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

COTTON MARKETING NEWS

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Nice Recovery… Will This Become a Three-Headed Monster?

New crop December futures prices have made a nice rebound from the "correction" back to around 55 to 56 cents. The market has again challenged the area of 62 to 63 cents. Prices closed today at 62.45 cents per lb—up 1.53 cents for the week and the highest since the 2 previous spikes back on June 2 and May 11.

I continue to believe these are reasonable opportunities to take protection on at least a portion of the expected 2009 crop.

Having said that, the market over the next weeks and months, remains highly uncertain. USDA released its July supply/demand numbers today but the primary focus, at least for a little while longer, will continue to be on US crop conditions and the outlook for US production. Right now, USDA is still working largely off historical averages for harvest acres and yield. The August report, however, should begin to firm things up a bit.

In the July report, the US crop is estimated at 13.25 million bales. Depending on actual abandonment and yield, we could end up less than that. The July report dropped 2009 crop exports from 10.8 to 10.2 million bales compared to 13.3 million of the 2008 crop. This is consistent with the fact that the report also dropped foreign mill use by about the same amount. There were no major changes on the production/supply side.

So, compared to the June numbers, demand has slipped a bit and thus the demand for US exports slipped a bit and projected remaining stocks at the end of the 2009 crop year increased a bit. All in all, the report doesn't seem to suggest sufficiently strong reason for the market to trend upward from where we are now………

Yet, here we are again at better than 60 cents. So let's look for something positive. World cotton stocks are expected to decline from where they are right now. The stocks-use ratio is projected at 51%. Folks, that's a good amount of cotton—but it IS 4 million bales LESS than where we are right now. World demand (primarily China and Pakistan) has weakened slightly due to their improved production outlook—but even this level of demand is above 2008 crop levels. So demand has rebound from last year. That's positive.

The price outlook depends on the US crop. A stocks-use ratio of 51% is not likely to hold prices at better than 60 cents. The US crop is pegged at 13.25 million bales but Texas remains a big unknown and will be a major factor in the actual/final number. Prices should have support until the crop situation is better known. Eventually, 60 cents or better will prove justified or end up being a 3-headed monster in the rear-view mirror.

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