Southern Cotton Growers, Inc.

REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA

COTTON MARKETING NEWS

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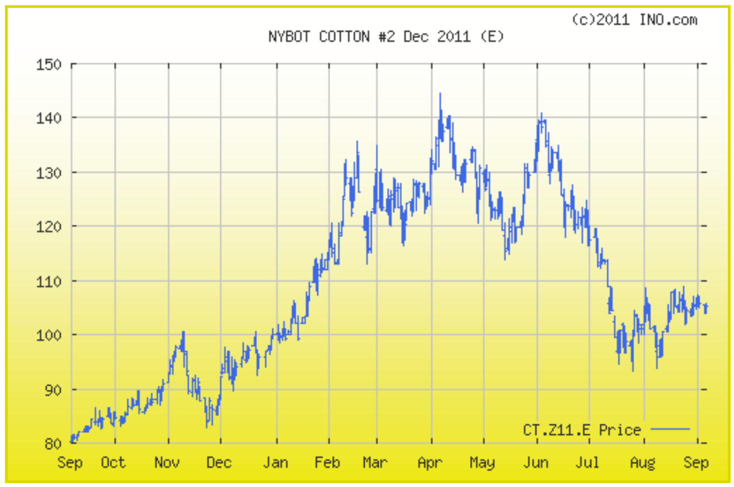
Harvest-Time Outlook



So far, prices have been unable to break the $1.10 area—a level at which, if we could get above that, might send prices even higher. For the better part of the past month, prices (Dec11 futures) have been mostly $1.00 to $1.08 which the one dip below $1.00 for a few days.

USDA's September production and supply/demand numbers will be out on the 12th. *It will be important to see if the recent trends in the numbers continue*—that being the US crop getting better than expected and World demand weakening.

With all the negative news this market has been bombarded with, *it is a good sign that prices have been able to hold above $1.00*. Prices are currently in the $1.06 to $1.05 area. Based on calls I have been getting, some producers are looking for at least one more good opportunity to contract more bales before harvest. I've been suggesting, depending on what percent of the expected crop is already priced, waiting on a rally above $1.10 to do that. *If the September report is not bullish, that price level could slip away from us—in which case, we need to rethink the strategy.*

Prices have at least two bearish factors working against them right now—the higher than expected US crop estimate and the weakening in demand. The US crop is pegged at 16.5 million bales compared to the 15 to 15.5 million that many observers thought it could be based on Texas drought conditions. World demand for the 2011 crop year, once forecast at 119 million bales, is now estimated at just above 115 million. As a result, *the World stocks-to-use ratio (a measure of how tight supply is to demand) has ballooned from 40% to 46%*. The US ratio has increased from 15% to 20.5%.

If the September report increases the US crop even more and/or adjusts World demand down even further*, it may become increasingly difficult to keep prices above the $1.00 level*. On the other hand, if the September or subsequent reports trim the US crop back to around the 15.5 million range and/or demand (export sales) improve, prices could improve. By improve, I mean to the $1.10 to $1.15 level—*any talk of even higher prices is purely pie in the sky <u>at this point</u>*.

One bullish factor that cotton would appear to have in its favor price-wise is the potential for reduction in acreage in 2012. If cotton prices decline further, cotton would face serious competition from corn and soybeans. Futures prices for 2012 corn are around $6.60 and soybeans around $13.90 compared to Dec12 cotton at 98 cents. *Assuming corn and soybeans hold at these levels, cotton near $1.00 could likely hold acreage steady.* If cotton slips to the 85-90 cent area or less, it's a different ball game.

What does cotton need to be for 2012? Just how much does acreage need to compete? If this year's crop comes in better than expected and demand doesn't rebound, then 2012 acreage may not need to be even as much as 2011 and maybe less. In other words, to balance with demand, supply may be adequate even at the same as less acreage as this year. We'll need to keep this in mind as we move into 2012. Demand will be a key price and acreage signal. Right now, *as long as corn and soybeans are strong, I don't think 2012 cotton price can slip very much*.

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