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

COTTON MARKETING NEWS

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PRICES REBOUND BUT CAN IT LAST?

Is the meltdown over? I think it's safe to say prices have tried to settle in and find a comfortable place to park. The more important questions are can it last and what's the outlook.

The Meltdown. Over the past 6 weeks, prices (Dec12 futures) have declined roughly 23 cents (26%). On the way down, prices have tried to stabilize at 3 levels—75 cents but that failed, 70 cents but that failed, and most recently at around 65 cents.

The Factors. The reasons for the decline include but are not limited to improved US drought conditions and drought outlook, increased 2011 crop year ending stocks and projected further huge increase in stocks for 2012-13, weak/uncertain demand, and global economic uncertainties- most notably US, Europe, and China.

Improvement. Prices have moved back up this week. The question is whether or not this improvement is real and sustainable. After declining to just over 65 cents on Tuesday this week, prices (Dec12) were up 3 cents on Wednesday and another (almost) 4 cents yesterday to close at back over 72 cents. <u>Today, however, prices are currently down about 2 ½ cents and have broken back down below the 70-cent level</u>.

The improvement in price this week was due to a cut in interest rate by China's central bank (an attempt to boost economic growth), good US export reports, technical indicators suggesting prices had fallen too much, reports of dry growing conditions in China, and reports suggesting decline in India acreage could be more than expected.

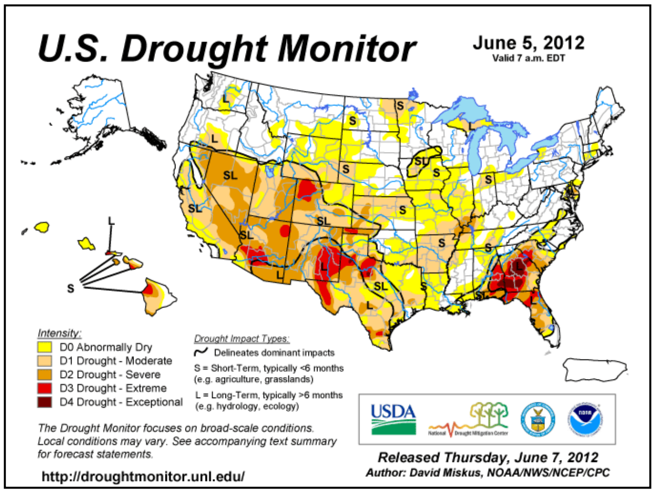
What's Ahead. USDA's next monthly supply/demand estimates will be released on June 12th. Will US export projections be increased? Will US projections for 2012 crop production be increased due to improved drought conditions? Will there be changes in 2011 and/or 2012 foreign supply and demand? The first USDA estimate of actual US acreage planted will be released on June 29th. Will acreage be less than the March number and if so, by how much?

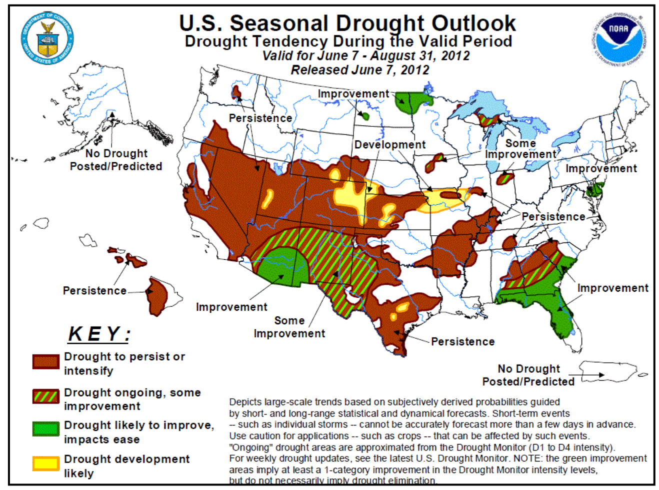
Outlook. Prices may be trying to stabilize in the 70-cent area for now. Today's action still invites caution, however. The factors that lead to improvement this week will also potentially be the factors that will drive prices from this point forward. The decline in prices from the 85 to 90-cent area was caused primarily by <u>expected</u> large increase in World stocks. Prices from this point forward will depend on what actually happens to projected stocks relative to expectations:

- <u>Demand</u>. World cotton demand is forecast to grow in 2012-13 but by only about 3%. Due to global economic uncertainty, demand will be very fragile. If demand improves more than expected, this will draw down on stocks all other things being equal. Likewise, if demand continues to weaken, stocks increase.

- <u>Foreign Production</u>. Foreign production is expected to be down from 2011. Production could be even less than currently forecasts. If realized, this would reduce stocks and potentially also improve US exports.

- <u>US Acreage and Production</u>. USDA's *Prospective Plantings* report in March estimated 2012 acreage at 13.16 million acres with harvest of 80%. The US will not plant this much cotton. Actual acreage planted could be 12.5 to 12.8 million acres or less. But with improved drought conditions, abandonment could be less than forecast and make up for some of the reduction in planting. The US crop is expected to be above 2011and likely will even with less than expected plantings if abandonment is low and yield is good.





Marketing Decisions. Marketing the 2012 crop will involve some tough decisions. If the 65 to 70-cent area holds, the risk of doing nothing and waiting at this point seems minimal. If the 70-cent area holds, further upside potential is possible….. but what is a realistic expectation for the upside? The 75 to 80-cent area may be it-- the large projected level of World stocks will act to partially desensitize the market from supply shocks or other factors that would otherwise send prices up.

Assuming a producer already has a happy portion of 2012 expected production priced at a level well above where we are right now (and I think a lot of producers do), the rest is trying to pick the spots to price more. Hopefully, at least one opportunity (a rally above where we are now) will present itself between now and harvest. The outlook factors mentioned earlier will be key.

It's also worth considering that if prices remain below 80 cents, assuming corn and soybean prices remain attractive, US cotton acreage will likely be down again in 2013. Depending on what is happening with other supply and demand factors at the time, this could rally prices into 2013. In other words, any price improvement from this point forward may come after harvest into 2013 rather than between now and harvest.

Don Shurley

Don Shurley, University of Georgia
donshur@uga.edu / 229-386-3512