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

COTTON MARKETING NEWS

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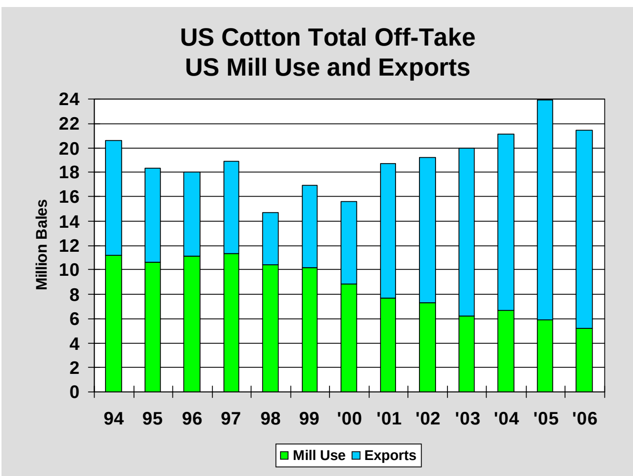
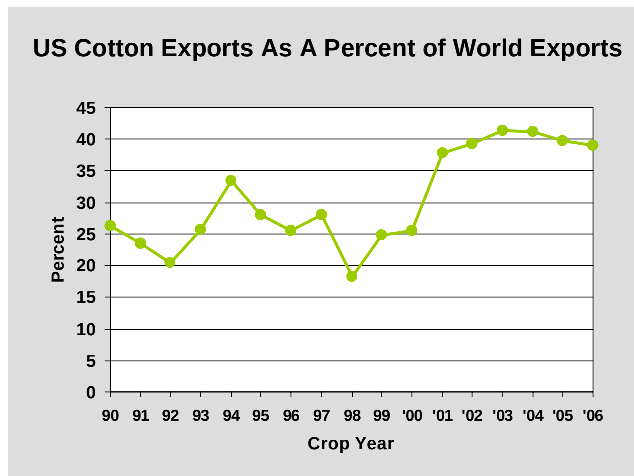
US Exports and Total Off-Take Projected Down For 2006 Crop

Total use (demand) or off-take of the 2006 US cotton crop is expected to fall by 2 ½ million bales or 10.5% from 2005. If realized, this would be the first decline in usage of US cotton since 2000. The decline in use, however, mirrors the drop in the size of the crop by almost exactly the same amount. Thus, ending stocks are expected to remain the same. With the smaller US crop, if Use were not also down, we would be talking about a much brighter price picture than we currently have.

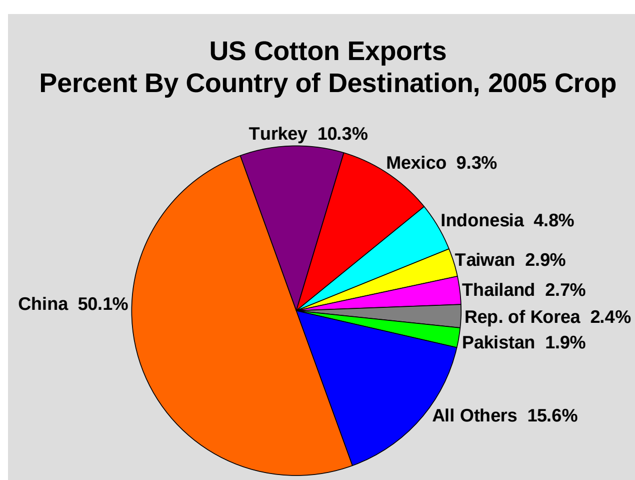




By most accounts, 2005 was a very good year export-wise with exports totaling just over 18 million bales or 75% of US production. But notice that US export market share (defined as/measured by US exports as a percentage of total World exports) fell for 2005. This was the first decline in market share since 1998. Based on USDA's November estimates, market share is forecast to decline again for the 2006 crop marketing year.

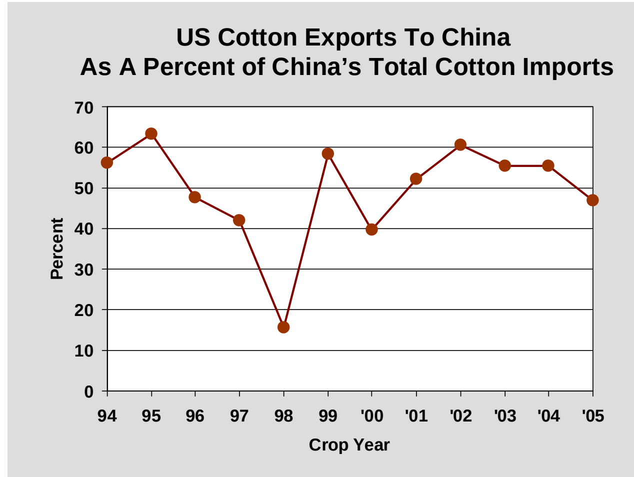
China is the largest user of US cotton exports. For the 2005 crop, China accounted for 50% of all US exports followed by Turkey, Mexico, and Indonesia. China's mill industry has expanded dramatically in recent years and the "gap" between its production capability and usage continues to grow—although just slightly for 2006. In 2005, China produced 26.2 million bales compared to mill use of 45 million. For 2006, China's production is forecast to increase to 30 million bales and Use increase to 50 million.

China is expected to import LESS cotton this year. This is because they imported a large quantity of cotton for 2005-06 which actually resulted in a buildup in stocks on-hand going into the 2006-07 marketing year. And, as mentioned, production is also up.



In recent years, the US has supplied 40 to 60 percent of China's imports. The need for imports is a function of China's production vs. mill demand and factors that impact mill demand. The demand (need) for US exports is a function of this and the availability (production) and price competition from other exporting countries.

One potentially troubling sign is that although US exports (not just to China but in total) have been increasing and China's production-Use "gap" previously discussed has been widening, the US share of China's total demand for imports has been declining. Share has declined from 61% for the 2002 crop year to 47% for the 2005 crop year.

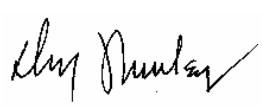


As the US has become more and more reliant on exports (75% of production for the 2005 crop, for example, and a projected 76% for the 2006 crop), one of the things we've learned is that a growing world demand for cotton and high exports for the US is not necessarily the trigger for higher/better cotton prices for the producer. If anything, prices have struggled most years to even keep near or above the Loan Rate.

It has been said (other analysts and observers have commented) that the US is a "residual supplier" of cotton. I interpret this to mean that, although we are the World's largest cotton exporter, we are not always the first or most preferred source for imports. What determines this? Well, among other things, availability of competing supplies and price.

Prices for the 2007 crop (Dec 07 futures) are currently around 59 cents per lb. That's about 5 to 6 cents above current 2006 crop (March 07 futures). So, this is a signal that the market already recognizes that something about the 2007 crop might be different than '06. Acreage for 2007 may be down. There's not much to be gained at this point arguing about how much. There are many factors that, in the end, will determine what farmers decide to do. If acreage is down by 1 million acres (which would put us about where we were in 2005) the crop could still make 22 million bales depending on yield and abandonment. If acreage is down by 1 ½ million acres (which would place us close to 2004 acreage) the crop could still make 21 million.

From a 21 to 22 million bale crop, back out 5 million or so for US mills and that would leave a maximum of 16 to 17 for export without a drop in ending stocks. This level of exports and resulting ending stocks would be about where we are for the 2006 crop. Yet, prices for the 2007 crop are already near 60 cents. If foreign mill use continues to trend upward, prices should be supported (justified) at this higher level particularly if foreign production should decline next season (revert back closer to 2005 levels). A continued increase in foreign production (up about 5% this year, for example), however, would make it tougher to sustain the optimism.



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