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

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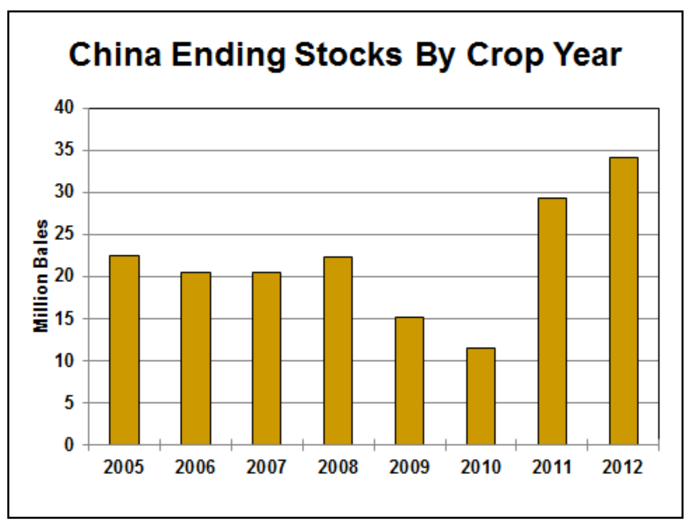
Prices Resume Mostly Sideways Pattern

Cotton has traded above the 75 cent area for the past 3 trading weeks. During this time, Dec12 has even traded near or above 77 cents 5 days or about 1/3 of the time. This has provided opportunity for producers to catch-up on sales if needed. I was amused at a headline earlier this week that cautioned producers "Don't read too much into cotton market gains". Really? C'Mon Man!

Dec12 is currently trading between 76 and 77 cents today. This would be a modest recovery after price declined to 75 and change earlier this week. Prices have been on a slow uptrend since the low in early June, but just have not been able to push through resistance at around 78 cents.

Prices (Dec12) seem to have good support at the 75-cent area but longer term, prices may eventually test the area below that. There is so much uncertainty in the price equation right now—perhaps the most important being Chinese stocks. More specifically, how will China manage the buildup of its stocks? It was reported earlier this week that China had released a small quantity of cotton from its reserves/stocks. Prices took a dip on that news. So, this is the kind of see-saw action we can expect as we look ahead post-harvest and in to 2013.



Chinese stocks are projected to increase to just over 34 million bales by end of the 2012 crop year. This compares to 29.3 million bales last year and only 11.6 mb in 2010-11. Since 2010-11, China has been importing cotton to boost its stocks/reserves. Obviously, the level of stocks is also impacted by China's production and textile mill use. In the short-term, the market (prices) during 2011 and 2012 were helped by China's increased imports/purchases regardless of the reason. Longer term, this buildup of stocks looms over the market and prices impacted by how much and when this cotton enters the supply pipeline. A buildup of stocks, for example, could reduce China's future need for imports (exports from the US, for example).

The market is currently being supported by (1) still some uncertainty about the size of the US crop, (2) high prices for competitive crops such as corn and soybeans, and (3) macroeconomic factors/signals such as the stock market and the value of the dollar. Don't be misled by the argument that cotton must compete with corn and soybeans and thus prices must improve significantly from current levels for 2013. With still sluggish demand and very high Chinese and World stocks, just how much cotton needs to be planted in 2013? And more importantly, what price is needed to assure that acreage? Dec13 is currently at 81 cents, corn (Dec13) at $6.61, and soybeans (Nov13) at $13.68.

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