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

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The Path to 70 Cents Still Negotiable- But Is Now a Rockier One

Growers waiting on 70 cents, some/most are still waiting while others may have taken some sort of action already at the 67 to 68-cent area. The goal of 70 cents is still possible but each passing day likely lowers the odds that we can get there—and that needs to be taken into account. ***Not all is lost—we just need to make sure we know what we're doing, why, what our alternatives are, and act accordingly.***

Prices (Dec futures) made a charge at the 68-cent (resistance) level back around the end of June. That rally failed to move on to 70 cents and since that time, has trended back down. Dec now stands at roughly 65 cents and has traded mostly between 64 and 66 over the past couple of weeks. ***Here's what we need to consider:***

(1) The "upward ceiling" is clearly now at 68 cents—we don't reach 70 without the market being willing/able to jump this hurdle.
(2) Prices, at least for now, still seem willing to stay on or just above the "trend of higher lows"
(3) If this trend fails, the market could move to the 62-cent area.
(4) There are some analysts that fear this market is headed to the upper 50's.

Keep these 4 things in mind and let's now discuss several factors in play. The August USDA production numbers will be the first for the new crop based on actual producer survey. Everything to this point, except for acreage planted, has been estimates based on adjustments from historical averages. The August report may also contain a revision in Texas acreage planted. The crop is currently estimated at 14.5 million bales. Don't bet on the crop getting much if any smaller. Even if acreage planted is less than 9 million acres, we all know the crop is determined by acres to be harvested and yield. By most accounts, yield potential appears to look very good.

There is growing concern about the China economy and impact of their mill industry. USDA's July estimates dropped 2015 crop year mill use for China from 36 to 34.5 million bales and reduced expected imports from 6.0 to 5.75 million bales. On a more positive note, at least for exporting countries like the US, sales of cotton from China's government reserves has been weak. There continue to be uncertainties about the quality of this cotton.

The events of Greece and Iran, while seemingly not related, do have an impact on investors and commodities. The strength of the dollar also comes into play—making US exports relatively more expensive. The most recent export reports have been favorable. Probably not, but USDA's August report could show a slight increase in 2014 crop year exports (currently at 11 million bales) which would, all other things remaining the same, would reduce 2015 crop year carry-in slightly.

The price outlook continues to be a mix of both potentially bearish and bullish factors. Some analysts are looking for the August report numbers to finally be the bullish catalyst. I won't go that far but I will say that it's another opportunity in what seems to be a dwindling set of opportunities for the market to turn upward. Likewise, if the August numbers disappoint the bulls, the market could threaten the support levels.

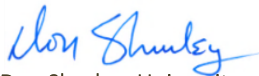
What are the strategies/decisions to consider for growers? If you're waiting on 70 cents, that's fine; just consider the risks and evaluate the alternatives. You may or may not be rewarded for waiting. Your worst case scenario is that prices drop further in which case an LDP will be available. Consider how you will stand with regard to payment limits.

At any time or if prices rebound a bit, you could consider contracting a portion of expected production. If contracting, however, it would be advantageous to make sure you get a strong basis and premiums for fiber quality. Demand is expected to be good for good quality fiber—get paid for it. Also, it's advised that you make sure you know if and when you have "beneficial interest" based on the terms of your contract—that you know if and when you are eligible for any LDP.

You may also consider purchasing Put Options. A Put will especially protect you in the event this market heads to that below-60 area. If prices go that low, the value of the Put should increase enough to at least offset the premium paid. You would then still be eligible for any LDP and still able to capture premiums on the spot/cash market for quality. On the flip side, if you buy a Put and the market goes up, you lose the premium but still benefit from the market going up and if prices improve enough, might offset the premium loss.

Alternatively, in lieu of these or on the balance of the crop, you could just be resigned to put the crop in Loan and see what happens over the winter and spring.

There are no guarantees with any of these strategies. You have to make your decision based on where you think the market is headed and how much risk you are willing or able to take.



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