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

COTTON MARKETING NEWS

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If you are still holding cotton, your patience may be starting to pay off. I am encouraged by recent events in the market. *We are not out of the woods by any stretch of the imagination*, but perhaps we can be encouraged by what has and hasn't happened in recent days and weeks. Most observers still feel the longer-term outlook is up and, for that reason, perhaps it is worth the risk of continuing to hold cotton. I suspect that most producers (at least based on the phone calls I have been getting) are less concerned about the longer-term outlook and more concerned about cashflow needs and the more immediate term. Despite what the price outlook may or may not be, reality is that needs of the business must be met… so holding cotton may not be an option and if it is, it's more a matter of how to do it.

Cotton prices (March futures) closed today on a good note at 71.29 cents per pound -- up 196 points for the day and up 98 points over last week's close. The market really hasn't done much for 2 weeks and seems content for now around the 69 to 70 cent area. I don't worship the charts and the "technical approach" to prices, but when you look at where prices have been and consider all we think we know on the supply/demand side it appears to me that (a) the floor on this market seems to be 67-68 cents, (b) the possible upside appears to be 75 to 80 cents, and (c) today's rally to the 71 cent area puts us pretty much half-way between the top and bottom depending on how optimistic you are on the upside. So, at this juncture, I would have to conclude the market is at a "neutral" point.

I am encouraged that prices are more or less trying to hold around 70 cents. I say "encouraged" because things have been a lot worse in recent years and the facts as we think we know them on the supply/demand side have yet to be proven… yet here we are at 70 cents.

USDA's December numbers released last week did not reveal another decline in the estimate of the China crop as some expected. Yet the market seemed to care little about that. Thus far, export sales and shipments have been something less than exciting. *If anything, this is the one thing that concerns me at the present time*. Sales and shipments, for the most part, are not yet on pace to meet USDA's projection of 13.2 million bales. Yet the market is trying to maintain its' head above water.

The hard facts are that the China crop is down, their mill industry is experiencing tremendous growth, they need 7 million bales of imports, and they can't get it without US cotton. I suspect that when exports sales pick up (and they will/must unless USDA has completely missed this one), then prices will spark and give producers opportunities to make additional sales. So don't get caught napping. Also, as expected, the basis continues to improve. Southeast cash prices for 41-4/34 are now 425 points under March. Based on today's close, cash price is 67.04 cents per pound +/- quality adjustments.

The best (least risky) way to generate cash and still participate in any possible further price increase (buy time) would be to purchase out-of-the-money Calls. Otherwise, risk the market and hold on. My best wishes to you for a joyous Holiday season!

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