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

COTTON MARKETING NEWS

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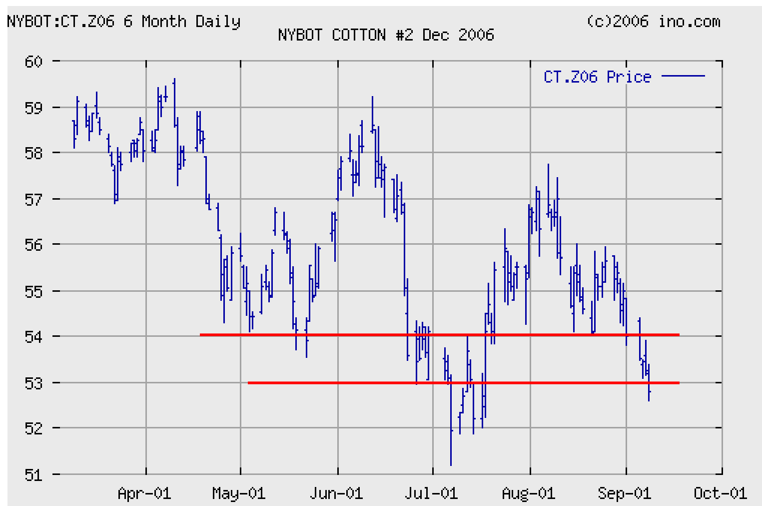
Market Breaks

The market (December futures) broke through the important 54-cent support level on September 1 (a week ago today) then broke through the 53-cent level today.

For most producers, this year's crop will be off considerably from last year and, combined with much higher production costs, the cost per pound of lint is going to skyrocket. Cost on even the irrigated crop is going to be high due to higher diesel prices, increased (above normal) number of applications, and/or lower than normal yield due to lack of time for applications.



Since the most recent high of 55.6 cents per pound on August 25th, the market has declined 7 of the last 10 trading days. Today's close below 53 is the lowest level since mid-July. The talk of high prices due the short US crop now seems a distant pipe dream. At the very least, we all keep wondering when the turn-around is going to take place if ever.

The primary reasons that I can phantom for the weakness in price could include (1) the recent sluggishness in export numbers compared to last year and (2) the prospect of improved production in foreign countries to somewhat offset the lower US crop. As I mentioned in my last letter to you, we could also be feeling some impact of the loss of Step 2. Hopefully, these lower prices will improve buying and that, in turn, would begin to push prices upward. For those willing to accept the risk for high prices (willing to speculate that prices will in fact eventually move higher), now would seem an opportune time to purchase Call Options.

Most observers seem to still believe that the US crop will get smaller with the September report. That report will be out next week (Tuesday, September 12). The current estimate of 20.4 million bales could possibly drop below 20 million bales.

I am cautious on the impact (a really significant impact) of an even smaller US crop. What tends to happen many times is that the impact of a smaller crop are offset by reduced exports and/or larger production in competing countries—and thus the potential fire is snuffed out. I am reminded of a presentation I heard recently in which the speaker talked of "80-cent cotton" in the future due to population growth and continued increased demand for cotton. Is this a sustainable price—i.e. would this price result in lower demand? If so, it is not sustainable. In light of the fact that 70% of US cotton is now exported, it calls into question exactly what is a "sustainable price". World cotton demand has been trending upward for years (this is not a recent factor) and most year's consumption has been higher than production—yet prices struggle to even hang around the loan rate.

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