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

COTTON MARKETING NEWS

Volume 3 Number 27 July 15, 2005

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

Prices Take A Dive

Two weeks ago in this space, I speculated that prices would trade between 50 and 60 cents on December futures. We got there in a hurry thanks to some unexpected negative news and we are now at the low end of that range. Prices dropped sharply (gapped) on Tuesday and finished down just over 3 ½ cents for the week.

For those willing to accept the risk and needing to take protection on counter-cyclical payments (meaning you either have no cotton planted or planted less than your payment acres-- otherwise by having cotton planted you have a "production hedge"), this could be a good opportunity to purchase Call Options. March, although more expensive, would nevertheless give you more time in the market than December.

Based on the December chart and price history, purchasing Calls when prices are in the low 50's would seem to be a good strategy. ONE WORD OF CAUTION IS IN ORDER, HOWEVER. The proposed elimination of Step 2, if it goes through, could move prices even lower if the US and world crop looks plentiful as harvest approaches. So the 50-cent area may prove to be a weak floor.

The break in prices was caused largely by USDA numbers released on the 12th which (a) increased expected 2005 US production slightly and reduced exports slightly, (b) "revised" China's stock up by 2.7 million bales, (c) reduced China's expected 2005 crop imports by 1 million bales, and (d) raised 2005-06 expected world ending stocks by almost 5 million bales.

While all this "revision" was a shock and caught the market off guard and is some cause for concern (we are all of a sudden now dealing with much larger world supplies, the impact on US exports of which is unknown), I am not completely giving up hope for a move back to higher prices. World supplies were increased by almost 5 million bales (55% of the increase in China alone) and expected Chinese imports (our #1 buyer) were dropped 1 million bales—in all this, expected US exports were dropped only ½ million bales.

Prices could continue to press toward 50-51 cents and perhaps test the waters a little below that. But good export numbers or crop problems/concerns in the US and elsewhere should still act to improve prices. The upper 50's may be too much to hope for right now, but a rebound back to the mid-50's would be possible. In my mind, the wild-card in all of this is Step 2—what will happen and when and how buyers and sellers of US cotton will react.

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