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

# COTTON MARKETING NEWS

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

## Cotton Weakens

Over the past couple of weeks, the cotton market seems to have taken an unexpected ugly turn. Since mid to late September, prices have run mostly between $0.95 and $1.00 but over the past couple of weeks, *the 95-cent level has failed to hold*. We've dropped another nickel off the market and now seem to be trying to navigate mostly between 90 and 95.


News and outlook concerning remaining 2011 crop price prospects has become more negative. Prospects for the 2012 crop have also dimmed a bit. *I'm not saying all is gloom and doom, but there can be little doubt that prices seem to have found a lower level.*

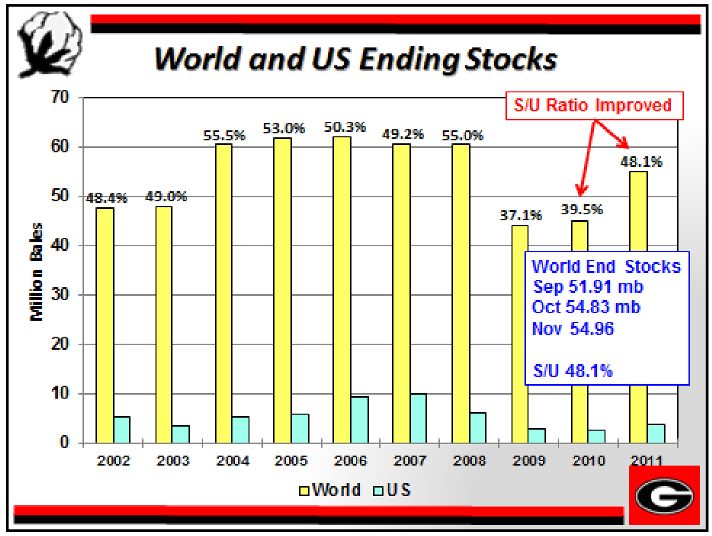
Cash (recap) offers for the 2011 crop are now being priced basis the March futures. March is currently around 91 to 92 cents. Due to the short Texas crop, Basis has been very good with USDA-AMS reporting an average Southeast basis of -100 (one-cent under) March for grade 41-4/34 and a +175 premium for 31-3/35. *Under the present circumstances, I would think that any rally back above 95 would seem to be a decent opportunity to sell.*

Prices for the 2012 crop have ranged from a high of about $1.07 to a low of about $0.88. Dec12 futures are currently around 89 cents. Some producers may already have a portion of their expected 2012 production priced near or above the $0.95 to $1.00 area. Depending on how aggressive you want to be, that's probably not a bad idea especially on at least some reasonable portion of the crop. The recent decline below the 90-cent level may now have some producers reluctant to pull the trigger on sales. That's understandable but risky, of course. *Rallies back between 90 and 95 or better would seem to be good opportunities for sales especially if nothing has yet been done.*


As we look ahead to 2012, in my mind there are 3 key factors in the price outlook. These are US acreage and production, foreign mill use, and World supply and stocks. These are, for the most part, the same factors that have led to cotton's recent downtrend in price and they'll continue to come into play for the 2012 crop. We've enjoyed $1.00+ cotton for two straight years. Are the days of $1.00 cotton over? No one knows the answer to that but, *looking to the 2012 crop, the landscape looks different than 2010 and 2011.*

The World demand (use) of cotton has flattened due to global economic concerns and competition from man-made fibers. By any measure, the US had a short 2011 crop—but it was still over 1 million bales more than many thought possible given the horror stories that were coming out of Texas. Foreign production is up 11% from 2010.

When you combine these 2 things on the supply side with the fact that demand has been flat, it means that *the supply/demand picture is much less tight* than last year and the year before. 2011 crop year Ending Stocks are now projected to be 55 million bales compared to 45 million last year.



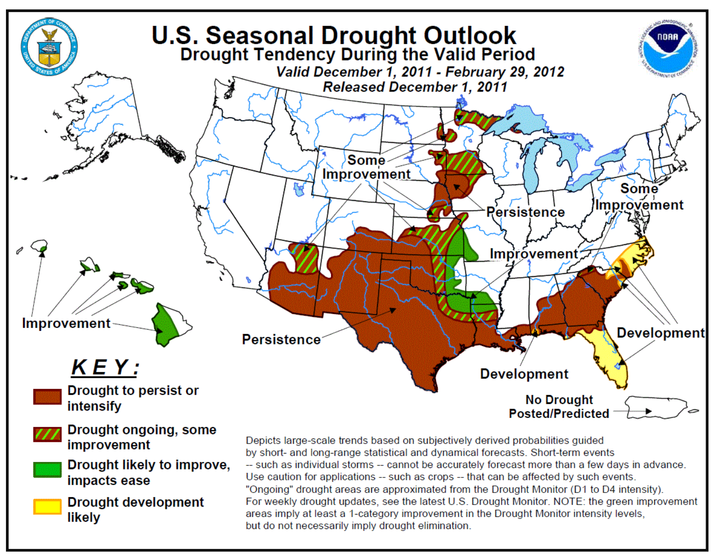

It's beginning to be a fairly safe assumption that US cotton acreage may be down in 2012. The best-case scenario might be that acreage remains about the same. Contract prices for peanuts are expected to be high and in peanut-producing states, competition from peanuts will be very strong-- but the acreage impact on cotton could be minimal because peanut acreage may be limited (controlled) by contract availability. At today's prices, corn will also be competitive with cotton.

The US planted 14.72 million acres this year. With that acreage, the US crop could have been 22 million bales if acreage abandonment had been closer to normal. That's 5 ½ million bales more than we're going to make due to the drought. *With demand struggling and foreign production up, imagine where prices would be if we had another 5 million bales in the pipeline*.

Assuming a good to average yield and assuming normal abandonment, the US could have produced this year's crop (16.3 million bales) with roughly only 11 million acres planted—3.72 million less than we actually planted. *So, assuming that 2012 is a "normal year", US cotton production will increase unless acreage is cut back to the tune of almost 4 million acres*. I don't think that's going to happen by a long shot. There may be some decline in acreage but not to this extent.

So, here we are. What will happen in US acreage and production? What about Foreign production? Will demand show improvement or remain stagnant? The World supply/demand and Stocks situation is already much less tight than a year ago and if production increases in 2012 and demand remains flat, it will put even more downward pressure on prices.

*But here's an important factor that too few people are yet considering*. The outlook is for continued La Niña winter drought conditions. Unless soil moisture improves during the spring and into summer, we could face dry growing conditions in key cotton areas again for the 2012 crop.




For this reason, *it is not a completely safe assumption that 2012 will be "normal"*. In other words, weakening prices could rally based on growing conditions as we approach the 2012 planting season and over the summer. Taking some price protection now but a flexible marketing plan that also allows you to take advantage of better opportunities later, should that happen, would seem to be a good strategy.

So, are the days of $1.00 cotton over? Perhaps, but not with 100% certainty. Prices will continue to be very volatile. *Although all the signs seem to point to weakening prices, price improvement can still be expected* if 2011 crop export sales are strong, if demand shows improvement for 2012, and if US and/or Foreign production for 2012 is questionable.

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