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

COTTON MARKETING NEWS

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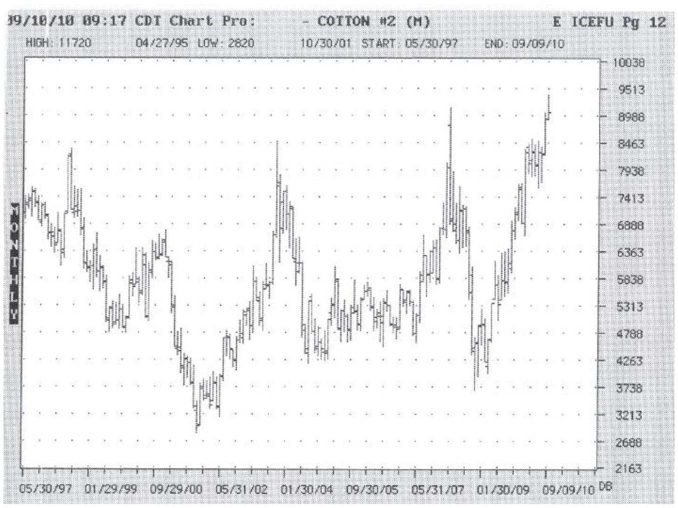
Price Wave Continues and Takes Us Into Unchartered Waters

Cotton continues to move higher. The consensus around the industry seems to be this is for real. The cautions are that this is taking us into seldom seen territory for everyone—producers, merchants, and mills.

It has been stated several times previously in this space that prices are ultimately supported by supply and demand. One thing is now pretty clear—the supply side is "short enough" to generate higher prices. Second, *so far* demand does not appear to be backing off at these prices. So, prices march on, although I think some folks have got to be on pins and needles right now.

I don't think anybody foresaw prices going to these levels. Producers sold (fixed) a lot of cotton when prices were back in the 70's. Over the past 6 weeks, more has been sold (fixed) or producers have used Options. A Call Option, at the time, didn't seem like a reasonable risk to take because prices were already in the 80's. So, some producers instead purchased Puts hoping to profit from a "correction" down while still leaving the upside open. As it turns out, a Put in the 80's will be worthless because prices have increased, but now the producer can fix price at 90 or higher. Not a bad tradeoff.



These prices are seldom seen but the consensus mood among traders is still bullish and market news continues to support high prices. The last time cotton was over $1 was February through June 1995. Since then, cotton has not been over even 80 cents but on 3 occasions prior to now—1998, 2003, and 2008. All the pundits, me included, continue to expect a "correction" down but the market continues to find fuel to keep the fire going.

Today's USDA supply/demand numbers *provide support* and other industry reports point to further supply uncertainty:

- US exports of the 2010 crop raised ½ million bales to 15.5 mb
- This drops the US stocks-use ratio to only 14%
- The 2010 China crop was lowered ½ mb, imports raised ¼ mb, and stocks lowered ½ mb
- Pakistan crop was dropped another 200K bales
- India exports were lowered 1.5 mb

In today's USDA report, the US crop was raised to 18.84 mb *but that was because acreage was raised*. Expected yield *declined* in several key states and US crop potential remains somewhat of a question-mark and subject to weather impacts. One *caution flag* is also worth noting (but not that the market is paying much attention to negative factors right now anyway)—World demand was lowered just a bit. Could this begin to reflect the future effect of higher prices? Just wondering.

December closed today at 91.29—up another 1.84 this week. All remaining 2010 crop futures are at a discount to December—a potentially weak sign. December 2011 futures are at 82 cents. Pricing of the 2011 crop has already begun by some.

Don Shurley, University of Georgia
donshur@uga.edu / 229-386-3512