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

# COTTON MARKETING NEWS

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Man, what a run! Cotton prices (December futures) have rocketed from the mid-50's in August to the mid-60's in September and have continued to march upward to around 83 cents/lb on October 29th. Prices are currently at the highest level in 5 years-- since July 1998. The questions one everyone's minds seem to be "How high will prices go?" and "What should I do with my cotton?" At these prices and after what we have been through price-wise the past few years, I'm inclined to think these are the wrong questions. I think our mindset should be more on profit-taking and risk management rather than trying to pick the top of this market. With that said, however, we still need to understand why prices are acting the way they are and what the outlook might be.

The major factor in the market right now can be summed up in one word—China. But I will also tell you this is a word that, historically, means we need to be cautious. How much reliability do you put in news coming out of China? Are you willing to risk your income on it?

It is reported that the China crop may be as low as 20 million bales. This would be 2.6 million bales less than last year. USDA was still holding to an estimate of 25.5 million bales in it's October report but will likely lower this number in the November report. All other things being equal, if the Chinese crop comes in this low, it would further reduce world supplies and projected ending stocks… World supplies would dip to the lowest level since 1998 and ending stocks would dip below 30 million bales for the first time since 1994. Given the tremendous growth in world cotton consumption in recent years, the market is obviously sensitive to this type of sharp change in supplies.

Other China-related news is that China has thus far been a big buyer of cotton. It is this demand for imports, because of the short crop, that has fueled the run up in prices. Thus far, China has purchased 2.18 million bales of US cotton for the 2003-2004 crop marketing year. The last time China purchased this much or more US cotton was in 1994-95 and if you remember that was the year we saw $1 cotton.

Certainly the outlook appears bullish. But I am cautious that a run-up in price this fast, this early in the game could possibly backfire. This recent fire in prices has been fueled in anticipation of a short China crop and continued strong purchases of US cotton. If these prices are to be maintained, these expected conditions must eventually be realized. More importantly, if the market is to move higher then additional fuel must be added in the form of even shorter supplies and stronger purchases.

The fact that China is thus far a major buyer of cotton is evidence of the likely short crop. Downside risk at this point appears to be to around 75 cents. The upside is harder to determine but probably 83-90 cents. I think growers need to be ½ to 2/3 sold at this point. If not, move up to that level and risk the rest. Better still, if you're bullish but want to limit your downside risk, sell cash cotton and buy calls.

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