

Southern Cotton Growers, Inc.
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Acreage Rebounding, But Cotton's Economics May Still Have Some Ground to Plow

As expected, US cotton acreage will be up this year and actual plantings are estimated to be higher than what farmers earlier said they intended to this year. Both should come as no surprise to farmers and to the market. Prices have been down this week but this is not in reaction to higher acreage. There are other issues at play.

USDA's Acreage report was released on Wednesday. Actual planted acreage is estimated at 10.9 million acres—that's up 19.2% from last year. Acreage will be up in every state except Louisiana. Acreage is up 44.5% in the West and 33.5% in the Southeast. The Mid-South and Southwest will increase 15.6% and 13.4% respectively.

In March, USDA's Prospective Plantings report estimated that farmers intended to plant only 10.5 million acres. This week's 10.9 number is the first estimate of actual acreage planted. As expected, farmers planted more cotton than they thought they would back in March. Prices increased and remained good and bid more acreage into production. Overall, actual acreage is estimated to be almost 4% higher than earlier expected. Actual acres planted were higher than Intentions in 11 of 17 states.

2010 US Cotton Acres Planted Compared to 2009 and 2010 Intentions

	2010 Estimated ¹	2009 Actual	Change 2010/2009	2010 Intentions ²	Change Estimate/Intent
Alabama	370	255	+45.1%	360	+2.8%
Florida	90	82	+9.8%	90	Unchanged
Georgia	1,250	1,000	+25.0%	1,150	+8.7%
North Carolina	570	375	+52.0%	540	+5.6%
South Carolina	175	115	+52.2%	175	Unchanged
Virginia	70	64	+9.4%	75	-6.7%
TOTAL SOUTHEAST	2,525	1,891	+33.5%	2,390	+5.6%
Arkansas	530	520	+1.9%	520	+1.9%
Louisiana	230	230	Unchanged	200	+15.0%
Mississippi	420	305	+37.7%	340	+23.5%
Missouri	300	272	+10.3%	290	+3.4%
Tennessee	400	300	+33.3%	380	+5.3%
TOTAL MID-SOUTH	1,880	1,627	+15.6%	1,730	+8.7%
Kansas	40	38	+5.3%	35	+14.3%
Oklahoma	210	205	+2.4%	240	-12.5%
Texas	5,718	5,018	+13.9%	5,618	+1.8%
TOTAL SOUTHWEST	5,968	5,261	+13.4%	5,893	+1.3%
Arizona	188	147	+27.9%	188	Unchanged
California	310	190	+63.2%	265	+17.0%
New Mexico	38	34	+11.8%	39	-2.6%
TOTAL WEST	536	371	+44.5%	492	+8.9%
TOTAL U.S.	10,909	9,150	+19.2%	10,505	+3.8%

1/ USDA, Acreage, June 30, 2010.

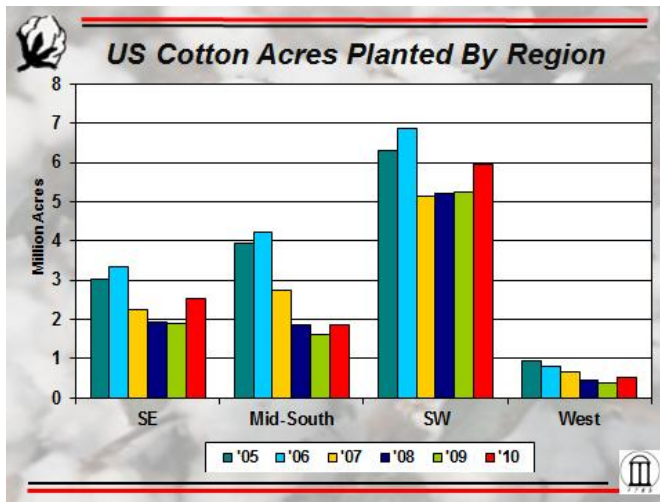
2/ USDA, Prospective Plantings, March 31, 2010.

In 2006, the US planted 15.27 million acres of cotton. Acreage then declined 3 consecutive years (2007-09) until this year. Higher prices and higher expected net returns bid land out of cotton and into corn and soybeans. For 2010, cotton prices have improved to levels rarely seen and, as a result, producers have responded by planting more cotton. But cotton prices in the 70's have not been quite enough medicine for what ailed some producers and the acreage response has not been uniform across the Belt.

I have made a point in this space before that the (low) price of cotton is not the reason acreage declined in 2007 through 2008. It was the price of cotton in relation to the prices and net returns of competing crops. In 2006, for example, we planted over 15 million acres of cotton—cotton was in the 50's but other crops were even less attractive and the Loan Rate and LDP kept cotton relatively attractive despite low prices. The shift away from cotton has been tough on gins and other infrastructure but producers were at least able to take advantage of good price opportunities for other crops while cotton was low. This also allowed producers, in some cases, the agronomic benefit of being able to rotate some fields to other crops.

The rebound in cotton acreage this year is a function of stronger prices and the fact that prices for other crops have weakened in relation to cotton. But as long as corn is around \$4 and soybeans around \$9, it's hard to envision cotton acreage ever getting back to that 15 million acre level unless cotton prices and net returns improve even more from where they are now. We've pushed acreage back to almost 11 million acres now. Acreage could increase more in 2011 if prices stay strong—but demand growth continues to be the key. You can't increase the supply side and expect prices to hold unless the demand side increases also.

With this year's increase in acreage, plantings in the Southeast are 76% of what they were at the peak back in 2006. The Southwest is 87% and the West is 68% but the Mid-South stands at only 44%. Acreage has not rebound as much in the Mid-South compared to other parts of the Cotton Belt. This suggests that in some situations, other crops may still hold a comparative advantage relative to cotton in the 70's.



This week's price decline has been due mainly to growing concerns about the US economic recovery and economic concerns about China, our largest export buyer. The 10.9 acre figure this week was within expectations and a non-factor. Exports have been good but it is hard for the market to ignore mounting economic concerns. Prices (December futures) are currently around the 76-cent mark (this is being written PRIOR to today's close) -- down over 2 cents (almost 3 cents) for the week.

There are also growing "technical" concerns. After showing resiliency to stay in the 76 to 78-cent area and even make a push at 80 cents, the market has now posted another sharp decline encroaching below the 76-cent level. This market appears somewhat fragile right now. This is especially so when you consider the 10.9 acreage number and how good the crop looks pretty much Beltwide. If the crop continues to progress well, prices may challenge the 74-cent area and eventually even lower. Likewise, if renewed US and global economic concerns continue (this potentially impacts US exports), prices will likely remain under pressure. Alternatively, if exports remain good and economic concerns lessen and if crop conditions are threatened, prices are more likely to remain in the 74 to 78 cent area.

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