

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