Southern Cotton Growers, Inc.

REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA

COTTON MARKETING NEWS

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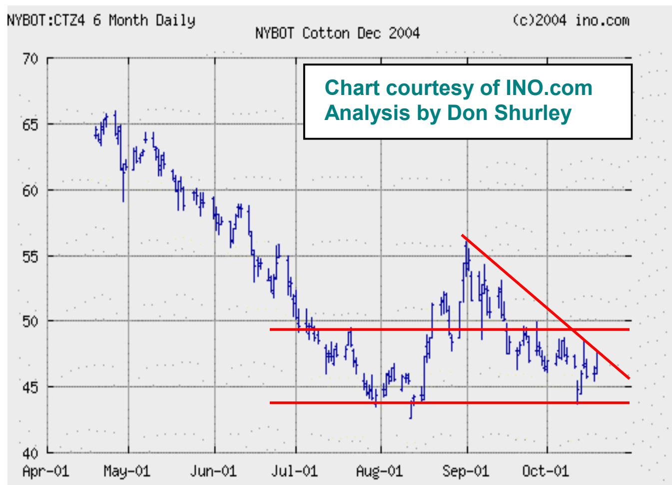

In it's October 12th report, USDA ***increased*** the 2004 US crop to 21.54 million bales—up 640,000 bales from the September estimate. Export projections were raised 100,000 bales and a few other numbers were tweaked just a bit so the result was a 600,000-bale increase in projected ending stocks next July 31. The expected US average yield was raised to 782 lbs/ac—up from 759 lbs/ac in the September report. If realized, this would be a record US yield.

As expected, the crop was lowered in Alabama and Georgia due to hurricane losses but that was easily offset by yield increases in 7 of the remaining 13 reporting states. Most notably, are big yield increases in the Mid-South (Arkansas, Mississippi, and Louisiana) compared to the September numbers. Texas yield was also increased. North Carolina was increased.

On October 12th, December futures dropped to 4479—the lowest level since the contract low set back in August. Prices have since rebounded and are in fact higher now than prior to the report. So now, we are all left to wonder what is going on and, if we dare, how to make sense of it all.

World production was raised 2.4 million bales—most accounted for by the US, India, and Pakistan. China, Brazil, and Australia crops were unchanged. World use was raised 550,000 bales. Importantly, the projected ending stocks-to-use ratio was raised only slightly-- from 39.7% in Sept to 41.4% in Oct.

Prices dipped to the 44-cent area that we have discussed here on previous occasions but then rallied back to the important 46-48 cent area despite what was by all accounts a bearish report. Some observers still scream the prospects of prices in the 30's. I guess anything is possible, but I have used this space recently to try and build a case for why we may not see prices quite that low. But a return to the low 40's at some point in the future may not be out of the question… we are after all looking at a record US and world crop and that crop must find a home at some price.

But for now, prices seem to be content to float in 46-48 cent area and a run at 49-50 seems about as likely as a return to 44. From a purely risk-management standpoint, taking what you can get at harvest plus the LDP and buying a Call Option or going to loan still seem to be the strategies of choice.

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