

# AUTAUGA COTTON QUALITY ASSOCIATION

SERVING OUR MEMBERS  
SINCE 1967

I've said it many times this spring—it doesn't have the impact it did at one time, but I can't recall ever experiencing a planting season where getting a stand of cotton was so difficult. The crop condition reports you are about to read from our field staff will detail how weather extremes from floods to droughts have plagued the entire Cotton Belt. As a result, the U.S. crop is faced with record acreage abandonment in West Texas and a later than normal crop back east.

Adding to the frustration, it all comes at time of record high cotton prices. From the outset this looked to be a year of exceptional profit margins even despite inflated input costs. All we simply had to do was produce a decent crop. These unforeseen hurdles and resulting yield uncertainties have dulled these expectations. In addition, these struggles have revealed the tremendous risks associated with forward contracting versus pool marketing. Guaranteed delivery contracts never seem to pose a risk in the winter when prices are rising and fixations are appealing as they do during the growing season when outside forces can put severe limitations on production. Buying out of bale contracts can be proven quite costly, sometimes erasing any potential profits on delivered bales. Pools, on the other hand, offer the ultimate in price risk management. In essence, the pool is an acre contract wherein you are only required to deliver 100 percent of what is produced, nothing more. The maximum cash price is applied to every bale produced without that number having to be predetermined by you before harvesting. Don't get me wrong, forward contracting can be advantageous in strong markets such as what we're experiencing, but only when used judiciously, conservatively, and in conjunction with pool marketing. Otherwise, the risk falls too heavily on you, the producer.

As trying as this crop year has been thus far, let's forever remain eternally optimistic. I pray for God's blessing on you this growing season. I appreciate the trust and support you have given AQCA, and I pledge everyone on our staff will be working diligently on your behalf.

Executive Vice President  
Jeff Thompson

## **Crop Conditions**

### **Southeast**

The cotton crop in this region goes from really good to ugly to somewhere in between. Traveling north from Montgomery, Alabama, through the Tennessee Valley, and into the Carolinas the crop looks extremely good with excellent yield potential. Growers were able to capitalize on soil moisture, plant on time, and obtain near perfect stands. Presently, cotton is in full bloom and being monitored closely for insects. Up until now, plant bugs have been the major threat with many fields receiving multiple insecticide applications for control. From this point on, with increasing moth activity, our attention will shift to escaped bollworms and stinkbugs.

Travel in the opposite direction through lower Alabama, Florida Panhandle and into Georgia, it is a totally different picture. Months of droughty conditions and oppressive heat hindered our efforts at getting cotton stands. Most growers, after delaying planting in anticipation of rain, had to succumb to “dusting cotton in”. As often happens with this risky practice, skippy stands were the result necessitating a higher percentage of replanting. Therefore, the majority of the Southeast crop will be very late. Uncertainty always accompanies a late crop. The smaller fruiting window allows no margin for error. Production practices from this point on must encourage plant maturity and fruit retention. Fortunately, newer varieties, Bt technology, elimination of the boll weevil, and plant growth regulators have all increased the odds of making a late crop.

On a positive note, we have seen isolated thundershowers become more numerous over the past few weeks. We have a long way to go before this crop is in bagging and ties, but it has more yield potential than it did three to four weeks ago. At present, I would rate the crop an A- in the northern part of the region and a C- in the southern half the region. As I used to say in college around mid-semester, “We still have time to pull these grades up.” - Jeff Thompson

### **Mid-South**

The mid-south, like the rest of the cotton belt, has experienced a tough season so far. Cold snaps, no rain, too much rain, flooding, drought, and waiting on the locust to show up have been a few of the problems. Overall, the crop is ten days to two weeks late. Despite all the setbacks, there is some good news out there. USDA has the Mid-South crop rated just under 60 percent good to excellent, with Tennessee the highest at 80 percent and Louisiana the lowest at 40 percent. Insects continue to be a problem; plant bugs and stink bugs have remained a consistent problem and spider mites are still a problem where it is still dry. Dryland corn is maturing fast so I look for spraying to continue until we start picking. Showers have been scattered, the southern part of the Mid-South has seen fewer rains than the northern part, and those who can irrigate have been going full speed.

This season is long from being over—but considering the start we had, things could be a lot worse. If we catch a few breaks we could still make a good crop. - Hayne Matthews

### **High Plains of West Texas**

The past nine months have been the driest ever in West Texas since records began in 1895, according to the National Weather Service. For the first time on record, the High Plains dryland cotton abandonment rate will be near 100 percent. With just over half of the overall acres in the High Plains coming from dryland cotton, it's easy to see how big of an impact this will have on the 2011 crop year. Conditions remained hot, dry and windy with little to no moisture for most of the High Plains. On July 11, a few isolated thunderstorms fell across parts of the Panhandle, bringing light showers to scattered areas. Although parts received moisture, irrigated cotton still struggles under these difficult conditions. Rain is needed not only to keep this crop alive, but also to replenish the wells that continue to drop. Two weeks ago, the northern Floyd/southern Briscoe County area received large amounts of hail, adding insult to injury.

Producers are faced with difficult decisions concerning irrigation. Many farmers can't get enough water on to keep up with moisture demand, and electricity bills are adding up. Some have opted to shut off certain spans on their pivots, hoping to concentrate more water to certain acres. Most corn is looking stressed, so some producers have abandoned corn and diverting their irrigation to cotton. Irrigation continues to run around the clock, but 0.5" or more is being lost every day due to evapotranspiration. For the most part, crops are behind ranging from small squares to full blooms on top. However, producers continue to do all they can to give what acres they do have a fighting chance. While the yields will inevitably be lower than last year, a lot of the cotton remaining still has a chance to make a decent crop. - David Mullins

### **Rolling Plains of West Texas**

In the Rolling Plains of Texas, I would say we are having what someone would call a “typical Texas summer”. Some precipitation has been received at various places, but it has not been enough to help boost us out of this extreme drought. Many farmers have already filed for abandonment and adjusters have zeroed out their dryland acres. Others have already filed the necessary paperwork and are waiting on the backed-up adjusters to get to them. However, due to the historic number of claims, adjusters are backed up for weeks. Farmers continue to water the approximately 2,850 remaining irrigated acres in the Rolling Plains. After speaking with producers with irrigated land, they explained that adjusters are unfortunately not letting them release those acres right away due to the quality of the stand in the field. There has been a select few who have received zeroes on irrigated land, primarily due to

running out of water or not ever getting a stand from dry-planting, thus decreasing acres in the combined pools from 3,200 to approximately 2,855 (Seasonal Pool - 845 acres & Aggressive Pool - 2,010 acres). All farmers expressed great concern about the amount of water they will need to try and make a crop. Their main fear is running out of water sometime in August. Some have seen decreases in water pressure, which isn't totally out of the ordinary at this time of the year, but at this rate raises major concerns. The million dollar question is just how much cotton can they produce without significant rainfall.

The longer this drought continues, the more the projected yields decrease. With the help of a little rain, many farmers believe they can still produce somewhere between one to two bales/acre. However, many have expressed that with high input cost they will need to produce 1.25 bales/acre to make it worth their while. The projected total bales in the Rolling Plains assigned to the AQCA Pools will be an estimated 4,280 bales  $\{(2,855 \text{ remaining irrigated acres} * 1.5 \text{ bales/acre avg.} = 4,282 \text{ bales})$  (Seasonal:  $845 * 1.5 = 1,267 \text{ bales}$  & Aggressive:  $2,010 * 1.5 = 3,015 \text{ bales}$ ). For this to happen I believe rainfall is necessary to help replenish and give relief to the farmers' wells. Only four words could be used to close this out, PLEASE PRAY FOR RAIN! - Shane Stuart

## The Turnrow

As described in our crop condition reports, we have cotton at all stages of growth throughout our Association area, not to mention on the same farm. Proper timing of production practices becomes much more difficult under such conditions. The lateness of the crop requires that we be conscious of promoting plant maturity and fruit retention in everything we do from here on out. I would like to address a few of these items.

**Variety Response** – This is hard to accurately determine, for our experience with these newer varieties is quite limited. DP 555 was very predictable in that whenever given good growing conditions it could produce a crop in a short period of time. Many growers switched to earlier maturing varieties when replanting. It is known these varieties have a tendency to cut out quicker under stress. Precautions should be taken to minimize any undue stress during fruiting.

**Fertility** – Insure adequate potash levels for optimum boll development. Nitrogen should be applied at no more than 60 units per acre. If the crop is following peanuts or soybeans, consider reducing this rate by a third. Excess N will promote rank growth and delay plant maturity. Avoid foliar nitrogen fertilizer applications.

**Insect Management** – This will be one of the most critical factors in enhancing maturity. Since our fruiting window will be limited, we can ill afford to lose any squares or bolls to insects. As a rule, late maturing cotton garners more insect pressure. Cotton emerging June 1 will not bloom until August 1. History has shown

the last harvestable bloom date in the Deep South is around September 15. It is critical with only four to six weeks of fruiting to protect early squares. These are very susceptible to plant bug feeding. Maintain at least 80 percent square retention and apply control measures as soon as this threshold is broached. Be aware multiple insecticide applications may be needed under heavy prolonged pressure.

The use of Bt technology has caused some growers to discount the need for insect scouting. However, I cannot stress enough how important it remains, especially in late maturing cotton. Experience has shown even in Bt cotton that excessive bollworm damage can occur under heavy pressure. When scouting for worms, look throughout the plant. Bollworm moths will most likely not deposit eggs in the plant terminal, but rather in blooms and bracts down the stalk. Also, we are nearing the time stinkbugs begin migrating into cotton. A boll feeder, scout for this insect by checking quarter sized bolls for feeding punctures. Apply insecticide treatments when damage exceeds 20 percent; multiple applications may be necessary for control of this pest, too.

Aphids and spider mites, most often considered secondary pests, could slow plant growth and delay maturity, especially if the plant is already under stress due to factors such as dry weather. Simply be aware of their presence and treat if necessary.

**Herbicides** – Do not apply any herbicide material that will stunt plant growth or cause square shed. Personally, I would avoid Ignite applications over the top of Widestrike cotton in late maturing cotton.

**Plant Growth Regulators** – Avoid the common practice of lower rate multiple applications of PGR's at pinhead square. Instead, first bloom applications are preferred to reduce the risk of prematurely stopping vegetation in the event of a return to dry conditions. PGR rates should match the size of the plant. The larger the cotton the higher the rate of material you should use.

## AQCA News

A detailed market report from our marketing agent at Cargill Cotton follows in this newsletter. However, I would like to more specifically explain AQCA's pool position on both the 2010 crop, which has yet to be closed out, and the 2011 crop just planted.

**2010 Crop** – Currently, we have 50,000 bales of the 2010 crop still unsold. This represents 18 percent of our total volume for the crop year. Those who have been receiving our previous market reports electronically realize our volume of unsold inventory has not changed since March. This exemplifies the global demand destruction discussed in more detail in Cargill's Market report. Our close-out-date for marketing activity is normally July 31 for the previous year's crop. Due to the size of the remaining inventory it better serves the interest of AQCA to sell this cotton into the market, if

possible, rather than at spot quotes. The recent market decline of over twenty cents since July 1, to close below a dollar for the first time since last fall, serves to better our chances of doing so. With the prospect that such a downward move may stimulate new found mill buying, the leadership of AQCA has extended our marketing year for the 2010 crop to August 31. At which time, we will reevaluate our inventory situation and begin making preparations for final settlement.

**2011 Crop** – The excitement the cotton futures market created going up is almost equal to the stir it is causing going down. We all knew at some point price would eventually ration demand and the market would react accordingly, the question was when. The recent market decline is certainly reflective of this. The Dec 11 futures contract is down more than 50 cents from its contract high of 144.66 on April 6 of this year, closing below a dollar last week for the first time since September of 2010. At AQCA, we have been busy fine-tuning our estimated bale volume for the 2011 crop. This has been no easy task given the difficulties of this planting season. Nevertheless, we wanted to be able to confidently react to changing market conditions in an effort to provide price protection to the pool. After accounting for the record acreage abandonment in West Texas, the uncertainty of the late Southeast crop, and the 70,000 bales forward contracted, I estimate our pool volume to be 130,000 bales. Of this number, two thirds is in the aggressive pool while the remaining third is in the seasonal pool. Our marketing agent has been very proactive by heavily hedging the 2011 pools ahead of this recent market decline. Currently, about 90 percent of both the seasonal and aggressive pools are hedged at an average hedge price in excess of \$1.15. I caution you, this is a hedge price and not necessarily a final cash price. In any event, it does provide us price protection in a market that currently appears to have more downside potential than upside. Future plans are to implement trading strategies as the market allows to further augment our hedge position.

## AQCA Market Report

Despite the falling futures market, most spinning mills have refrained from sourcing cotton as they continue to battle the difficulties created by further yarn price declines. The demand driven market we experienced earlier this year which led futures to an all time high, thereafter sustained by supply concerns, and has quickly turned as demand seems to have totally disappeared.

Possibly the most critical event of the month was the December failing at \$1.15. During the month the market edged closer to the key \$1.15 support which was synonymous to Chinese reserve buying and a vital technical support level, which if broken, would be equivalent to staring down an abyss. It took

the market a couple of weeks but eventually it failed at the key support and quickly shaved off another 10 cents. During this time speculators have been reducing their long positions and it will be interesting to see whether speculators decide to enter into short positions based on this break.

Today's USDA WASDE report expectedly cut the US crop by 1 million bales. The government habit of incrementally reducing their crop estimates certainly makes a further cut a possibility provided the irrigated crop in Texas does not get some relief. As referenced in the first paragraph, the US weather scare has taken a back seat to the demand destruction and this fear was confirmed by the USDA cutting world demand by 2.2 million bales to 116.75 million bales. World ending stocks were increased by 2.75 million bales to 51 million bales.

We summarized the difficulties of this season in last month's letter and have now completed the painful task of rolling our unsold inventory through four inverses. We are not out of the woods yet as we still need to merchandize the unsold balance in a market which has not seen any significant demand for the better part of four months. As much as we want this season to be over, there have been valuable lessons learned this year which will make us better prepared to face future challenges.

To date, the seasonal pool payout is at 19 cents over the loan while the aggressive pool payout is at 33 cents over loan, both expressed in Rule 5 terms. At the direction of AQCA leadership, the marketing year will be extended until the end of August in an effort to get the remaining 2010 cotton inventory sold into the market. At which time, we will conduct another equity review and begin preparations for the final settlement.

Best regards,  
Michael Morawski

## AQCA Representatives

Jeff Thompson  
Southeast  
334-365-3309  
jthompson@aqca.net

Hayne Matthews  
Mid-South  
662-380-3013  
hmatthews@aqca.net

David Mullins  
Texas High Plains  
806-549-4137  
dmullins@aqca.net

Shane Stuart  
Texas Rolling Plains  
806-549-4070  
sstuart@aqca.net