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

COTTON MARKETING NEWS

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Just Briefly Pondering the Present and Future of US Cotton

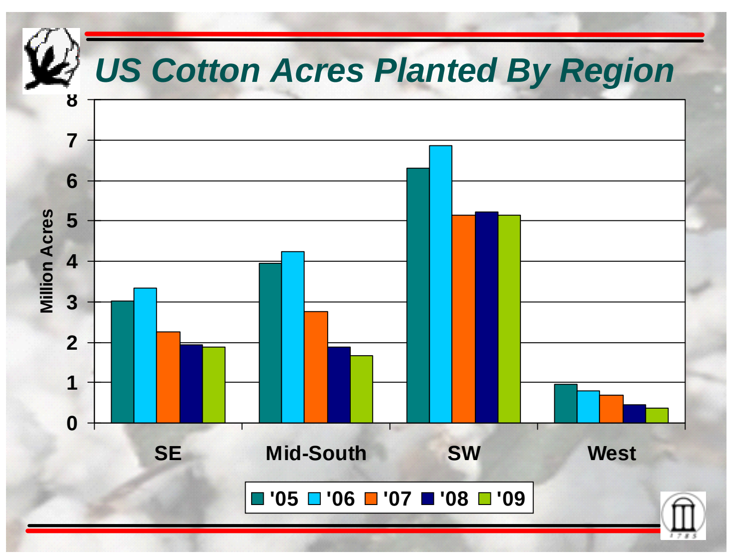
Present. There's a common saying—"Third times the charm". Well, since early May, the cotton market (December futures) has moved into the low to mid 60's three times and now a forth time.

Thus far, every time prices weaken and lose some steam, the cotton bulls just can't seem to resist the opportunity to rally back to 60 to 62 cents or better. But more importantly, every time prices have made a run to around the 63-cent level, it has been followed by a retreat downward.

Prices closed today at 62.43 cents/lb—rebounding 1.57 cents from yesterday's 1.4 cent drop to 60.86. We will see next week if and for how long prices can hold at these levels. Based only on past performance, the possibility of another decline is not that remote.

USDA's August supply/demand report will be released on Wednesday, the 12th. Given the widespread uncertainty about crop conditions, especially in Texas, this August report could be more critical to market direction than it normally would be. Industry analysts peg the US crop in the 13 to 14 million bale range. The pre-August report USDA estimate based simply on historical average yield and acreage abandonment is 13.25 million bales. Crop conditions seem to have improved recently, crop progress is starting to approach near normal, and the pace of exports has been favorable despite a stronger value of the US dollar.

Future. There have been a lot of questions and some discussions recently about the future of cotton here in the US and Georgia/Southeast—at least I have been getting these types of issues put to me. I thought I would take a minute to share my response and views on this.



No one really knows with certainty what the future holds. I feel quite confident in saying, however, that the future of US cotton acreage depends on at least the following factors:

Net Returns. Profit or net return is a function of price, yield, and costs. Cotton acreage has been down in recent years because other crops like corn and soybeans offered higher potential net returns.

Farm Bill and Trade Programs. I have made a statement numerous times that cotton acreage is not dependent on the price of cotton—at least not the price of cotton alone. It's just not. As recently as 2006, the US planted over 15 million acres of cotton. Cotton prices for the 2005 and 2006 crops averaged less than 50 cents/lb.

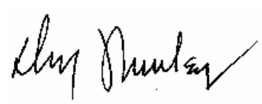
When prices are low, producers know that an LDP (Loan Deficiency Payment) will be in effect and make their acreage decisions according to both the market signal plus anticipated LDP.

Every farm bill seems to renew discussions about payments, payment eligibility, and payment limits. Some folks seem to think that eventually and perhaps as soon as the next farm bill, commodity payments will be culled tremendously. I don't know. Then there's WTO and the on-going cotton dispute specifically. I can't keep up with what's going on and where we are on this. I don't even try. I do know that anything that jeopardizes income support payments to US agriculture in the absence of real fair and balanced trade competition is not a good thing.

Exports. The US cotton producer is dependent on a good foreign textile mill business. A US mill industry that used to be over 11 million bales is now less than 4. This is not good for the US cotton producer but it is what it is. Will the Economic Adjustment Assistance included in the 2008 farm bill make a difference? It doesn't seem to as of yet. This is an important 4 million bales and hopefully the US mill industry will grow and return to prosper.

The US supplies approximately one-third of total World exports. Could foreign mills meet their needs for cotton without a vibrant US cotton producer? Could/would other countries have the production capacity and infrastructure to do so? Likely, any decline in US production and export supplies would result in a price increase. A change in farm bill and/or trade policy that would cripple US cotton production/exports could drive cotton prices higher. High enough to sustain profitability for the producer is an unknown.

Corn, Soybeans, and Peanuts. $4 corn and $10 soybeans gets a lot of attention. In some cotton producing states, peanuts are also grown and $400-$450 per ton or better can draw attention. Every state is different but I know that here in the Deep South, our agronomic advantage is in cotton, peanuts, and vegetables. When *and if* corn and soybeans return to their more typical $3 and $6 self, cotton acreage will rebound *provided* that cotton yield, price, payments, and cost of production allow for profitable returns.



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