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

COTTON MARKETING NEWS

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Higher Prices Restore Faith in Good 'Ol Supply and Demand

This year, US farmers have planted the smallest cotton acreage since 1989. This years' acreage is estimated at 11.06 million acres-- 1.1 million acres less than USDA's March Prospective Plantings estimate and 4.2 million acres (28%) less than last year. Competition from $4 corn and $8 soybeans and rising production costs were the reasons for the decline in acreage.

The fact that US acreage is down is no great surprise. Also, the Southeast was hampered by drought during much of the prime planting period. Yet the market (Dec07 futures) as recently as mid-May dipped below 52 cents per pound. Since mid-May, the market has rocketed up 12 cents and now stands above 64 cents. We are now clearly plowing new ground with regard to the '07 crop. It would take major negative news to reverse course and the market should now have solid support at the 60-cent area.

The US is the largest supplier of cotton for the export market. This year's US crop could be in the neighborhood of 17 million bales—the smallest crop since 2002. Take 4 ½ to 5 million bales off for US mill use and this would leave a *new crop supply* of 12 to 13 million bales for export. Exports above this level would result in a drawdown in carry-in stocks—which are quite sizable. In fact, large carry-in stocks could be one thing that would still keep a lid on this market.

World cotton use continues to trend upward. Strong demand, resulting in large US exports, in the face of a sharp decline in US production is the key to sustaining the improved prices we have seen over the past month or more. US exports were 18 million bales in 2005/06 but declined to 13 million bales for 06/07 due to increased production in China. With a smaller US crop expected this year, improved exports (back above 13 million bales) would draw down on stocks and support the price rally we have seen recently. Slow exports due to increased foreign production or reduced buying at higher prices would put a lid on the rally. Nevertheless, the recent rally in price is good to see. It has restored my faith in supply/demand and it demonstrates that what happens in the US really does influence the market—for a while (when the market had dropped all the way to the Loan Rate at 52 cents) I was beginning to wonder if the market was oblivious to reality and common sense.

We continue to plow ahead toward the 2007 farm bill. The Administration/USDA proposal that was released back on 1/31/07 contained a provision that would peg Loan Rates at 85% of the 5-yr Olympic Average price. If this OA were too low, LDP on cotton would be smaller than under the current farm bill. This would likely result in less US cotton acres and hopefully this would pull prices up and eventually improve the Loan Rate under such a proposal. That's why the recent rally is so good to see—what happens in the US matters.

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