March Equity Recommendation puts us
are at 59.35

QCC Market Report

March 9, 2007

Contrary to our previous writing in January, the most recent two month window has offered very little in the way of market volatility. It did, however, provide a fairly significant event with the invert of March over May as heavy buying of the March contract emerged just prior to First Notice Day. While taking delivery of certificated stock in this manner may have helped the taker, the creation of an invert poses a very critical threat to anyone with inventory to carry, specifically redeemed equities. The good news is that very little of your association's cotton has been redeemed to date other than what is scheduled for nearby shipment and we were able to switch the bulk of your March position prior to this invert. In the end, March finished its life at 54.34 with Last Notice Day still to come on March 15. The May trading month now comes to the forefront, bringing with it a very dull trading range of 51.50 to 56.30 over the past 65 days.

Demand from overseas has continued to lag during the past few weeks while U.S. loan stocks have grown to a whopping 13.1 million bales. We have also seen the grain markets continue their upward trend, forcing the potential for 2007 cotton acres into a downward spiral. These points will be discussed further below followed by a brief summary of your equity situation.

United States: Today's USDA supply and demand report trimmed another 500,000 bales from projected exports, bringing the new number down to 14 million bales. This would leave the United States with a carryout of 8.8 million bales, the highest level since the 85-86 crop year. Of course, this number will climb even higher if our exports don't pick up their dismal pace and China continues to delay buying. We now need to ship in excess of 400,000 bales per week for the final 21 weeks just to reach the newly lowered USDA number and to make matters worse, the Chinese import number was lowered today by an astounding 1.5 million bales.

As mentioned, the United States is stockpiling loan cotton and we believe it is entirely possible that as much as half of the 13 million bales currently in the loan is grower owned. It could be argued that it is irrelevant who owns the cotton if we can't sell it, but the problem caused when growers own it is that they may hold out until forced to forfeit the cotton. This pushes the potential shipment of this cotton out until Oct-Nov by the time it passes through its loan duration, is catalogued and sold, and finally orders are created. Besides just owning this cotton, we believe there is still a high percentage of growers that are unaware of this year's program changes regarding forfeitures. Previously, growers were debited for receiving and storage up until documents were received by FSA. The new provisions require the same payback as before but with the addition of compression and the difference in the CCC storage agreement rate and the new $2.66 storage cap imposed by USDA. While this has little impact on the Southeast, it now means growers in the Midsouth and Texas could face up to $20 per bale in forfeiture fees.

China: The USDA chose not to increase the Chinese production number (which now stands at 30.9 million bales) this month. Most folks in the industry believe the figure must be something in excess of 31 million though we're beginning to wonder how much significance there is in that fact since Chinese mills are still not looking to buy any quantity of U.S. cotton.

If the current consumption number for China is correct at 50 million bales, then it is nothing short of deflating to see the import number drop 1.5 million bales this month. This would seem to indicate that Chinese mills are running strong, but that they are finding ample supplies of cotton from within their own borders (or someone else's) and will need the U.S. less than we've all thought. We are losing confidence in the USDA numbers regarding Chinese production and consumption.

Equity Situation: March is an equity consideration period for the association and we will be taking a serious look at any return within the next two weeks. We want to be encouraging to the association membership, but we also recognize the need and importance of being realistic about your returns in order to help you plan your farming operations. It is with that in mind that we say this is nothing short of an extremely difficult year to project what your final return might be. As mentioned earlier in this writing, the extreme lack of sales to date has greatly hindered our ability to redeem and ship your cotton, thus limiting the amount of cash returned to the pool. This is not to say that things can't turn around and we will be diligent in our efforts to capitalize on any opportunities that arise.

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	148,000
Percent Hedged	60%
Received	147,093
Applied	67,996

As always, we have an open door policy at Cargill Cotton with regard to your 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)