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

COTTON MARKETING NEWS

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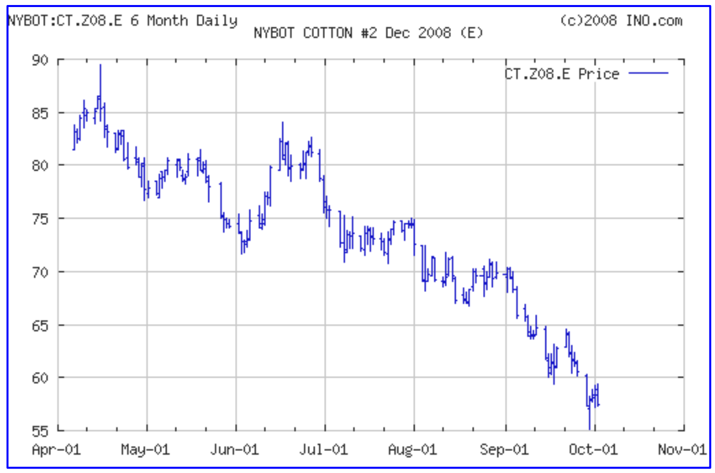
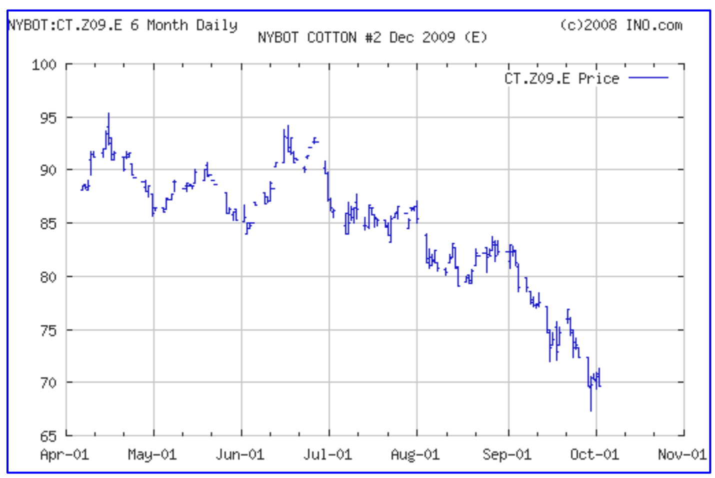
This newsletter is also available in PDF format on the UGA Cotton web page at:
http://www.ugacotton.com

NOTE: The following are excerpts (updated as needed) from a recent presentation to the Southern Region Agricultural Outlook Conference and a paper prepared for AgFirst Farm Credit Bank. I hope you find this informative and useful.

Price and Competitiveness Situation

Prices for the 2008 cotton crop have thus far been very disappointing. Dec08 closed today at roughly 57½ cents. Prices have fallen more than 20 cents per pound since the planting season. Basis the December futures contract, 2008 crop cash prices are currently not much above the Loan Rate. Given escalating cost of production, profit margins will likely be non-existent for many growers even when adding any Loan Deficiency Payment (LDP) or Loan Gain, if realized.





Futures prices for the 2009 crop are currently about 70 cents per lb-- 12 cents per lb higher than prices for the '08 crop. It is doubtful, however, this will be sufficient to keep cotton acres from declining for the third consecutive year. Higher, more competitive prices are possible but the market has not yet adjusted to that.

US cotton acreage has declined 38% since 2006. Acreage has declined from one of the highest on record (15.3 million acres planted in 2006) to only 9.41 million acres planted in 2008—the lowest in 25 years.

The reason for the decline has been competitively higher net returns for alternative crops such as corn, soybeans, and peanuts. Prices for corn and soybeans have increased and remained relatively high and more stable compared to cotton. High cost of production, particularly for fertilizer and fuel, has favored the production of soybeans and peanuts.

The 2008 farm bill sets the Loan Rate for cotton at 52 cents per pound-- unchanged from the 2002 farm bill. Producers are eligible for LDP when the AWP (Adjusted World Price) is below the Loan Rate. At present, however, the math is not working out quite as favorably as in previous years.

The reason is that the "spread" between the US price of cotton and the World price (A-Index) appears to have widened. For example, December futures are currently about 58 cents and the A-Index about 68 cents—a relatively large 10-cent spread. In past years, this "spread" has been mostly 6 to 8 cents. This A-Index of 68 cents would result in an AWP of about 51 cents (subtracting a 17-cent "adjustment" for US grade and location) and thus there would a 1 cent LDP. If the "spread" were a more normal, say 8 even cents, the A-Index would be 66 cents rather than 68 and the AWP 49 cents-- resulting in a 3 cent LDP.

The 2008 farm bill lowered the Target Price from 72.4 cents per pound to 71.25 cents. The Direct Payment remains at 6.67 cents per pound. Subtracting the Direct Payment (DP) from the Target Price, a Countercyclical Payment (CCP) would be made if the MYA (Market Year Average Price) is less than 64.58 cents per pound-- up to a maximum of 12.58 cents per pound. It seems ironic when all other commodity prices are high that LDP and CCP may be likely on '08 cotton.

With December futures currently in the 50's, understandably producers will be reluctant to sell the crop at or near harvest due to low prices and tempted to buy Call Options or hold the crop for sale later. Either strategy, as always, is risky. But prices for the 2008 crop should improve into calendar year 2009. Producers should be prepared to sell on rallies and aim to average 60 to 65 cents or better on the crop.

December 2009 cotton futures prices are currently around 70 to 71 cents per lb. Where '09 crop prices go from here squarely depends on the outlook for exports and 2009 acreage. The 2009 crop marketing year will no doubt begin with less/tighter stocks than it began with. That is a given. How much lower is unknown and depends on 2008 crop export sales.

If US cotton acres decline further in 2009, the stage would be set for high prices. Even if export sales where to decline due to such higher prices, stocks would still likely decline further. If acres do not decline or if acreage abandonment is low, this could keep 2009 production near or even above 2008 and depress some of the upward potential on price.

A pessimistic outlook on 2009 crop prices would be 65 to 70 cents per pound, i.e. little or no improvement from where the market is now. A more optimistic outlook would be 80 to 85 cents or higher.

The current level of price for the 2009 crop is not competitive with corn, soybeans, and peanuts. December 2009 futures prices in the 70's combined with high fertilizer prices (particularly for nitrogen) and fuel prices will not attract acreage in 2009 or hold acreage at 2008 levels.

Preliminary comparison of net returns shows that cotton will have to be 75 to 80 cents or higher to compete with other crops. This level of prices could present itself prior to or during the 2009 growing season. If such opportunity is realized, producers should consider taking advantage of it. Prices on the 2008 crop dropped 20 cents between planting time and harvest time.

High cost is a concern for all crops. Cotton is also dealing with low, uncompetitive prices. While cotton must bid for acres and compete with other crops on the supply side, it is subject to a different set of forces on the demand side—most notably the present weakness and uncertainty in demand. Prices for the 2008 crop have thus far been a disappointment but could still improve. The outlook for 2009 looks brighter but is still uncertain.

Early Estimates of 2009 Net Returns
Non-Irrigated Production

	Cotton	Corn	Soybeans	Peanuts
Expected Yield	700	85	30	2,700
Current Price Estimate	.68	5.00	10.00	500
Crop Income	476	425	300	675
Variable Costs	470	352	256	557
Net Return	*6*	*73*	*44*	*118*
BE Cotton Price		*.776*	*.734*	*.840*

Early Estimates of 2009 Net Returns
Irrigated Production

	Cotton	Corn	Soybeans	Peanuts
Expected Yield	1,100	185	55	3,700
Current Price Estimate	.68	5.00	10.00	500
Crop Income	748	925	550	925
Variable Costs	665	793	363	715
Net Return	*83*	*132*	*187*	*210*
BE Cotton Price		*.725*	*.775*	*.795*

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