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 Take a Little Riskier Tone

As we proceed in earnest toward defoliation and harvest, *some producers may continue to look for additional pricing opportunities*. We have stated here for quite a while that the 75 to 78 cent area was an opportunity worth considering depending on how much of the expected crop had already been priced. We've also stated that otherwise patience might be needed as even old-crop prices may have potential to increase into winter and spring—riding on the coat tails of new crop needing to bid in acres for 2013 from soybeans and corn.

USDA's September estimates released last week sent somewhat mixed signals. The US crop estimate was lowered as expected but expected exports for the 2012 crop year were also lowered by 300K bales. The lower export number could simply be a reflection of the lowered production and thus less available supplies but it is somewhat concerning nonetheless.

The September report *made revisions from the August report for the now-ended 2011 crop year*. It was these revisions that impacted the supply/demand picture. The 2011 World crop was raised 1.49 million bales—accounted for mostly be larger estimates for India and Australia. World demand/usage for the 2011 crop year was lowered 1.10 mb. These 2 adjustments and other minor changes raised 2011 Ending Stocks by 2.1 mb. In other words, *we now go into the 2012 crop year with 2 million bales more cotton than previously thought*.

To make matters a little worse, World demand for the 2012 crop was lowered 610K bales (lowered by 1 mb for China) from the August estimate. The total result of all this was an increase in expected 2012 crop year World Ending Stocks from an already burdensome 74.7 to 76.5 million bales. *Prices responded accordingly... but have since tried to improve*. Prices (Dec12 futures) closed near 73 cents on 2 occasions last week but recovered back above support this week. Dec13 was above 76 on Wednesday this week. *Today, prices have broken down below support at 75 and, as last week, are testing the uptrend we've been in since early June.*

There is some belief that prices will eventually trek to challenge support at the 70-cent area and perhaps move to 65. This could occur as cotton harvest begins and new crop cotton eventually enters the pipeline. What could save the day here is increased buying at these lower price levels. There is already some evidence suggesting that sales and exports pick up when prices move lower. If demand materializes (either actual sales and/or speculative buying), it will support prices. But as previously mentioned in this space, how China manages its large stocks/reserves also comes into play.

The cotton supply/demand situation appears especially bleak right now *but not all hope is lost*. There is also some belief that prices will eventually challenge the 80-cent area. That hope is based on a still uncertain US and World crop, the hope/likelihood of export buying, improved demand, and speculative buying if prices become too low, questions regarding USDA's estimates, policy measures to improve the US and global economies, and cotton's need to some degree to compete with other crops for 2013 acreage.

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