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

COTTON MARKETING NEWS

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Remaining 2008 and 2009 Are Both Big Question Marks

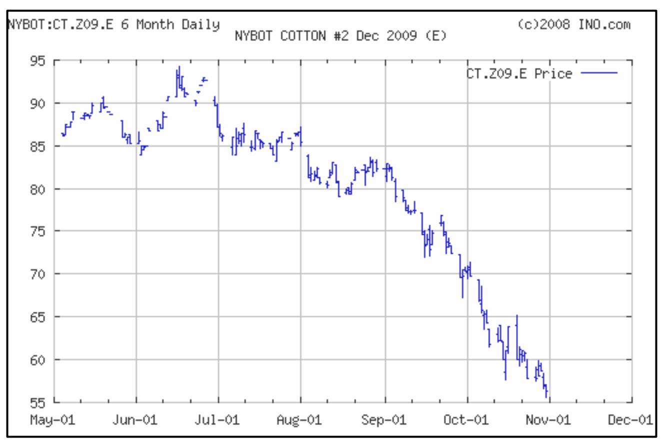
2008 and 2009 cotton prices continue their march to the south. In fact, all crop prices not just cotton, have been hammered lately but that's hardly a comfort. If anything, it makes matters worse because it causes us to look ahead to 2009 and wonder what a profitable strategy might be if there is one.

Remaining 2008. Dec08 futures closed today at 44.29 cents per lb. Basis the Southeast, that puts cash prices for 41-4/34 cotton at roughly 42 cents. The current POP/LDP thru 11/6 is 11.88 cents. So, total money for taking the POP and selling the crop is about 54 cents. This price is likely below even the variable (out of pocket, operating) cost of production for most producers and well below cost if considering land rent. In other words, the present economic situation is clearly not a sustainable one.

For producers fortunate enough to have some of their cotton crop contracted at higher prices, that price plus LDP (provided that beneficial interest is maintained) looks very good right now. Otherwise, what can a producer do with the remaining crop. As just mentioned, the current money is about 54 cents. You can improve this by marketing the crop on market rallies while the POP/LDP is fixed.

Managing risk in this market is crucial. You can do this by taking the cash+POP and calling it quits, putting the crop in loan and hoping for something better within the next 9 months, or taking the cash+POP and investing a little of that in a Call Option. There are no guarantees to do better than the current opportunity but there are ways to hope for a better outcome without taking too much risk and that's the key.

The 2009 Crop. Prices for this year's and next year's crop are being pounded by uncertainty and weakness on the demand side. Weak export sales, global economic and financial concerns, and US recession have played havoc with the market. Factors such as inability to obtain credit, lack of consumer confidence and demand can affect everyone in the chain from producer to merchant, to mill and exporter, and yarn and fabric processor.



The strong uptrend in World cotton use has flattened and demand will decline for the 2008 marketing year. Due to global economic/financial crisis, further reduction in '08 demand (US exports) is possible and further retraction is feared for the '09 crop.

Dec09 futures are currently just over 56 cents. All crop prices have declined but cotton has really taken a nosedive. In the past with a decent POP/LDP, this type market could be weathered in the short run. But with today's high cost of production, this will not attract acres. The market is signaling it wants less cotton. As a matter of fact, given the cost of production, what can be profitable to plant in '09? Perhaps, declining oil prices and less demand from crop acres will act to reduce fuel and fertilizer prices. As comedian Jerry Clower once said "Just shoot up here amongst us, one of us has got to have some relief."

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