

# The Hightower Report

*Futures Analysis & Forecasting*

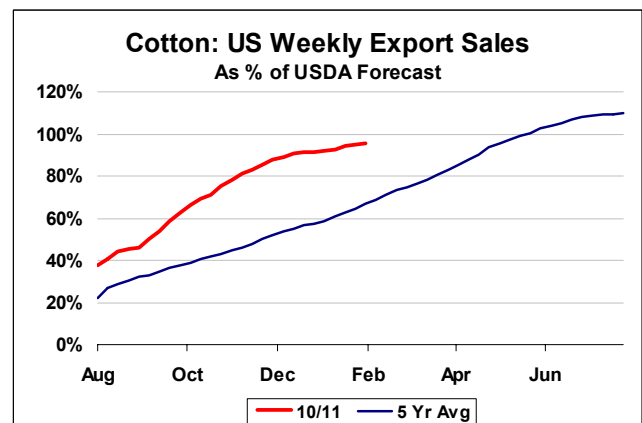
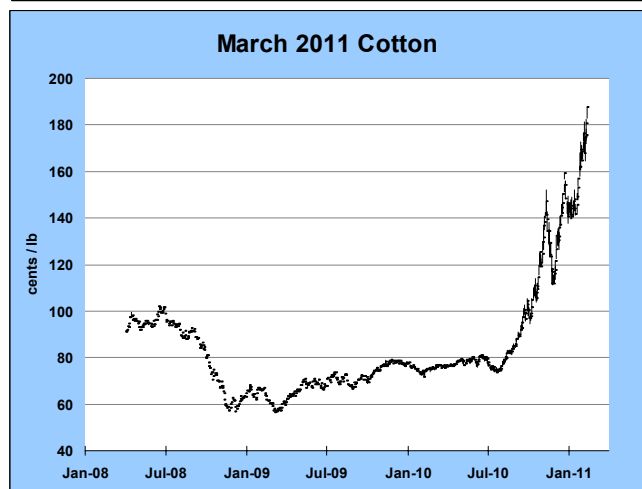
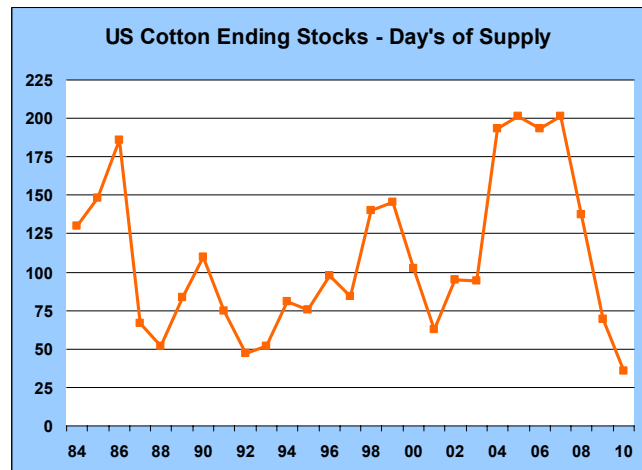
Cotton Outlook  
February 11, 2011

The cotton market remains in a steep uptrend. An extremely tight US stocks outlook and ideas that global demand will remain strong are the foundation of the recent rally to new all-time highs. While traders continue to see evidence that new crop supply will rise and will reach and likely exceed anticipated demand for the 2011/12 season, they remain concerned about the La Nina weather pattern and the dry conditions in Texas and China. There has also been a lack of evidence so far that old crop demand is slowing.

As China traders returned from the New Year holiday, China cotton futures soared to new contract highs. This, along with continued strong weekly export sales from the US, sparked another new all-time high for March cotton to 194.55. There is more and more talk that the market will make a run at 200. The market's 18% gain over in only 5 trading sessions has left the market extremely overbought.

The weekly export sales report as of February 3rd showed continued strong demand, with 111,100 running bales sold for the current marketing year and 193,700 for the next marketing year for a total of 304,800 bales. This was once again above trade expectations. Only 25,000 bales of old crop sales are needed each week to reach the current USDA forecast. Cumulative US cotton sales stood at 95.6% of the USDA forecast for 2010/11 (current) marketing year, well ahead of the 5 year average of 66.8%.

At just 1.9 million bales, US ending stocks for 2010/11 are projected to be their lowest on record going back to at least 1960. (Last year's ending stocks totaled 2.95 million bales, and the previous year's was 6.34 million.) This will result in a stocks/usage ratio of just 9.8%, down from with 19% last year, 37.6% two years ago and 55.2% three years ago. World cotton has been trading at a 20 to 25-cents premium to US cotton in recent



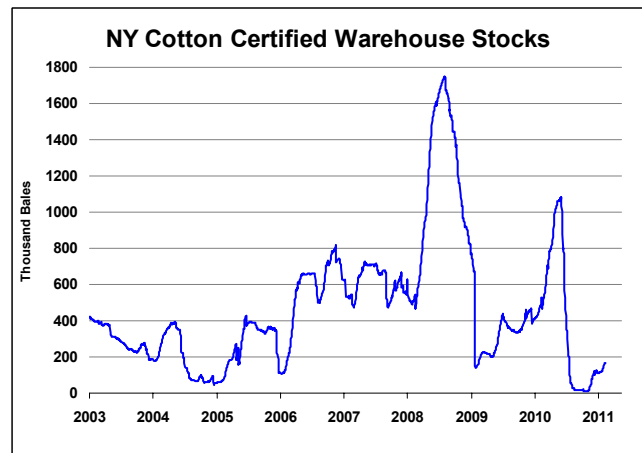
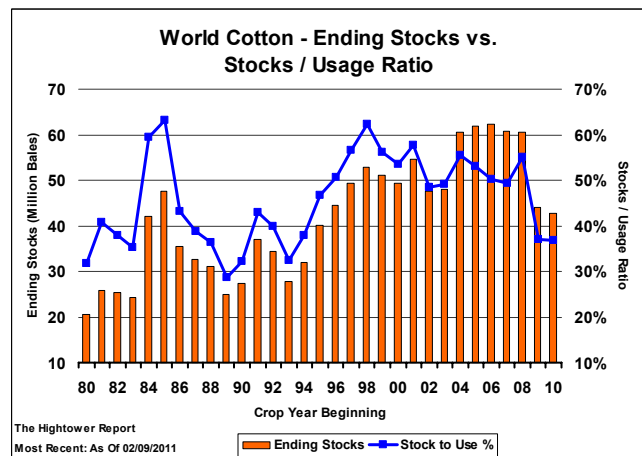
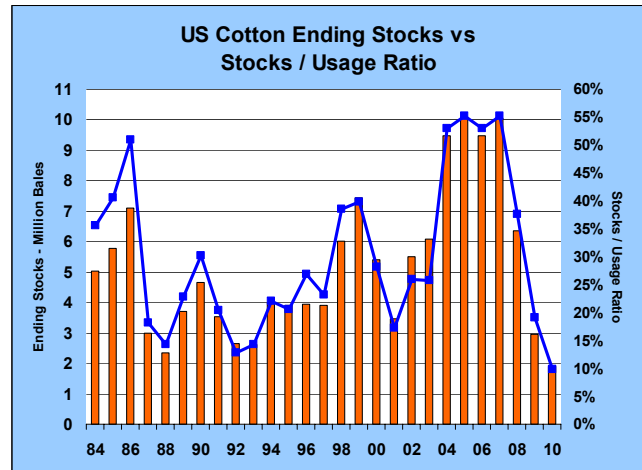
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weeks. As long as world values stay above US values, exports should remain strong. If that happens, the USDA will eventually be forced to increase its export forecast and lower its ending stocks forecast even further.

In the February USDA supply/demand update, world ending stocks were revised fractionally lower to 42.81 million bales, and world demand was left close to unchanged from last month at 116.55 million bales. This was down from 118.52 million last year. World ending stocks were projected to be the lowest since 1995. China's demand was much stronger than expected coming out of the recession, and planted area in the US and other key world producers shrank. Flooding in Pakistan and a decline in Chinese production left the market short on supply. India's cotton industry officials believe that their nation's actual crop production may come in below current official estimates and that the export cap at 5.5 million bales will remain in place.

ICE certified deliverable exchange stocks increased to 168,894 bales over the past few months after falling to around zero in late 2010. This leaves some wiggle room for deliveries in March, but merchants are holding tight.

Looking ahead, traders see US plantings up at least 14-18% this season. The National Cotton Council basically confirmed the lower end of that estimate when it released the results of its annual planting survey indicating that US producers will plant 12.5 million acres this season. This would be a five year high. The China Cotton Association has pegged their 2011 plantings to increase 9.8% from last year. In Mato Grosso Brazil, their largest soybean producing state, cotton plantings this year are pegged at 671,100 hectares, up 60% from last year. Brazilian officials raised their cotton production forecast to 1.95 million tonnes, up from 1.84 million last month and 1.19 million



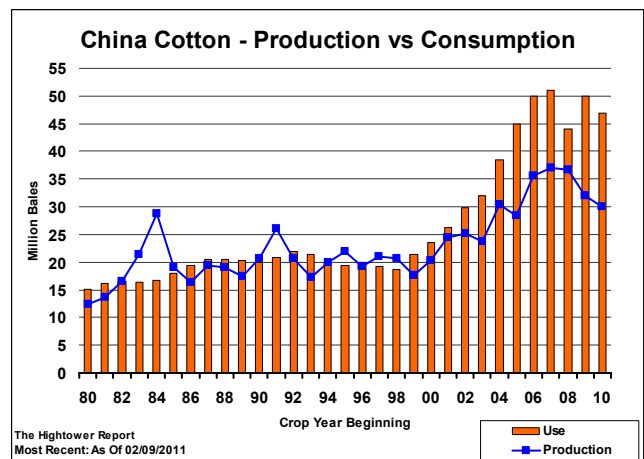
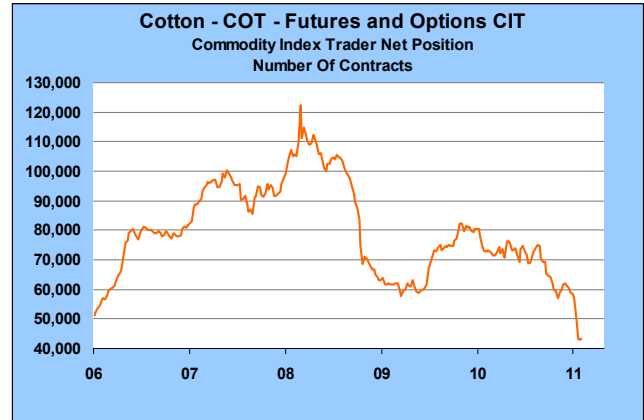
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tonnes last year. Australian officials estimated that 7% of their 2010/11 plantings were destroyed by the recent storms.

The International Cotton Advisory Committee believes world production will increase to 126 million bales for the 2011/12 season, up from 115 million in 2010/11. Consumption is expected to jump to 117 million bales from 114 million this year.

The Commitments of Traders reports as of February 1st showed non-commercial traders were net long 59,233 contracts, an increase of 5,182 for the week. While this was at the upper end of the historic range and suggested an overbought condition, it was still well short of the record high of 99,866 contracts from February of 2008. Commodity index traders held a net long position of just 43,402 contracts, up 567 for the week, but the previous week was the lowest on record. (The available data goes back to January 2006.)

The cotton market seems to be in a position where any signs of a weaker global economy, especially in China or normal weather in the early growing season would help forge a major top for both old and new crop cotton contracts.

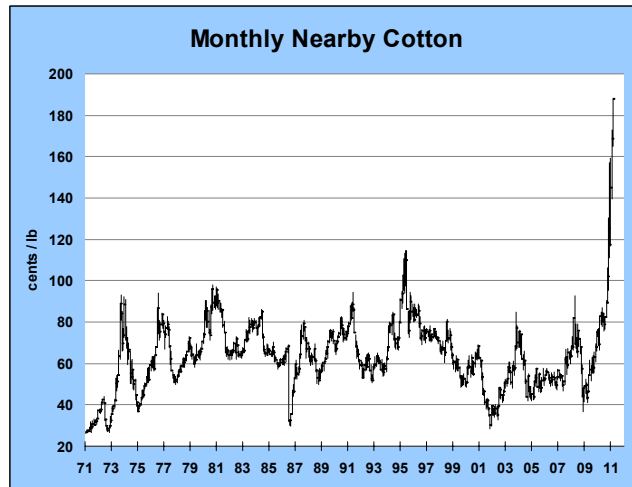
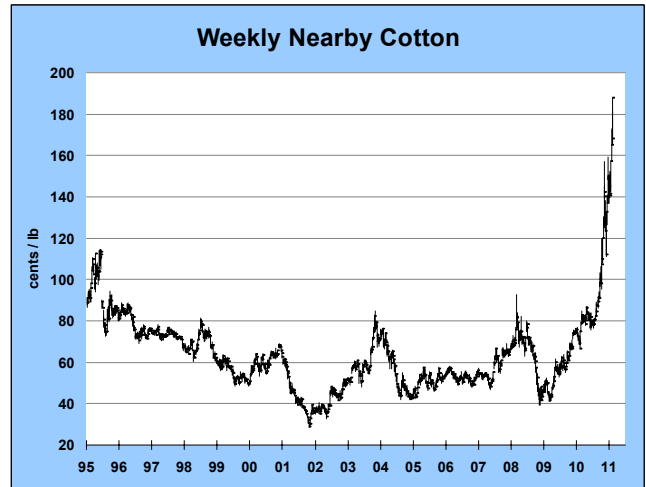
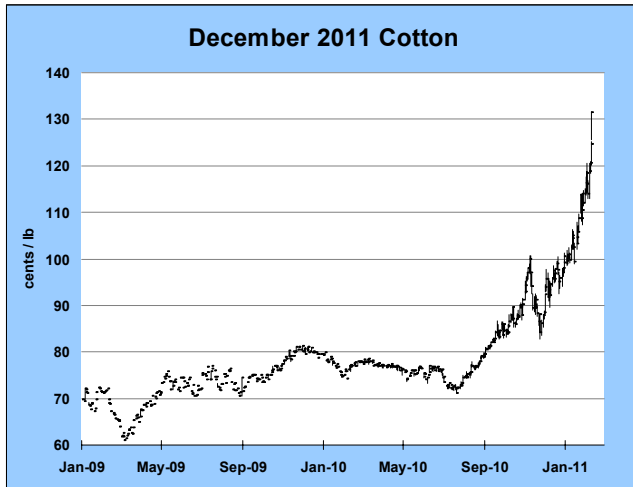


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