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

COTTON MARKETING NEWS

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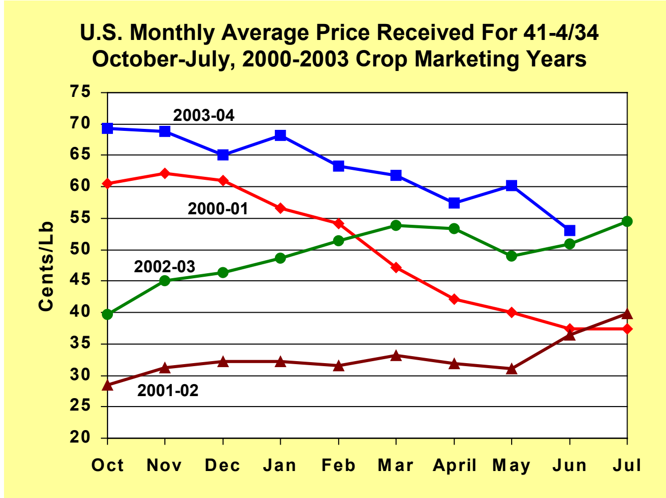

A Few Thoughts on Remaining Old Crop … and the New Crop

Old Crop. I received several calls this week from farmers seeking insights on what to do with the remaining '03 cotton still in storage. Each farmer was basically asking the same question-- whether to continue to hold or take his lumps (their words not mine) and go ahead and get out. I advised each to continue to hold but sell portions of the crop on rallies. I went on a further and suggested that prices, even if a rally were to occur, would not likely improve more than 3-5 cents from current levels… back to the mid to upper 50's. Granted, that's a long way from where we used to be but I don't believe in selling into a down market-- sell on rallies. At present, the basis is –275 October or somewhere in the 50-51 cent area for 41-4/34.

Food For Thought. Most farmers will probably say they are comfortable most of the time with the decisions they make to price a portion of their expected crop prior to harvest. The big decision, most years, is what to do after harvest with the remaining unpriced, uncommitted portion of the crop. It seems that's where a decent average price on the entire crop is either made or lost. The chart above shows monthly average cash prices October through July for the past 4 crop years (June 2004 is estimated). Prices have trended downward or remained flat for 3 of the 4 years (although prices in 2001-02 did rally late). If we go back a further, we find prices have trended upward after harvest in only 2 of the past 7 years. Should growers hold cotton after harvest? The better question might be, is it worth the risk? Increasingly, we have to wonder if holding cotton is really worth the risk. Suppose you store 6 months and the market drops 5 cents, you've lost $25 per bale value plus $12 per bale storage cost plus interest on the money you could have had 6 months earlier. Alternatively, you could have sold the cotton and purchased a Call Option for probably no more than $15 per bale. If the market goes up, hopefully you'll net a profit but if the market goes down, your loss is limited to just the $15.

Hedging Counter-Cyclical Payments. As prices have dropped into the 50's, discussion is starting to surface about "hedging CCP's". If you have planted cotton equal to or more than your payment acres, you are protected by the cash market from a decline in the CCP. This is called a "production hedge". This talk of hedging CCP's seems to me to apply in only 2 circumstances-- you have planted less than your payment acres and/or you have already sold the crop and the market may trend up afterwards. Otherwise, let's just let the government payments take care of themselves and concentrate efforts on the crop.

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