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

COTTON MARKETING NEWS

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New Crop Prices Are On The Ropes

Mohammed Ali used a strategy where he would back into the ropes for support, cover up to protect himself, and then fight back. It was obviously a winning strategy that worked for him.

Well, this 2008 cotton market sure appears to be “on the ropes” right now. But this combination of downtrend in price, wide basis, and high costs is going to be tough to fight back from. It appears that support levels at 75 cents then 70 cents have now unfortunately given way to a new level of pessimism. This is not good as we prepare to move into harvest time.

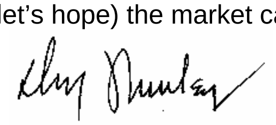
December closed today at 67.08 cents/lb—down 2.09 for the week and over 14 cents since mid-June. The run in price to the 90’s—we all knew was spec-driven. That eventually subsided but the market on a few occasions came back to flirt with the 80’s and give a glimmer of hope. Since then, the market has been a cruel trip south.

USDA released its August supply/demand figures this week. The numbers were not all that different from July—in fact, the numbers seemed more bullish. The US crop is now pegged at 13.77 million bales, exports were increased ½ million bales, and projected ending stocks were dropped 700,000 bales from the July estimate. Foreign production was reduced but the demand side a bit weaker. World ending stocks are now projected at just under 51 million bales—down about 2 ¼ million bales from July and compared to over 60 million bales carry-in from the 2007 crop.

So, this begs the question why prices continue to tumble rather than find support. It is baffling that US cotton could be below 14 million bales, questions still remain about the Texas crop, World stocks/use ratio tightening and the lowest level in years, and yet the market have so much trouble even holding 70cents. I don’t sit at my desk with a lot of economic models. I read and study the same information that many of you do and then try to make an experienced economic judgment of it all. Some of the current negative undertone could be due to:

- The US has a large 10.2 million bale ’07 crop carry-in to deal with. So the pipeline is NOT YET tight.
- There is still considerable risk and uncertainty on the demand side.
- An improving/stronger dollar makes US exports more expensive and thus uncertain.
- Oil prices have declined and so perhaps has the bullish spec mood in all commodities.
- Recent rains in Texas could help improve prospects there.

The eventual outlook for the ’08 crop into 2009 and the 2009 crop itself would seem to be brighter than the current market suggests. The difficult decision right now seems to be how to market the 2008 crop. Perhaps (let’s hope) the market can eventually bounce of the ropes and be a winner.



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