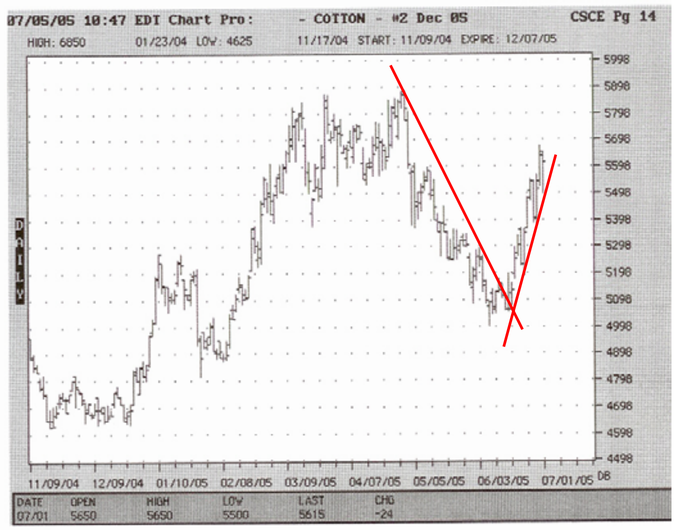
Southern Cotton Growers, Inc.
REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA

COTTON MARKETING NEWS

Volume 3 Number 25 July 1, 2005

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

Whoa, Nelly!



__Prices__. Sports commentator Chris Jackson is known for his use of the phrase "Whoa, Nelly!" when describing spectacular action on the field—especially in college football. When you look at what has transpired in the cotton market over the past few weeks, you have to say "Whoa, Nelly!" Whatever the combination of factors were that caused the slide during May were obviously not an issue during the strong rebound in June. Prices now appear poised to challenge the 57 to 59 cent level on December futures and a good opportunity to catch up on pricing or hedging with Options if you missed the last time we were at this level back in March and April.

This rally clearly proves that this market probably has a range of 50 to 60 cents and will move within this range as conditions warrant. It's shaping up to potentially be a volatile ride the rest of the way into harvest. Exports and US and foreign crop conditions will play a major role. Recent export numbers have been good including notably large sales to China. Also, all eyes will be on Tropical Storms Cindy and Dennis and both look to dump rainfall on much of the Southeast and Mid-South.

__Acreage__. USDA's June 30th Acreage report estimated US cotton at 14.03 million acres planted. This is 215,000 acres higher than estimated back in March but was anticipated and therefore will not be a market factor. The market is working off an expectation for a 19-20 million bale US crop. US export sales for the 2004 crop year are now over 15 million bales. Depending on foreign production and mill demand (another very good export year for the '05 crop) it is likely that US and world stocks will decline for 2005-06. This scenario should be supportive of prices. Any supply shock in the US or elsewhere would add further support.

__Step 2__. The Step 2 Certificate is essentially a subsidy paid to US exporters and domestic mills. The certificate value is the difference between the price of Color 31/Staple 35 US cotton delivered to Northern Europe and the average price of the 5 best (cheapest) foreign sources of 31/35 delivered to Northern Europe (the A-Index). This difference is currently 9.75 cents/lb or about $49 per bale. It is believed that this payment acts to make US cotton more competitive and, in particular, leads to increased export sales.

If the Step 2 provision is eliminated, it will likely result in lower cash prices to the producer. This, in turn, should result in larger LDP's. Provided that no changes are made in calculation or production eligibility for LDP, elimination of Step 2 could have little impact on the producer. However, the combination of loss of Step 2 along with reduced eligibility or lower payment limits for LDP could be detrimental.

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