

Summer 2019

# Staple Review

Deal or  
No Deal  
Board Approves  
New Capital Plan



# A Message from the President

## Deal or No Deal?



Things seemed to be progressing reasonably well with the U.S./China trade negotiations throughout the spring, and optimism about a trade deal grew across the globe. In March and April, the cotton market started to show signs of life despite the prospects of a large U.S. crop in 2019. The market thought, “A deal is on the way, it’s just a matter of time.” With that deal, the consensus was that global economic sentiment would improve. For cotton specifically, the deal should mean global consumption will once again start to expand and the Chinese will, under the terms of the deal, be obligated to buy large volumes of U.S. cotton that they also happen to need. U.S. cotton, perhaps as much as any other commodity out there, is positioned well for a trade deal with China. On May 5, 2019, the negotiations took a turn for the worse when President Trump tweeted that the Chinese were renegeing on some of their previous concessions and that he was going to ratchet up the tariff pressure. Soon, he vowed, a 25% tariff would be applied to all U.S. imports from China, and he suggested that no deal looked

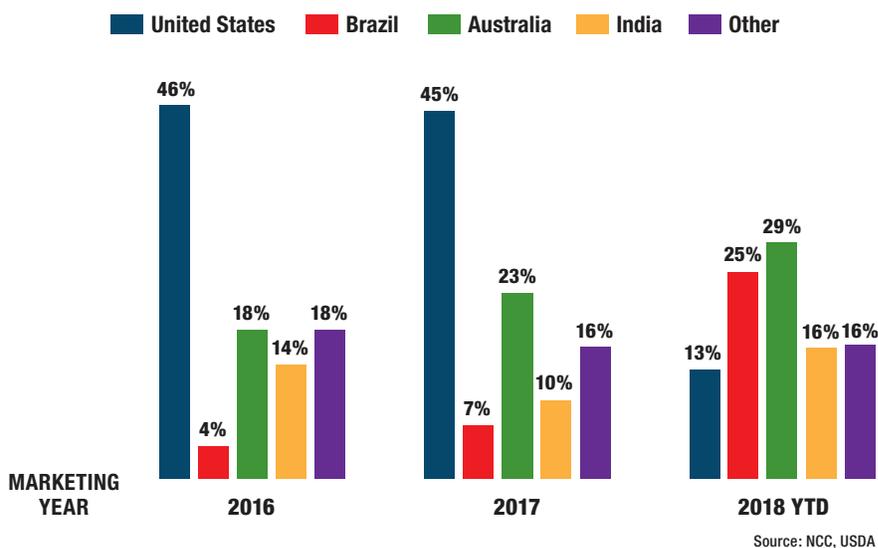
imminent. We learned in early May that markets had miscalculated progress on the trade deal and nearly all markets reacted negatively to this development.

Since the breakdown in talks, the U.S. equity markets have recovered to all-time highs, but cotton’s price hasn’t come back. Because of interest rate cuts, bad news is now good news for stocks, but for unfortunately for cotton, there is no such paradox. Grains and oilseeds have managed a price recovery since early May because of planting woes, but December 2019 cotton futures are still down a dime since the tweet. Despite a challenging planting season of our own across the cotton belt, the USDA’s 22 million bale 2019 crop

depressed by the tariff war, while cotton trade between the U.S and China is all but non-existent.

Until we have a deal, the U.S., the owner of the world’s largest exportable cotton surplus (around 18 million bales), can’t trade with the country with the largest import need – China. USDA currently estimates that for the 2019 marketing year Chinese mills will need 13.25 million more than its growers will produce. As a result, USDA estimates that China will import 10.5 million bales of cotton. But, with a 25% tariff on U.S. cotton due to the trade dispute, Chinese mills are turning to other countries such as Brazil. The U.S. share of Chinese imports has fallen from around

### Chinese Cotton Import Market Share



production estimate would be the third largest ever, thanks in large part to good moisture in Texas. Against the backdrop of a large U.S. crop and expectations of the second largest world crop ever, global cotton consumption prospects are

45% just prior to the dispute, to around 13% so far this season. And, in addition to the two countries’ inability to trade in cotton, total cotton demand is hampered too. There is no doubt that China’s economy is suffering at least in part due to

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### *President's Message continued*

the tariff war. With its massive role in the global textile supply chain including cotton spinning, polyester production, apparel and home textile manufacturing, the slow-down is felt not only by China, but everywhere. The fabric of the global textile supply chain is considerably interwoven.

When talks broke down, the futures market adjusted to reflect the U.S.'s role as the residual supplier to the world instead of the preferred supplier to the cotton world's current MVP, China. This could mean 2-3 million more bales of ending stock in the U.S. at the end of the 2019 marketing year. The market's reaction to the abrupt change in trade sentiment was severe and swift as ICE Futures speculators sold 47,000 futures contracts (4.7 million bales) over the three weeks following the tweet.

That's my objective analysis of why cotton prices are where they are today and I realize that it isn't a rosy picture. But, relax. The story of the 2019 crop year is really only getting started. There is still plenty of time with a lot of things left to play out on both the supply and demand front. A trade deal may come sooner rather than later. As I write this message, Presidents Trump and Xi appear to be working toward getting the negotiations back on track. Maybe we will get a deal later this year. Politics are at play, so who really knows? But, one day there will be a deal; and when it arrives, I expect the U.S./China cotton relationship to quickly flourish once again.

One positive in this situation is that we have the best safety nets in place that we've had in a while. The Trump Administration

has said there will be another Market Facilitation Payment as the Chinese tariffs on U.S. agricultural products linger on. We are still waiting on the details, but cotton producers will—rightfully so—be covered by that program. And, if prices remain depressed into the season, the Seed Cotton ARC/PLC program and CCC loan programs will assist in buffering the lower market price. I know that safety nets are not what any of us want to rely on, but these types of circumstances are why we have them. With these tools, even absent a trade deal, I feel confident we can piece together an acceptable marketing plan for our members. I wish you good weather for the rest of this season. 🌱



## Board Approves New Capital Plan

**T**he Board of Staplcotn recently approved a change to both the Marketing and Warehouse Divisions' capital retain policy. The new policy represents a move to a more dynamic plan under which the annual capital retain withheld may vary from year to year. The new policy also requires an annual evaluation of the longer-term target capital the company believes should be maintained.

The timing of the action coincides with Staplcotn's management and Board's assessment that, after a decade under the current plan, the company has obtained the optimum amount of capital. "Staplcotn has a strong capital position that allows us to comfortably meet the working capital and borrowing needs in the present and the foreseeable future. We wanted a plan that would afford us

the flexibility to retain the appropriate amount of capital we need annually while maximizing our members' returns," said Hank Reichle, President and CEO.

Much of the former plan will remain the same. Mike Sturdivant, Chairman of the Board explained, "The Mill Sales Program's \$4.75/bale capital retain and the \$2.50/bale written notice of allocation charge for the Warehouse will remain in place each year. However, if it is determined that less capital is required, a proportional partial refund of these rates will be included in the final settlement of each division. There is no change to the current 10-year capital rotation policy."

The board approved the plan to be effective for the 2018 crop. Therefore, members who are in the Mill Sales Program can expect a \$1.00/bale refund yielding a net capital retain of \$3.75

in the final progress payment for the 2018 crop. For the Warehouse Division members, a written notice of allocation averaging \$1.97/bale will be reflected in the patronage earnings rebate due in September.

Shane Stephens, Vice President of Cotton Services and Warehousing, believes the membership will find the plan pleasing. "I am really excited that the Board, along with management, has reviewed our capital and come up with a plan that will monitor and adjust accordingly the amount of money our growers have in Staplcotn's equity reserves (Capital). Our grower/members expect good stewardship with prudent, balanced and conservative financial management. This adjustment certainly is in line with that expectation," Stephens remarked. 🌱

# HIGHLIGHTING OUR INDUSTRY LEADERS

Year after year, Staplcotn proves to have so many dedicated and passionate members and staff serving in leadership roles throughout the cotton industry. This year is no exception. For example, Staplcotn President & CEO, Hank Reichle, was chosen to serve as this year's president of Cotton Council International (CCI). Additionally, Staplcotn Director Mike Tate from Huntsville, Alabama, was elected the National Cotton Council's (NCC) chairman for 2019. Bernie Jordan, a Staplcotn member from Yazoo City, Mississippi, was elected as the Cotton Board's (CB) Chairman for the next two years. As you can see by this long list, there are many Staplcotn affiliates in various positions within the cotton industry. We are thankful that Staplcotn is so well-represented in each organization as well as in each state that we serve. We are grateful for your service! 🌱



Mike Tate, Staplcotn director, speaks as chairman of the 2019 National Cotton Council

## National Cotton Council

- Mike Tate, Huntsville, AL  
*Chairman*
- Kent Fountain, Surrency, GA  
*Vice Chairman*
- Neal Isbell, Muscle Shoals, AL  
*Director*
- Patrick Johnson, Tunica, MS  
*Director*
- Wesley Morgan, New London, NC  
*Director*
- George LaCour, Morganza, LA  
*Director*
- Hank Reichle, Greenwood, MS  
*Director*

## NCC State Unit Officers

- Nathan Reed, Marianna, AR
- B.E. "Sonny" Davis, Cottondale, FL
- Chad Mathis, Arlington, GA
- Jason Condrey, Lake Providence, LA
- Heath Herring, St. Joseph, LA
- Russell Ratcliff, St. Joseph, LA
- Ted Kendall, Bolton, MS
- David Cochran, Greenville, MS
- A.C. Riley, New Madrid, MO
- William Hunter, Bell City, MO
- Eugene Pugh, Halls, TN
- Bradley Williams, Burlison, TN
- Tommy Moore, Somerville, TN
- Steele Byrum, Zuni, VA

## Cotton Council International

- Hank Reichle, Greenwood, MS  
*President*
- Kent Fountain, Surrency, GA  
*Director*
- Frederick Barrier, Greenwood, MS  
*Director*

## American Cotton Producers

- Jason Condrey, Lake Providence, LA  
*Vice Chairman*
- Neal Isbell, Muscle Shoals, AL  
*Producer/Director*

## National Cotton Ginners Association

Wes Morgan, New London, NC  
*President*

George LaCour, Morganza, LA  
*Second Vice President*

## America Cotton Producers State Chairmen

Nathan Reed, Marianna, AR  
Chad Mathis Jr., Arlington, GA  
Heath Herring, St. Joseph, LA  
Russell Ratcliff, St. Joseph, LA  
Ted Kendall, IV, Bolton, MS  
Chris Porter, Essex, MO  
Andrew Burleson, New London, NC  
Daniel Baxley, Dillon, SC

## The Cotton Board

Walter L. Corcoran, Jr.  
*Alabama Member*  
Timothy J. Mullek  
*Alternate Alabama Member*  
Pace Hindsley  
*Arkansas Member*  
David J. DeFelix  
*Florida Member*  
James L. Webb  
*Georgia Member*  
Benjamin R. Grimsley  
*Alternate Georgia Member*  
George LaCour, Jr.  
*Louisiana Member*  
James C. Robertson, Jr.  
*Mississippi Member*

Patrick L. Johnson, Jr.  
*Alternate Mississippi Member*

David M. Dunlow  
*North Carolina Member*

Willie L. German, Jr.  
*Tenn./Kentucky Member*

Catherine S. Via  
*Alternate Tenn./Kentucky Member*

## Cotton Incorporated

Bernie Jordan, Yazoo City, MS  
*Chairman (2 years)*

Shane Isbell, Muscle Shoals, AL  
*Director*

Tommy Thompson, Andalusia, AL  
*Alternate*

Charlie Speake, Eufaula, AL  
*Director*

Phil Vandiver, Madison, AL  
*Director*

John Newby, Athens, AL  
*Alternate*

Lewie Joe Smith, Jay, FL  
*Alternate*

Hugh Dollar, Bainbridge, GA  
*Director*

Jeremy Gay, Matthews, GA  
*Alternate*

John Ruark, Bishop, GA  
*Director*

Chad Mathis, Arlington, GA  
*Alternate*

Ryne Brannen, Statesboro, GA  
*Alternate*

Ronnie Lee, Bronwood, GA  
*Director*

Phil Murray, Axon, GA  
*Alternate*

Johnny Crawford, Chula, GA  
*Alternate*

Andrew Burleson, Richfield, NC  
*Director*

Allen McLaurin, Laurel Hill, NC  
*Director*

Marshall Newton, Raeford, NC  
*Alternate*

Davis Calhoun, Clio, SC  
*Director*

Doug Jarrell, Estill, SC  
*Alternate*

Herrick Norcross, Tyronza, AR  
*Director*

Nathan Reed, Marianna, AR  
*Director*

Ramey Stiles, Marianna, AR  
*Director*

Jesse Flye, Jonesboro, AR  
*Alternate*

Jason Condrey, Lake Providence, LA  
*Alternate*

Larry Sayes, Vick, LA  
*Director*

Coley Bailey, Coffeerville, MS  
*Director*

B Jones (Bryan), Yazoo City, MS  
*Alternate*

Kendall Garraway, Bolton, MS  
*Director*

Lawrence Long, Indianola, MS  
*Alternate*

Bernie Jordan, Yazoo City, MS  
*Director*

Tripp Hayes, Clarksdale, MS  
*Alternate*

Jeff Hux, Sikeston, MO  
*Director*

Allen Below, Dexter, MO  
*Alternate*

Gregg Mayberry, Bernie, MO  
*Director*

Steve Droke, Hornersville, MO  
*Alternate*

Link Carlton, Brownsville, TN  
*Director*

Bob Walker, Somerville, TN  
*Director*

# Olivers' Story

**N**estled down deep in the farmlands of South Georgia near the small town of Pitts, lives the Oliver family. Theirs is not the typical love story that comes to mind when you read the title of this article. It is, however, a love story none the less—love of family, love of farming, and love of the land and its bounty.

The Olivers' story begins in 2008. One spring evening, Randy Oliver and his two sons, Clay and Clint, were planning to begin planting their cotton crop the next morning when Randy suddenly passed away as a result of a heart attack. The two brothers knew that their mother, Jurice, would need them to help keep things going that year and pull the family farm on through. Both sons were already farmers, but the loss of their father put a strain on their operation.

During that harvest season, the economy started to decline and the country went into a recession, and as most will remember, fuel costs skyrocketed. Clay, the older of the two brothers, became determined to find a more efficient way of running the farm. "We were running two four-row pickers and spending about \$800 a day on fuel. I kept hearing about biofuels and I thought, 'I wonder if there is something I can do to take what we have and make some sort of alternative fuel?' So, I just started doing lots of research online. I'd come in after a long day's work in the field and stay on the computer for hours," he said.

Eventually, he made contact with a man in Virginia that took canola and converted it to biofuel. Clay asked if he could come and see the man's operation. During the course of the visit, Clay's new friend suggested that Clay go and check out the man's nephew who was producing food oils. "When I saw what his nephew was doing, I knew that this was something I could do," Clay remarked. Clay returned home and discussed it



**Clay's wife, Valerie, is also an integral part of the family's artisan oil business.**

with his brother, Clint. "I was fine with him trying it! I figured, if the oil business worked, it would be good for all of us," Clint explained.

The brothers actually farm separately and help with their mother's farm. The family has been loyal Staplcotn members for over 25 years. The majority of what they grow is cotton, but they also grow peanuts and sunflowers and occasionally soybeans. "This area is set up for cotton," Clay explained. "We mostly have dry land crops with very little irrigation. That's one reason farming sustainably is so important to us. We have to keep our soils healthy, lessen erosion and conserve as much water

as we can. Our dad started conservation tilling and using other sustainable practices years ago. We've always known that we are stewards of the land, because without it, we won't survive." Clint agreed, "If you don't take good care of the land, it won't take care of you."

Clay's move toward food oils came gradually. After much research and planning, he eventually started with the seeds from his sunflower crop in 2012. He built a small shop and one press, which he has since expanded three times. Clay has gone from producing about 2,000 gallons of sunflower oil back in 2012, to 10,000 gallons of sunflower oil and about 10,000 gallons of other oils in 2018. He began selling the oils at local farmers markets and has since expanded to mom and pop shops, which are still his bread and butter, and to various stores and restaurants all over the country. "The oils I produce are not refined; they are very clean oils and bottled in its natural state. I like putting something out there that is cleaner and healthier than the refined oils," he said. In addition to sunflower oil, Clay makes oils from pecans, peanuts, okra, benne, and pumpkins. He even takes the crushed seeds from which the oils are extracted and turns that into flour. Tom Pinson, Staplcotn Cotton Specialist, added, "Other oil mills I have



**Left to right in their cottonfield are Clay Oliver, Tom Pinson, and Clint Oliver**

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## A Special Visit

On Thursday, April 11, 2019, Staplcofn had the honor and the pleasure of a visit by the president of the Federal Reserve Bank of St. Louis, James Bullard, and a few of his board members at the main office in Greenwood, Mississippi. President Bullard and his team had been on a two-day tour beginning in Tupelo, Mississippi, and ending in Greenwood to meet with business and civic leaders and get a better understanding of the economic issues, trends, and concerns in the area. The St. Louis Fed's District is comprised of four zones—this area being considered the Memphis Zone.

Greenwood-area business leaders enjoyed a presentation by Bullard and were able to engage in a Q&A session following his presentation. After the meeting, President Bullard and his team toured the Staplcofn headquarters and were given a demonstration on how cotton is classed.

It just so happened that on the same day as their visit, there was a parade through downtown Greenwood featuring the Budweiser Clydesdales. The group was able to enjoy the parade as well as a get photo opportunity with these beautiful creatures who are also based in St. Louis!

That evening, Bullard spoke to community and business leaders on the Fed's efforts to promote community development. Staplcofn was privileged to be a part of this special event. 🌱



Pictured in the lobby after the presentation by President Bullard are (from left to right): Tom Dillard, COO of Stapldiscount; J. Brice Fletcher, chairman of First National Bank of Eastern Arkansas and member of the St. Louis Fed's Memphis Branch board of directors; Daniel Davis, assistant vice president and community development officer at the St. Louis Fed; Douglas Scarboro, senior vice president and regional executive of the Memphis Branch; Bullard; Hank Reichle, president and CEO of Staplcofn and member of the St. Louis Fed's Agribusiness Industry Council; David Camp, vice president of Sales Operations at Staplcofn; and Kenny Downs, Staplcofn's general counsel and secretary.



St. Louis Fed President James Bullard (third from the right) watches Ricky Love, Staplcofn's Classing and Maintenance Supervisor (far right), demonstrate how to check the staple length of cotton as Staplcofn's Hank Reichle (second from right) explains the process. Also pictured (from left to right) are St. Louis Fed board Memphis Branch board members J. Brice Fletcher, David Cochran Jr., Daniel Davis, Douglas Scarboro, and Staplcofn Board Chairman Mike Sturdivant.





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### *Olivers' Story continued*



been around have a very bad smell, but when you walk into Clay's place, it smells delicious! It's like walking into a coffee shop or a bread factory!"

What was once just an effort to combat the recessive economy back in 2008 has become a thriving and growing business for Clay. He said, "This is the first year that I have actually removed myself from being an active farmer and am concentrating on growing this oil business further. It's already grown into something bigger than I ever thought it would. My brother is doing all of the farming, which is what he is really good at. But, I can't help but get out of the truck and check a crop when I drive by." Clint added, "When Clay first got started,

we tried to do as much farm work as we could for him so that he could work on his oil business. It's really gone well and it has benefited the farming side of our operation, too. Also, the extra sunflowers gives me more birds to hunt and Clay more seeds to crush!" 🌱



*To learn more about Oliver Farm Artisan Oils visit [www.oliverfarm.com](http://www.oliverfarm.com).*



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