

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

COTTON MARKETING NEWS



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Looking Ahead To 2006

March cotton futures seem to have found much needed support. Prices will likely trade in the 50-55 cent range for the near future—moving to the lower end of the range on poor news and to the upper end on good news. Recent improvement in price over the past couple of weeks can be attributed to early cold weather concerns in Texas and encouraging export numbers. We may need 6-7 million bales in sales to China to meet the projected 16+ million bale target.

I will not go over USDA's December numbers in depth - that ground has already been plowed. The US will produce a record crop, but production is down from last year (or just back closer to normal in some cases) in other major producing countries and demand continues to climb. My view is that supply tends to be more variable and uncertain than demand. As we look ahead to planting the 2006 crop, world price will first have to be sufficient to get enough cotton planted, then direction will depend on crop conditions and the demand side.

I have become increasingly concerned about the costs of production in cotton. 2006 is going to be a very expensive year. As I have said in this space before, the US marketing loan program gives the cotton producer (basis Southeast) about 60 cents for cotton including LDP/POP, loan gain, or merchant equity. Without above average yields, however, I do not believe 60 cents is enough to make a profit. I know it's the same old song, second verse but producers must continually find ways to reduce the cost per lb of lint (not per acre) and market their crop in such a way as to bring home something better than 60 cents. Such strategies might include forward contracts and/or use of Puts and Calls at the appropriate time.

2006 will be a critical year for cotton. The House and Senate versions of budget reconciliation for agriculture are on the table and the differences must now be negotiated. Both versions contain elimination of Step 2, both contain cuts in program payments although by different amounts, and both contain reduction in the percentage of advance Direct Payments. Debate on the 2007 farm bill will kick off in earnest and debate over WTO will heat up. Cotton is in the crosshairs. It will be vital to find a solution that does not jeopardize our ability to export cotton (to be competitive at whatever price world supply/demand dictates) while maintaining price support for the producer. I would also like to see discussions begin on what, sadly if anything at this juncture, can be done to turn the US textile industry around. A more vibrant US industry would take some pressure off exports and international forces.

Lastly, regardless of whether you are a producer, ginner, merchant or other segment of the industry let me take this opportunity to thank you for what you do. Producing, processing, and marketing US food and fiber is a high-investment, high risk business and an important part of the US economy and the social "fabric" of this country.



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