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

COTTON MARKETING NEWS

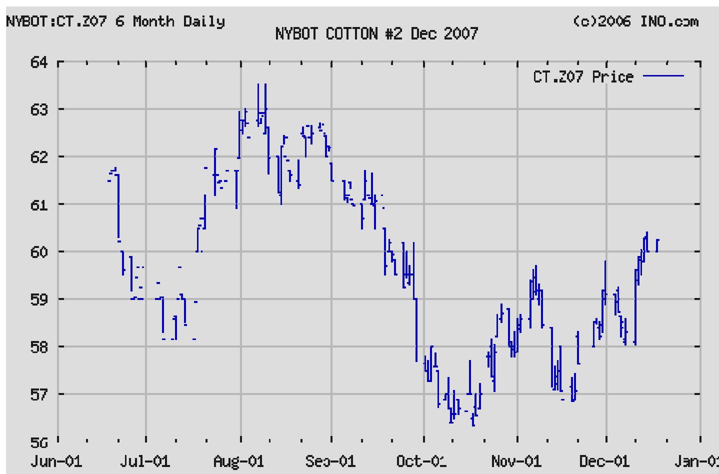
Volume 4 **Number 46** **December 15, 2006**

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

2007 Crop Gets a 6 In The Front

"….. 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." ***Don Shurley, Cotton Marketing News, 12/1/06****.*

New crop (Dec07) futures moved over the 60 cent mark this week- closing today at 60 cents per pound, down slightly from Thursday but up 1.66 cents/lb for the week.



USDA's December forecast released earlier in the week on Monday, was really a mixed bag and does not clearly explain this week's new found optimism…. US exports were dropped and ending stocks raised, China's crop was increased and their imports reduced, and World stocks were raised. Weekly export sales numbers released yesterday, 12/14, were up 36% from the previous week but still 29% behind the 4-week average.

Prices have improved 3 cents since the lows set in October and again in November. By marching to the 60-cent area this week, prices broke through (barely) the barrier at 59½. It looks as though the market is now willing to cast its' lot a little more in favor of better prices… it will be an important test to see if the market can hold above 60 cents over the next few weeks.

I will remind everyone of several basics—that (too) low prices are driven up by demand and (too) high prices are driven down by the lack of demand (buying). Rumor has it that China will eventually be a big buyer of cotton (US). If that buying can take place at these higher prices, then this improved market can certainly be sustained. So, over the next few weeks and months, sales need to prove the market.

There is also apparently FINALLY beginning to be some fuel added due to concerns over 2007 cotton acreage. I have no doubt that acreage will be down in 2007 IF corn and soybean prices remain attractive through planting time. What does the price of cotton (including an LDP) need to be to compete with \$3.75-\$4.00 corn and \$6.75-\$7.00 soybeans? I believe it would probably need to be 60 to 62 cents or better for many farmers which would translate into the mid-60's area on the futures market. I certainly can't speak for every situation but for some farmers, having corn or soybean harvesting capability will be a major factor. If having custom harvested, that additional (variable) cost could swing the equation back in cotton's favor.

Reduced acres alone may not sustain higher prices… depends on foreign supply and demand.

Don Shurley, University of Georgia
229-386-3512 / donshur@uga.edu