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

Volume 6 Number 44 November 14, 2008

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

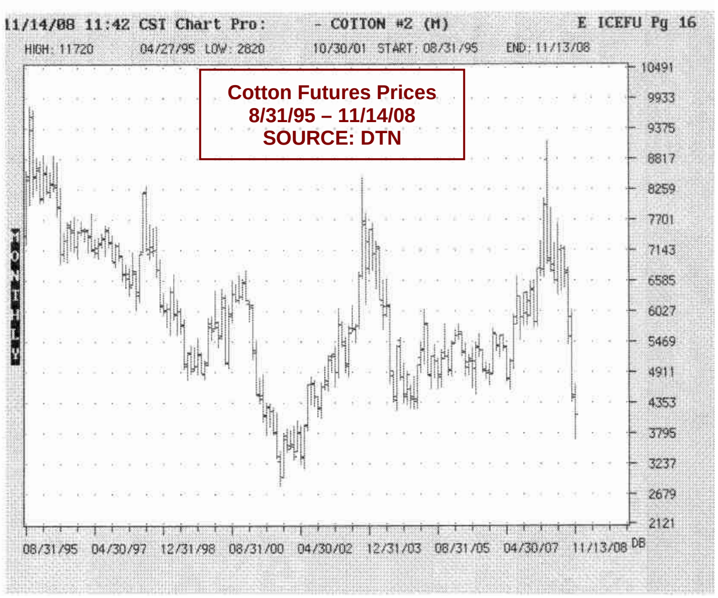
Demand Causes Adjustments in Cotton, Other Crops Also?

In its November numbers, USDA estimates the 2008 US cotton crop at 13.5 million bales—down about 200,000 bales from the October estimate. It's been long known that production is down for the 2nd straight year. With the drop in production, it's estimated we'll end the 2008 crop marketing year with almost 4 million bales *less* in US stocks.

I continue to believe that the trend in price is eventually up—but prices are currently being beat down by large stocks (inventory) of '07 crop brought in to the '08 marketing year, weak and uncertain demand, and strengthening value of the US dollar which makes our exports more expensive to foreign buyers. In fact, weakening demand dating back to last years crop is the reason for the large carry-in stocks from the '07 crop. *NOTE: When we say "weak demand", we mean poor export sales.*

On the foreign and World side, foreign mill use is now estimated at only 114.9 million bales. This is about 4 million bales or 3.2% less than 2006 and 2007 and down 3 million bales from USDA's October estimate. This is evidence of the global economic slowdown. Most of this decline in foreign mill business is in China which alone accounts for over 40% of World cotton use and is the largest buyer of US cotton. According to other news sources, China's economic slowdown may result in not only less cotton imports from the US and other countries but China may also have difficulty consuming its own crop.

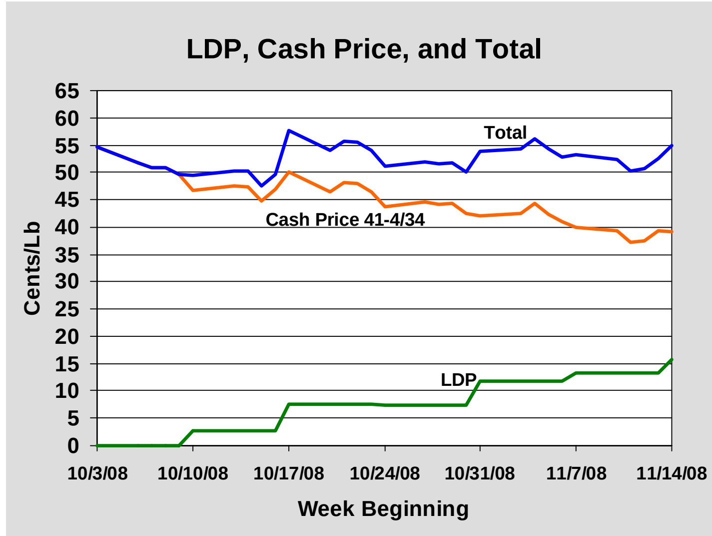
The global demand for cotton is a big question. US export sales have been erratic and often weak but I find it somewhat encouraging (although not completely understood) that USDA's November numbers show a slight reduction in foreign production, a dramatic slowdown in demand, yet US export potential remains unchanged. Recent weekly export reports suggest the US is currently not on pace to reach the 13 million bale estimate.



The consensus among most analysts is that the cotton market is "oversold"—meaning prices have been driven unjustifiably too low. Prices currently are at the lowest level since 2001-2002 when prices dipped into the 20's and 30's. Dec08 futures closed today at 41.03 cents per pound. Where is the bottom? Prices will improve when confidence is improved on the demand side and/or as the supply side (acres and production) continues to adjust downward in response to low prices.

December 2009 cotton futures closed today at 48.3 cents per pound… but, prices for all crops have declined and are not as attractive as last year. 2009 corn is now around $4.25/bu (futures price), not $6-$7 or better as earlier this year for 2008 crop. 2009 soybeans are around $9.30/bu, not $12 to $14 or better. Input costs (fuel and fertilizer, for example) are still high by historical standards but seem to be "moderating". With lower crop prices and hopefully, stabilizing input cost, farmers still face tough decisions about what to plant in 2009.

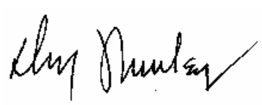
The 2008 farm bill made changes to the LDP calculation. The A-Index and AWP (Adjusted World Price) is now based on a Far East quote rather than a Northern Europe quote. Also, the “adjustment” from the A-Index to AWP must include the full costs of transportation. The result of these changes appears to be a larger LDP than would otherwise be the case under the 2002 farm bill.



With the market currently being so low, I want to take this opportunity to remind producers that whether you take the LDP and sell your cotton or instead put the cotton in Loan and redeem or take an equity later on, the *total money* in your pocket does not depend on what the futures and cash price does or what the LDP/Loan Gain does. It depends on how they move *in relationship to each other*.

The LDP is fixed weekly whereas cash prices change daily. You make money when the LDP increases in relation to the cash market or the cash market increases in relation to the AWP and LDP. You gain, for example, if the cash market increases while the LDP is still fixed. You also gain, for example, when the LDP increases while the cash market remains stable (or does not decrease more than the LDP increases). You do not gain just because the LDP increases or just because the cash market increases. If the cash market increases but the LDP declines by the same or a greater amount or if the LDP increases but the cash market declines by the same or a greater amount, you are no better off or worse off.

Thus far this season, the total of LDP plus a cash sale has ranged mostly between 51 and 56 cents per lb. Prices have trended down but the LDP has steadily increased. As a result, you can see that total money has been relatively flat. The difference between 51 cents or less and 56 cents or more is largely *timing*.



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