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

COTTON MARKETING NEWS

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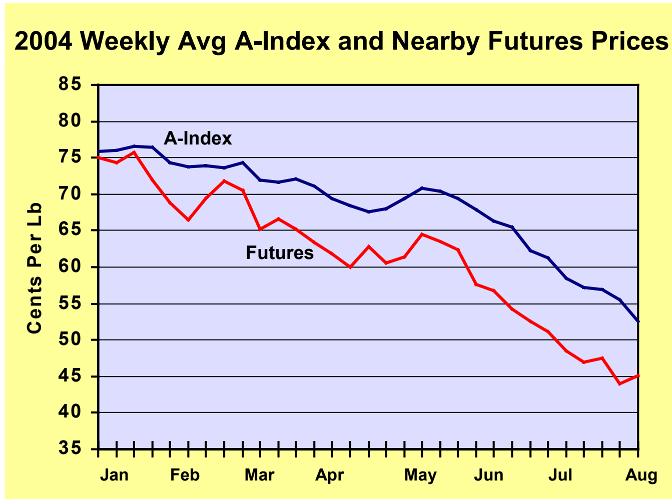
This newsletter is also available in PDF format on the UGA Cotton web page at: ***http://www.griffin.peachnet.edu/caes/cotton/***



Cotton prices continue under pressure from mounting evidence of large US and world crops. Some analysts continue to call for a rally but the closer we get to the full-swing of harvest, the less likely any rally will be unless problems develop here in the US or elsewhere. US stocks look to increase by possibly 1 million bales and world stocks by 2 million or more. So prices could remain under pressure through harvest but will likely then improve with news on the demand side. USDA's latest forecast will be released Thursday, August 12.

With down-trending prices over the past several months, the A-Index (world price) has also declined. This has brought the Adjusted World Price (AWP) below the 52-cent loan rate and thus producers will have Loan Deficiency Payments (LDP or POP) available on the 2004 crop. When an LDP or POP is available at harvest, the producer has at least 4 options: (1) take the LDP and sell the cotton, (2) take the LDP but continue to hold (store) the cotton, (3) forgo the LDP and instead store the cotton under loan, or (4) forgo both the LDP and the loan- store the cotton outside the loan and take any LDP later.

Space here does not allow full treatment on each of these but a few tidbits on understanding several key relationships might help sort out how to make decisions this Fall. We can do this by first looking at how total price (crop + LDP) is determined for a harvest sell situation.

Example of LDP Calculation and Total Cotton Price Plus LDP Received

Futures Price (Dec)	4600	**Spread = +700**	A-Index	5300
Basis	-400		Adjustment	-1500
			AWP	3800
Cash Sell	**4200**		LDP (5200 – AWP)	**1400**
TOTAL PRICE + LDP				**5600**

The graph above shows 2 important relationships—(1) over time the A-Index and US prices tend to move in the same general direction and (2) US prices have been below the A-Index (world price). This "spread" changes during the marketing season. Currently, US futures prices are running about 7 ½ cents under the A-Index and the spread has averaged about 7 cents since January.

When an LDP is in effect, whether you take the LDP and later sell the cotton or place the cotton in loan and later have a Marketing Loan Gain, *how you fare does not depend on prices themselves* – it depends on the basis, the spread, and the adjustment (this is the difference between the A-Index and the AWP and is an adjustment for grade and location). You can play around with the numbers in the table and you will find that as long as the spread is +700, the basis is –400, and the adjustment is –1500 then Total Price plus LDP will always be 5600 regardless of the price of cotton. These numbers are just an example.

If you forgo the LDP at harvest and instead store cotton under loan, you will end up better off if the "spread" narrows (US prices increase relative to the A-Index or the A-Index declines relative to US prices) and/or if the basis narrows and/or if the Adjustment widens. This will determine your Loan Gain or equity. If these relationships don't change, you are just treading water and are no better off than the harvest time opportunity.

The numbers in the table, although an example, pretty much mirror where the market and prices are at present… the "spread" around +700 to +800, the adjustment at -1500 and an expected basis of 400 off. So, if these relationships hold, producers are looking at around 56 cents/lb total money.

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