

Summer 2014

StapleReview

Major Changes
for Cotton in 2014

Advisory Board
Meetings 2014

Major Changes for Cotton in 2014



Two major fundamental changes will heavily influence 2014 cotton crop prices. The first is a change in the Chinese cotton policy that has been such an influence on global cotton prices over the past few years. The second is the drought-bursting rains that finally showed up on the High Plains of Texas in late May and June and dramatically changed the prospects for U.S. cotton production. With global production expected to exceed global consumption for the fifth year in a row, the combination of these two fundamental developments will depress global cotton prices during the 2014 crop year.

The Chinese government has had programs in place to stockpile cotton and grains. Since its introduction in 2011, the Chinese cotton reserve's primary purpose was to support Chinese farmers' incomes. This year, the Chinese government has decided to end these programs and attempt to allow their commodity prices to be more "free market" oriented. The Chinese government will still provide price support to their farmers. For cotton, they are implementing a target price program. The details of this program are not yet fully revealed, but the general understanding is that, unlike the stockpiling program of the last three years, cotton will flow into the

supply chain at prices closer to market levels instead of at an arbitrary inflated Chinese reserve selling price. The Chinese government will make up the difference between the average selling price and the target price, which has already been announced at 19,800 rmb/mt (\$1.45/lb based on an exchange rate of 6.2 rmb per U.S. Dollar). In the nearer term, if Chinese domestic prices are much lower than in previous years and the Chinese government limits import quota as expected, import demand from China will be less. This will be a challenge to major exporting countries like the U.S., India, Australia, Uzbekistan, Brazil, and all the African cotton producing countries who rely on Chinese imports. In the longer term, however, there is some silver lining in the clouds. The new Chinese subsidy will not be available to all the cotton growing areas in China, thus forcing those acres to migrate to food crops instead of cotton. This policy should lower their cotton production considerably over the next few years, giving China an opportunity to reduce stocks, which today are more than 60 million bales and 170% of annual Chinese cotton consumption. Further, decreased domestic consumption should create the opportunity for more cotton exports to China.

The timely rains over Texas that occurred in late May 2014 and the following relatively wet weather pattern for Texas that we have seen this summer means that the world's largest exporter, the U.S., will have a much larger exportable surplus than last year. This larger surplus comes at a time when the Chinese intend to import less cotton. The rain in Texas is very significant as can be determined by USDA's monthly supply and demand estimates. USDA's report in May of 2014 estimated U.S. 2014/2015 cotton

production at 14.5 million bales, but they later increased that estimate to 16.5 million bales in July of 2014 primarily due to much improved Texas weather. As a result of generally good growing conditions in the U.S. and also globally, USDA is projecting that world stocks are forecast to rise further this season to a record 105.7 million bales. U.S. stocks are also forecast to increase significantly, nearly doubling from 2.7 million this season to 5.2 million at the end of next season. If the projected increase in U.S. stock holds true, it is a transition from very tight ending stocks to more than adequate ending stocks. We all knew that at some point cotton producers outside of China would suffer as the Chinese government realized they could not stockpile cotton forever. A change had to come at some point and it is at least starting now. Of course, the Chinese government's implementation of the new policy will need to be better understood by the industry to determine its ultimate impact on prices now and in future years.

Everything I have said so far is very depressing, but let's look at some long-term benefits from these changes. First of all, we have seen a tremendous loss of cotton's market share in overall fiber consumption. In the last 10 years, total fiber consumption has grown by almost 115 million bales, while cotton consumption has remained about the same. We have seen cotton's market share of fiber consumption drop by over 11% from around 39% to just over 27%. This lost consumption was caused by much higher cotton prices than other competing fiber prices, high cotton price volatility, and, to some degree, changes in consumer preferences. With lower cotton prices, we will begin to claw back some of the lost cotton

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Advisory Board Meetings 2014

Staplcotn's annual meetings with their advisory board were held in Memphis, TN, at the Agricenter; Greenwood, MS, at Staplcotn's Main Office; and in Albany, GA, at Stonebridge Country Club. Shane Stephens, VP of Cotton Services and Warehousing, reiterated the importance of these meetings: "At these meetings, not only are we able to present to the advisors how Staplcotn has performed over the past year, but more importantly, we are able to get a lot of valuable feedback from the advisors. Their input helps our management team focus on what they expect from us and therefore keeps our membership happy with good performance and good returns for their cotton."

This year's advisory meeting agenda included remarks from board chairman-elect, Mike Sturdivant III; a report from President and CEO Meredith Allen; a presentation discussing the workings of Staplcotn's Sales Operations department by David Camp, VP of Sales Operations; and a report from Stephens on services to Staplcotn producers and Warehousing. Allen reported on supply and demand, current trends for cotton yields, fiber consumption, and cotton futures. He said, "World cotton production is projected to be down by 2 million bales, and usage is projected to be up by 3 million bales, so we are making progress. However, ending stocks are still projected to be 103 million bales worldwide." He also discussed cotton's loss of market share in the textile market. "Cotton has lost market share due to high prices and the volatility in the market we had a couple of years ago. We've gone from 38.9% market share to 27.6%. However, fiber consumption has gone up tremendously. We have not been a beneficiary of this increase in consumption. With prices coming down, cotton should be able to gain some market share back."



Chairman-elect Mike Sturdivant III

Allen reported some good news for the U.S. Domestic Market, "We've now got companies from India, China, Canada, and Mexico building new textile mills in this

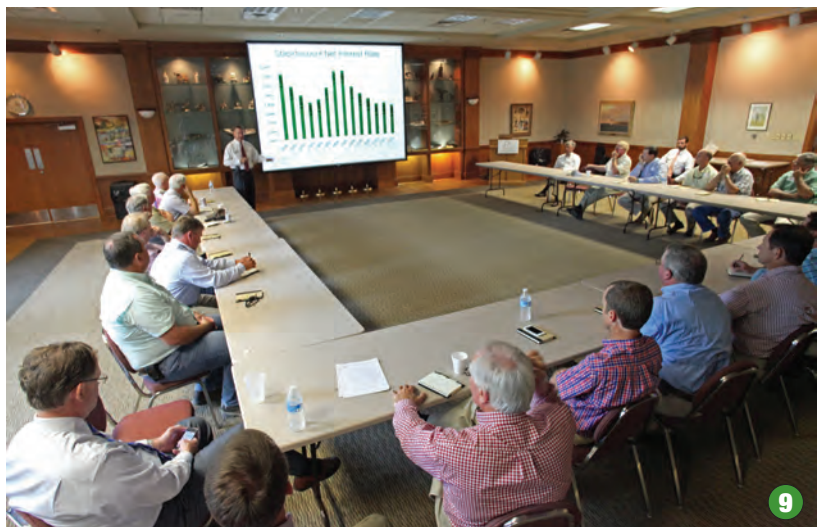
country. With spinning mills' technological advances, it doesn't take a lot of labor to operate a mill now. Because the U.S.'s energy is cheaper than anywhere else in the world, we are seeing manufacturing starting to migrate back to the U.S. That's good for cotton growers in our area because logistically, we are the 'bread and butter' cotton for the industry in the Southeast."

Camp's presentation explained the logistics and inventory part of Staplcotn. He illustrated what his department does on the operational side before and after the cotton is sold in order to "maximize the amount of return we can get for our growers' cotton." Camp explained the importance of Staplcotn's warehouses that are located in West Memphis, TN; Savannah, GA; and Greer, SC; saying, "Our West Memphis warehouse is a very important shipping point because it's a logistics hub and in the certification zone. We can deliver against ICE Futures from there. Similarly, our newest
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Jim Thomas, Brian Vanlandingham, David Howard, John Laney, and Meredith Allen

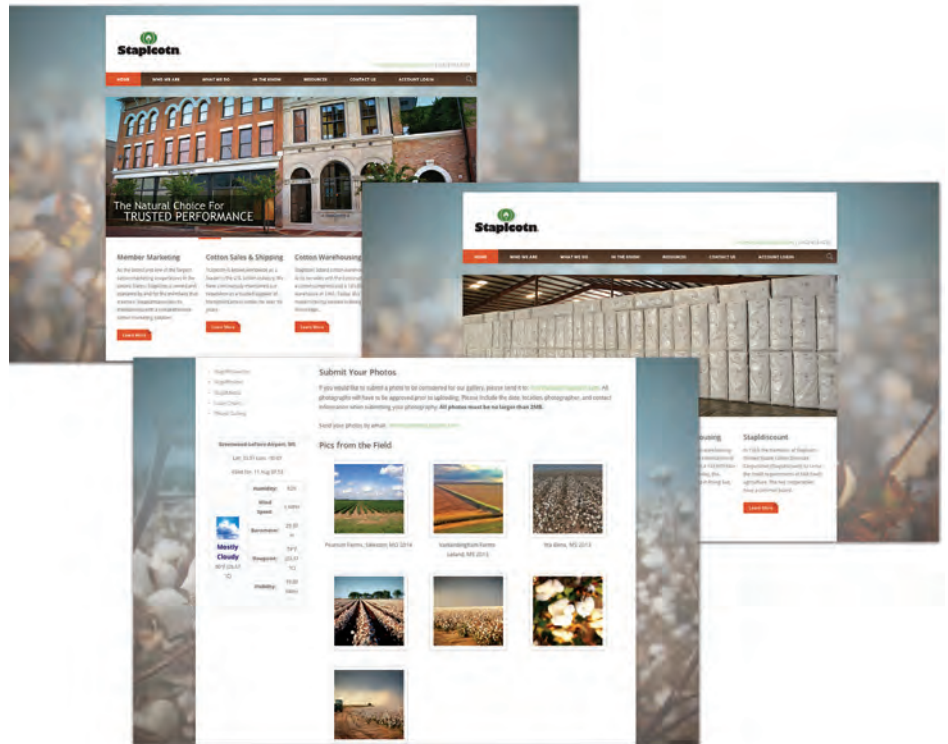
- 1- Former Board Chairman Ben Lamensdorf with Director Andy Barham
- 2- Brad Williams, Bob Walker, and VP of Sales Operations David Camp
- 3- Cotton Specialists Tom Pinson (left) and Stan McMikle (right) greet members in Albany.
- 4- (Left to right) Gerald Isler, Director Sonny Davis, Director Kim Rentz, and Charlie Speake
- 5- Advisory board members at the Greenwood meeting fill out surveys.
- 6- Members and guests from Louisiana: Tom Calloway, Jay Dominick, and Sonny Kirby
- 7- Hank Riechle, VP of Export Sales and Market Administration; Catherine LaCour, and Director George LaCour
- 8- Shane Stephens, VP of Cotton Services and Warehousing, Brad Williams, Jimmy Moody, and Kenny Stewart
- 9- Meredith Allen presents to advisory board members at the Memphis meeting.



New Website Launched in February

After more than a year of researching, planning and preparing, Staplcoth launched a new website on February 14, 2014. The purpose of the site is to give our public web presence a more current, up-to-date look and provide a more thorough presentation of who we are to our global audience. In today's technological world where information is required to be at everyone's fingertips through the web, we recognized the importance of mirroring our company's professional image and appropriately representing our membership through this new site for our customers or potential customers to visit. Be assured that if you are a SCCA or SCDC member, landlord, trucker, warehouse, buyer, or ginner, once you log in to your personal information on this site, everything that you could find on our old site is still there, and it is still secure. Only the publicly accessed parts of the website have changed.

We encourage you to participate in helping our new site evolve! If you browse the site you will notice that we now have a section under resources called Photo Gallery. We are happy to showcase some



of our members' farms with beautiful imagery taken of their crops. If you have interesting photography of your farm and/or crops and would like to submit some of your photos to be considered for the gallery, please send them to [information@](mailto:information@staplcoth.com)

[staplcoth.com](mailto:information@staplcoth.com). All photographs will have to be approved prior to uploading. Please include the date, location, photographer and contact information when submitting your photography. All photos must be no larger than 2MB. 📷

Advisory Board Meetings, cont. from page 3

warehouse in Greer, SC, is also a delivery point for ICE Futures and is located close to the domestic textile industry. Staplcoth's Savannah warehouse is used exclusively as a reconcentration and distribution center and is located right next door to the port. This is extremely beneficial when it comes to our exports." He also explained the reasons for Staplcoth's need to expedite shipments in the last few years. "For the last several years, we've had to ship cotton very quickly due to the inverted market and demand patterns. It's been very important to us to take advantage of shipping cotton when we can get the best

price for it. This year, we've shipped even quicker than the previous two years, which we didn't think was possible, so the average storage will only end up being around three months. Additionally, the Southeast is getting even less storage time than the Mid-south, which is opposite from the past two years due to the early demand, the inverted market, and because we had a late crop. This meant that as soon as the cotton reached the warehouse, we needed to ship it right back out."

Among many points made in Stephen's presentation to the advisory board, one point he emphasized was the efforts the staff has taken to economize and save the

membership money whenever possible. He encouraged all members to consider becoming more "green". "We want to be a 'greener' company primarily to save our members' money and put it back in their pockets. The more we can generate electronically and the less paper we use, the more we save for our members. We now not only have direct deposit as an option from receiving paper checks, but we have the use of our website to submit forms and information as well as electronic sign-up availability. However, if a member prefers to use paper, we will gladly accommodate that request." 📷



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President's Letter, continued from page 2

consumption, and the new Chinese cotton policies will begin to lower cotton production in China. Not only will we see lower production in China, we will likely see cuts in production in the U.S. and around the world. Before too long, cotton's supply and demand will get back into balance and cotton prices will then be able to normalize. In anticipation of the impact of lower cotton prices, particularly in China, USDA is already forecasting world cotton consumption to rebound by 3 million bales during the 2014/2015 marketing year. Let's hope USDA is right, because above all else the

cotton market needs better demand.

The Chinese stockpiling over the last four seasons has caused excessive cotton production around the world, and it will likely take more than just one season to get our industry back into some sort of balance. As I said earlier, I am afraid cotton producers are in for some challenging times, but I am confident our members will endure and brighter days are ahead. Good luck with the upcoming harvest! 🌱

Meredith Allen

Staplcotn Ranks in Two Prestigious Lists

In the September/October issue of the USDA's *Rural Cooperatives* magazine, Staplcotn ranked 24th out of the top 100 cooperatives in the U.S. The rankings are based on the 2012 revenue numbers. We were the highest ranking Cotton Cooperative in the U.S.

An equally impressive ranking was

recently published by the *Journal of Commerce* in May of 2014. Staplcotn ranked as the 45th largest exporter in the United States, with Walmart being 44th and Conagra Foods being 46th. Staplcotn moved 29,300 containers in 2013. You can review the full list at www.joc.com. 🌱



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