

Winter 2020

Staple Review

Beyond the
Pandemic
Pressing Protocol
Participation

Beyond the Pandemic



Cotton prices have managed a remarkable comeback of some 20 cents since the lows of April 2020 even though textile demand has suffered greatly under the weight of the pandemic. It cannot be over-emphasized how horribly the textile supply chain has been impacted by COVID-19. Mandatory closures of textile mills and retail stores and bankruptcies throughout the supply chain slowed the cotton business to a near standstill. U.S. retail sales of clothing and related accessories fell by 86% in April 2020 compared to the same month one year earlier. By October 2020, sales of clothing and related accessories had climbed their way back to a monthly year-over-year decline of only around 10%. In ordinary times, a decline of 10% in clothing sales, the major source of demand for raw cotton, would be nauseating. But it is 2020 and these are no ordinary times. Sales at such levels today are described by analysts as “better than expected” and “resilient” considering the pandemic still looms over our daily lives and routines. With prices at levels that took imagination to ponder just a few months back, we have to ask how did we get here and is the rally in cotton prices sustainable?

In describing the price rise from the upper 40s early last spring to low 70s as of late, one must do so in two broad phases. No pun intended, but the first phase of cotton’s price recovery is rooted in the Phase I trade deal with China and speculative investor money flows. After the heavy speculative selling that drove prices down 20 cents in the initial weeks of the pandemic dried up, government and central bank money printing and easy money induced speculators to first, cover their pandemic short bets, and then later, add long bets as part of a recovery/inflation play. During that same time, China showed up in the USDA cotton export report often and in volume throughout the spring and summer, presumably as part of Phase I. This combination of a change in investor sentiment and Chinese physical cotton buying was crucial in altering the downward price trend that was leading the industry towards widespread contractual defaults. The Chinese physical buying supported cash prices at a time when almost no traditional buyers (i.e. textile mills) could think of purchasing cotton given their operations were shut down, their customers weren’t buying, and they had millions of bales purchased already at much higher prices.

But, in my opinion, speculators and China could only do so much to make a horrendous supply and demand situation tenable, and thus their actions merely stabilized prices between the pandemic lows and pre-pandemic highs. For most of the summer, prices traded in the low 60s. It was not until early October that cotton broke out of that range and entered the next phase of the recovery. As of this writing, the second phase of cotton’s price recovery has added another 15% increase to the price of cotton. The impetus for this latest push in prices is the justifiable price

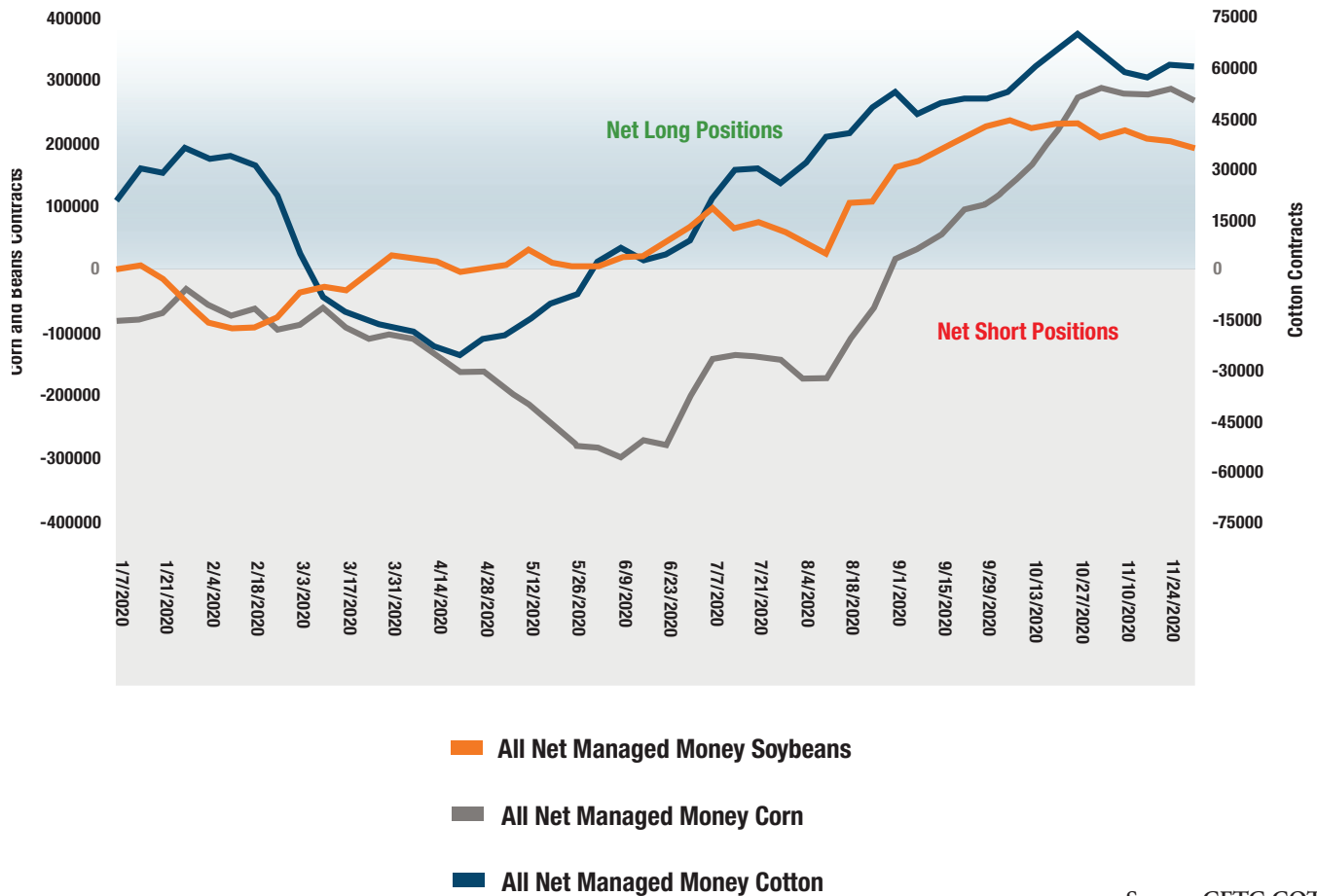
rise in the overall agricultural commodity complex, strong post-pandemic economic optimism, and low inventory levels throughout the textile supply chain. These themes, along with continued confidence in the Phase I trade deal, have provided no reason for the speculators to give up their long position in cotton. Of course, major cotton producing countries like the U.S., Pakistan, India and perhaps, to a lesser extent China, have all experienced less than desirable finishes to the growing season. While not the main cause of the price rise, this season’s poor harvest weather has been yet another supportive factor for prices.

Just how sustainable is this nearly eight-month-old price rally? First, let us not kid ourselves about the current cotton supply and demand situation. When all the global crop from this year is harvested and this crop year’s consumption is tallied, a massive ending stock globally will still be just that, massive. And, unlike 2014 when China held all the excess, this time around they will not hold nearly as much. The current USDA estimate of 5.7 million bales is below pre-harvest expectations, but it is still not particularly tight. For this rally to have additional legs, outside influences such as the price of corn and soybeans and the economic recovery must remain supportive. Cotton’s true story lies in tighter supplies in 2021 and 2022 when we may see the confluence of less cotton production due to higher competing crop prices and weather challenges, better consumption as the world regains its mobility and social interaction, and the continuation of Phase I, all working together to tighten cotton’s fundamentals. It will be then that higher cotton prices are sustainable on cotton’s own fundamental merits. No matter what, speculators are going to have a major say in how prices move from here forward.

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Net Managed Money Positions for Cotton, Corn, and Soybeans 2020

of Contracts



Source: CFTC COT

President's Message, continued

Non-commercial long positions in corn and soybean futures markets are at or near records and their global balance sheets present a friendly story. Within cotton, while non-commercials are not at a record, they are decisively long despite a global balance sheet that doesn't present a story that is remotely close to that of corn and soybeans. All of those speculative bulls across the ag complex will need to continue to be fed by supportive news regarding both supply constraints and continued recovery in demand. The next few months

are extremely important for the next marketing year given La Niña and the fight for widespread COVID-19 immunity and therefore a return to economic normalcy. Speculators have placed large bets on the long side and they will be disappointed with better than projected crops, a weaker than expected recovery or a weakened Phase I commitment. Right now, our futures market is focused on just that, the future, and foresees the likelihood that lower stocks in the United States and the world can come to fruition throughout

next year.

Merry Christmas and Happy New Year. I truly hope you all bring 2020 to a close safely yet joyously, and that 2021 is kinder to the world. I look forward to connecting with the membership in January through our virtual grower meetings. 🍷

PRESSING PROTOCOL PARTICIPATION



U.S. COTTON
TRUST PROTOCOL®
Trust in a smarter cotton future

What is the U.S. Cotton Protocol?

This sustainability initiative is an integrated data collection, measurement and verification program launched by the U.S. cotton industry to document this nation's cotton production practices and their environmental impact – but one that must have substantial U.S. producer participation.

What are the Trust Protocol's Goal?

The data collected is intended to benchmark U.S. cotton producers' gains towards reaching, by 2025, the U.S. cotton industry's national sustainability goals:

- **13%** increase in productivity, i.e. reduced land use per pound of fiber
- **18%** increase in irrigation efficiency
- **39%** reduction in greenhouse gas emissions
- **15%** reduction in energy use
- **50%** reduction in soil loss
- **30%** increase in soil carbon

Why was this effort initiated?

National Cotton Council Chairman Kent Fountain says, "U.S. cotton producers'

commitment to these goals through the Trust Protocol will provide the global textile supply chain much needed additional assurances that U.S. cotton is being produced in a responsible manner."

U.S. cotton producers can 1) build on their 35-year track record of using best management/environmentally friendly practices such as precision farming, no-till, buffer strips and cover crops and 2) gain a unique opportunity to examine their farming operations for areas where further changes can be made – a step that not only should reduce their environmental footprint but benefit their bottom line. Simultaneously, the Trust Protocol will provide transparency on U.S. cotton industry efforts to promote environmental stewardship, caring of people/community, farmer economic livelihood, and personal/corporate integrity.

Who governs the Trust Protocol?

The Trust Protocol is guided by a board of directors that includes delegates from

industry, scientific and academic experts, as well as representatives from world renowned environmental organizations.

NCC President/CEO Gary Adams said, "This group brings unmatched expertise within the cotton industry, a thorough understanding of the sustainability challenges facing the textile industry and experience within the retail sector."

U.S. raw cotton industry board members include:

Producers

Matt Coley (Georgia)
Ted Schneider (Louisiana)
Dahlen Hancock (Texas)
Aaron Barcellos (California)

Ginner

David Blakemore (Missouri)

Marketing Cooperative

Hank Reichle (Mississippi)

Merchant

Steve Dyer (Tennessee)

Cottonseed

Fred Serven (Tennessee)

Manufacturer

Jim Martin (North Carolina)

Directors representing brands/retailers are Liza Schillo, Levi Strauss & Co.; and Joe Little, Tesco. Other directors are: Kris Johnson, the Nature Conservancy; Melissa Ho, the World Wildlife Fund; Dr. Lori Duncan, the University of Tennessee; and Marty Matlock, the University of Arkansas.

continued



Trust Protocol advisors include: Jesse Daystar, Cotton Incorporated; Andy Jordan, Jordan Consulting; Marc Lewkowitz, Supima; Mark Pryor, The Seam; Mike Quinn, Frontier Spinning Mills; and Garry Bell, Gildan.


How do producers enroll/participate?

Producers 1) conduct a 45-minute self-assessment of their farming practices via a questionnaire that covers: soil health,

nutrient management, water management, crop protection, harvest preparation, wildlife habitat, fiber quality/traceability and farm management; 2) agree to use the FieldPrint Calculator or other qualified data products to monitor their farming practices on a portion of their fields and 3) complete a “statement of commitment” to responsible production practices aimed at safety/environmental awareness and to continuous improvement.

Information on the Trust Protocol, including participation benefits, how to enroll, and a schedule of educational webinars is on the Trust Protocol’s website, www.trustUScotton.org. A producer tutorial on the enrollment process is at www.youtube.com/watch?v=AcbwQFHx3B8&t=90s. More information also can be obtained by emailing growers@trustuscotton.org.

Following a Trust Protocol pilot in which some 300 U.S. cotton producers participated, the NCC launched a vigorous recruitment effort across the Cotton Belt in mid-2020.


Trust Protocol Director Hank Reichle said, “the goal is more than 50 percent of all U.S. cotton registered as Trust Protocol cotton by or before 2025. I strongly urge our Staplcotn producer members to enroll now in this innovative and indispensable sustainability initiative. We must ensure that U.S. cotton is the responsible choice for textile manufacturers and retailers now and in the future.” 



KIMMEL ELECTED TO BOARD

On September 16, 2020, the members of Staplcotn and Stapldiscount elected Mark A. Kimmel, of Greenwood, Mississippi, to their boards for a two-year term at their annual meeting held in the Staplcotn Main Office. He replaces Bryan Jones of Yazoo City, Mississippi, who retired from the board in September. Andy Barham, of Oak Ridge, Louisiana, also retired.

Kimmel, who has been a Staplcotn member since 1987, farms cotton, soybeans, and corn in nearby Itta Bena,

Mississippi. He also has an agricultural aviation business known as Dixie Dusters of which he is president. Kimmel currently serves as the President of the National Ag Aviation Association and as a Foundation Board Member of Mississippi Ag & Forestry Museum. He is a former Vice President of Delta Council as well as the Leflore County Farm Bureau. Kimmel is also the former President of the Mississippi Ag Aviation Association. He also serves as an elder at the First Presbyterian Church of Greenwood, Mississippi. 



Mark Kimmel



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2021 Grower Meetings To Be Virtual

Due to the increasing numbers of Covid -19 cases, Staplcotn has made the decision to hold our annual grower meetings virtually in mid-January. There will be a presentation and a live Q&A session during the virtual meetings. Staplcotn's Cotton Specialists will be contacting growers soon with details on how to join the meeting. We look forward to "seeing" you there! 🌱



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