

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

COTTON MARKETING NEWS



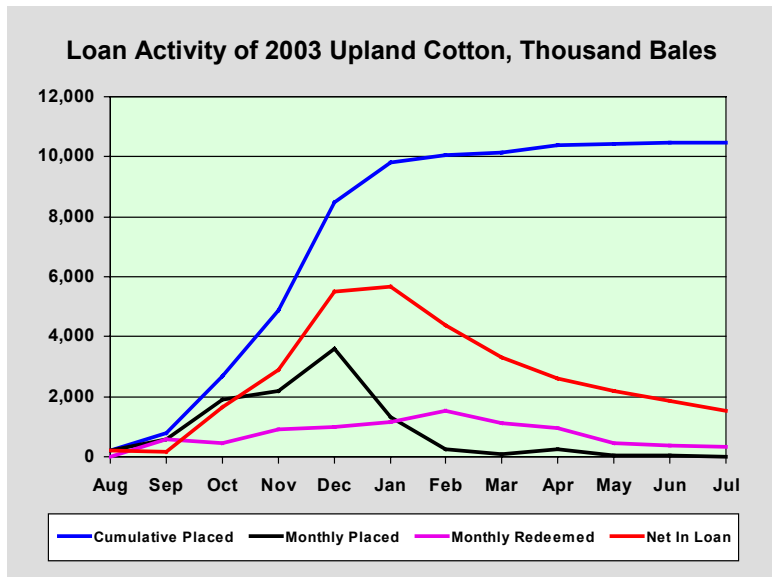
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The US cotton program's marketing loan is often criticized by some analysts and observers as a poor marketing tool of choice for the producer. While it could be true that "the loan" may not always result in the best price outcome (proof or disproof of this is certainly well beyond the space and scope of this article), such criticism is misplaced. The purposes of the loan are simply (1) to provide income protection for the producer in periods of low prices and (b) provide for an orderly movement of cotton. Placing cotton in loan provides both cashflow (up-front money) and risk reduction (a minimum price of the loan rate) for the producer and is a relatively easy and painless procedure. Use of the loan has traditionally been less in the Southeast than the Mid-South but participation has increased. The loan is used by both producers and marketing associations.



You may be surprised to learn that approximately 10.47 million bales of upland cotton (57% of the total 18.26 million bale 2003 US crop) were marketed through the loan program. Cotton being placed in loan peaked in December when 3.6 million bales went to loan. Once cotton is in loan, producers may redeem it (pay off the loan plus charges), sell equity (enter an Option To Purchase contract with a merchant who can then choose to redeem at a later date), or forfeit to the government. Redemptions peaked during December-March when prices were still mostly in the 60's to low 70's. Cotton in loan peaked at 5.65 million bales in January. Currently, 1.53 million bales of the 2003 crop remain in loan.

Once cotton is in loan, how the producer fares (what you will eventually net out in addition to the loan rate) depends on futures prices, the basis, and when the AWP is less than the loan rate—the relationship between the A-Index and US prices as this determines any Marketing Loan Gain. I'll gladly go through this math in another (or my next) newsletter if you like.

New crop (December futures) prices, after mustering a rally for a week or so, closed the week on 3 consecutive down days losing 158 points of the rally. December now stands at 4662 at closing today. Pressure from a potentially large US and world crop remains too much to overcome for now.



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