

# Quality Cotton

Cooperative

January 2007

## Field Report

The 2006 cotton crop has finally come to a close. Harvesting in areas where the rains were heavy, gave the farmers a challenge to get the crop in on time. But, farmers have a tendency to not give up. This proved again their desire to finish the 2006 crop. With the quality being excellent in most areas, the average loan value is well over last years crop at 54.62. The merchants should be pleased to buy cotton of this quality from the Virginia and Carolina areas.

The growing season was one to remember with yields ranging from average to good with an overall average around 750 lbs. The season started at planting with wet and cool weather, the summer hot and dry, moving into the fall with windy, wet conditions. With high winds around Thanksgiving, we lost a considerable amount of cotton blown off the plants. Putting all of these factors together, I think we were blessed to harvest an average crop.

We look forward to the 2007 crop year and thank you for your support.

Carlton Butler,  
Field Representative.

## Membership

*Equity Recommendation Detail On Back*

### IMPORTANT 2007 Enrollment

Enrollment for the 2007 crop is underway. Remember acres roll over from last year and the farm numbers will be confirmed on the 'Farm Verification Form' mailed the later part of June. If you anticipate a change in your acres of plus or minus 10% for your 2007 crop, complete a 'Change Form'. The coop marketing division will market the 2007 crop based on the number of acres enrolled last year unless you complete a change in acres form. The deadline to submit a 'Change Form' is Friday, March 30th. The deadline to withdraw, as a member is Wednesday, February 28th. (All Forms are available on the web site or call to have them mailed.)

### 2007 Marketing Meetings

Meetings will be held the week of February 19th. A post card will be mailed the first part of February to notify you of the location and time of the meetings.

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	Total									Prem
GinName	Bales	Wt	Mic	Strth	Leaf	Staple	Unif	Grade	Loan	Bales
Albemarle Cotton Growers	1,797	504	4.6	29.5	3	35	81.6	41	0.5419	1
Coastal Carolina Gin	35,014	493	4.5	30.2	4	36	82.0	41	0.5520	564
Commonwealth Gin	1,977	495	4.5	31.9	4	37	82.7	41	0.5569	58
Edgecombe Cotton	15,985	508	4.4	29.3	4	36	82.2	41	0.5476	53
ES Growers Gin	1,836	492	4.3	28.5	4	35	81.9	41	0.5372	1
Farmers Gin (Jackson)	1,823	508	4.6	29.9	4	35	82.4	41	0.5401	
Gates County Gin	6,011	485	4.7	29.1	3	34	81.4	41	0.5371	
Greene Gin & Cotton	13,691	491	4.4	29.9	4	36	82.3	41	0.5535	97
Hawkins Gin Co	2,939	497	4.6	29.4	4	35	82.3	41	0.5443	5
Mid Atlantic Gin	6,927	487	4.5	29.7	4	35	82.4	41	0.5497	8
Producers Gin Co	6,463	486	4.6	29.1	4	35	81.9	41	0.5386	4
Rich Square Gin	1,211	495	4.5	28.5	3	35	81.9	41	0.5467	
Roanoke Tar Cotton	6,320	499	4.6	29.4	4	36	82.7	41	0.5399	29
Silver Lake Growers	14,852	501	4.6	29.8	4	36	82.4	41	0.5423	34
Southern Bale	1,869	507	4.2	29.7	4	35	81.9	41	0.5430	16
Southampton Gin	1,361	495	4.3	31.2	4	36	82.5	41	0.5497	1
Suffolk Gin Inc	22,896	492	4.6	29.1	3	35	82.1	41	0.5463	108
Tarheel Cotton Co	1,243	494	4.4	30.1	4	35	82.4	41	0.5427	
Ward & Nixon Gin	731	492	4.4	28.6	3	36	81.9	31	0.5624	9
Woodville Supply	79	500	4.6	28.2	4	35	81.3	31	0.5519	
	145,025	496	4.5	29.5	4	35	82.1	41	0.5462	988

## Market Report

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A great deal of market activity has taken place since our last letter on November 10, but the highlight has to be the roller coaster March contract that traded a whopping 624 point range in just a 39 day window between November 20 and December 29. The low during this period was 50.81 while the high was established just three sessions ago at 57.05, the highest level for a spot month since February 24 of last year when the March 2006 contract traded at 57.65. Unfortunately, we've given back nearly two and a half cents in the past three sessions, with March closing today at 54.56. It's worth pointing out; however, that December 2007 has been trading above 60 cents of late even though it settled today at 59.45.

We'd be sticking our proverbial heads in the sand if we didn't acknowledge the dire situation that U.S. cotton is in with the lack of Step 2 and the extreme deficiency in export sales that is upon us. We'll go into that further in the points below as well as talk about your current equity situation and finish off with a recap of your production and hedging numbers.

United States: Because of the timing of this letter, we'll discuss the supply and demand numbers from December, although we should point out that one should reasonably expect the numbers to look worse on next Friday's January S & D report. First, the USDA is now down to a 5.1 million bale domestic consumption number but the monthly census numbers are even lower at just over 4.9 million bales. Business is actually quite good for our domestic spinning friends, but so much capacity has been lost over the past 5-7 years that even a steady production leaves us well shy of the 8-10 million bale consumptions of years past. Next, and frankly most important, the USDA export shipment figure now stands at 16.0 million bales by August 1. With that said, we can see no evidence to support this figure as this would require us to ship over 397 thousand bales per week through the end of the marketing year. To put this in perspective, the U.S. has averaged only 136 thousand bales per week during the first 21 weeks of this marketing year versus 210 thousand bales per week for the same period one year ago. While

last year's pace eventually picked up, we are currently well behind 2005 as this seemingly small difference would annualize to a whopping shortage of shipments in 2006 of 3.8 million bales! Of course, things aren't all doom and gloom since we do have another 31 weeks to go and our biggest customer in China has not exactly come to the table as yet. Our point here is merely that one should be realistic in expectations of what can be done from here on out and as things stand today, look for USDA to trim their export shipment number on its upcoming report.

Adding fuel to the lack of sales and shipments fire is the loss of Step 2 which has essentially locked cotton in the loan program with no end in sight. Previously, shippers could pay a little higher equity knowing they had the subsidy to back their sales. This is no longer the case, though, and growers across the country are experiencing this phenomenon as they have seen the bottom fall out of equity prices, going from 4-5 cents in years past to 1-2 cents this year. As if that weren't bad enough news, there is still the mammoth certificated stock number of nearly 625 thousand bales. Further, there is not enough 'carry' between the March and May to actually pay storage and interest on redeemed cotton and the NYF-AWP spread continues to float below 10 cents. These factors have combined to create an absolute stalemate in the movement of U.S. cotton and are the major contributing factors in returning a favorable equity to members of the association.

China: The Chinese production figure increased for the fourth consecutive month in December, now coming in at 30.5 million bales. The real question at this point is just how big is the Chinese crop going to get? Being the biggest U.S. customer, it is a little deflating to see their production continue to rise while imports have now dropped to a projected 17.25 million bales. Still, with an expected consumption of 50 million bales, one has to be optimistic that their business is good and they will in fact be forced to emerge as a big-time buyer of U.S. cotton. We'll jump on the bandwagon and say they will show their hand following the Chinese New Year celebration, which is February 18-26.

On the brighter side, both Mexico and Turkey have been very solid customers of U.S. cotton so far this year, purchasing 1.5 million and 1.0 million bales of 2006 crop respectively. Both of these numbers are ahead of their 2005 crop paces and should remain strong throughout the remainder of the year. We also need to begin facing the reality that cotton acres will decline not only in the U.S. in 2007 due to higher grain prices, but also the rest of the world. In theory, this is a fundamental factor that should move new crop futures higher and begin to provide additional opportunities to enhance equity by capitalizing on a more volatile market. Ironically, the sudden buzz for biofuel and the subsequent rally in grains could actually prove to be the savior for U.S. cotton.

Equity Recommendation: There will not be an equity recommendation for the December/January time frame. As stated above, the lack of sales in the export market, which is 75+% of the U.S. market, the narrow NYF-AWP spread that the market has shown and the lack of carry to May in the market has led us to be cautious at this juncture in this marketing year.

The following is a summary of where your association stands with regard to hedging and applications as of this writing. Please remember that the percent hedged can move up or down at any time as we react to market fluctuations.

2006 Marketing Statistics	
Production Estimate	160,800
Percent Hedged	50%
Received	137,806
Applied	39,090

As always, we have an open door policy at Cargill Cotton with regard to questions or concerns and encourage you to call or e-mail us any with any issues you may have.

Best regards,

Cargill Cotton  
(Your marketing team)