



Agricultural Outlook for Cotton 2012

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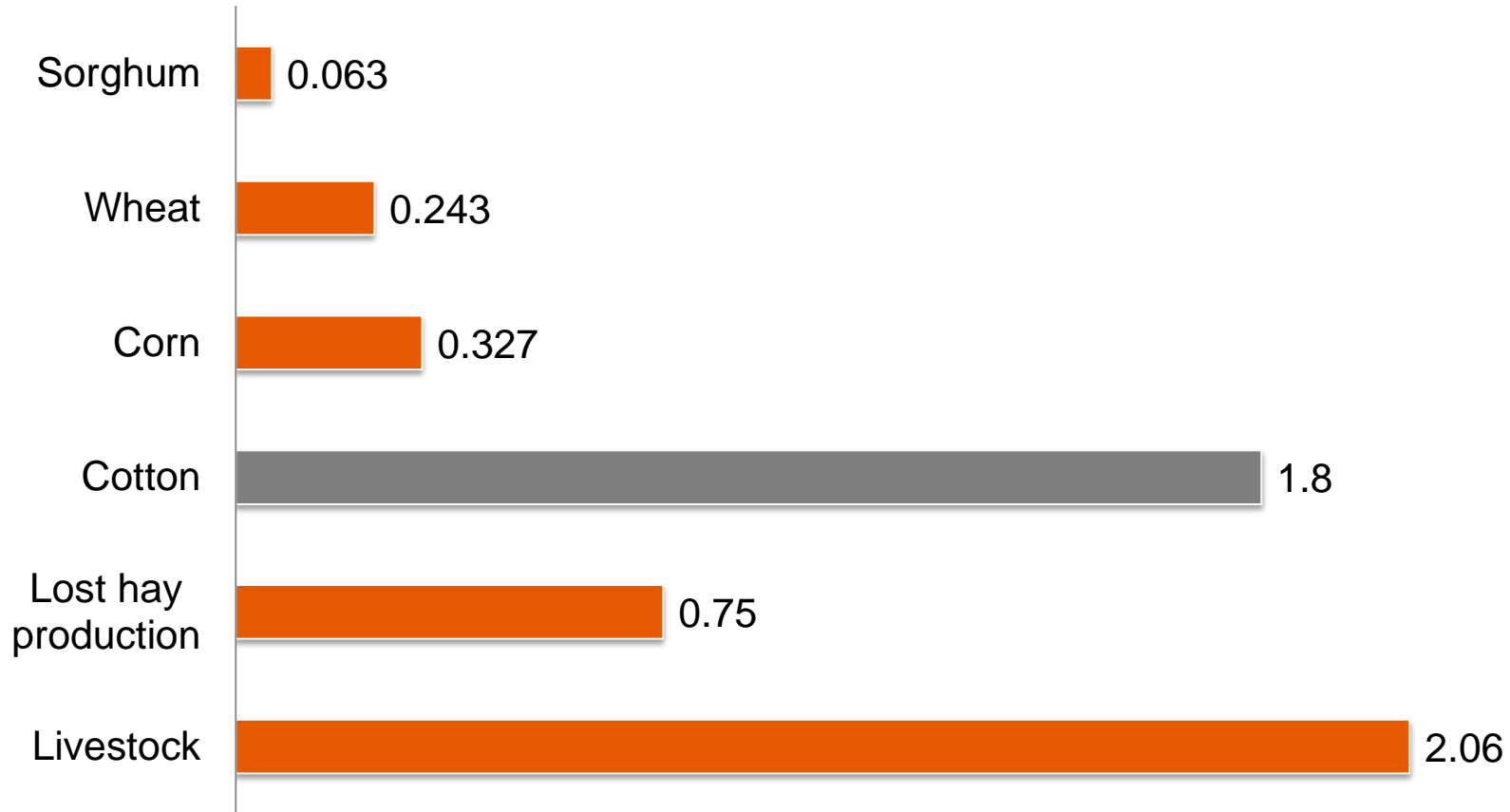
*39th Annual Bankers Agricultural Credit Conference, November 18, 2011
International Cultural Center, Texas Tech University*

Year in Review

- “Unmitigated disaster...” Me, *Bloomberg*, September 14, 2011
 - Although not the largest year-on-year percentage decline in production, by far the largest loss in terms of crop value
- Insurance helped, but financial impact was real and if we see consecutive years of drought, we will start seeing farm failures.
- Weaker demand kept a lid on prices this year, despite the shortfall in production
- Stocks still tight, but more availability than in 2010; increase in economic activity will still put substantial upward pressure on prices, but outlook there is not particularly strong

Economic Impact of Drought 2011

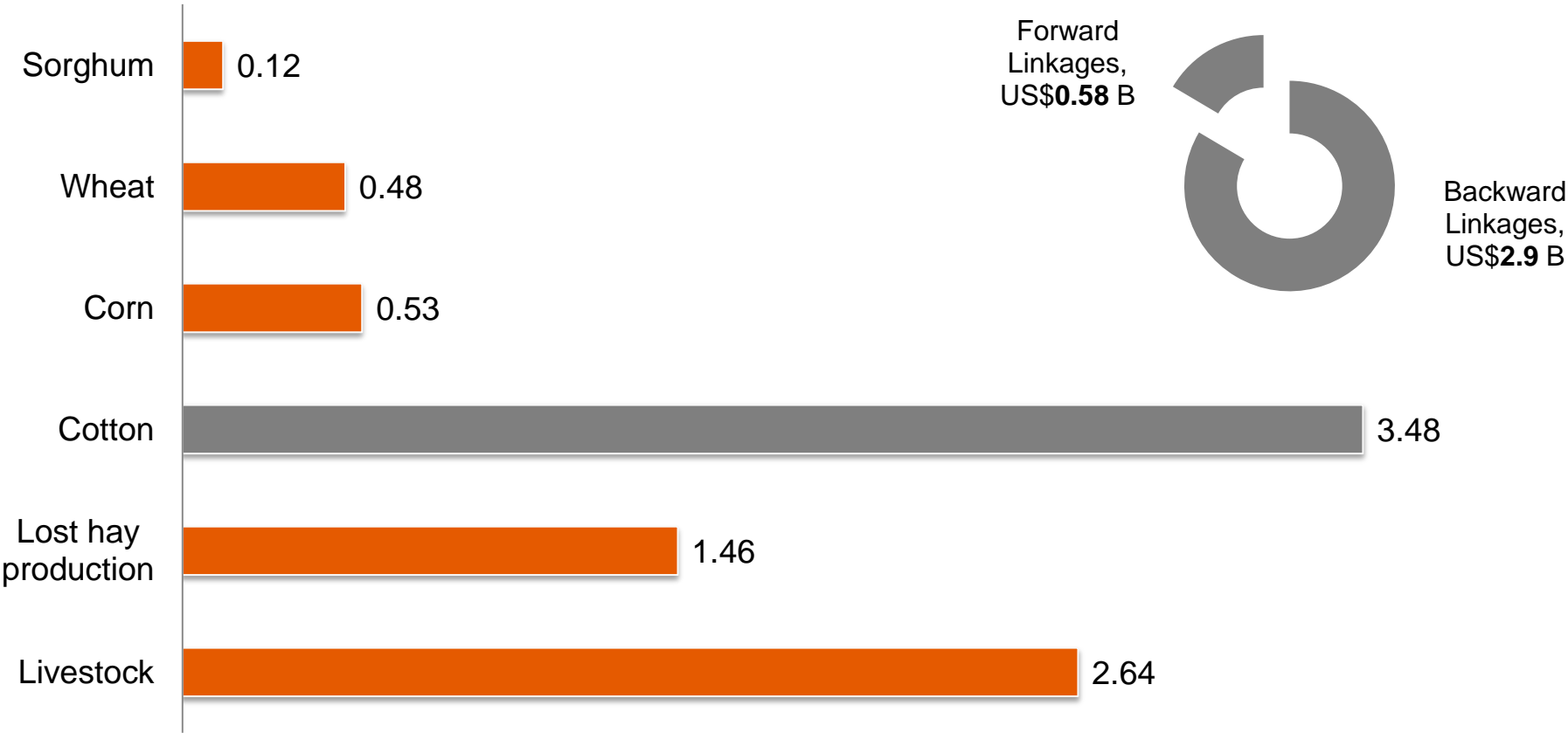
State Production Losses by Crop, \$US B



Source: Texas AgriLife

Effects on upstream & downstream industries

State-wide Economic Impacts by Crop, \$US B



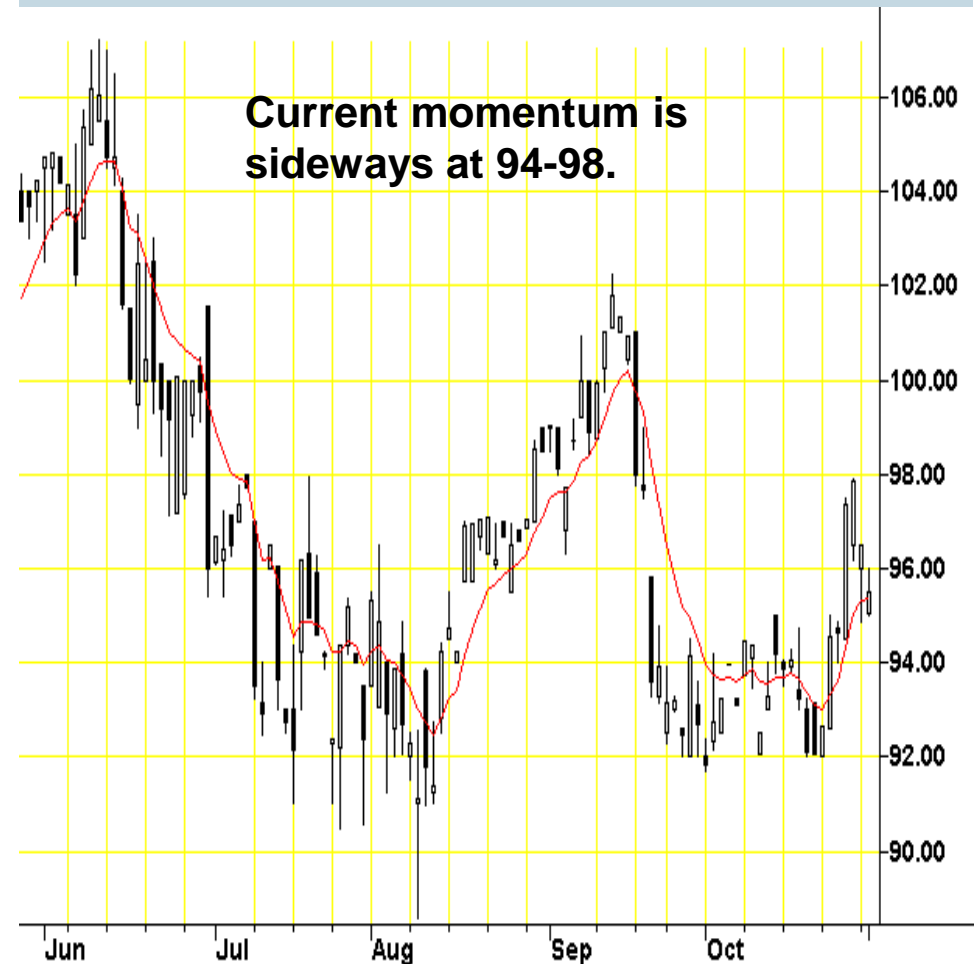
Source: Texas AgriLife

U.S. Futures Contracts Quotes (as of Nov 1)

Dec 2011 Contract



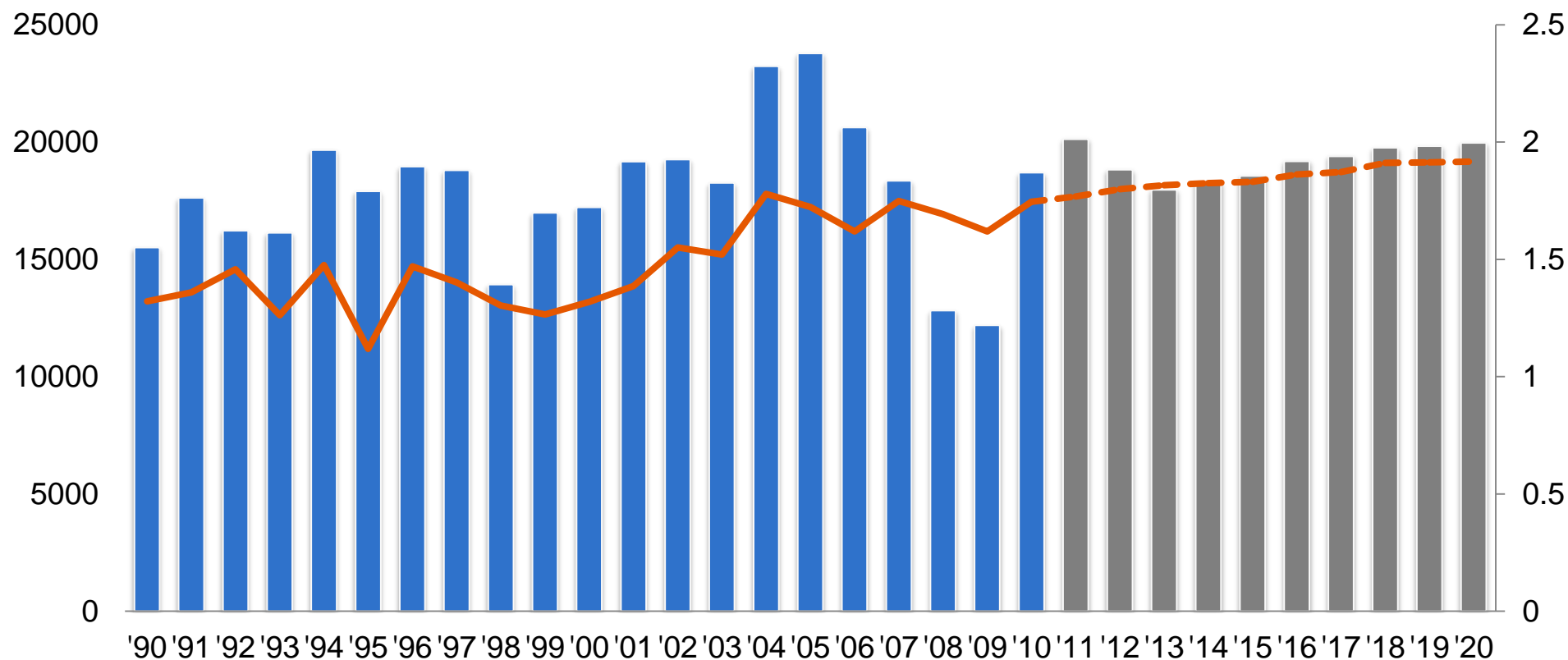
Dec 2012 Contract



A 94-98 futures translates to a local cash price of 87-91 cents.

U.S., 1990-2020f

Production ('000 bales) and Yield (lbs/acre)

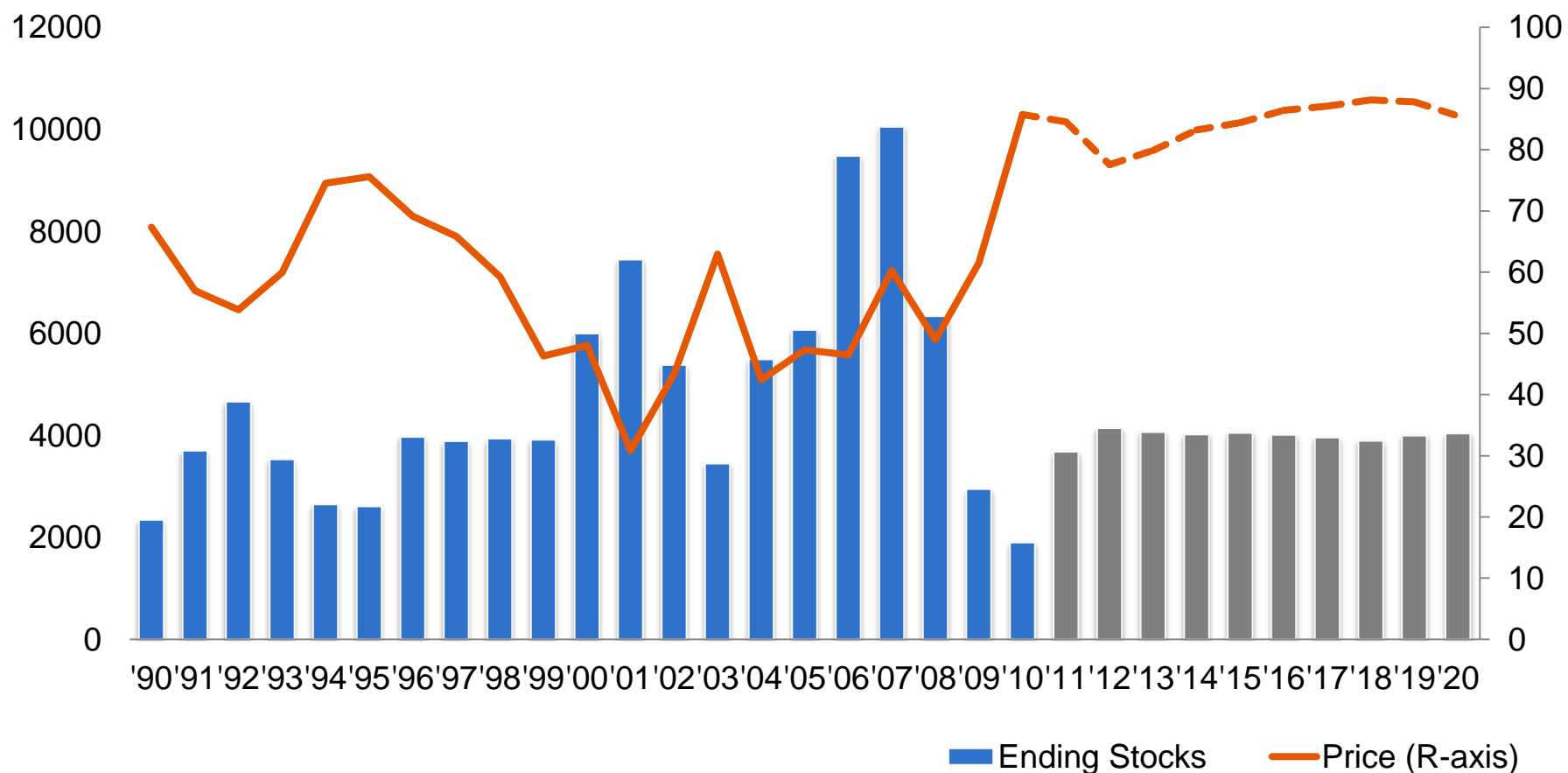


■ Production — Yield (R-axis)

Source: Cotton Economics Research Institute

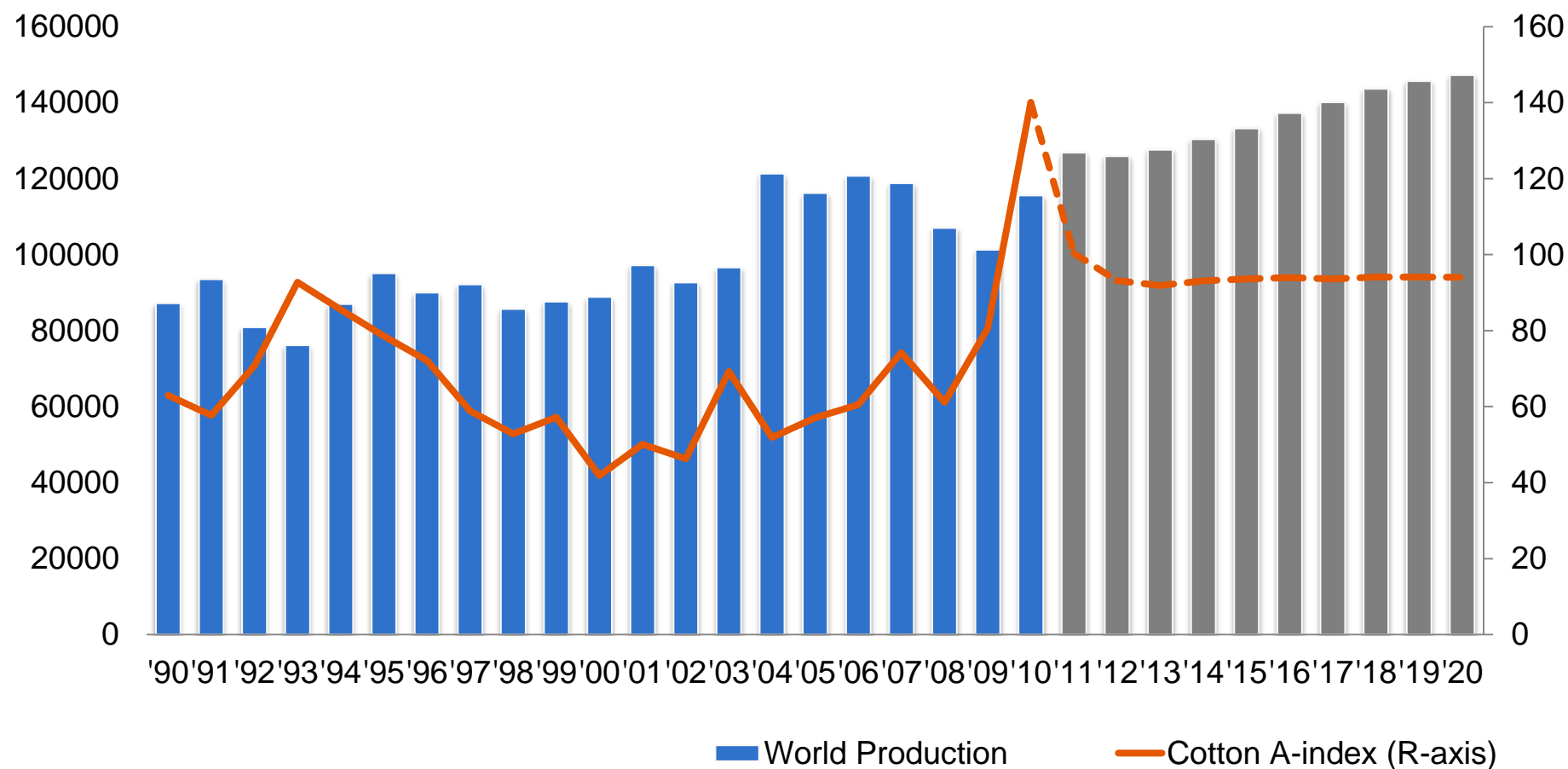
U.S., 1990-2020^f

Ending Stocks ('000 bales) and Farm Price (cents/lb)



World, 1990-2020f

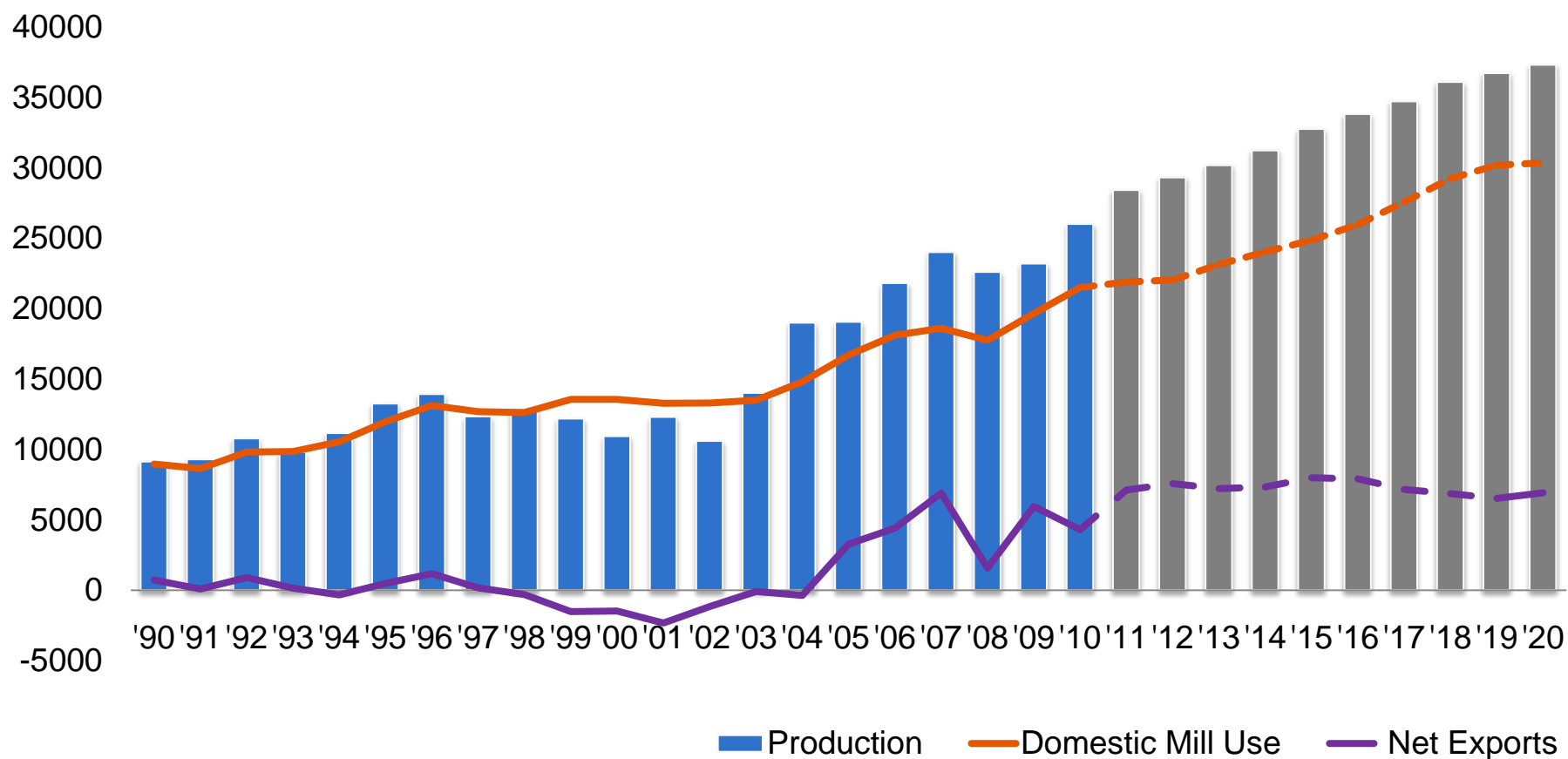
Production ('000 bales) and Yield (lbs/acre)



Source: Cotton Economics Research Institute

India, 1990-2020f

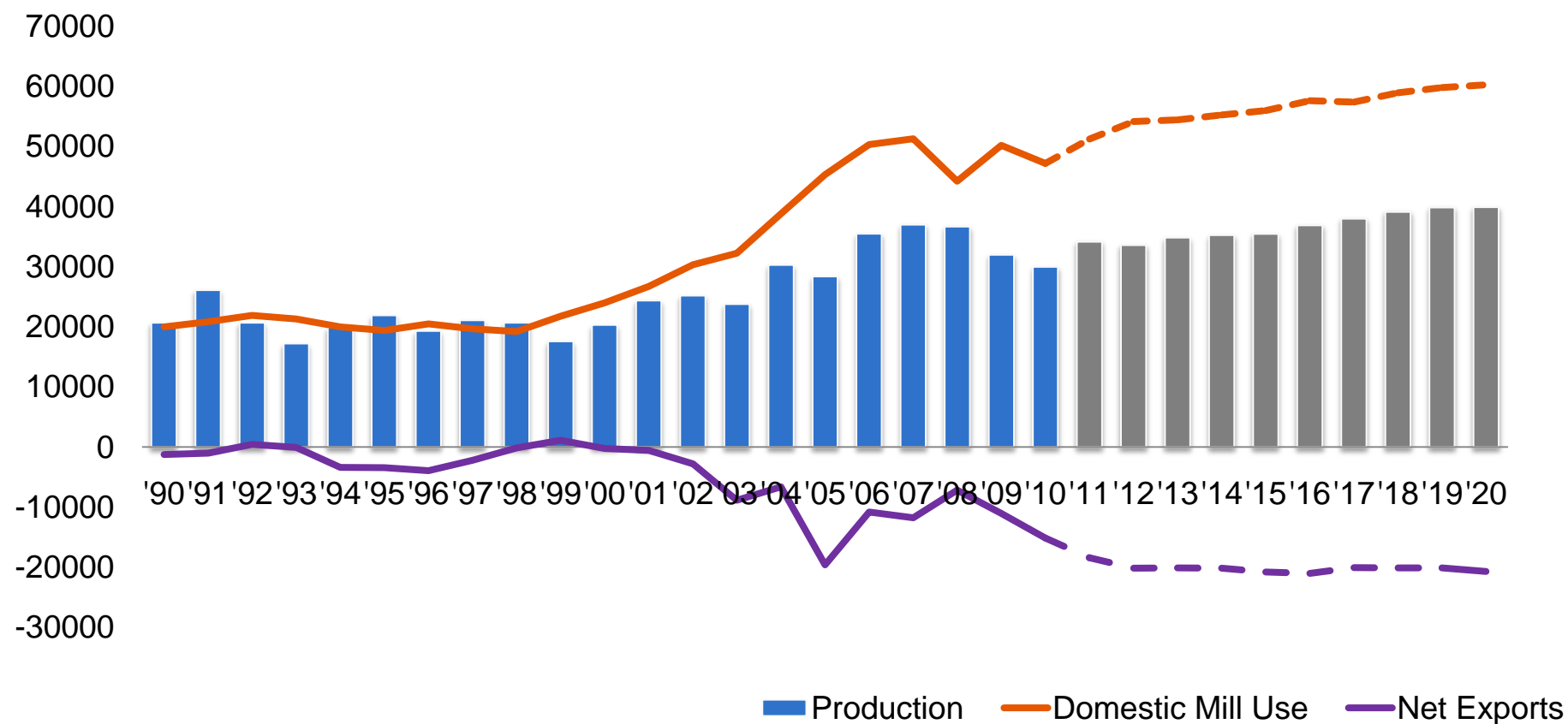
Production, Mill Use and Net Exports ('000 bales)



Source: Cotton Economics Research Institute

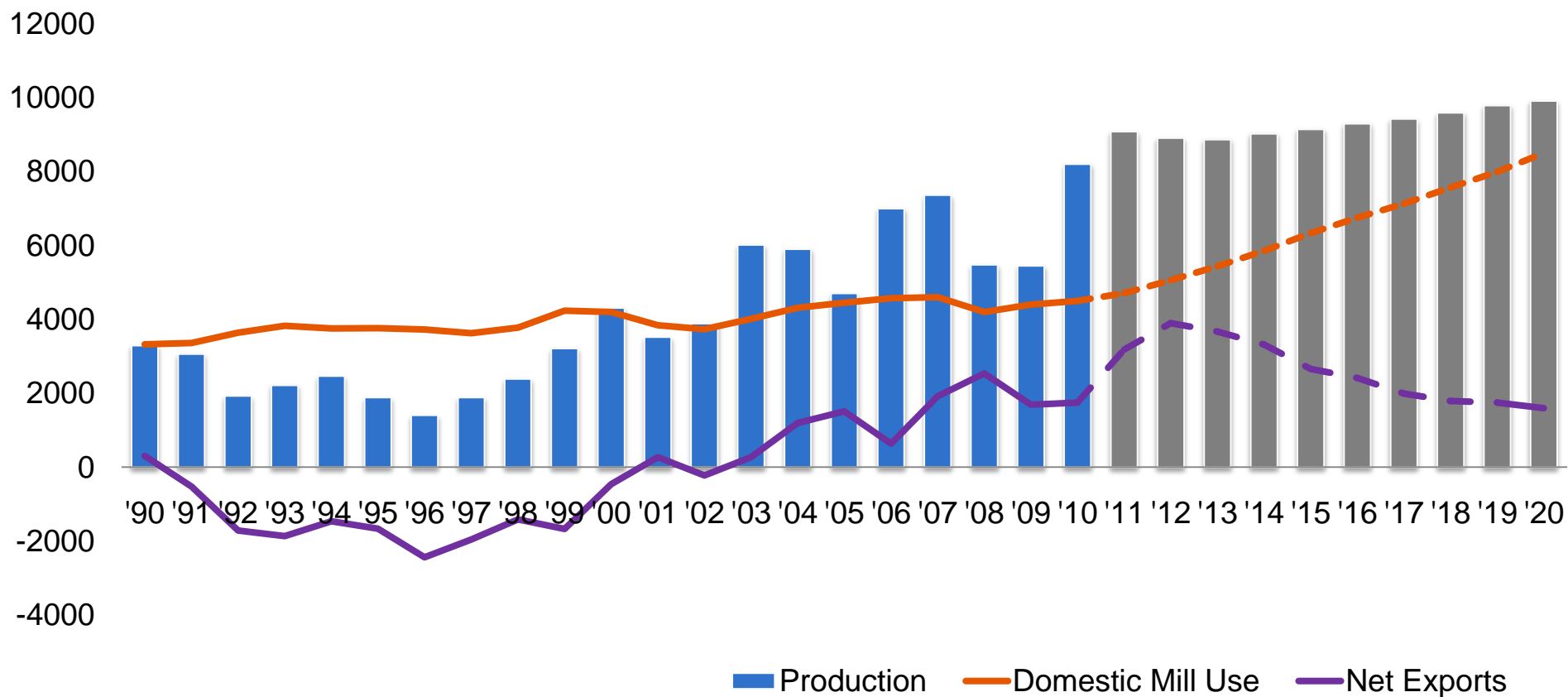
China, 1990-2020f

Production, Mill Use and Net Exports ('000 bales)



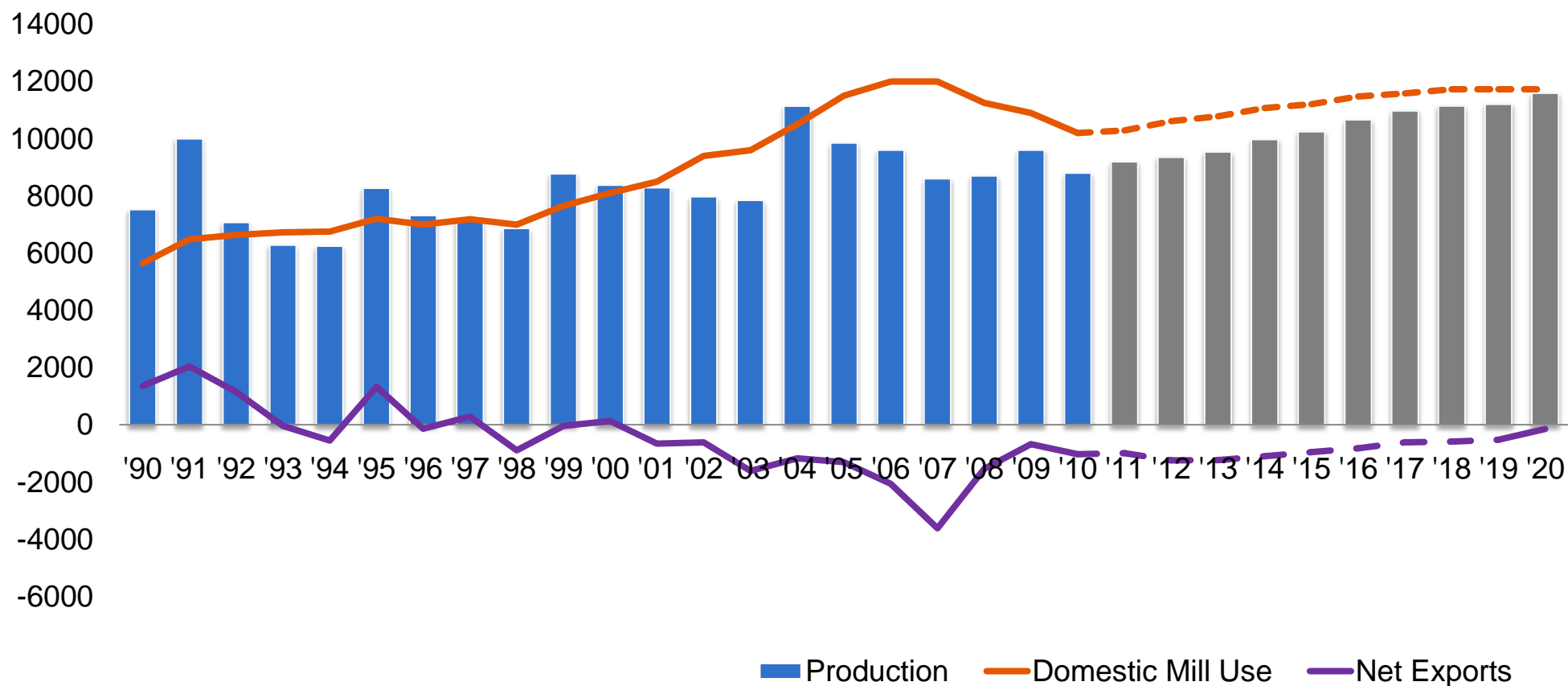
Brazil, 1990-2020f

Production, Mill Use and Net Exports ('000 bales)



Pakistan, 1990-2020f

Production, Mill Use and Net Exports ('000 bales)



Conclusions

- Expectations for higher U.S. and world production, partially on yield gains, but some recovery of planted area as well.
- Longer-term moderation of prices, but still well above historical levels.
- Although definitively tied to ethanol production, US cotton prices are likely more responsive to weather events (supply-side) and economic growth and textile production in Asia (demand-side); need to pay attention to weather events in China and India (and to some extent Brazil and Australia) to adjust your expectations for price.