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

COTTON MARKETING NEWS

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August Report… Neutral to Bearish

In the (much anticipated) first producer survey-based report for the 2005 crop, USDA this morning released its' estimate of 21.3 million bales for the 2005 US cotton crop. This estimate is about 1½ million bales higher than the "historical average yield" based estimate of 19.8 million we've had up to this point but still approx. 2 million bales less than the 2004 crop.

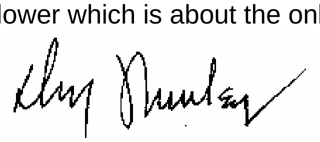
The US avg yield is expected to be 748 lbs per acre-- right in line with the historical average. The increase in crop size is due to expected below average acreage abandonment of only 3% compared to 9% on average.

Overall, I'd say the report will likely be "neutral to bearish" for prices-- meaning, I see nothing in the report to signal that prices need to trend upward (need to correct for being too low) and that most likely prices will stay about where they are or decline slightly. Prices (December futures) have fallen about 7 cents since the highs back in early July and 3 cents in the last 2 weeks to close below 50 cents yesterday. So arguably, much (or at least some) of this decline could have been in anticipation of this larger crop number.

So, now we in fact have a 21+ million bale estimate. Where do we go from here? Likely, prices will continue to run in a range of 49 to 53 cents with pressure to decline to possibly 47 to 48 cents. So now I'm out on the limb waiting for it to be chopped off behind me!

Inside the numbers… US exports are forecast at 15 million bales, up 500,000 from the previous estimate and 1 million bales higher than last year's crop. World ending stocks are expected to decrease about 1 million bales from last year and the stocks-to-use ratio is 44% compared to 47% for 2004. World production is expected to drop 10 million bales this year while consumption increases 4 million bales. So, this hardly builds a case for prices to completely fall out of bed from their current levels. The above chart shows prices about a nickel above this same time last year and I'd say that reflects (a) an expected smaller US and world crop and (b) continued strong world consumption which should result in strong US exports. So again (some song, second verse) the whole price scenario hinges on exports—unfortunately prices will have to remain cheap to export 15 million bales. The China crop is still forecast at 3 million bales less than last year.

So, what should farmers do? I don't see an urgency to do much of anything. Prices are low, so just let the LDP work. CCP will not decline unless prices (futures) get back to the mid-50's or better which is unlikely in the near term given what we think we know right now. Some advocate buying Puts in anticipation of the market moving lower which is about the only tempting strategy. But the payoff for the risk seems high to me.



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