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

COTTON MARKETING NEWS

Volume 6 Number 36 September 12, 2008

This newsletter is also available in PDF format on the UGA Cotton web page at:
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Yikes……… Numbers and IKE and 2009

USDA's September supply/demand numbers were released this morning, Hurricane Ike is headed for southeast Texas then Arkansas, and questions of what to do (what to plant and how to profit) in 2009 are already on the minds of many farmers.

In today's report, the old-crop (2007) carry-in was *reduced* 300,000 bales. Projected yield for the 2008 crop was *raised* slightly and production *raised* slightly to 13.85 million bales. Projected exports of the 2008 crop were *dropped* ½ million bales. So, *on balance*, projected US ending stocks for 2008-09 were *raised* 300,000 bales—but still a dramatic 5 million bale decline by this time next year.

But, what about the situation *now*? Dec08 futures closed today at 64.52 cents per lb which translates into just under 60 cents cash price in the Southeast +/- fiber quality differences. The market (Dec08) recovered a little today despite the somewhat bearish USDA report but price dropped 132 points this week and 485 points over the past 2 weeks.

A look at today's World numbers compared to the August estimates shows-- a little more carry-in stocks (mainly from an *increase* in China), a 1 million bale *reduction* in Chinese mill use, a slight *reduction* in Chinese imports, and a 1.34 million bale increase in World ending stocks (ending stocks are expected to drop 8 ½ million bales by this time next year but today's report reduced that decline a bit).

One thing worth noting, today's report now pegs 2008 crop World cotton use (demand) at 123.7 million bales compared to 123.8 last season and 123.5 in 2006/07. If realized, this would be the first decline in demand since 1998. This illustrates that despite the cutback in US acreage and 8 million bale decline in World production, the market is currently suffering under the weight of large carry-in stocks and weakening/uncertain demand.

Hurricane Ike will be the fourth storm of the season (Fay, Gustav, Hannah, now Ike) to impact some portion of cotton country. Thus far, these storms have had no impact on the market. With harvest now further along, is it possible that Ike will impact prices?

Given this years high fuel and fertilizer prices, the current level of '08 crop prices is disappointing and disturbing. Producers are already looking ahead and thinking about what to do in 2009 that could possibly turn a profit. Dec09 futures closed today at roughly 77 ½ cents. This compares to $5.98 for corn (Sep09 futures) and $11.87 for soybeans (Nov09).

All signs point to a tightening of supply/demand as current high stocks work through the pipeline. Tighter conditions, however, assume that demand (use) does not fall significantly from current forecasts. If demand does not weaken considerably, Dec09 prices should be supported and will have to be competitive with other crops. But, we have witnessed a 20-cent drop in prices for the '08 crop—so prices again are expected to be volatile and risky.

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