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

COTTON MARKETING NEWS

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Market Meltdown
Putting This Week in Perspective

I told a market analyst colleague and friend of mine yesterday "I'm still in the bullish camp but the (camp) fire sure has diminished".

Cotton has had a rough week. December futures has declined from around $1.19 and now scratching and clawing just to hang on to $1.13. Support (the so-called floor) at the $1.13-$1.15 area has been severely tested — making us wonder if we have a floor or are still headed down the stairs.

Cotton has been so high for so-long (2 crop years now) it's hard to believe we're now concerned that price might drop to $1.00. Not so long ago, $1.00 cotton was a level so high as to be unthinkable. Yes, we should be concerned but not panic. *This week's action does clearly warrant that we understand the reasons behind it and put it all in perspective.*

We have stated before that there are serious demand issues due to global economic and credit concerns and weak mill purchases and yarn sales. While true (and it still is), concerns about the US crop were enough to help hold prices up. *This week, US crop concerns were kicked to the back seat and the demand side took over.*

Three things have worked against prices—(1) Last week's Acreage report added 1+ million acres planted to the crop, (2) news has begun to circulate that China and Pakistan expect good crops, and (3) demand has become increasingly weak due to economic and credit problems, high yarn prices, and loss of market share to man-made fibers.

I continue to believe that the short US crop will still eventually have to be dealt with in the market. *The impact of a short US crop, however, has perhaps been diminished somewhat by further weakening demand and good crops in other countries.* Eventually this will play out and, in addition to demand and foreign production, price direction will depend on actual acres abandoned and harvested, not planted, and yield.

The chart at the right shows price action on December futures over the past 5 days (last Friday through yesterday). Prices started out around $1.19 last Friday and dropped as low as $1.17 before rallying back. Once $1.17 was broken, prices quickly fell to $1.15. Again, prices rallied but could not penetrate the previous low at $1.17. When $1.15 later failed to hold, prices quickly fell to $1.13 and on several occasions tested $1.12 before fighting back to $1.13 to $1.14. December closed yesterday at $1.13 ½ and so far this morning is trading higher in the $1.14 to $1.15 range. Look at the pattern developed this week—*prices will have to move back above $1.15 and then $1.17 before we could say the "slide" is over.*

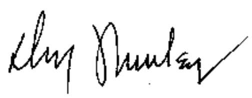
There is already talk of cotton declining to $1.00 but this *may be a bit premature*. Granted, if $1.13-$1.15 doesn't hold (and *so far* yesterday and today it has), the next level of support appears to be at $1.00 (see the top chart on the first page).

To keep the slide from continuing, demand (buying) has to pick up and/or supply-side concerns have to once again move to the front seat. Demand (buying) can take 3 forms—actual purchases of physical cotton, purchases of futures contracts (hedging), and speculative purchases of futures. *The big question is at what price does demand get kick-started again?* When is low, low enough? If support doesn't come from the demand side, will we have to wait until the horror stories out of Texas are confirmed before the market gets traction again and, if so, when will that happen?

These lower prices may give demand (at least 1 of the 3 forms) a chance to surface if it's out there.

On a positive note, if due to the drought producers think they cannot deliver on contracts, the decline has also provided a cheaper opportunity for them to buyout of bale contracts if they need to do so. Prices are now essentially where they were back in early February (see top chart on the first page). For any contract entered in to after early February, the producer *might* be allowed to walk away from. For contracts made prior, the producer would still have to buy out but that's cheaper to do now than a few weeks ago.

For a discussion of the buyout issue on bale contracts see an article from the July issue of the *Georgia Cotton* newsletter at the following website:
http://agfax.com/Content/cotton-buying-out-bales-07062011.aspx



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