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

COTTON MARKETING NEWS

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$1.00 Cotton- Reality and Impacts

It goes without saying that the price of cotton has reached levels that were not and could not have been anticipated by analysts and market observers. This is because the events that have led to the 25-cent rise in price over the past 2 months were beyond anyone's control and could not have been anticipated.

Numerous media have contacted me about the phenomenon of $1 cotton. True, we haven't had these prices since 1995 and on only a few occasions since then have prices been over even 80 cents. I don't know who will profit off this move to $1 cotton—the truth is that prices have been "attractive" going all the way back to late last year and have stayed that way. As a result, it's probably safe to assume that most of the US crop was sold in the 70's and 80's. If that's the case, and I'm assuming it is, the majority of the US cotton crop doesn't belong to growers—it actually already belongs to merchants and mills and it now only has to be harvested, ginned, paid for, and put in the warehouse for delivery to an end buyer at some point.

Some of you will be quick to point out that merchants reap a profit because they bought your cotton at, say 75 cents, and can now sell it for $1. That's not necessarily true. When the merchant "bought" your cotton, they also then "sold" cotton futures to protect their cash position with you against prices going down. Because prices have gone up, margin calls will erase any windfall profit that otherwise would have been realized.

Prices have increased substantially due to continued production and supply concerns. It seems we have had a steady stream of bullish news over the past couple of months. Demand (buying), both mill demand and speculative/technical buying, have also added fuel and supported/validated supply-side concerns. World stocks are at a relatively tight level and expected to shrink further. Weather has created production concerns in China, India, and Pakistan. US mills are showing increased use and foreign mill use is also increasing.

Anytime we get a rapid increase in price like this for any commodity, the first response is always "is this for real?" and then "how long can this last?" Yes, it's real (to a point) but it's unknown how long it can last. After peaking at over $1 (December futures) twice this week, price was down yesterday closing at just over 97 cents. Is that a sign that the market is ready for a "correction" downward? It's hard to say because December closed today back up to $1 (99.93 cents). The price increase has been fueled in-part by speculative/technical buying in addition to actual good demand numbers. When buying/demand begins to cool, the correction will come. Most observers feel the market is "over bought" and a correction is due.

If you sold (fixed price contract) back in the 70's and 80's, that crop is priced. One way you could possibly try to get more money in your pocket is to now buy relatively cheap March or May Puts and try to make money off any move down in price. But realize this is a gamble, not hedging. If you bought Puts back in the 70's or 80's as an alternative to a fixed contract, that strategy worked well—the Puts will expire worthless because the market has gone up but you can now sell $1 cotton rather than in the 70's and 80's.

2011 cotton (Dec11 futures) is over 80 cents (84 cents today). If prices remain high, a bidding war will take place between cotton, soybeans, corn, and peanuts for 2011 acreage. Since we'll be going into 2011 with already low stocks, as long as demand/use remains good, price will have to be sufficient to bid more cotton into production. Each producer will decide what that price has to be for them.

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