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

# COTTON MARKETING NEWS

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***http://www.ugacotton.com***

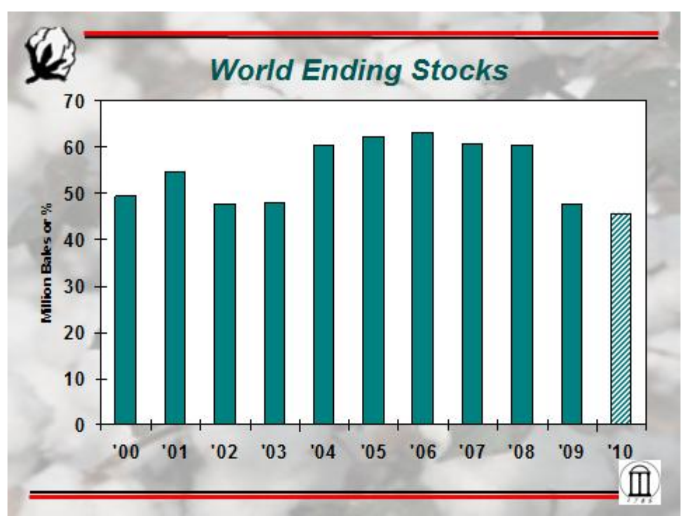
## The Perfect Storm


We often are irritated when the TV weatherman or woman misses the forecast. They'll predict a 70% chance of rain and you won't get a drop of they'll forecast 40 degrees and the temps may not get above freezing. It just goes to show that forecasting is an inexact science because there are, in fact, no factors actually within the forecasters' control.

A month ago, cotton had fallen below support at 75 cents and signs indicated that the top was most likely in. Well, what has happened over the past 2 weeks has, for the most part, been completely unexpected and the result of a combination of things all coming together at the same time-- the "Perfect Storm".

Prices have busted through what was once the "ceiling" at 78 to 80 cents. December futures are currently between 84 and 85 cents. Prices have gained approximately 6 cents over the past 2 weeks and over 11 cents since the low below support at 75. The following are factors that have all come together at about the same time to give us this "storm":

- Flooding and crop damage in Pakistan
- Flooding and crop damage in China. China will use/sell stocks and/or increase imports.
- US crop concerns due to dry conditions especially in the Southeast
- USDA's August supply/demand report that showed a revised large decline in World stocks.




In this week's August USDA supply/demand report, World stocks on hand at the beginning of the 2010 crop year were revised down by almost 3 ½ million bales—most of this being in India and China. Production in Pakistan was lowered but production in India was raised. China was unchanged from the July estimate. Overall, World production was raised and Use was raised by just over 1 million bales. The net result is a decline (revision down) in World Ending Stocks by over 4 million bales or almost 9%. This would be the lowest level of stocks since 2002. The estimate for US exports for the 2010 crop year was raised from 14.3 to 15 million bales.

The fundamentals for the price outlook have changed dramatically over the past 2-3 weeks. The market has responded as evidenced by blowing the top off the ceiling at 80 cents. The major changes are the dramatic revision in Ending Stocks and the increase in US export potential. Additionally, uncertainty still remains about the potential Pakistan and Chinese crops and to some extent the US crop. World Use continues to show good signs. What implications does all this have for remaining decisions on marketing the 2010 crop?

My feeling is that a lot of producers are already fairly well along on pricing the 2010 crop at previous good price levels. I'm thinking many producers might already be ½ or more priced on what they expect to produce. They were comfortable and happy with those decisions and still should be. You're not going to hit the real/absolute high on everything and we often don't know what that high is until after-the-fact anyway. So, now cotton has moved another nickel to a dime higher than what we thought we would see. What are our choices? The alternatives include, but are not limited to:

Continue/Increase Contracting. Depending on how much you've already committed, you could contract more based on your yield potential…. But that yield may not be known quite yet with much certainty.

Buy Call Options. A Call Option increases in value when prices increase. The problem here is that prices have already jumped. How much more is left? Prices would have to continue to increase for the Call to gain in value.

Buy Put Options. A Put Option gains in value when prices decline. Buying the Put, would say that the "run" is most likely over and you now want to hopefully profit from a possible move down. This would still leave the upside open and you could still sell cotton at a higher price if the market should continue to increase.

The events of the past few weeks just reinforce how volatile markets can be. There is no one perfect tool or strategy or way to price/market a crop. The key is flexibility and risk management.

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