

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

COTTON MARKETING NEWS



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Today's close demonstrates just how volatile this market can be. Today's -120 drop takes us back close to the important 42 cent area and breaks us out of the good uptrend we've been in since Nov 15. Prices do not, however, appear ready to drop below the low 40's.

Cotton prices have made a nice run over the last 2½ weeks. Since the low on November 15th, prices rallied to just short of 45 cents per lb March futures on Nov 30. Prices actually began the slide after that and today's close I guess just put the hammer on it. So the coming week will tell us if we can hold the 42-cent floor and rally back to recover at least some of what has been lost. I suspect the odds are good that we will.

The lateness of crop harvest in Texas combined with weather problems also in Texas and good export sales gave the market a good run of almost 3 cents/lb before the decline this week.

The futures-AWP spread has widened during the later half of November. The Southeast basis has also been very favorable at 150 to 200 under March. When this "spread" widens, it means the AWP is declining (so the LDP or Loan Gain is increasing) relative to cash prices or prices are increasing relative to the LDP. Either way, a wider "spread" means total money to the producer is increasing. The spread has increased from 7-9 cents the first half of November to about 10-11 cents recently. Because the AWP is changed only weekly, timing of sales to take advantage of a run in cash prices while the AWP is fixed can mean higher total money to the producer. Likewise, if cotton is in loan, a wider spread means a larger Loan Gain or equity.

The LDP is the producer's friend. It protects you from lower prices because the LDP tends to increase as prices fall. If you have already taken the LDP or POP, but still hold your cotton- remember you have no downside protection on that cotton unless you have Put Options. Take advantage of rallies as they occur.



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