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

COTTON MARKETING NEWS

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Market Skids a Bit

New crop (Dec09) futures have taken a small nosedive… but this is not totally unexpected. After peaking at almost 63 cents per lb, the market had slid to just under 58 cents on yesterdays close before making a nice recovery to end the week today. December closed today at 60.85 cents- up 274 points from yesterday.

Today's rally is encouraging and keeps the market from sliding further toward support around the 57-cent level. The upward trend we've been in since early-mid March is not truly broken until we drop below support at 57. Today's rally might end up being an important "stop" to get us back on track.

The move to near the 63-cent level gave an opportunity to lock in around 60 cents on contracts or an opportunity to take a position with Puts to protect from a move down. Should the market break the 57-cent area, Calls could be used to take advantage of any improvement from that level.

The recent downturn in the market, from what I can tell, is due to a combination of (a) speculative profit-taking and (b) weakness in both the export and domestic mill markets. Also in the news, the Chinese government recently released approximately 7 million bales of its inventory for sale to Chinese mills low on stocks. This could slow China's demand for US and other imports. China is expected to lower cotton acreage this year but most recent reports indicate the decline may not be as great as earlier anticipated.

The 2009 crop is getting behind schedule on planting. Rains particularly in the Southeast have brought planting to a halt in some areas. Drier conditions and warmer temps this week and into this weekend could provide opportunity for fields to dry out enough for work.

As of last weekend (May 24), the crop was 61% planted compared to 69% normal. In the Southeast, Alabama was 71% planted compared to 87% average; Georgia was only 53% compared to 68% normal. In Georgia, planting will be even further behind when the next report comes out for the week ended May 31. Rains this week have brought planting to a halt.

Despite the recent dip in price, the outlook remains more positive than negative. Foreign mill demand is the key. The release of Chinese stocks may damper things a bit but the recent uptrend has been due to signs of a US and global economic recovery and speculative buying interest. The US crop is not getting off to a particularly good start. This, combined with good export sales, would hopefully keep prices more level to up than downward.

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