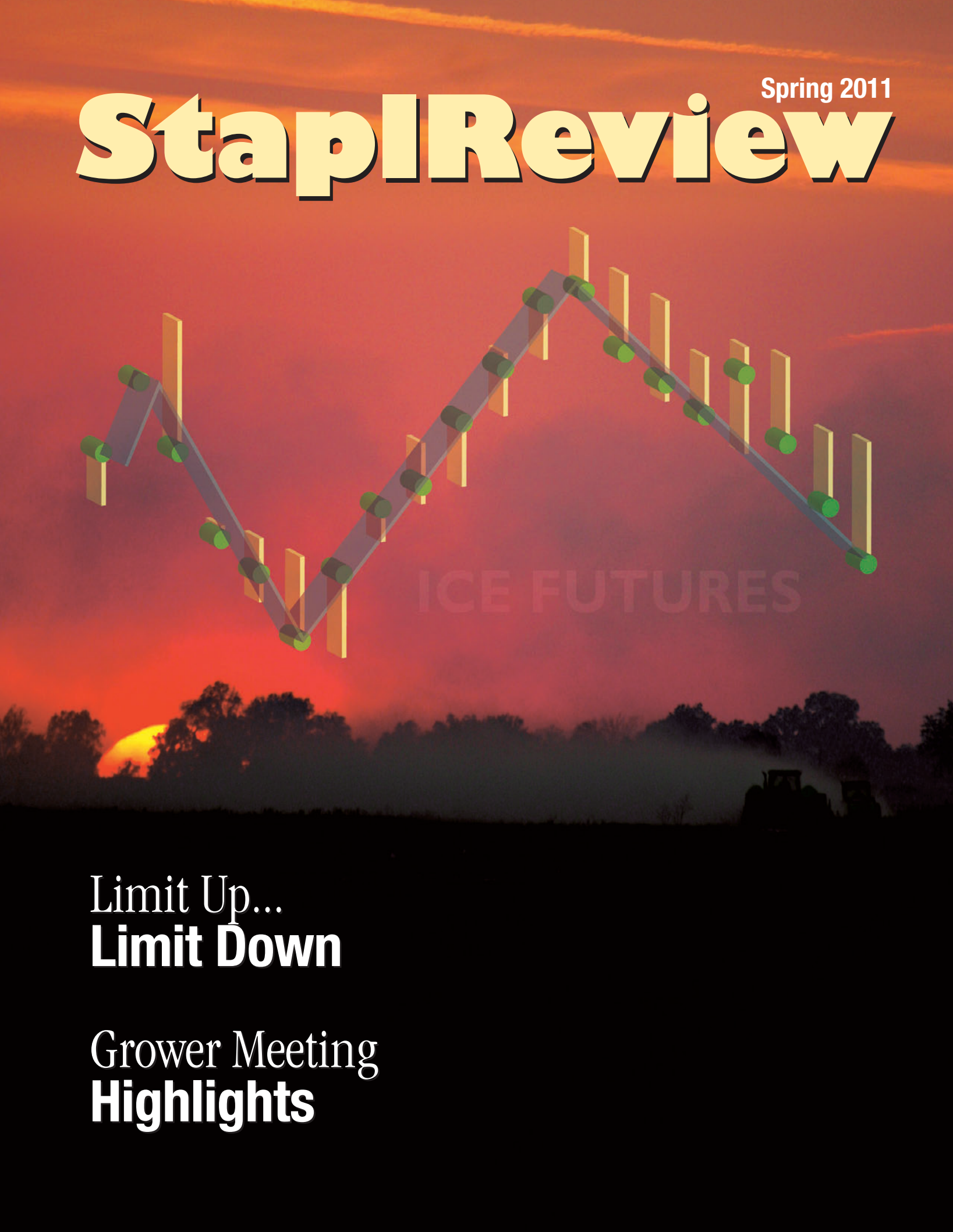
Spring 2011

StaplReview



Limit Up...
Limit Down

Grower Meeting
Highlights

Limit Up...Limit Down

Meredith Allen
President & CEO

As I write this on Friday, March 4, the futures market is trading at its limit again. For the last twelve trading sessions, both May and July have reached the limit - four limit downs and nine limit ups and one of those days traded at both limit up and limit down during the session. Although the cotton fundamentals are indeed bullish, I'm afraid we have created a monster with electronic trading and the lack of regulation by both the ICE Exchange and the Commodity Futures Trading Commission (CFTC).

For sometime it has been the practice of the regulators to allow the exchanges to regulate themselves. Since the Cotton Exchange (ICE) is now a "for profit" exchange, we have an obvious conflict of interest. The primary concern for ICE appears to be to attract volume from wherever they can get it, since the more volume that can be generated, the higher their stock price becomes. Even we (the industry) are forced to trade more volume than normal just for defensive reasons.

All of this adds costs to our industry, both to producers and our textile mills. Recently ICE has raised the daily trading limit to as much as 7¢ a pound, assuring us (the trade) that this would make for a more stable trading environment. So far the opposite has occurred. The ICE officials say they are disappointed that the higher limits have not calmed the market, but I'm sure they are enjoying the additional volume that has been generated.

Before I criticize the exchange officials too much, I must say that they are doing exactly what they were hired to do– create more volume, and thereby profits, and therefore higher stock prices. The real failure lies at the feet of the CFTC. Their failure to enforce the Commodity Futures Act as passed by Congress is the problem. I believe that most of this failure was created by the granting of hedge exemptions to swap dealers and Index funds. Hopefully, the recently passed Dodd-Frank Act will correct this if further exemptions are not granted by the Commission. The Commodity Futures Act clearly states that the Commission is to "prevent price manipulation or any other disruption to market integrity." There are now computers trading our market that use software clearly designed to manipulate prices. Anyone trading our markets on a regular basis can easily see this. Not only should certain kinds of computer trading be illegal, they are very disruptive to our futures market. Recently, the AMCOT group (Staplcotn, PCCA, Calcot, and Carolina Cotton Growers) met with the CFTC in Washington, DC, to express our concerns. Other groups, including merchants and textile mill representatives, have also expressed serious concerns to the

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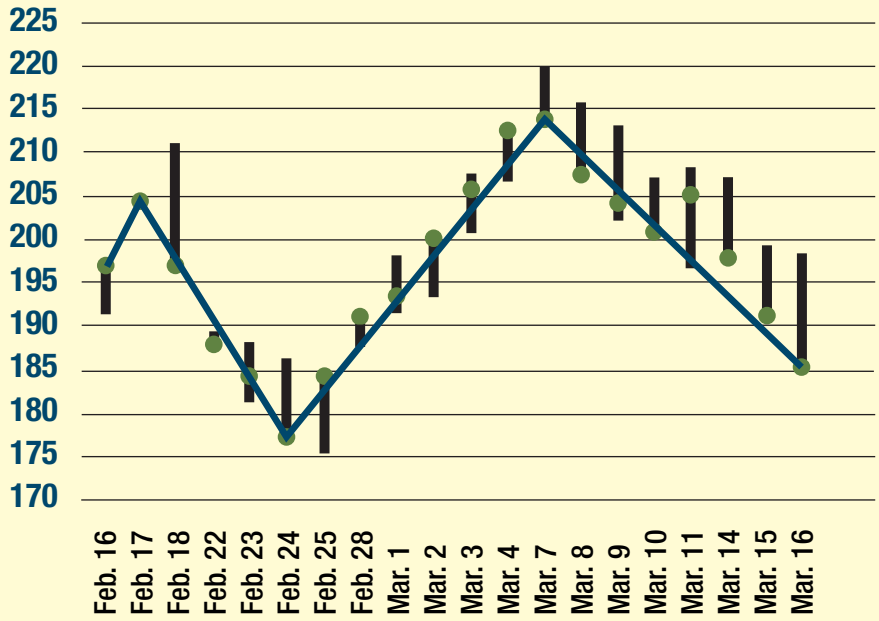
ICE Cotton Futures February 16 – March 16



One Month Movement	
High	$2.1970
Low	$1.7513
Range	4,457 points

Grower Meeting Highlights

One Change in Mill Sales Program 2011

The one difference between last year's program and this year's program is that if a member wants to put 100% of their cotton (by farm serial number) in the seasonal option, it will be considered "All Seasonal" and will have no yield risk from the call option. If you have any questions regarding this option, please contact your Cotton Services specialist.

Marketing

World production had a rebound this year with an increase of 14 million bales, but the world still had a tremendous amount of usage. Therefore, we didn't increase carryover stocks. In fact, we reduced stocks by another million bales this season which gives us a very low stocks/use ratio.

World Supply & Demand
January 12th

	2009	2010
Beginning Stocks	60.52	43.85
Production	101.54	115.46
Imports	35.88	38.32
Total Supply	197.94	197.63
Mill Usage	118.52	116.58
Exports	35.60	38.35
Total Offtake	154.12	154.93
Residual	-.03	-0.14
Ending Stocks	43.85	42.84
Stocks/Use	37.00%	36.75%

Similarly, the U.S. saw a large increase in production over the previous year. Our beginning stocks were low; the U.S. mill usage remained at a level similar to the past couple of years, but exports increased leaving the U.S. ending stocks at 1.9 million. If carryover levels continue to decrease, there may not be enough cotton to transition between years.

U.S. Supply & Demand
January 12th

	2009	2010
Beginning Stocks	6.34	2.95
Production	12.19	18.32
Imports	0.01	0.01
Total Supply	18.54	21.28
Mill Usage	3.46	3.60
Exports	12.04	15.75
Total Offtake	15.50	19.35
Residual	0.09	0.03
Ending Stocks	2.95	1.90
Stocks/Use	19.03%	9.82%

The chart below illustrates world consumption less foreign production through 2010 with a projected trend line through 2013. If the trend line holds, it appears that the world will require more cotton from the U.S., around 22 million bales, to "fill in the gap". This is very encouraging for cotton in the U.S.

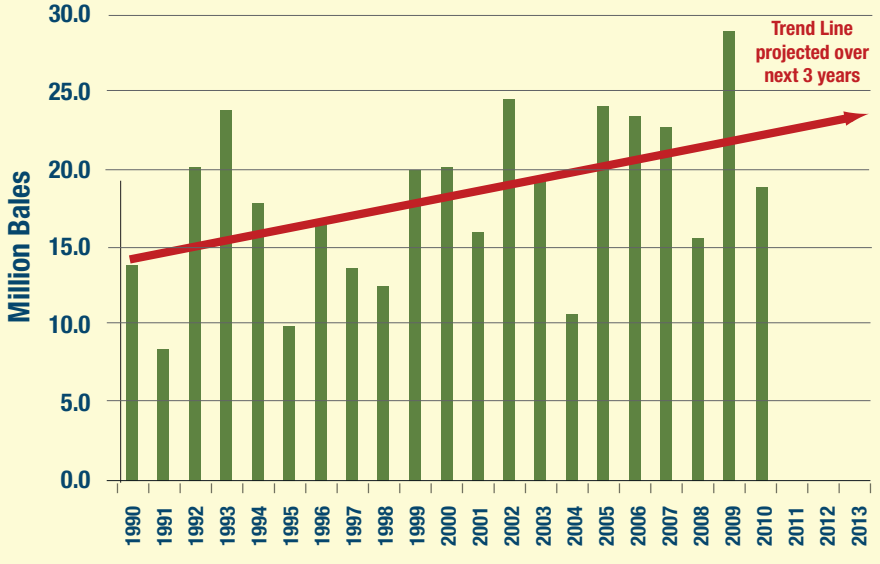
Well Positioned for the Future

China is both the biggest producer and the biggest consumer of cotton in the world. However, projections show that China won't be increasing their cotton acres because they will more than likely give more incentives for grains to feed their growing population. China and other foreign markets will depend on the U.S. to supply them with the cotton they need and the market will go to whatever level it needs to be in order to produce the cotton that China and other consuming nations require.

Warehousing

Our newest location in Erwin, North Carolina, has proved to be a valuable asset. It has a licensed capacity of 60,000 bales and is being fully utilized. Approximately 36,000 bales came directly from area gins with the remaining

World Consumption Less Foreign Production



volume resulting from reconcentration of select qualities in order to service the large textile companies in that area. We've always done this relocation, staging, and blending but had to pay other warehouses for this service. Often we have a sale that requires that we get our cotton loaded with very short notice or adjust the original schedule. Our warehouses allow the flexibility and immediate access we need in order to accommodate many of our sales. It's a real advantage to our customers and to our membership. This Erwin warehouse location was formerly a Burlington facility that we are currently leasing. Plans to pursue a longer term solution to our area storage needs are underway.

Due to the world's low supply and high demand for cotton, we are shipping out cotton at a record pace. In fact, Staplcotn shipped approximately 50% of the cotton warehoused this fall and early winter, which is traditionally considered our receiving period. Normally, we would not reach 50% shipped until May or June. For this reason, Staplcotn's warehouse earnings will be low compared to previous years. However, it is a good trade-off for our members to have higher demand/prices for cotton and less storage time. As long as we have tight cotton supplies, demand for immediate access and early shipment will be high while warehouse storage time/revenue will be low.

StaplDiscount

Stapldiscount continues to do well and remain competitive. This year, we are going to have the lowest interest rate after rebate that we have ever had at 4.36%.

Important Cotton Interest Representation

Once again, Staplcotn members and staff provide excellent leadership and representation through important organizations such as the National Cotton Council, American Cotton Producers and Cotton Council International. We would like to recognize and thank them for their efforts.

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Shane Stephens, Vice President

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Staplcotn Members Win High Cotton Awards

Congratulations to Staplcotn members Ronnie Lee of Bronwood, Georgia, and Ray Makamson of Itta Bena, Mississippi, on being named High Cotton Award winners at the Beltwide Cotton Conference in January. Beginning in 1995, Farm Press Publications and The Cotton Foundation have been presenting these awards annually to cotton growers in one of the four Cotton Belt regions who meet the following criteria: 1. They must be a full-time grower who gets a profitable return. 2. Their cotton must consistently be of high quality. 3. They must use environmentally sound production methods.

Ronnie Lee

High Cotton Award winner for the Southeast Region

According to the *Southeast Farm Press,* Ronnie Lee has "successfully combined the concepts of stewardship and profitability to build Lee Farms into one of the premier cotton farming operations in the Southeast," wrote editor Paul Hollis.

Lee Farms grows 3500 – 4200 acres of cotton in addition to 900 acres of corn, soybeans and wheat. In addition, it includes a ginning and warehousing operation, a flying service and also does custom harvesting. Ronnie's sons, Ron and Chandler, are also significant members of their family operation.

Lee Farms was the first in Terrell County to adopt the strip-till and no-till planting practices. They helped educate neighboring growers about the benefits of those practices. Lee said that he believes strongly that farmers need to set the example when it comes to environmental stewardship. The adoption of conservation-tillage practices on his farm had a ripple effect, with other growers in the area soon taking notice and trying it successfully in their fields.

Ray Makamson

High Cotton Award winner for the Mid-South Region

Ray Makamson produces 3,050 acres of cotton and 700 acres of soybeans on his farming operation near Itta Bena, Mississippi, which is approximately eight miles west of Staplcotn's Main Office in Greenwood. He has been farming for 38 years.

Makamson's attention to detail in conservation practices is evident in the appearance of his farming operation. "He is probably the most esthetically-astute farmer that I'm aware of in the Delta. If you ever want to take somebody to a farming operation to see one of the best actors in the farming community, Ray's farm would be one you want them to see," said Trey Cooke, executive director of Delta Wildlife, when being interviewed by Elton Robinson, the editor of *Delta Farm Press.*

As a member of Delta Wildlife, Makamson participated in the Monsanto Mississippi River Project, created to determine the effectiveness of conservation measures on improving wildlife habitat and water quality. He installed numerous water control structures for use in reducing nutrient and sediment loss from his cropland to benefit water quality in adjacent water bodies.

Photos and information provided for this article are courtesy of Southeast Farm Press *and the director of content, Forrest Laws, who also wrote the article from which these excerpts were taken.*

Stapldiscount's Year-end Report

Staple Cotton Discount Corporation completed its 2010 fiscal year on January 31, 2011. The operating results and distribution of earnings were as follows: $1,928,231 in net earnings with $829,390 being paid as a cash patronage rebate to all Stapldiscount borrowers; $749,390 was added to retained earnings; $80,000 was paid to Staplcotn as an 8% dividend on $1,000,000 of stock.

This resulted in a net interest rate of 4.36% for the 2010 fiscal year. Stapldiscount maintained loans at an average daily balance of $72.6 million, with a peak balance of $101.3 million.

Also, Stapldiscount's Investment Note program maintained an average daily balance of $37.7 million with a peak balance of $60.0 million.

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President's Message continued

Commission. Hopefully, our cotton futures market will receive better oversight in the future.

Having said this, the trading environment today is what it is. With much higher cotton prices, volatility, and risk comes opportunity. The current margins (profits) in marketing cotton are as good as I have seen in my entire career. Only the companies that are well-capitalized are going to be able to take advantage of these margins. The more risk and volatility there is in the market and the higher the price of the commodity, the larger the capital requirement is to participate. I assume that the large international merchants have to get more capital allocated to their cotton businesses from their parent companies. Our "members" are our parent company. The most cost-effective way that Staplcotn can raise additional capital (without increasing the capital retain) is to distribute its earnings to the members at a slower pace. This pace will be determined by the rate at which we can deliver your cotton to the textile mills. The cost to our members of slower distribution of earnings will be very minimal compared to the higher margins that the members will receive. The end result will be higher returns for our members, which makes it a very good and profitable time to be in a cooperative.

Meredith Allen

Staplcotn

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