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

COTTON MARKETING NEWS

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Each year, before the start of deer season, I take my rifle to a local spot to sight it in-- to make sure the scope is on target and make adjustments if needed. The purpose of this exercise is to give myself the best chance of not missing the "opportunity" when he/she comes along. After watching the cotton market over the past few weeks, I am firmly of the opinion that we need to "adjust our sights". I <u>am not</u> saying that prices will not improve as we look out over the next few weeks and months, but what I am saying is that the political and perhaps even market forces have very likely been altered and we, therefore, need to adjust our thinking accordingly. We need to re-think what is and isn't a good pricing "opportunity" and strategy.

Cotton futures (December) prices closed at approximately 83 cents per pound on October 29. On November 25, prices (March futures) closed at approximately 67 cents per pound-- a decline of about 16 cents. Now since the high of 83 cents, prices seemed to settle quite comfortably around the 77-79 cent area for a few weeks before the market made it's awful break to the 67-cent level. Since that time, in more recent days prices have attempted a recovery-- have tried to make a move back to the low 70's. So, I feel comfortable in thinking that the "truth" is probably somewhere in the middle-- that 83 may have been too high just as 67 may have been too low.

I have said previously that I believe 73-75 cents may be the "bottom" of the market given the supply/demand fundamentals as we think we know them. The recent price break ripped through that but I believe the market is trying to track back to that area. If and when it can, I will feel better about the longer-term possibilities of moving even higher. For now, let's just say that if I'm holding cotton I've lowered my sights to target 75 cents first and then I'll think about 80 cents later.

A major reason for the price break was announced trade sanctions against certain textile exports from China to the US. This has been heralded as a plus for the US textile industry but not a good sign for US exports. China has been a major buyer of US cotton this season and some fear the sanctions will hurt US sales to China. Exports have, in fact, been erratic in recent weeks. The bottom line is, frankly, no one knows what will become of this-- good or bad. It seems to me if less <u>exports to</u> China and less <u>imports from</u> China were equally good for the US textile industry, there is no reason for prices to react downward. Only time and the facts will tell. World supply/demand numbers are supportive of prices. As long as export sales to China continue good, prices have a chance to recover.

It's going to be risky, but don't sell your cotton in a panic. Give the market an opportunity to recover and for the basis to continue to narrow (we've gone from –750 March to –550 March in the past 2 weeks). But, it might not be wise to hold every bale in hopes of 80 cents. Take your first "shot" at around 75 cents. Another strategy would be to buy time in the form of May or July Call Options at not more than 2-2 ½ cents. If you hold cotton another 3-4 months you're going to have that cost in storage and interest anyway. Using the Option protects you from further market declines.

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