



NUNN COTTON LETTER

NUNN COTTON COMPANY, INC. JANUARY 22, 2010

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Phone: 1-731-772-0184; Cell: 1-731-780-9036; Fax 1-731-772-0189
 email: nunncotton@newwavecomm.net EWR HOLDER ID M772018

	Close	CHN	WK CHN	HIGH	LOW	CONT HIGH	CONT LOW	WK HIGH	WK LOW	AWP: 59.98 A Index: 76.35
Mar 10	7107	-78	-81	7195	7098	8850	4967	7264	7052	09 Rule: 67.00
May 10	7231	-75	-87	7297	7220	9400	5138	7375	7282	09 Loan: 9-10.0
Dec 10	7292	-63	-81	7345	7266	10150	5387	7400	7245	10 Rule 5: 69.90
Dec 11	7672	-65	-76			8100	6107			10 Loan: 10-11

WEEKLY COMMENTS: COTTON CONTINUES RETREAT LOWER FROM JANUARY 4 HIGHS. MARKET FALLS TO LOWEST LEVEL SINCE NOV. 11 ON JAN. 20. CHINA WORRIES, WEAKER GRAINS, AND STRONGER DOLLAR INFLUENCE COTTON.

Monday was a holiday in the US. On Tuesday, cotton futures rebounded, trading to 72.64, only to drift lower and close below the previous week's low at 71.64, down 44. New business surfaced after the long weekend and that supported the market early. On Wednesday, futures made new lows with March falling to 70.52, its lowest level since November 11. A stronger US dollar and more credit concerns from China didn't help commodities Wednesday. March closed at 70.80, down 84 and December was down 56 at 72.76. Prices rebounded Thursday, posting only positive closes of the week. March 'rallied' back to a high of 72.08 (the previous week's close) and closed up 105 at 71.85. On Friday, the market retreated, forfeiting most of Thursday's gains with March closing at 71.07, down 78 and near its lows. The weekly export sales report was another solid one, with net new sales of upland and Pima totaling 346,500 bales.

Informa this week released their US acreage estimates for cotton placing US acreage at 10.163 million acres for all cotton. This would be an increase of 11.1% from 2009.

With the three week drop by futures, US cotton again has become competitive in world markets. The last two export sales reports have totaled 878,100 bales of upland and Pima cotton for 2009/10 and 2010/11. With the market's break, mills have been active in nearby coverage, especially ahead of the Chinese New Year's celebration, which begins in mid-February. Interest in cotton from the Far East may slow as the Chinese New Year approaches.

The US domestic mill cotton usage numbers were released Friday for December 2009. Annualized usage was 3.5 million

bales compared to 3.15 million bales in December 2008. The November 2009 annualized rate was 3.72 million bales.

The March/May spread this week traded between 109-124 points. True carry in the market needs to be 150 or higher. Since the first of the year, the certificated stock has grown slightly to 443,898 contracts (+27,618 bales) with 38,088 bales pending review. Wit the drop by futures and the increase in export sales (but the widening back to 120 points in the spread), the futures market is not as an attractive place for cotton as it appeared several weeks ago. But, it might still be!

There was no real new news this week for cotton. Chinese credit concerns and the stronger dollar, along with weaker commodity prices did not offer any positives to cotton. Since making 15 month highs on January 4, March futures retreated over 600 points to Wednesday's lows for a loss of nearly 8%. Open Interest in cotton futures has declined 18,872 contracts since 1/4/10 for a loss of 9.8% in Open Interest.

The technical picture for cotton continues to look horrible, but the weekly chart remains in an upside movement. Two weeks ago, following the market's break, some analysts suggested that March cotton might break to the 69.80-70.20 area, and this week it fell to 70.52 on Wednesday. Thursday's rally was back to the previous week's close and low, and did nothing to change the current technical picture. One can not rule out a test of the 69.80 area and if the market breaks there, we could see the 68.00 area in March. First Notice Day for the March contract is February 22. Shortly, the funds will begin their roll from March into new positions. Will that support cotton or be a negative hanging over

it? Another test of the 73.50-74.00 area in March can not be ruled out, either.

Our table below shows how the December cotton and November soybean contracts closed on or about January 22 from 1998 to 2010. At first glance, one will notice the wide swings in cotton prices these thirteen years and how soybean prices have jumped 50-100% higher the past three years as compared to their 1998-2006 levels.

Since the Thanksgiving highs, new crop cotton futures have

lost about \$27 per bale. On 750 # cotton, that is \$40+ per acre. On 2 bale cotton, that would be \$54/acre, Beans have lost nearly \$1.20/bushel, or \$36/acre on 30 bushel beans. On 60 bushel beans, farmers have seen a loss of \$72/acre.

In coming weeks, farmers will begin making planting decisions based on new crop prices. Will December again return the 77-78 cent area?

On or about 1/22	Dec Cotton	Nov S-beans
2010	72.95	9.33 1/4
2009	53.98	9.57 1/2
2008	77.85	12.171/2
2007	59.95	7.68 3/4
2006	59.98	5.97 3/4
2005	61.40	5.32 3/4
2004	69.62	6.66
2003	57.20	5.22 1/2
2002	43.04	4.54
2001	61.30	4.87 1/2
2000	59.70	5.33 1/2
1999	63.15	5.42 1/4
1998	71.59	6.57

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