

USDA AGRICULTURAL
OUTLOOK CONFERENCE 2009

COTTON OUTLOOK

WALLACE L. DARNEILLE
PLAINS COTTON COOPERATIVE
ASSOCIATION

TOPICS

- WORLD PRODUCTION AND CONSUMPTION
- THE CHANGING NATURE OF THE U.S. CROP
- THE PROBLEMS FACING U.S. COTTON

COMPARISONS

- TRACKING USDA ESTIMATES COMPARED TO PCCA AND COTLOOK.
- DIFFERING METHODOLOGIES
- USDA'S METHODS ARE UNDOUBTEDLY MORE SCIENTIFIC
- PCCA'S AND COTLOOK'S ESTIMATES ARE ADMITTEDLY SUBJECTIVE, BUT MORE RESPONSIVE TO CHANGING CONDITIONS.

INDISPUTABLE FACT:

ANYBODY WHO TRIES TO TELL YOU
THEY REALLY KNOW WHAT'S GOING
ON IN CHINA IS LYING.

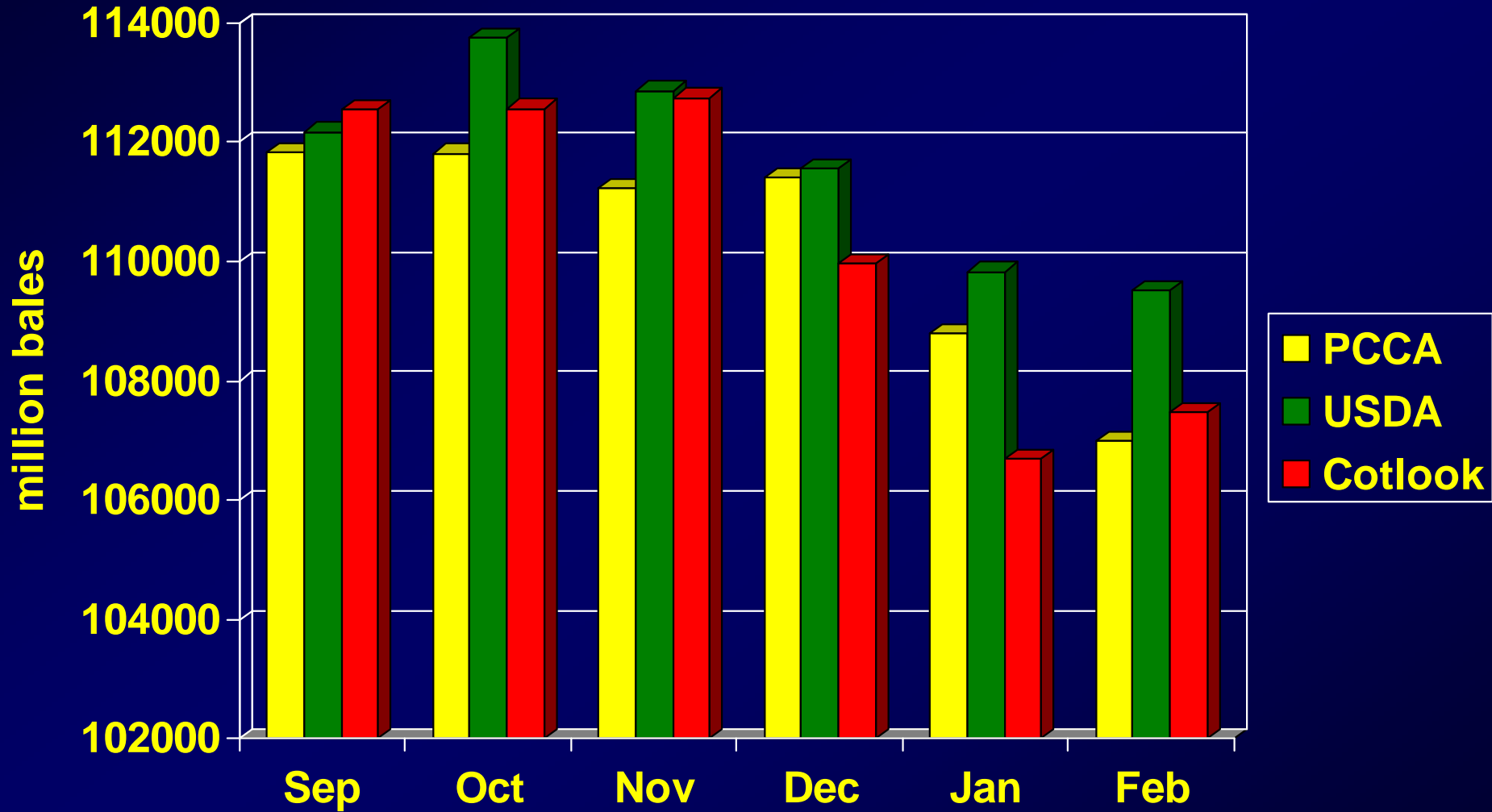
NOTICEABLE TRENDS:

- USDA'S ESTIMATES OF WORLD PRODUCTION AND CONSUMPTION HAVE TENDED TO BE HIGHER THAN PRIVATE ESTIMATES.
- USDA ESTIMATES HAVE SHOWN A TENDENCY TO DECREASE DURING THE SEASON OVER THE LAST SEVERAL YEARS.

WORLD PRODUCTION ESTIMATES

- ALL ESTIMATES OF PRODUCTION HAVE DECREASED FROM SEPTEMBER THROUGH FEBRUARY.
- PRIMARY FACTORS WERE WEATHER-RELATED IN U.S., CHINA, INDIA, AND PAKISTAN.

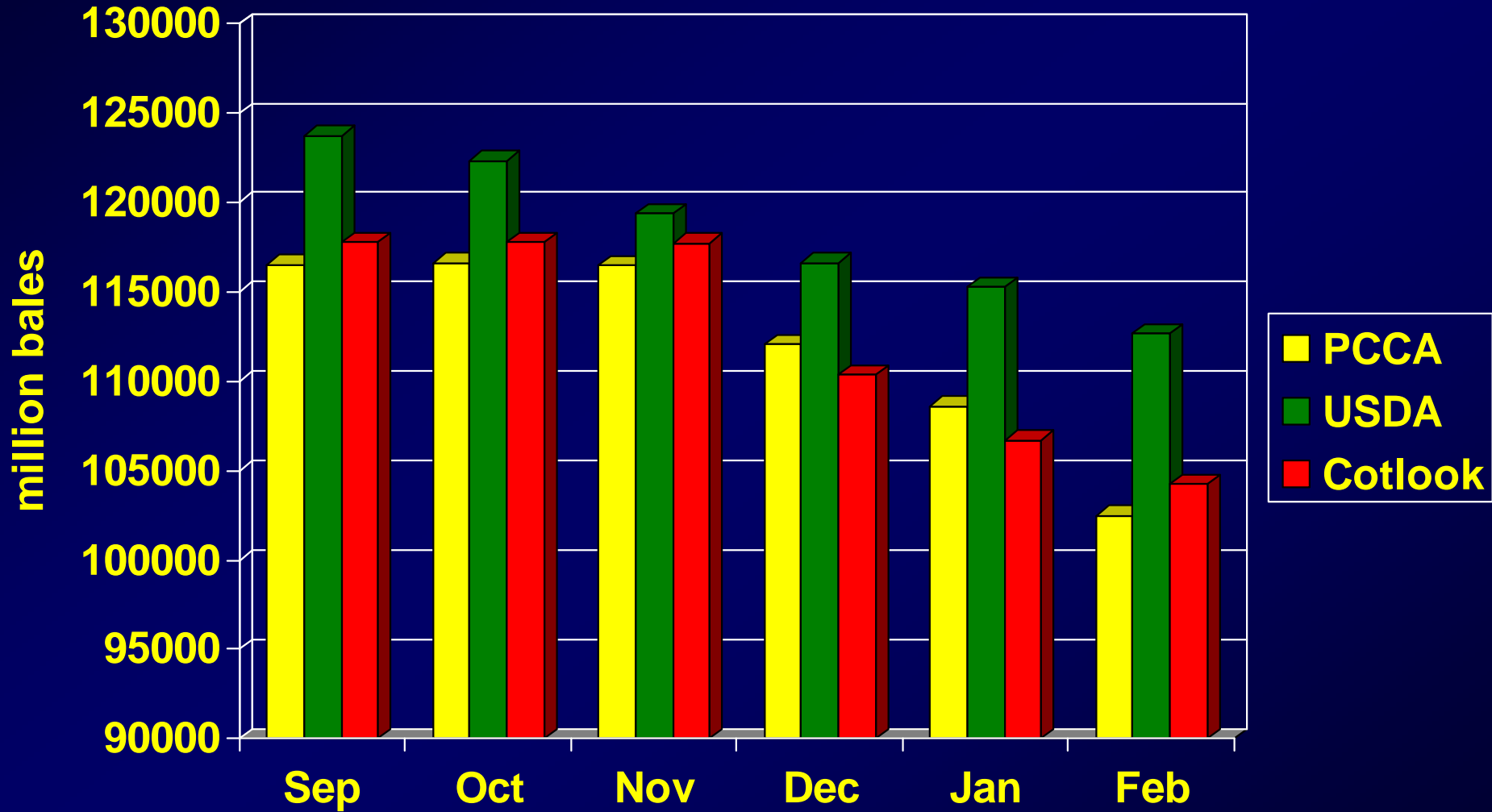
2008/09 World Production Estimates



WORLD CONSUMPTION ESTIMATES

- ALL ESTIMATES OF CONSUMPTION HAVE DECREASED FROM SEPTEMBER THROUGH FEBRUARY.
- WORLDWIDE ECONOMIC CRISIS, TIGHT CREDIT, POWER OUTAGES, WEAK CONSUMER DEMAND, AND OVEREXPANSION WERE PRIMARY CAUSES OF THESE DECLINES.

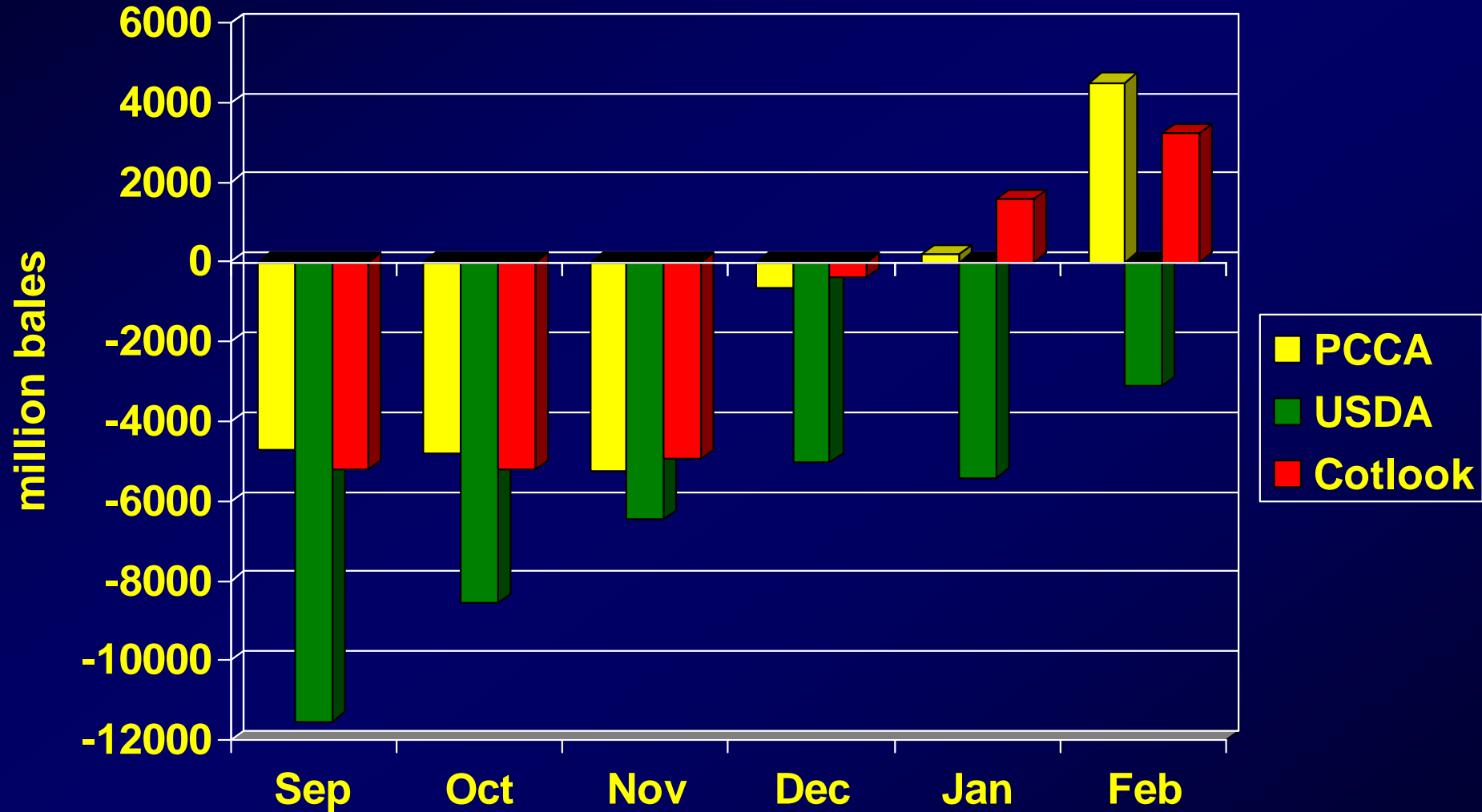
2008/09 World Consumption Estimates



CHANGES IN ENDING STOCKS

- ALL ENDING STOCKS ESTIMATES HAVE INCREASED SINCE SEPTEMBER.
- USDA STILL SHOWS DRAWDOWN IN ENDING STOCKS 7/31/09, BUT PCCA AND COTLOOK SHOW WORLD ENDING STOCKS ACTUALLY INCREASING.

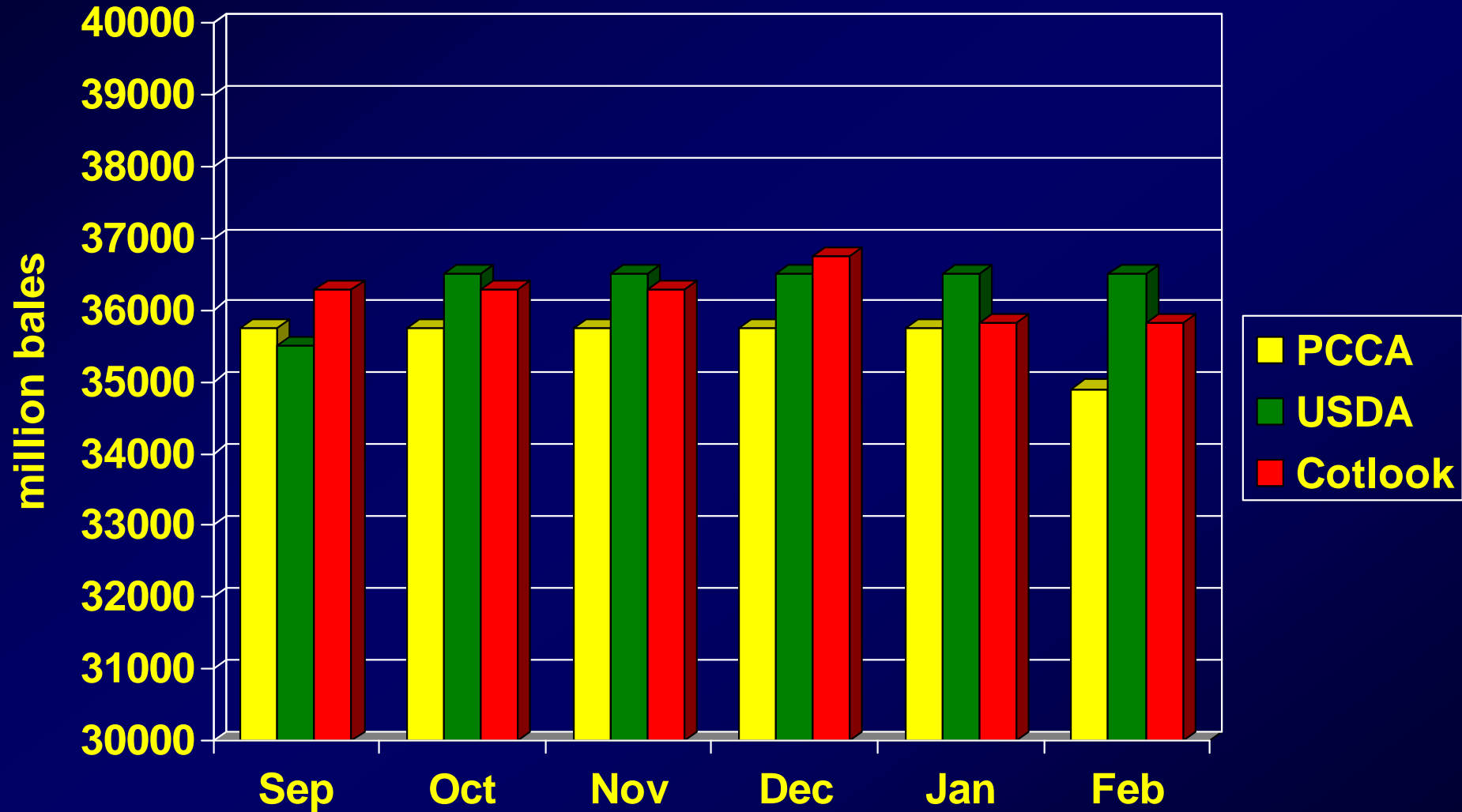
2008/09 CHANGE IN ENDING STOCKS



CHINESE PRODUCTION ESTIMATES

- SLIGHT DIFFERENCES IN ESTIMATES.
- HOWEVER NO MAJOR CHANGES DURING THE SEASON.
- WEATHER WAS RELATIVELY NORMAL, AND ACREAGE DIDN'T CHANGE MUCH.
- CNCRC PLANS TO BUY UP TO 12.5 MILLION BALES FOR STRATEGIC RESERVES.

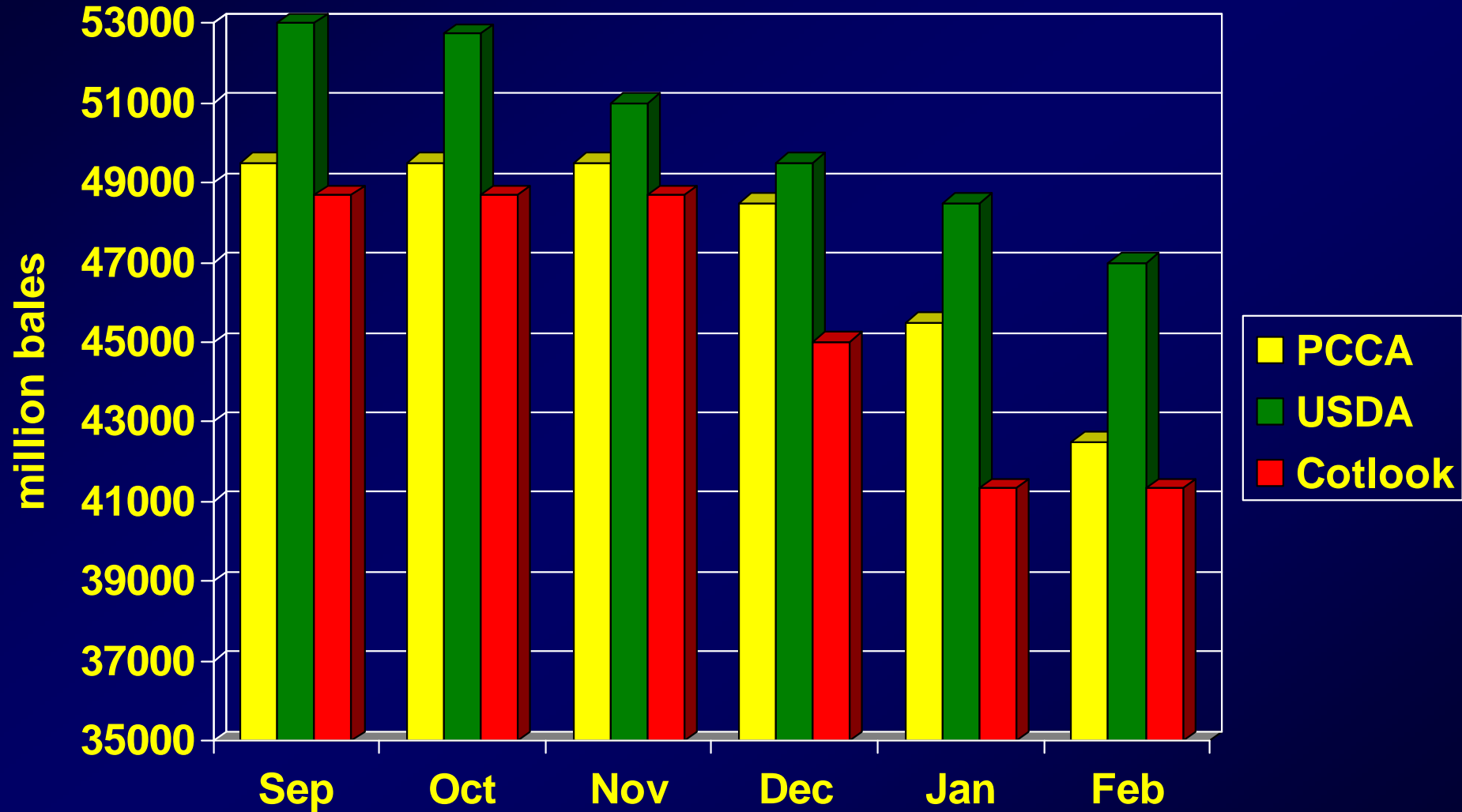
2008/09 China Production Estimates



CHINESE CONSUMPTION ESTIMATES

- SUBSTANTIAL DIFFERENCE IN ESTIMATES.
- ALL ESTIMATES TENDING LOWER.
- YARN PRODUCTION STATS HAVE PROBABLY BEEN SKEWED FOR YEARS, OVERSTATING COTTON'S SHARE OF MARKET.
- NUMEROUS DEFAULTS AND MILL CLOSINGS.
- BRANDS LIKE J.C. PENNEY MOVING SOURCING TO OTHER COUNTRIES LIKE BANGLADESH, INDONESIA, AND VIETNAM.

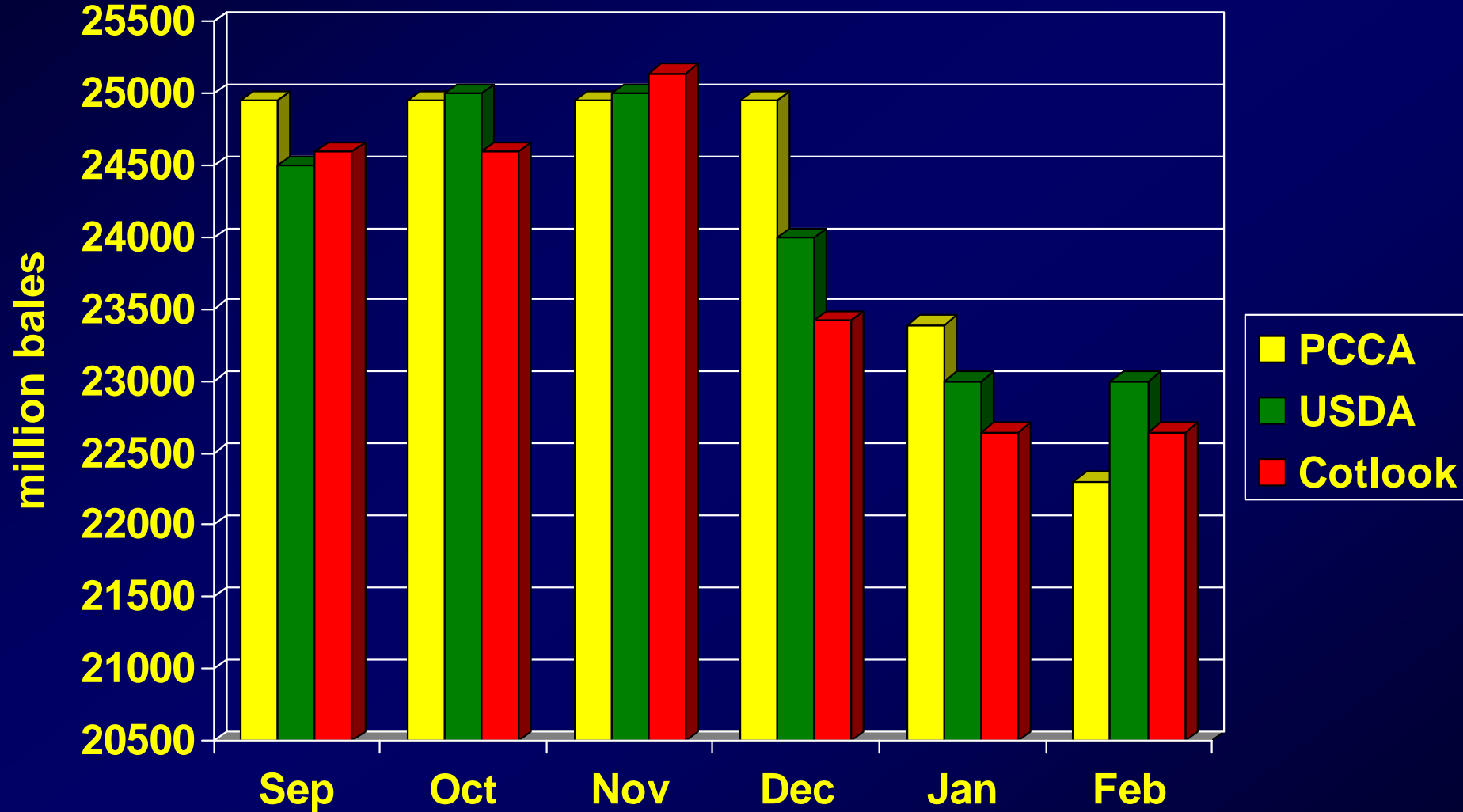
2008/09 China Consumption Estimates



INDIAN PRODUCTION ESTIMATES

- ALL ESTIMATES HAVE DECREASED OVER THE LAST FEW MONTHS.
- WEATHER & INSECT PROBLEMS HURT CROP.
- CCI BUYING COTTON FROM FARMERS AND GINNERS TO PROP UP PRICES TO AVOID COLLAPSE IN PLANTINGS.

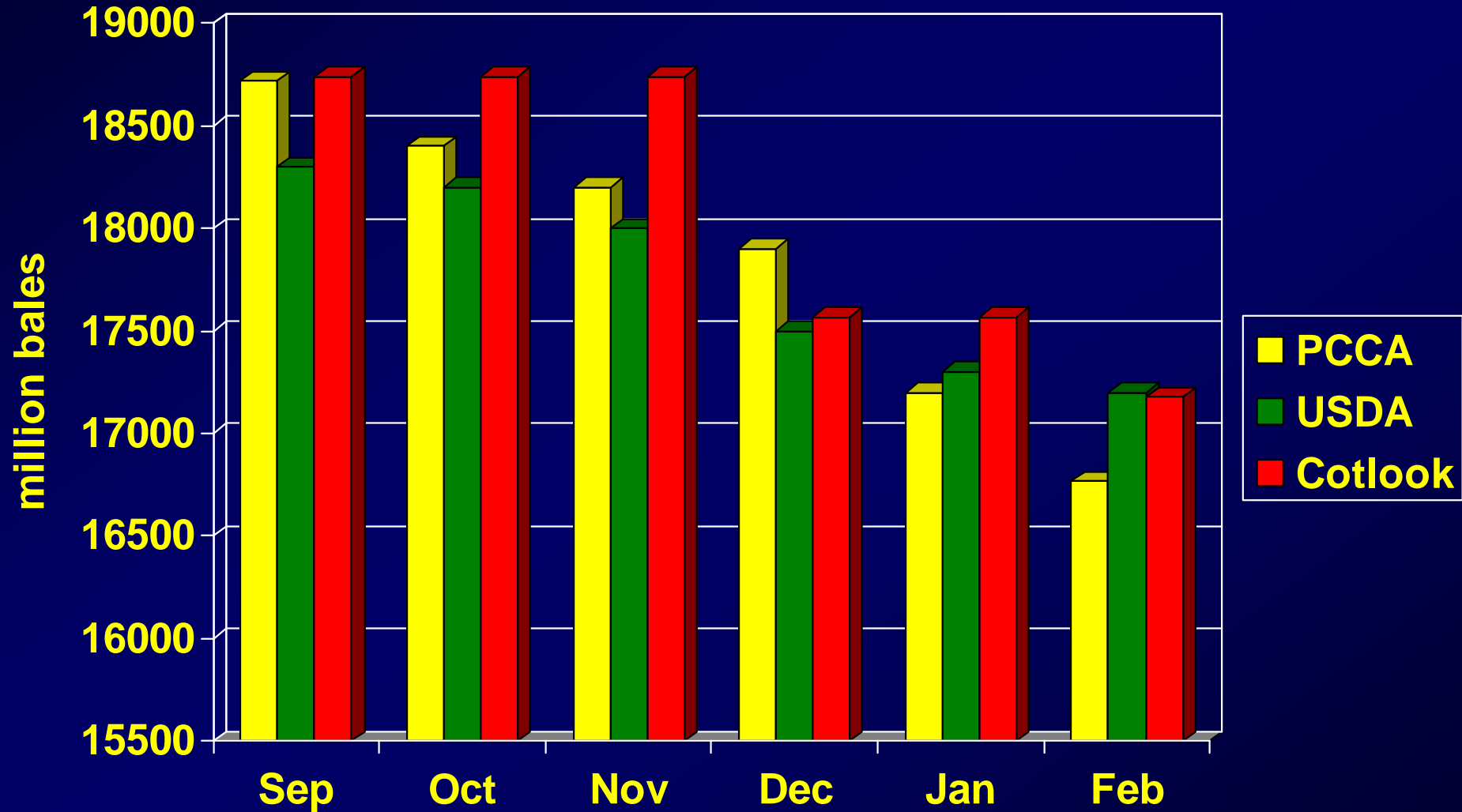
2008/09 India Production Estimates



INDIAN CONSUMPTION ESTIMATES

- ALL ESTIMATES HAVE DECREASED OVER THE LAST FEW MONTHS.
- WORLD ECONOMIC CRISIS, POWER PROBLEMS, COLLAPSE IN DEMAND FROM THE U.S. TO BLAME.

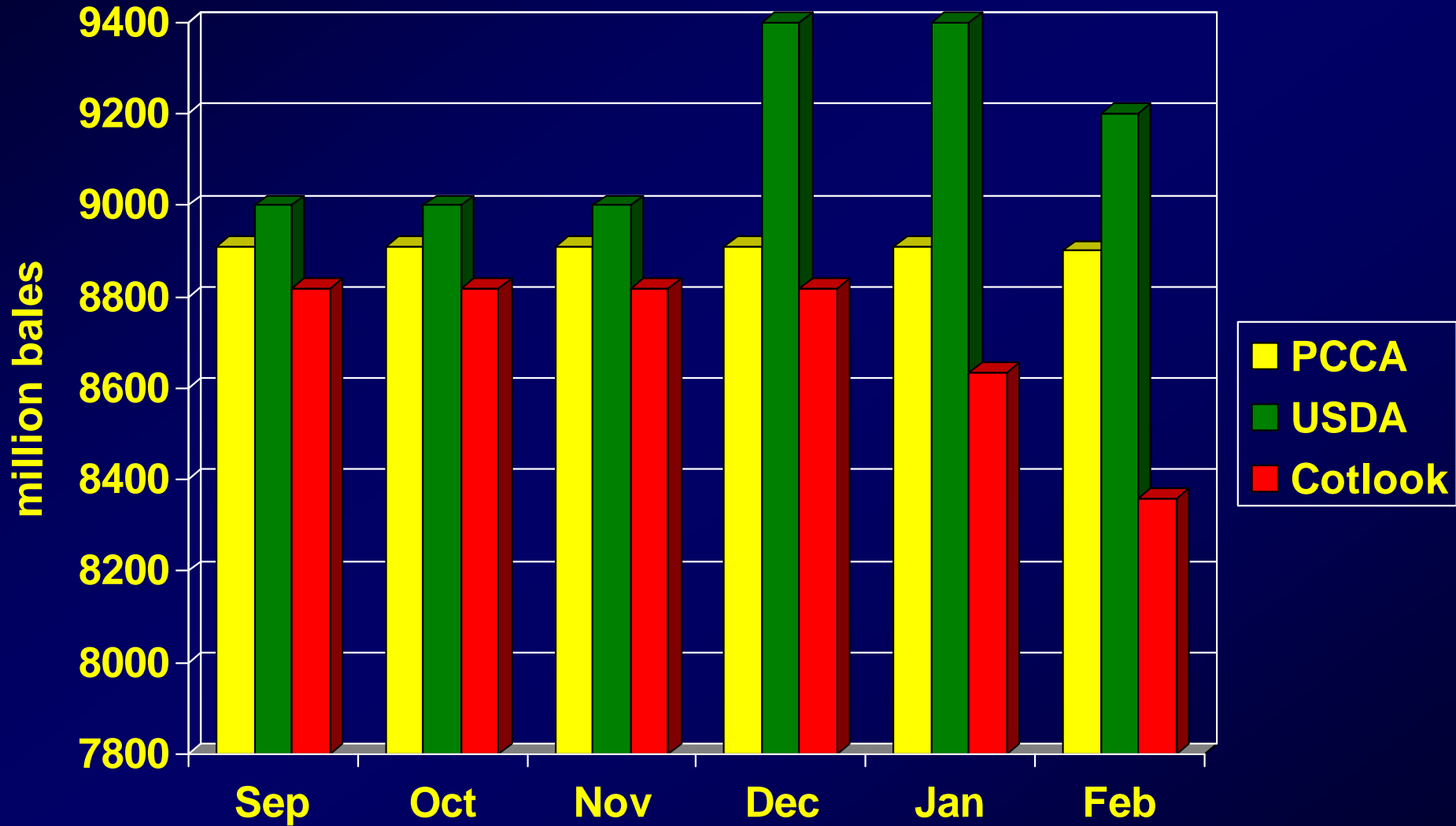
2008/09 India Consumption Estimates



PAKISTAN PRODUCTION ESTIMATES

- USDA SEES CROP INCREASING, BUT COTLOOK AND PCCA DISAGREE.
- HOARDING OF COTTON BY FARMERS AND GINNERS AWAITING GOVERNMENT ASSISTANCE MAY BE SKEWING ESTIMATES.

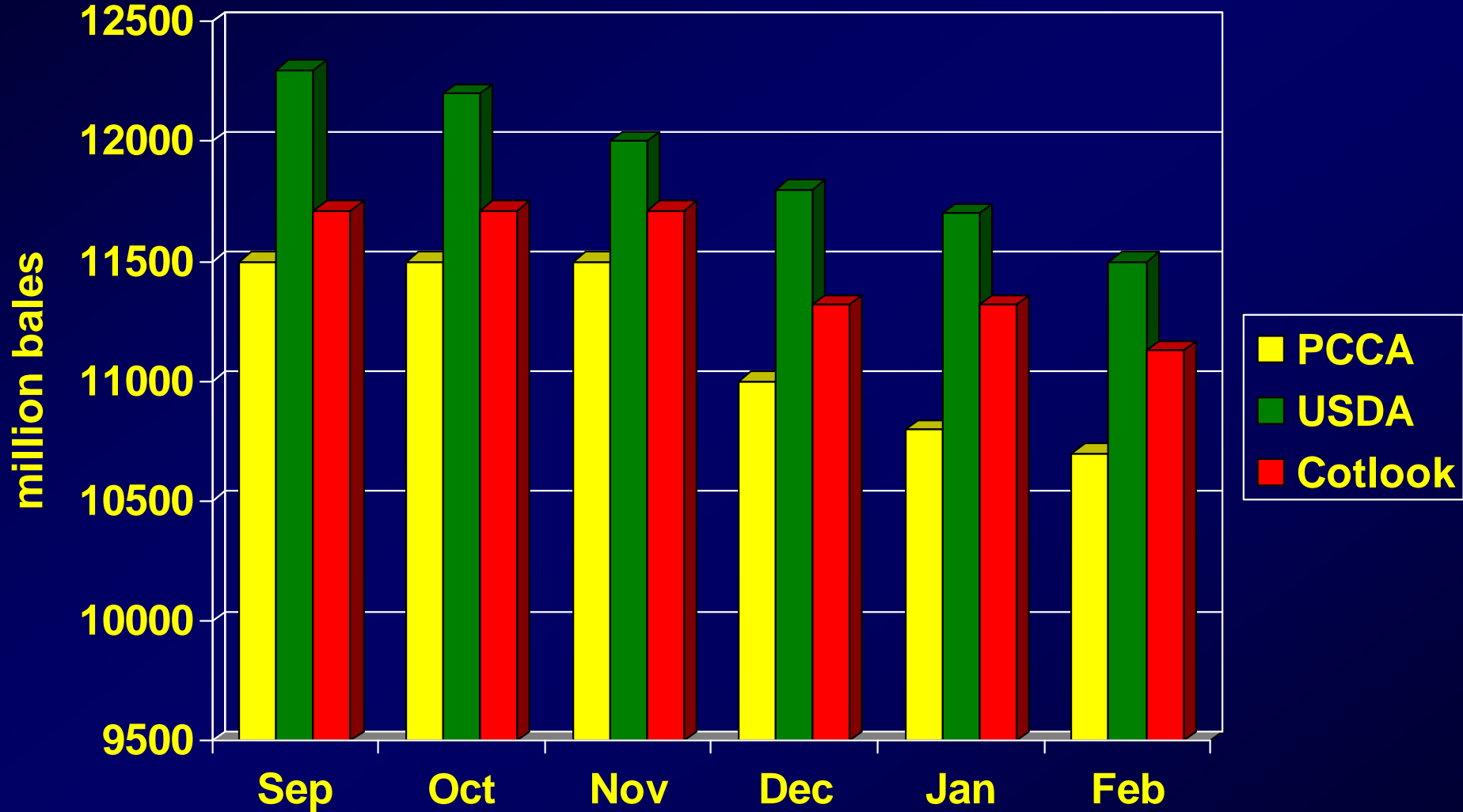
2008/09 Pakistan Production Estimates



PAKISTAN CONSUMPTION ESTIMATES

- ALL ESTIMATES SHOW DECREASING TREND OVER LAST FEW MONTHS.
- USDA'S ESTIMATE SIGNIFICANTLY HIGHER THAN PRIVATE ESTIMATES.
- POWER SUPPLY PROBLEMS VERY PREVALENT.
- ECONOMIC MALAISE ALSO AFFECTING CONSUMPTION.

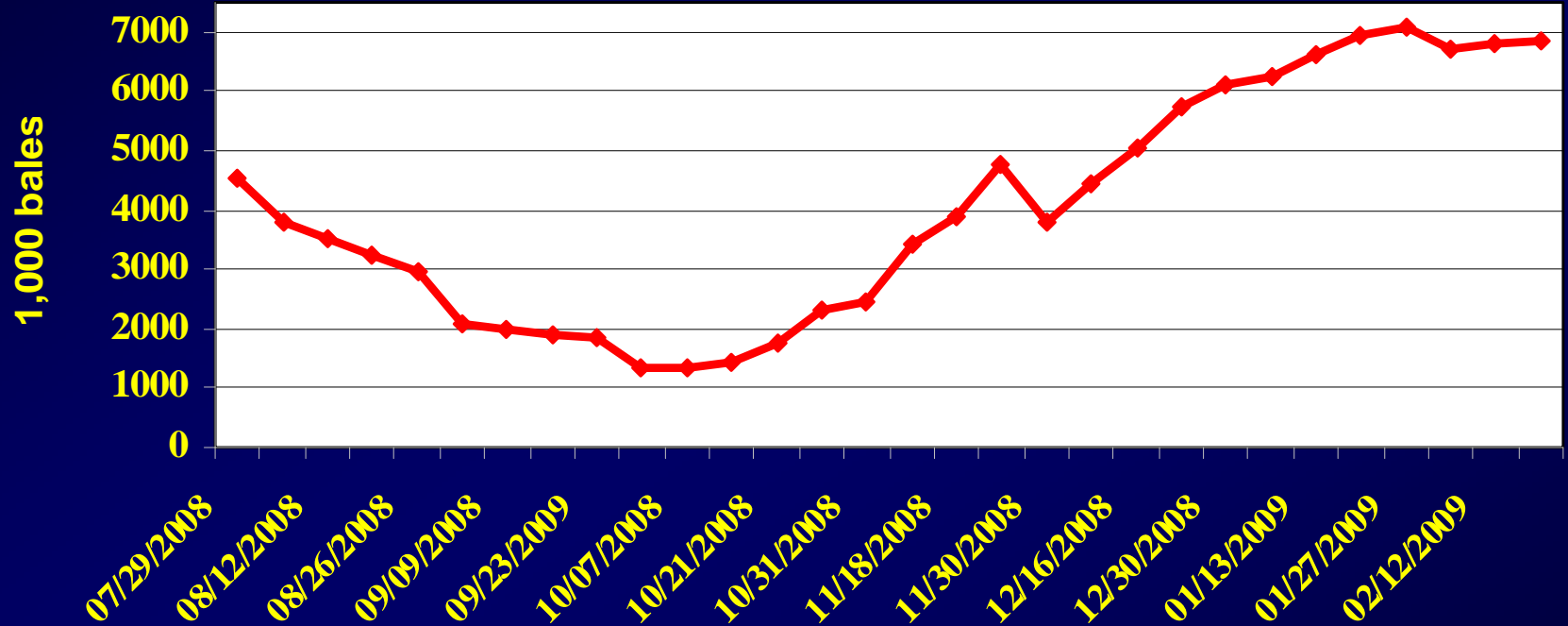
2008/09 Pakistan Consumption Estimates



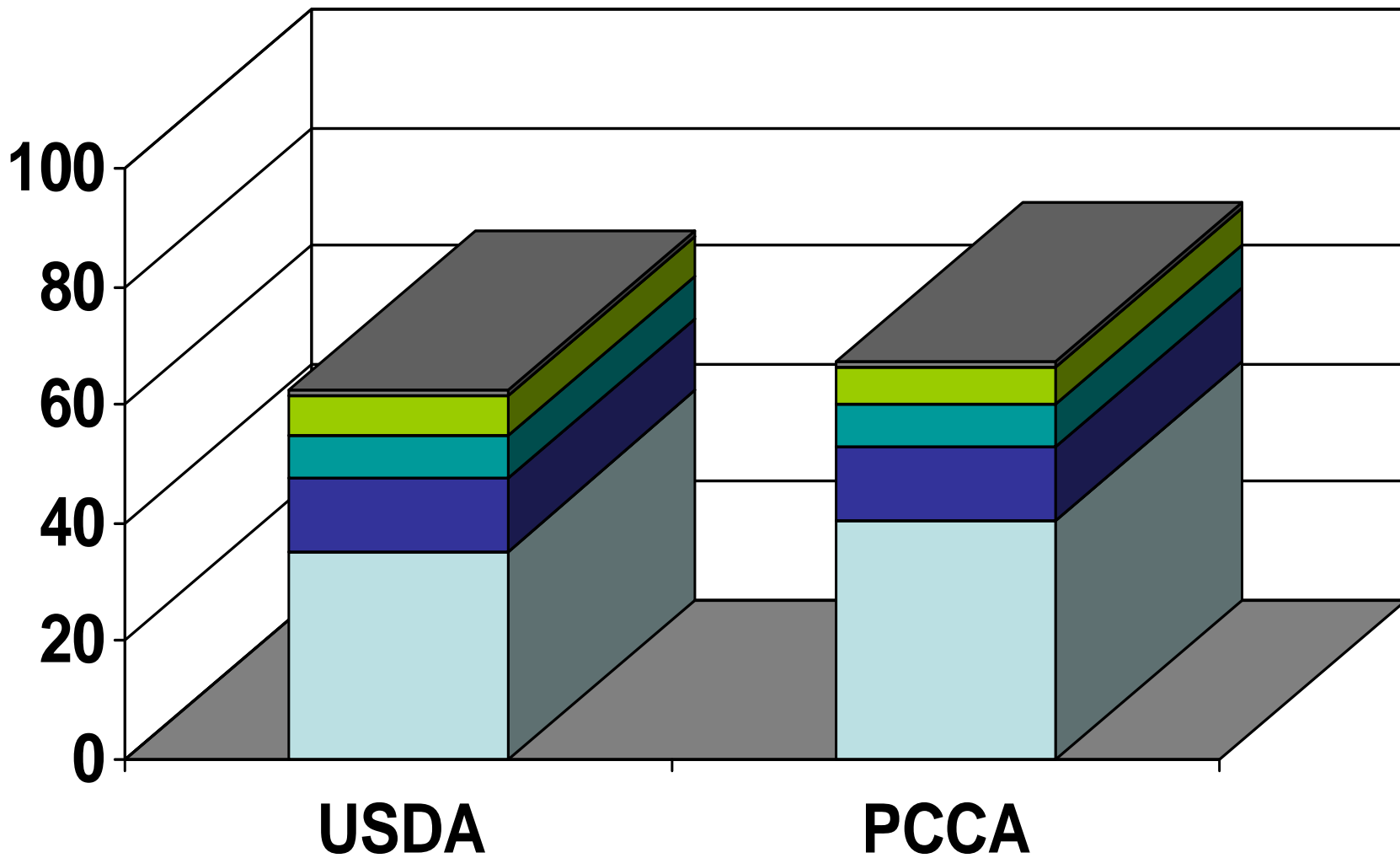
FACTORS AFFECTING “FREE” STOCKS

- CCC LOAN STOCKS IN THE U.S.
- CNCRC PURCHASES IN CHINA = 12.35 MM BALES.
- CCI PURCHASES IN INDIA = 7.5 MM BC.
- PAKISTANI GOVERNMENT PURCHASES 1.0 MILLION BALES.
- ALL THESE PURCHASE RESTRICT THE FREELY AVAILABLE SUPPLY OF COTTON.

CCC Loan Stocks



WORLD ENDING STOCKS AUG 2009

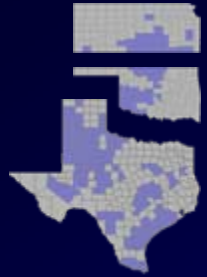


CHANGING PATTERNS OF U.S. COTTON PRODUCTION

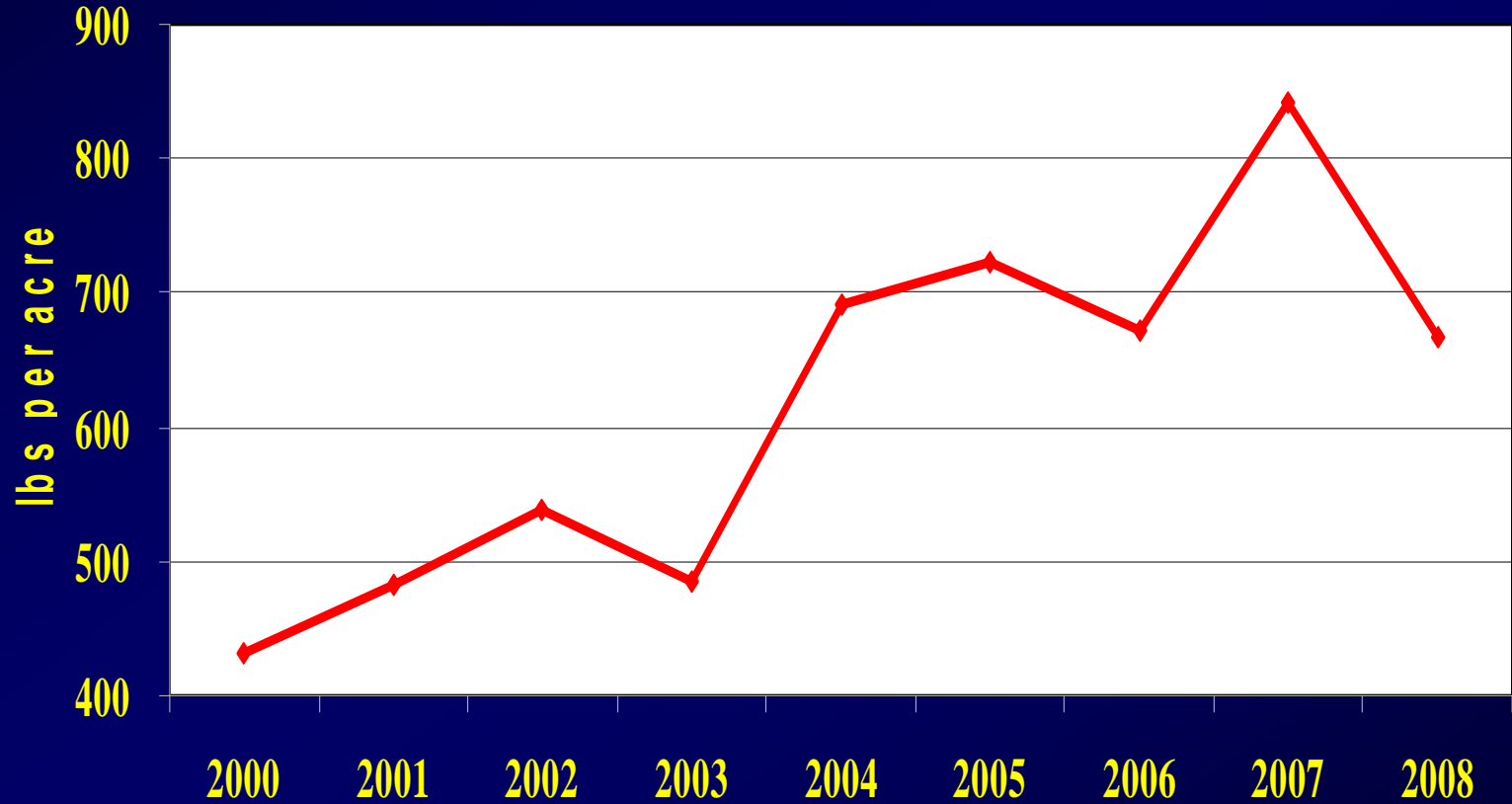
- SOUTHWEST CONTINUES TO INCREASE.
- FAR WEST DECREASES AS LAND MOVES INTO PERMANENT ALTERNATIVES LIKE FRUITS & NUTS.
- MID-SOUTH, SOUTHEAST CONTINUE SWITCHING TO GRAINS.

FACTORS BEHIND INCREASES IN S.W. COTTON ACREAGE

- BOLL WEEVIL ERADICATION PROGRAMS.
- IMPROVEMENT IN SEED VARIETIES.
 - HIGHER YIELDS.
 - SIGNIFICANTLY BETTER QUALITIES.
- IMPROVEMENTS IN FARMING PRACTICES.
 - WATER MANAGEMENT.
 - ROTATION AND MINIMUM TILLAGE.

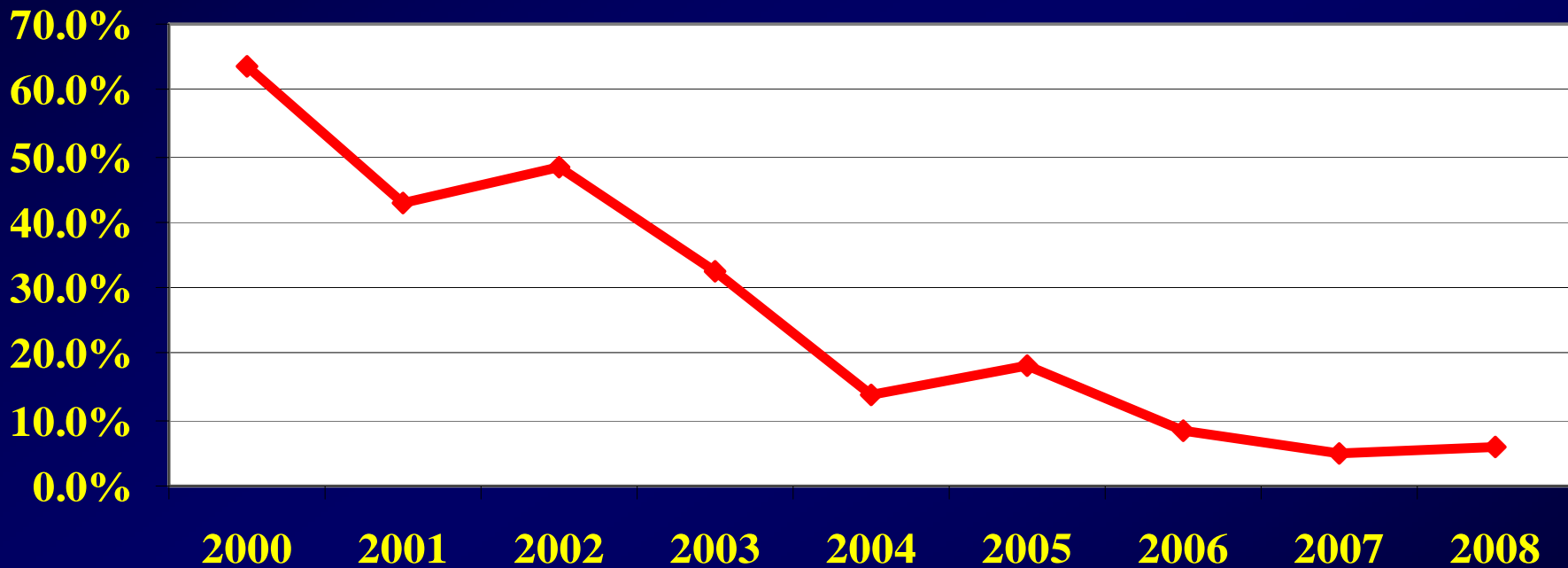


SOUTHWESTERN COTTON YIELDS 200-2008



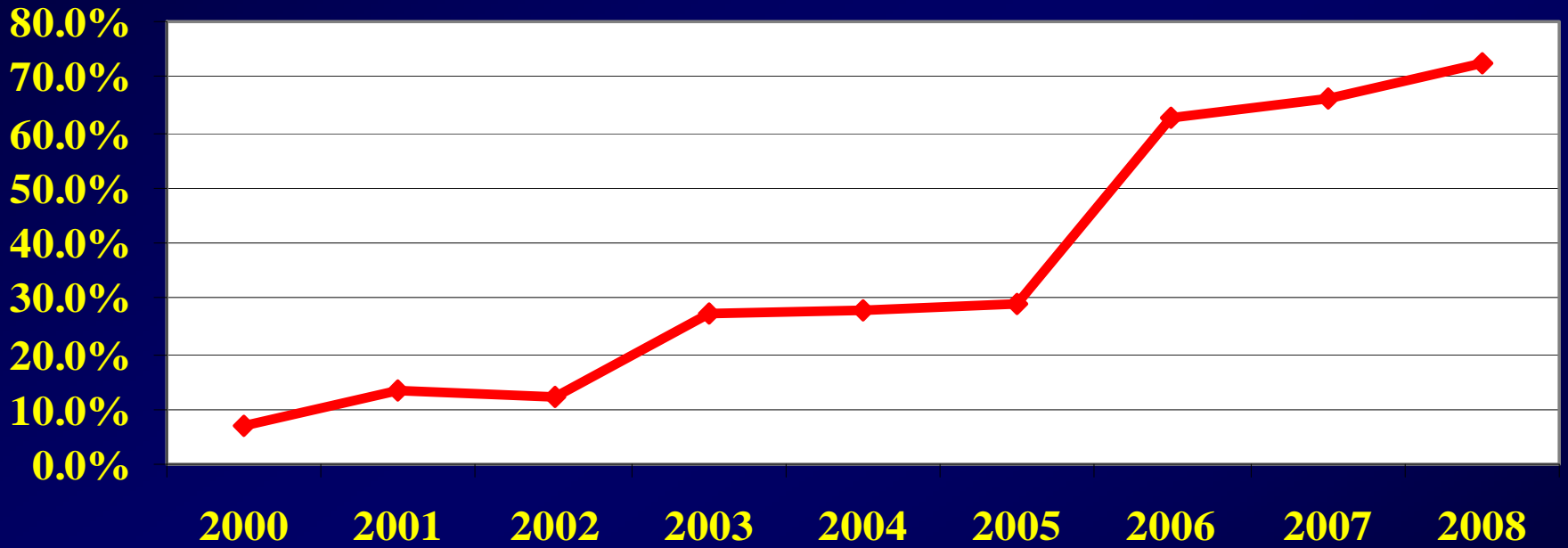


Staple 33 and Shorter





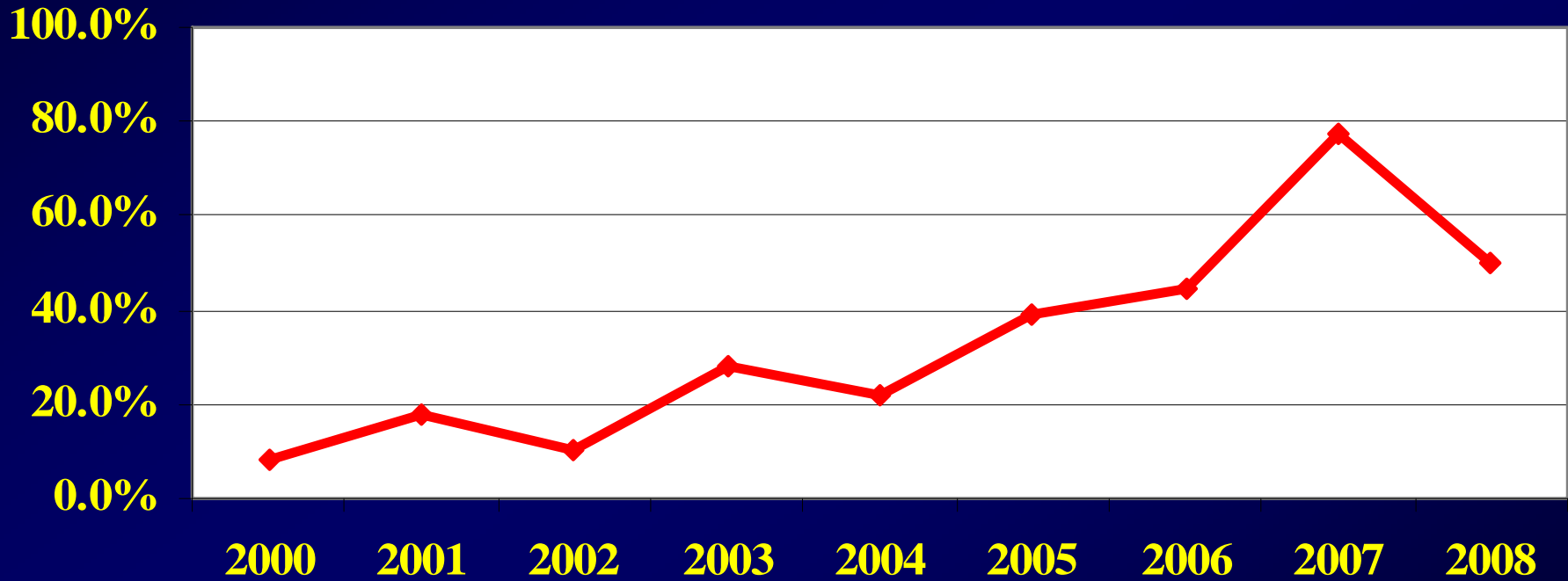
Staple 36 and Longer





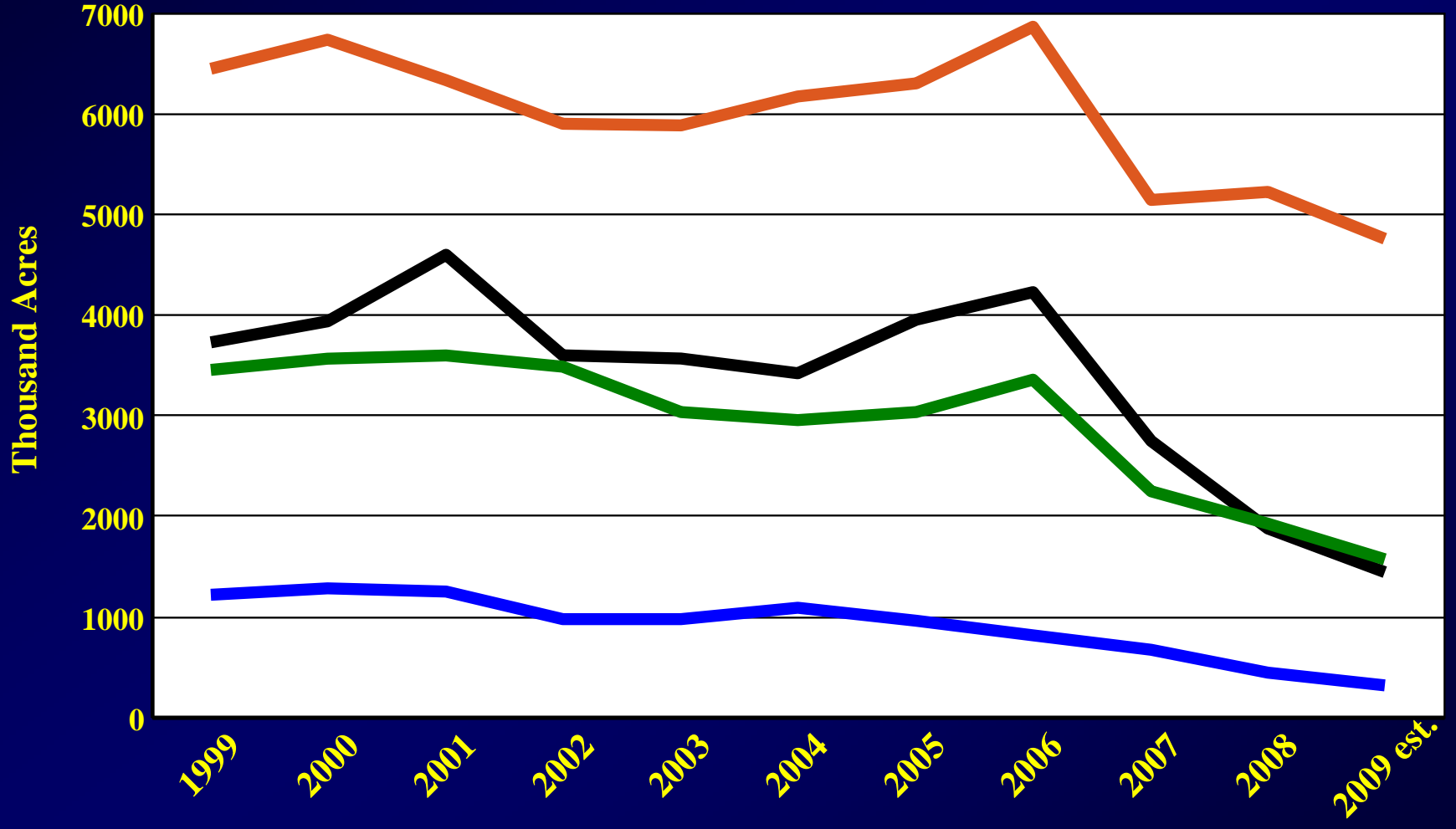
Percent of U.S. High Grades

31-3-36+ Mic: 3.7-4.7 Mic GPT: 28+ Unif: 79+ No Remarks



Planted Acres

All Cotton



PROBLEMS FACING U.S. COTTON

- LACK OF UNDERSTANDING IN WASHINGTON AND IN THE PRESS OF THE SCALE, THE SCOPE, THE CAPITAL REQUIREMENTS, AND THE RISKS OF FARMING.
- LACK OF UNDERSTANDING OF THE EXTENT TO WHICH AGRICULTURE IS SUBSIDIZED AROUND THE WORLD.

PROBLEMS FACING U.S. COTTON

- PRESIDENT'S ATTEMPT TO RE-WRITE THE FARM BILL.
- IMPLEMENTATION THAT IS CLEARLY CONTRARY TO THE WILL OF CONGRESS EXPRESSED IN THE FARM BILL.

PROBLEMS FACING U.S. COTTON

- WE HAVE MET THE
ENEMY, AND IT IS
US!

PROBLEMS FACING U.S. COTTON

- ARBITRARY SIZE OR SALES VOLUME LIMITATIONS DESTROY THE EFFICIENCIES OF SCALE THAT CAN AND MUST BE ACHIEVED FOR AGRICULTURE TO BE PROFITABLE.
- AGRARIAN REFORM HAS NEVER BEEN SUCCESSFUL IN ANY SOCIETY IN HISTORY.
- AGRARIAN REFORM USUALLY KILLS AGRICULTURE, DESTROYS RELATED INDUSTRIES, DECIMATES LAND VALUES, AND REQUIRES COUNTRIES TO IMPORT BASIC NECESSITIES.