

QCC Market Report

August 14, 2006. Within the last month, the December 2006 contract has had a range of 585 points from a high of 57.75 to a low of 51.90. The market settled at 55.74 on Friday August 11th, following a bearish USDA Supply and Demand estimate.

We will first take a look at the Supply side of the occasion, starting with the United States and moving to other major countries:

East

Hot weather has plants wilted in much of the Southeast. Most growers in North Carolina are optimistic about the chances of their crop, and it appears this area may be the garden spot in the East. The crop is definitely a mixed bag as you move into South Carolina and Georgia. Those that have been fortunate enough to catch some of the recent scattered afternoon showers still have a chance to make a decent crop, while others have already been faced with making a decision of whether or not to invest any more money in their shrinking crop. The recent rains have probably benefited the irrigated crop as much or more than the dry land in Georgia and South Carolina. Portions of West Georgia, North and Southeast Alabama have been hardest hit by this year's drought, and rain now would be too late for a large percentage of cotton in these regions. Recent rains in Southwest and Central Alabama have things "looking better," but more rain will be needed in the area.

Mid-South

Like most of the cotton belt, the Mid-South has been very dry this summer. Fortunately, a high percentage of irrigated land has greatly benefited this crop but it is not the "garden" spot of the belt. The USDA's August report has four of the five states in this territory setting the second highest yields of all time, with only Mississippi lagging behind. Thunderstorms passed over the northern part of the region last night, putting some much needed moisture on the dry land areas in Northeast Arkansas, Southeast Missouri and West Tennessee, enhancing a crop that growers in the area are sure to be pleased with.

Texas/Oklahoma

Texas and Oklahoma have endured some incredible heat and dry weather. High temps and strong winds are keeping the soil dry even with the scattered rainfall as of late. Dry land areas have been hurt the most, but most of these acres were abandoned earlier in the season. Irrigated crops are doing well as long as water is maintained, which has been a problem in a few areas. The crop does not look good, especially when compared to last year.

China

China's crop is currently in the boll stage. Growing conditions have been favorable in most of their extensive cotton-growing region. Rainfall amounts and temperatures have been favorable for plant development. China's yield has been trending higher. The recent Typhoon Saomai caused little or no damage to the cotton crop because landfall was in a non-cotton growing region.

India

Based on the current USDA crop estimate, India will be the second largest cotton producer in the World surpassing the United States. India's acreage and yield per acre have both been trending higher. We believe the yield is trending higher due to the increased use of GMO seed. India was depending upon a favorable monsoon season to make a good crop, and this year's monsoon has been favorable so far. There has been a little flooding in the states of Andhra Pradesh, Maharashtra and Madhya Pradesh, but little to no crop damage was reported.

Consumption worldwide continues to be steady, with higher polyester prices leading to a shift towards cotton in products such as tee shirts and fleece.

This shift makes only a small statistical difference in consumer driven economies like the USA, but in non-consumer driven economies (like China, where the make-up of garments is driven by the price of inputs rather than by the preferences of the consumer), this shift is very substantial.

Retail sales of apparel have grown steadily, but the recent downturn in the sales of both new and existing homes will have a negative impact on the movement of home textiles, such as sheets, towels, and upholstery.

It's a little early to be talking about holiday sales, but most retailers are hoping for a cool and early fall to stimulate sales of sweaters, fleece, and other outerwear.

This month's U.S. cotton estimates for 2006/07 include lower beginning stocks, production, exports, and ending stocks. Beginning stocks are reduced 600,000 bales. USDA's first survey-based production estimate is 20.4 million bales, marginally below last month's projection, but well above nearly all private sector estimates. Forecast domestic mill use is 5.5 million bales, unchanged from July but 500,000 less than the 05/06 consumption. The export estimate is lowered 2 percent due to lower supplies and increased foreign competition. Ending stocks are reduced to 4.7 million bales, down 200,000 bales from last month.

With higher production in India and Greece, revisions to the world 2006/07 balance sheet resulted in higher ending stocks compared with last month. Beginning stocks were reduced in the United States and India, but raised in China, Australia, Mexico, and Pakistan; these adjustments, which are mainly due to trade adjustments for 2005/06, reduce world beginning stocks by about 500,000 bales. India's production was raised 1.0 million bales from last month, as favorable monsoon rains are expected to boost both area and yield. World consumption and trade are virtually unchanged. The lower U.S. export forecast is nearly offset by higher projected exports from India and Greece. World ending stocks were raised nearly 2 percent from last month.

The U.S. estimates for 2005/06 include record exports of 17.55 million bales, an increase of 550,000 bales from last month due to larger than anticipated exports in the final weeks of the marketing year.

2006 Marketing Statistics

Production Estimate	164,024
Percent Covered	0
Received	0
Applied	0

Your auditors from Jackson & Thornton are in the office today beginning the audit process.

Please do not hesitate to call with any questions.

Best regards,

Cargill Cotton
(Your marketing team)