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

COTTON MARKETING NEWS

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Could There Be A Reversal Of Fortune?

Cotton continues to trend upward with both old crop (May13) and new crop (Dec13) nearing the 85-cent mark. The uptrend is starting to show a little "nervousness" taking on a little more sideways look. But it seems the bulls had 85 cents in their eyes and now we're essentially there. I wouldn't consider the uptrend "broken" until we close down below about 83 cents.

May13 is trading at just under 84 cents today and up slightly from yesterday. May13 closed at 84.46 on Wednesday—the highest daily close in 9 months. May has been in mostly the 83 to 84 cent range now for 3 weeks.

For spot market (recap) sales, the basis is currently -135 May for 31-3/35 and -400 May for 41-4/34.

Dec13 is also trading at just under 84 cents today and also set a new near-term high close on Wednesday at 84.27 cents. Dec13 has increased about a penny over the past 2 weeks—again it's starting to look and feel like a bit of a slowdown. Most contracts in the Southeast (or at least here in GA) will be -200 Dec13 so this represents ample opportunity to lock 80 cents or even better on whatever portion of this years expected production you care to.

It really doesn't matter which side of the fence you're on (whether you think prices will move even higher or move lower), this uptrend is most likely too good to turn down if you've still got old crop to sell or are looking to book some of your expected new crop. No one knows where prices will go. But, with Dec13 now standing at near the 85-cent mark, I think risk to the downside is a little greater than potential to the upside right now

As we move forward, there are several factors in play that will determine if we can hold this level, move even higher, or retreat lower. #1—I think there's beginning to be general consensus that the National Cotton Council's 9.015 acreage number is too low. How much will we actually plant? #2—What will be China's policy on using its reserves? If for whatever reason that cotton will not be used, that changes the global supply picture significantly. #3—How will prices at 85 (or higher should we dare to go there) vs. prices at 75 cents impact US exports and China's use of its reserves? As stocks move into the pipeline, this will act as a cap on price. #4—What is the outlook for Southern Hemisphere (mainly Australia and Brazil) production? This crop will be harvested and available this spring and summer and compete for exports.

Planting decisions for 2013 will depend on costs, prices as we get closer to planting time and expected season average prices, yields, weather, and risk management (crop insurance). It's the nature of farming that you have to make a decision now based a largely unknown future. Farmers make a decision to plant this much of one crop and this much of another based on prices they largely have no control over. Prices can change and you can end up looking back and saying you may have done it differently had you known how things would eventually work out.

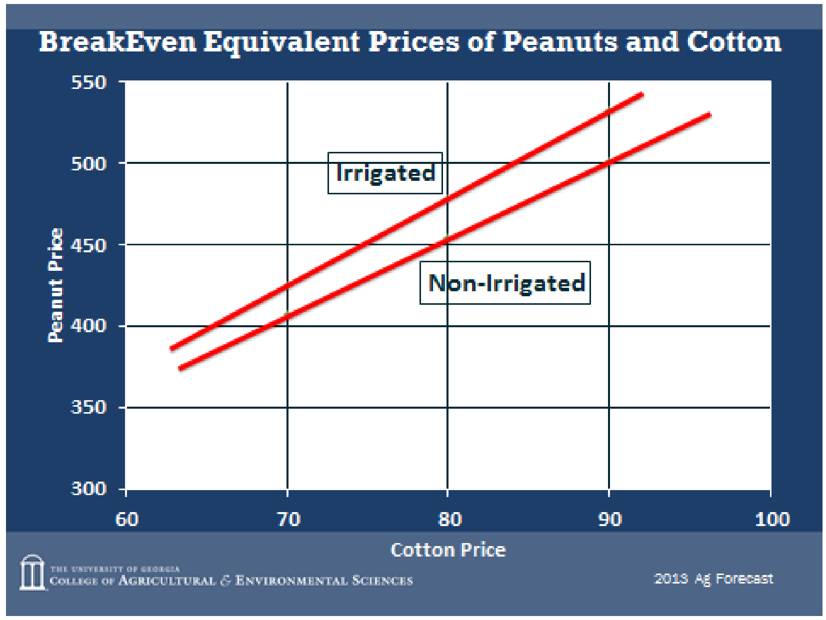
In planting decisions, it's "relative" prices that are important. The fact that cotton (Dec13 futures) is now about 84 cents is not as important as how that compares with other cropping alternatives. Corn (Dec13) was once over $6.50 but now stands closer to $5.50. Soybeans (Nov13) were once close to $14 but now stand at under $13. So, cotton seems to be getting "bullish" while corn and soybeans appear more "bearish". For many Southeast cotton growers, peanuts are also a very important crop. Peanut prices and acreage are expected to be down but since acreage will be down, prices could strengthen a bit after harvest based on good demand and exports.

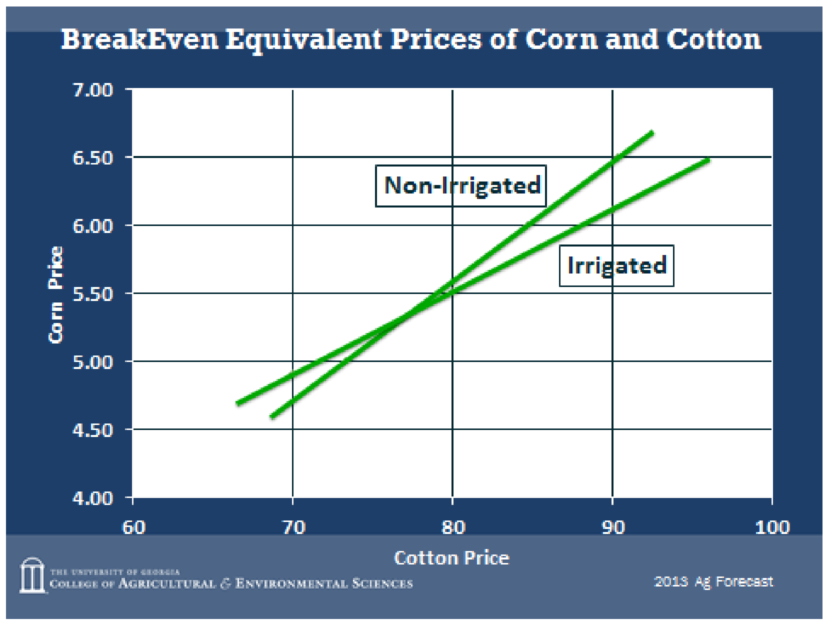
These charts are based on UGA Extension crop budget estimates for 2013. They are typical for south and east GA but may not be for other areas of the Southeast and the Mid-South where yields and cost might make soybeans and corn more easily competitive.

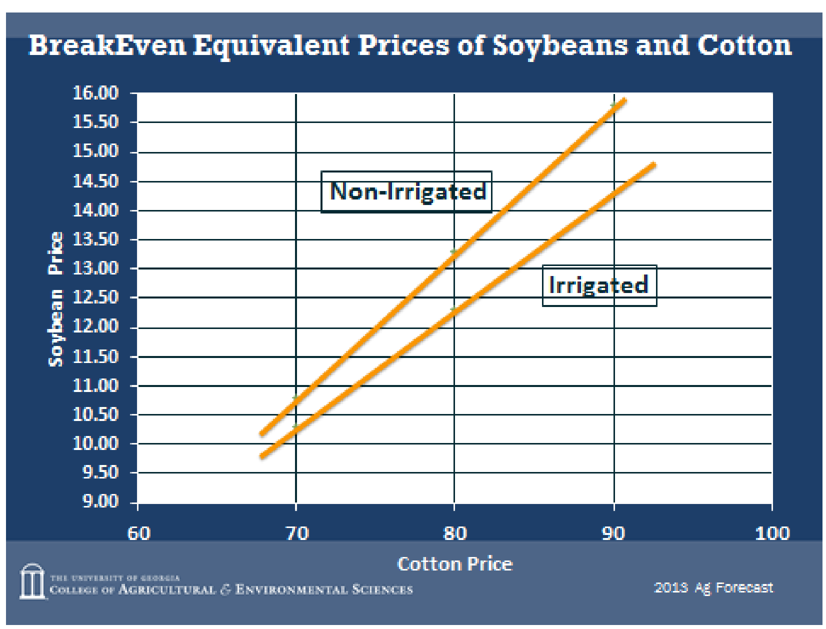
The charts are based on non-irrigated yields of 85 bu/acre for corn, 750 lbs/acre for cotton, 3,200 lbs/acre for peanuts, and 30 bu/acre for soybeans. Irrigated yields are assumed to be 200 bu/acre for corn, 1,200 lbs/acre for cotton, 4,500 lbs/acre for peanuts, and 60 bu/acre for soybeans.

The line in each chart represents the combination of prices that would give the same net return above variable (out-of-pocket operating) costs. If non-irrigated cotton is 80 cents, for example, non-irrigated peanuts at $450/ton would bring the same net return. If irrigated cotton is 80 cents, irrigated corn at $5.50/bu would provide the same net return.

For any price combination below the line, net returns would favor cotton. For any price combination above the line, net returns would favor the other crop.







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