Cotton Market Outlook

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Combest Chair of Agricultural Competitiveness

New Mexico Cotton Ginners’ Association
July 8, 2011
December Futures
Wait a minute...aren’t we in a drought?

<table>
<thead>
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</thead>
<tbody>
<tr>
<td><strong>Supply</strong></td>
<td></td>
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<tr>
<td>Planted Acres</td>
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<td>---</td>
<td>---</td>
<td>---</td>
<td>10.97</td>
<td>12.57</td>
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<td>(million)</td>
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<td></td>
<td></td>
<td></td>
<td>10.70</td>
<td>10.80</td>
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<tr>
<td>Harvest Acres</td>
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<tr>
<td>(million)</td>
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<tr>
<td>Yield (lbs./ac.)</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>3.0</td>
<td>800.0</td>
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<tr>
<td><strong>Beginning Stks.</strong></td>
<td>44.28</td>
<td></td>
<td>2.25</td>
<td></td>
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<tr>
<td>Production</td>
<td>114.28</td>
<td></td>
<td>17.00</td>
<td></td>
<td></td>
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<tr>
<td>Imports</td>
<td>35.95</td>
<td></td>
<td>0.01</td>
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<tr>
<td><strong>Total Supply</strong></td>
<td>194.51</td>
<td></td>
<td>19.26</td>
<td></td>
<td>19.26</td>
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<tr>
<td><strong>Disappearance</strong></td>
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<tr>
<td>Mill Use</td>
<td>115.51</td>
<td>118.95</td>
<td>111.71</td>
<td>115.15</td>
<td>3.80</td>
<td>3.80</td>
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<tr>
<td>Exports</td>
<td>35.90</td>
<td>39.42</td>
<td>20.90</td>
<td>26.42</td>
<td>15.00</td>
<td>13.00</td>
</tr>
<tr>
<td><strong>Total Domestic Use</strong></td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>18.80</td>
<td>16.80</td>
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<tr>
<td>Unaccounted</td>
<td>-0.14</td>
<td>-0.19</td>
<td>-0.15</td>
<td>-0.15</td>
<td>0.01</td>
<td>-0.04</td>
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<tr>
<td><strong>Ending Stks.</strong></td>
<td>43.24</td>
<td>48.25</td>
<td>40.99</td>
<td>45.75</td>
<td>2.25</td>
<td>2.50</td>
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<tr>
<td>Ending Stks./Use</td>
<td>37.4%</td>
<td>40.6%</td>
<td>36.7%</td>
<td>39.7%</td>
<td>12.0%</td>
<td>14.9%</td>
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</tbody>
</table>
Historic Drought

U.S. Drought Monitor

June 21, 2011
Valid 8 a.m. EDT

Intensity:
- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:
- ~ Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://drought.unl.edu/dm

Released Thursday, June 23, 2011
Author: Brian Fuchs, National Drought Mitigation Center
New Reality

- Could be at or near record abandonment
- Lower average yields in Texas and New Mexico
- Making some generous assumptions, we are probably closer to 15-16 million bales, not 17
More planted acres, 22% U.S. abandonment, and a lower avg. yield could give 15M bales.
So why the downward trend in price?

- Factors not present this year:
  - Buying panic—buyers have refilled pipelines and have, in fact, begun cancelling orders at a faster rate than new orders
  - Weakening dollar—despite the overall weak dollar, it has strengthened a bit; could be anticipation of higher interest rates...pulls money out of commodities
  - Speculators—Speculative cash has departed the markets to some extent
Speculative Pressure Off?
Variables to Watch

- US exchange rate/interest rates
  - Higher rates = lower commodity prices

- Chinese and Indian crop developments
  - So far, looks ok on reportedly higher acreage

- Continued drought developments in SW
  - Running out of water...lower irrigated yields
Conclusions

- Probably less upside surprise due to drought than some hope
  - Countervailing forces of lower demand and lower supply...also, any upward pressure on price being offset by exit of speculator cash (higher probable interest rates)

- Prices are likely to remain strong
  - $1.10-$1.30 is a probable trading range, with the $1.20 a center of gravity (maybe even $1.20 providing some short-term resistance)
  - May be another 10-15% downward possibility if we see a significant rise in interest rates this year (very iffy)