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

COTTON MARKETING NEWS

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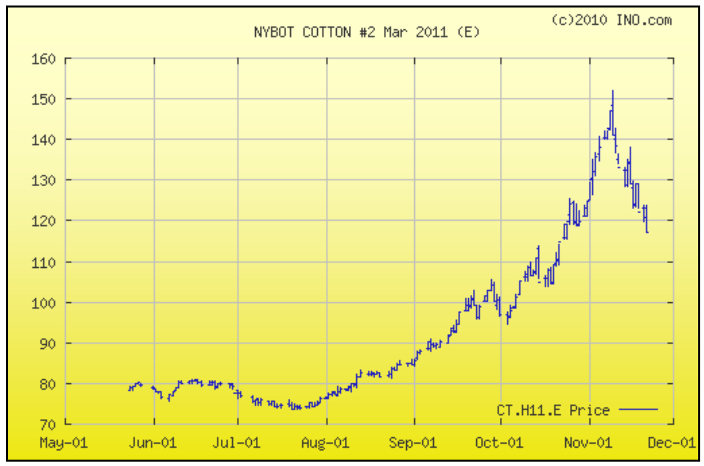
Prices Break
Realistically, How Far Can New Crop Decline

The "correction" in price now appears in place. Prices have really been hammered over the past week and a half. Old-crop March2011 futures closed today at $1.23—down 11 cents for the week and down almost 25 cents/lb since the peak back on 11/9.



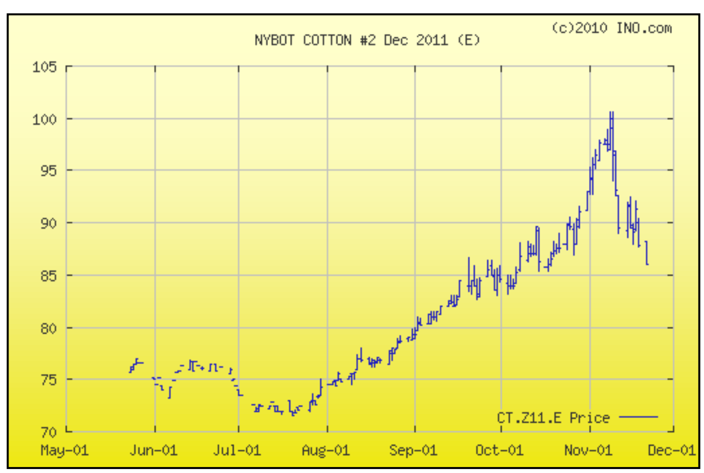
Most cotton was sold by producers prior to this most recent decline. So this "correction" to lower prices may, in fact, help boost demand without significantly hurting producers-assuming cotton has already been sold. In other words, the cotton market may now be on its way to a more healthy position.

USDA's supply/demand numbers for November were very bullish—the fundamentals that have driven cotton prices higher since last winter are still firmly entrenched. That has not changed. This recent decline or "correction" in prices (both 2010 and 2011 crops) is caused not by a change in fundamentals but by the eventual realization that prices of the magnitude reached are simply not sustainable.

USDA's November report made a 3 million bale adjustment downward in China's stocks and also dropped the Chinese crop by another 1 ½ million bales. Chinas imports were raised 2 million bales. Offsetting this somewhat, was a 3 million bale drop in China mill use—reflecting the impact of these high cotton prices.

US stocks were tightened further to only 2.2 million bales and that in combination with the adjustments in China, lowered World stocks almost 2 ½ million bales from the October estimates. Bottom line—despite the recent declines, the market should still have plenty of support.

2011 futures have taken a hit as well. Dec2011 closed today at just over 88 cents compared to almost $1 back on 11/9. Basis the Southeast, contracts would be around 85 cents now. The fundamentals are still in place to say that cotton needs to bid-in acres for 2011. Given where corn and soybeans are right now (and available peanut contracts), I think cotton will need to stay in the 80's to bid additional acres in.



Prices could continue to track a little lower but the risk of prices completely falling out of bed should be limited. There is a need for more acres in 2011 provided that demand is good and provided that China needs cotton.

Don Shurley, University of Georgia
donshur@uga.edu / 229-386-3512