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

COTTON MARKETING NEWS

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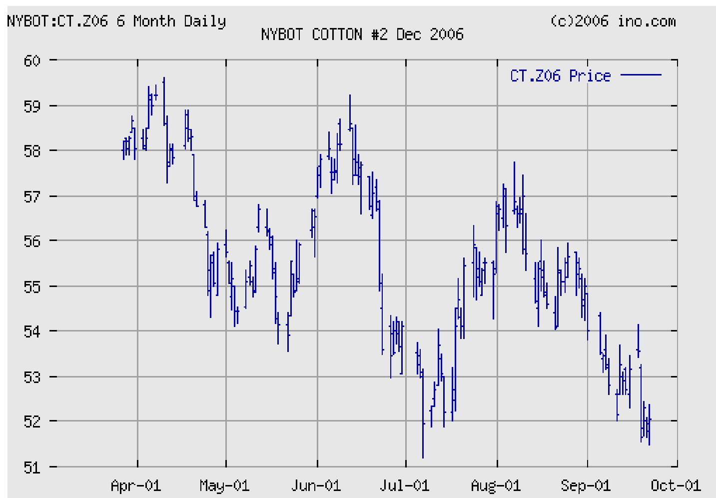
A Few Thoughts On Prices, Outlook, and the Program



Prices. There is not much new to share with regard to the market. Prices continue to disappoint. As I mentioned in my last newsletter to you, prices have broken through the 54 and 53-cent support levels. Prices now look to establish a new floor around 51.50 to 52.

Export business has been hard to characterize. Overall, I would say it has been “occasionally good but unspectacular”. USDA projects exports to be less than last year, so being behind last season’s pace at any given point in time is hardly unexpected or a necessary cause for concern.

Outlook. USDA’s September numbers cause us to continue to look to the future with cautiously bullish optimism… the US crop could potentially still come it short of the September estimate, World ending stocks are projected to be down almost 5 ½ million bales from last year, and World use continues to climb. So what’s holding prices back? Well, we come into the year with a fairly comfortable level of stocks—52 million bales compared to 54 million last year and 43 million in 2004 (this reduces the need for early-season buying to bid up prices), uncertainty remains the US crop, and uncertainty remains about the size of the China crop and the impact this could have on their import needs. Let me put it this way, if I were a merchant or mill, I’d feel better about buying cotton at lower rather than higher prices right now until and these things are ironed out. And I think that’s what you’ll see. Reasonable (but not spectacular) business at prices around 52 to 54 cents but little demand (to push prices to the 57+ area) until much more is known. So, upside potential is still out there.

Farm Programs. The current farm bill expires after next year’s crop. Since the collapse this summer of the WTO negotiations, there has been little (or at least less) news/discussion about the next farm bill. There seems to be growing sentiment that the current farm bill simply be extended another 1-2 years with perhaps some necessary modifications for budgetary purposes. I do not know which direction the next farm bill will take but I’m a little surprised by the seemingly lack of discussion and debate at this juncture…. perhaps it is still early?

The considerations of the next farm bill will be to continue to provide a safety net for the producer while striving to become more WTO-compliant and continuing to provide incentives for conservation and wildlife. An alternative to the present DCP program that has been floated involves some type of revenue assurance. Whether this is feasible from both a producer and governmental administrative standpoint is up for debate.

For US cotton, it is important that mechanisms be in place providing both strong exports and a safety net from low prices. The Market Loan and LDP provide such-- the benchmark by which other policy options can be compared.

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