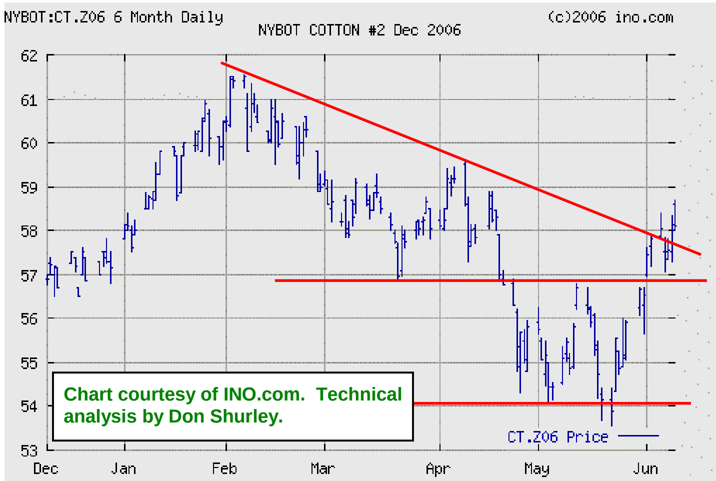
Southern Cotton Growers, Inc.
REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA

COTTON MARKETING NEWS

Volume 4 Number 20 June 9, 2006

This newsletter is also available in PDF format on the UGA Cotton web page at:
http://www.griffin.uga.edu/caes/cotton

Market Gaining Momentum, Moving Upward



The market is showing signs of improvement and renewed life over the past couple of weeks. The market now appears willing to take on a somewhat more optimistic tone and has demonstrated the strength to rebound from the 54-cent area (Dec futures) experienced just a few weeks ago. Fundamentally (in terms of supply and demand), prices are now headed in the right direction.

USDA released its June report today and the numbers should be supportive of prices. Prices have pushed through the important 57-cent level and the market now is poised to test the 59 to 60-cent level or higher. The market (December) has not been at this level since or higher since March-April. In my opinion, prices above the 57 to 58-cent area are a sign of relatively strong prices whereas prices below this signal a weakening market. Prices at the 59 to 60-cent area and higher, as was also the case back in the spring, would be good decision opportunities.

A decision strategy to consider might be to protect from getting anything lower than 59-60 cents while leaving open the potential for getting even better. Contracting alone might be risky unless also using Calls. Put Options or minimum price contracts would provide protection and leave the upside open.

It is important to remember that "futures" markets are trying to guess-timate what the price should be at some "future" point in time based on what we think we know right now—perceptions and expectations about the "future". The market will then actually be higher or lower based on how reality measures up to expectations.

So what do we think we know right now:

- The US crop is estimated at 20.7 million bales. Dry conditions and possible acreage abandonment continue to be the wild card. A larger US crop would depress prices unless offset by less foreign crop and/or larger than expected US exports while a crop of 20 million bales or less could add 3 to 5 cents to this market.
- World ending stocks (how much of the 2006 crop is expected to still be on-hand at the end of July 2007) are expected to drop to 47 million bales, down 6 million bales from 2005-06. What's even more significant is that the stocks-to-use ratio is expected to drop from 45.3% to 38.5%.
- The 2006 China crop is forecast at 27.5 million bales compared to 26.2 million bales last year. There has been talk of the crop possibly being larger than this. A larger China crop, unless accompanied also by larger than expected demand (need for imports) would act to weaken prices.
- US exports are forecast at 16.8 million bales—the same as this season. But world demand is expected to increase by 5+ million bales. If the US crop comes in at 22-23 million bales, exports will have to increase to avoid weaker prices. Otherwise, prices at their current level and higher seem on the right track.

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