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

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2011 Price Outlook

Marketing decisions for the 2011 crop have started out on a good note. This years crop is barely harvested and already we've had prices for next years crop (Dec2011 futures) over 90 cents for most of the time since Nov 1. Marketing the 2011 crop will not be without challenges, however, and that time may be arriving soon.

As we look ahead to 2011, several things we know—(1) US cotton acreage and production will increase, (2) World production will also likely increase, (3) we may go into the 2011 crop marketing year with even tighter World stocks than this year, and (4) demand will have to stay strong if we expect prices to hold.

USDA's December supply/demand numbers released today were neutral at best and perhaps even a bit bearish—depends on ones perspective. A trend worth noting is the continued decrease in World demand—estimated at 120.77 million bales back in October and now 116.25 million. This could signal the impact of high cotton prices. If US and World cotton production increases in 2011, a flat or declining demand would not be good for the markets ability to keep prices where they are.

Todays report dropped US production 150K bales and increased US mill use 100K bales. Projected exports were unchanged from the November report. As a result, US stocks are now expected to be only 1.9 million bales when we start the 2011 crop marketing year on August 1—just over a million bales less than we started this year with. 1.9 million bales would represent just barely over 1 months annual use. If the USDA projection of exports (15.75 million bales) is realized, the US (the World's largest exporter) would essentially have no cotton until the 2011 crop is picked, ginned, and available in the warehouse.

Dec2011 closed today at 94 ½ cents. Prices have rallied since the dip to around 84 about 3 weeks ago. Prices have been as high as around $1 back in early November. I think it's a fair statement to say that many farmers have already priced some amount of next years expected production. Some cotton was probably priced at 85 cents or better and/or some at 90 or better.

Because stocks are expected to be very tight, prices for the 2011 crops should remain very favorable. This most recent run to 95 cents or better tells us that prices in this area or higher can be achieved and are possible, especially if the 2011 crop does not get off to a good start. For that reason, farmers will want to consider pulling the trigger on pricing a portion of expected 2011 crop when that happens. If demand becomes flat and if acreage and production increase, prices could dip into the 70's and if I'm a producer, I want to avoid selling too much of my crop in that territory.

As I said, the US is expected to increase cotton acreage in 2011. The US planted 11 million acres this year. Prices are expected to remain in the 80's or higher to attract acreage. With corn and soybeans also higher, cotton prices below 85 cents may not be sufficient to bid-in much additional acreage especially in the Mid-South. I expect acreage elsewhere to increase. Because supplies are very short, and provided demand does not erode, prices for the 2011 crop should remain mostly in the 85 to 95 cent area until the supply side (2011 acreage and crop condition) is firmed up.

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