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

COTTON MARKETING NEWS

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Time to Talk Less About 2010 and Start Looking Ahead to 2011

Prices for the 2010 crop have reached historic highs. As this is being written, Dec10 futures today are at almost $1.20—unbelievable. Reasons for these prices have been explained (if it can be explained) many times now to the point of being futile because, frankly, it seems every time we think the bubble looks ready to burst, more air gets pumped in based on various supply/demand and speculative reasons and prices take off again.

So, I'm not going to speculate on "the top" (whether we've seen it or not) or "how long" this run can last. I see these as likely moot points for most growers anyway. A good portion of the crop was likely sold (priced) over last winter, spring, and summer so what's left to be sold is probably a relatively minor portion of the crop and dependent on final yield. Prices have been high for a long time and even over $1 for the past month. Prices have held and looks like will continue to be high during the harvest period, giving growers opportunities to price the remainder of the crop once harvest is over and the final bale number known.

There's no logical reason why every bale shouldn't already be sold and what's left to be determined by yield sold when ginned and the grades available. Leave the remaining risk in this market to the speculators and/or those with deeper pockets. If you want to try and make some additional money in this market, you have to be willing to play the market down at this point, not further up. That means you buy Put Options out into 2011 and take your chances.

If not already, discussions and decisions should begin in earnest on the 2011 crop. Dec11 futures are currently around 87 to 88 cents. Dec11 futures could continue to track upward but consider that since August 1, Dec10 has increased 40 cents or about 51% while Dec11 prices have increased only 13 cents or about 17%. In other words, there's much less sense of "economic urgency".

US cotton acreage will increase in 2011. We don't know by how much but is that really worth debating at this point? Cotton acreage will be up even with competing $5 corn and $11 soybeans. So weather permitting, US and World production will be up. 2011 crop prices will likely eventually decline unless weather trims the supply side, or unless further demand growth outpaces even the increase in supply.

We'll be going into the 2011 crop with very tight stocks so the market can remain "jittery" for a while even with an acreage increase. Growers should begin considering their 2011 crop marketing plan. It's not too early. Three choices include (1) stand pat for now, contract/price a portion of expected production, and/or (3) purchase Put Options. If you're concerned about contracting and then prices going even higher, that's where Puts offer you a way around that problem but of course you have to be willing to pay the premium to get that flexibility.

A heads-up….. there are changes coming in crop insurance for 2011 including changes in APH price election, CRC price coverage options, and new cottonseed coverage. Growers will need to analyze and determine the best policy and coverage for them.

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