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

COTTON MARKETING NEWS

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Cotton Rebound- Real or Just Fantasy?

After dropping all the way to the 97-cent level on July 25, cotton prices (Dec12 futures) have since rallied 10 cents and peaked at $1.07 this week on Tuesday. Prices declined to the $1.04 level the past 2 days and are around $1.02 today. So, *the mini-rally may have run out of steam… or maybe not.*

Given the carnage on Wall Street this week, I'm surprised cotton and other commodities (with exception of gold) haven't taken more of a hit. But then again, maybe some investors are now taking another look at commodities (not just gold) as a less-risky, safe haven compared to the stock market.

Economic supply/demand fundamentals underlying the cotton market remain *more bearish than bullish*. Nothing there suggests a reason for this little "recovery" or "correction". But the "technical" factors/forces at play would seem to be supportive—the 85 to 90-cent support area was avoided (for now), a short-term uptrend it seems is trying to establish itself, and the next "resistance" is not until around $1.10 to $1.15. *It's a wide band, but the 90-cent to $1.15 range seems most likely for the near term.*

The bearish situation on the demand side is well documented—World demand was down 3% (almost 4 million bales) for the 2010 crop and demand for the 2011 crop has been revised downward by 2 million bales (an increase is expected from the 2010 level but the growth will be slower than earlier projected). This weeks renewed fear of a US and global economic slowdown only makes matters worse. Combine all this with an expected big (7.5%) increase in World production for 2011 and, well, you get the picture.

The US crop situation is still iffy. Last week (as of July 31) the Texas crop was 57% poor or very poor. The Georgia crop was 32% poor or very poor and for the entire cotton area, 40% poor or very poor. All these numbers were a slight improvement from the previous week but the US crop is still very uncertain. Right now, US crop concerns are overshadowed by weak demand and expected good production in other countries. *Pushing prices to the upper end of the expected range will take renewed interest in the market about the US crop and/or improved demand.*

USDA's August estimates will be released next week on the Thursday, the 11th. *This report could be an early key in setting the direction for prices as we proceed later into the harvest months*. The US crop is currently estimated at 16 million bales. Will that number be lowered further? Most analysts think it will or should be trimmed in the neighborhood of another ½ million bales. What about demand? USDA's July numbers cut 2011 crop demand by 2 million bales from the June estimate. Will demand take another cut? If it does, that could offset a possibly even smaller US crop.

Due to high prices, World acreage and production looks to increase for 2011-- it's just a matter of how much and by whom. Typically, higher supply leads to lower prices. Lower price is also being enforced by weakening demand. *The recent improvement in prices could continue but the threat of lower prices will also be with us* until demand shows improvement and/or until the US crop situation becomes clearer (until a reduced US crop again becomes a factor in the market).

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