Spring 2012

# StaplReview



## China, Texas, **and Consumption**

## Staplcotn Members **Make Headlines**

# *China, Texas, and Consumption*



*Meredith Allen*
*President & CEO*

There are two known major factors, and many more unknown factors that will have a significant impact on the cotton market. The two known factors that we all must keep an eye on are the Chinese State Reserve's policies and the drought conditions on the high plains of Texas.

A very important major factor, which is now known, is that cotton consumption took a tremendous hit from the high prices of a year ago. Textile mills continue today experiencing significant losses from high prices. The cotton industry continues to suffer from contract defaults worldwide. These defaults have not only affected cotton suppliers but also yarn and fabric suppliers. The entire delivery chain has experienced difficulties. As these problems with high price contracts are resolved throughout the system, cotton trading should gradually return to more normal patterns.

There is no doubt in my mind that the excessive run up in cotton futures has cost cotton some permanent market share loss in the overall world fiber market. This conclusion becomes evident when we look at the consumption numbers of cotton versus manmade fibers in the following table.

## World Consumer Demand

(1,000 480 lb. bales)

| | Cotton[1] | Manmade Fiber[2] |
|---|---|---|
| 2002 | 98,390 | 155,703 |
| 2003 | 98,073 | 164,062 |
| 2004 | 109,079 | 174,770 |
| 2005 | 116,786 | 185,767 |
| 2006 | 123,914 | 195,328 |
| 2007 | 123,626 | 210,554 |
| 2008 | 110,322 | 198,763 |
| 2009 | 118,960 | 210,207 |
| 2010 | 114,510 | 232,346 |
| 2011 | 108,720 | 248,249 |

[1]USDA
[2]PCI Fibres

All fiber consumption declined during the financial crisis in 2008. World cotton consumption declined from well over 123 million bales to slightly over 110 million bales, a decline of over 13 million bales or 10.7%. Manmade fiber consumption declined from well over 210 million bales to almost 199 million bales, a decline of 11 million bales or 5.6%. Now let's look at what has happened since 2008. Cotton consumption recovered somewhat in 2009 but began a rapid decline in 2010 and 2011 as cotton prices exploded. Cotton consumption in 2011 was actually less than the level of 2008 during the financial crisis. What has manmade fiber consumption done? Manmade fiber consumption not only increased in 2009, as cotton did, but continued a rapid increase in 2010 and 2011 at the expense of cotton. Manmade fiber consumption has increased by a whopping 49.5 million bales, or about 25%, while cotton consumption remained the same. Obviously total fiber consumption increases as world population grows, but cotton has missed out on the world's population increase over the past four years.

According to USDA, world ending cotton stocks have returned to the levels above those seen during the years 2004-2008 at 62 million plus bales and are currently projected to increase further during the 2012 season. Fortunately, cotton consumption is projected to rebound around 6.3 million bales to 115 million bales this year. Although world stocks are statistically excessive, or at least more than adequate, things may not be as bearish as they seem. Why? Back to the Chinese State Reserve and its policies and influence on the cotton market. The China National Reserve Corporation has purchased about 17 million bales of cotton so far this season, both domestically and internationally. Will they continue to buy and increase this number or will they stop? Will they release some of these stocks to the Chinese textile mills or not? These decisions by China will dictate whether or not world cotton supplies that are actually available to textile mills are more than adequate this coming season. If China continues to add to their national reserve stockpile, then cotton prices will continue to be supported. If they release excessive volumes of cotton on the market, then obviously the opposite will occur. I suspect that they will try and strike a delicate balance to protect both their farmers and their textile industry. One thing I believe they will not do again is deplete their cotton inventories and watch their textile industry suffer due to runaway cotton prices. I also believe the Chinese government is inclined to hold more inventories of all dollar denominated commodities and less U.S. treasuries.

The other important factor to our futures market is if and when it rains on the high plains of Texas. The cotton acres will get planted, but will they produce four,

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# Staplcotn Members Make Headlines

We are always happy to see when some of our members are recognized for their accomplishments and this year is no exception. January of 2012 brought to the limelight four members and it is only fitting that we share their achievements (and publicity) with our readership.




## Mike Tate, 2011 *Cotton Grower* Achievement Award

The New Year began with the announcement on the cover of the January issue of *Cotton Grower* magazine that Mike Tate of Meridianville, Alabama, was the recipient of their 2011 Cotton Grower Achievement Award. This is not the first time that Mike and his family have been featured in a publication. When he was newly elected to Staplcotn's board of directors, *StaplReview* (Winter, 2004) reported on his farming operation, which included not only his robust cotton crop, but his highly popular pumpkin farm that attracts visitors from all around during the fall of every year.

It is no surprise that Mike received such an honor. In addition to Staplcotn's board, Mike is president and director of Cotton Growers Cooperative Gin and Warehouse in New Market, Alabama. He is a graduate of the National Cotton Council's Cotton Leadership program and has served on several NCC committees. Mike serves as an NCC delegate and is chairman of their Environmental Task Force. He has been an Alabama chairman of NCC's American Cotton Producers and is a director for Cotton Incorporated. He is also the incoming president of the Southern Cotton Growers, a member of the Madison County Farmers Federation, the Alabama Boll Weevil Eradication Foundation and is vice chairman of the state cotton committee of the Alabama Farmers Federation.

*Cotton Grower* magazine quoted Craig Brown, vice president of producer affairs for the NCC as saying, "Mike is an outstanding leader. He comes from a family with a very rich cotton tradition. He's served in many Cotton Council positions, including being a member of the ACP (American Cotton Producers). That's the group that tackles some of the really difficult issues within the cotton industry; a wide range of issues from pesticide registrations to clean water, clean air, and endangered species. It's a very important committee." Craig also remarked, "He's an officer of the Southern Cotton Growers, and he's in line to be president, which is a very prestigious position. Mike has answered every call that we've made and is very deserving of the award." Other notable cotton industry representatives including David Ruppenicker, of Southern Cotton Growers Association and Southeastern Ginners Association, and Monty Bain of the Cotton Board, had equally positive remarks about Mike's honor.

Mike responded, "I want to say this: I'm involved in all these organizations and these guys (referring to his family – Homer, his father; Steve and Jeff, his brothers; and his cousin, Pat Brown) allow me to spend time doing that. We have employees that have been with us a number of years and they know what we're doing as much as we do. That's a real benefit for us, and we feel very fortunate to have them."

It's also worth noting that in the same issue of *Cotton Grower* that featured Mike Tate, two other Staplcotn members were highlighted in the Grower Profile section on Production. Mark Kimmel and his father-in-law David Branham were given a two-page review titled "Flying Into Cotton". They have worked together since 1986 in Itta Bena, Mississippi, when Mark started flying for David's service "Dixie Dusters" as well as farming on the family land.

The article showcases their farm's irrigation systems, rotation practices, herbicide usage among other interesting topics. Of special note, it reviews how both businesses were affected by the dip in the cotton market a few years back but were able to hold strong. They opted to cut back their cotton acres but continued to plant cotton on their premium land. In the article Mark commented, "We were making money on cotton and we never stopped making money on cotton. I kept my infrastructure in place on this farm and now that cotton is back, we just flowed right back into it and increased our acres." Although their flying service also realized a significant reduction in cotton acreage, their gross continued to increase due to people spending more money on corn and beans. Mark explained, "We never faltered at the flying service, which was amazing. We have one plane, and that's the way I want it. We could get bigger, but we're full and I don't want any more."

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## Coley Bailey, Jr., 2012 High Cotton Award Winner - Delta Region

Coley Bailey, Jr. of Coffeeville, Mississippi, farms 3,350 acres of cotton with his father and Staplcotn Director, Coley Bailey, Sr., in Yalobusha and Grenada counties of Mississippi. In fact, one of the farms that includes 900 acres just north of Grenada, Mississippi, was once owned by James K. Polk, the 11th U.S. President.

According to *Delta Farm Press*, Coley Jr. "choreographs the entire picking operation from start to finish" making his farming techniques most noteworthy in the category of efficiency. They strive for a one-minute or less picker dump while still on the row. They are known to tarp 24 modules a day with three pickers, three boll buggies and two builders.

As producers of predominantly dryland cotton, one of their objectives is to insure that no water on the farm is wasted. They accomplish this with no-till, a wheat cover crop and various conservation projects. Coley Jr. said that he discovered the benefits of wheat cover by accident. To combat some highly erodible land in 1998, Coley Jr. took the advice of a Natural Resources Conservation Service rep and planted a cover crop in order to get back in compliance. After he'd killed the wheat and started planting cotton, he thought he had made a big mistake. "We couldn't see the row because of the wheat stubble, but, five days later, the cotton was up, and in two weeks it looked better than the rest of my cotton. At harvest, the cotton that had been wheat cover picked 1,100 pounds and the cotton right next to it picked 950 pounds." He explained that another advantage of the wheat cover crop is that they have a lot more water-holding capacity. "Earthworms leave tunnels in the ground, and when the wheat roots decay after we spray Roundup, all those channels seem to hold water," he explained.

Another environmentally friendly part of their farming operation is that they have an agreement with a paper mill in Grenada, Mississippi to take their ash from the paper production process and apply it to their land. This provides all of the farm's fertility needs, except for nitrogen. Coley Jr. commented, "It has been a win/win situation for the paper mill and for us, and it really has been a blessing in weathering high fertilizer prices." He explained that it took two years, involved getting the Department of Environmental Quality and the Environmental Protection Agency involved to test the soils and to perform other tests, but 7,500 tons of ash per year is now providing fertility for their crops as opposed to going into landfills.

Coley Bailey Sr. commented proudly about his son's abilities. "He's a great networker. There is a network of young farmers around who are more willing to share information and ideas than in my generation. He and his wife, Jody, who is a strong part of his partnership, are very attuned to that—more so than I ever was."

Information and photos provided for this article are courtesy of *Cotton Grower* magazine and its editor, Henry Gantz, who wrote the article from which the excerpts about Mike Tate were taken. The information and photos for Coley Bailey, Jr. are courtesy of *Delta Farm Press* and its director of content, Forrest Laws. The author of the article was Elton Robinson.

# Our Representatives for 2012

Congratulations and our most heartfelt appreciation go to the following Staplcotn members and staff. They will be representing us well throughout the coming year as officers, directors, advisors, and chairmen in these important organizations.

## National Cotton Council Officers

Meredith Allen – Greenwood, MS
Shane Stephens – Greenwood, MS
Sledge Taylor – Como, MS

## National Cotton Council Board of Directors

Laudies Brantley – England, AR
Richard Kelley – Burlison, TN
David Camp – Greenwood, MS

## Advisors to the NCC Board

Bruce Brumfield – Inverness, MS
Woods Eastland – Indianola, MS
Kenneth Hood – Gunneson, MS
Bruce N. Lynn – Gilliam, LA
Larry McClendon – Marianna, AR
Robert McLendon – Leary, GA

## National Cotton Council State Unit Officers

**Alabama** - Walter Corcoran, Jr., producer, Eufaula; Neal Isbell, producer, Muscle Shoals

**Arkansas** - Ramey E. Stiles, Jr., producer, West Helena; and Herrick Norcross III, producer, Tyronza

**Florida** - B.E. "Sonny" Davis, Jr., producer, Cottondale

**Georgia** - Ronald C. Lee, Jr., ginner, Bronwood

**Louisiana** - Larry K. Sayes, producer, Vick

**Mississippi** - John Rodgers Brashier, producer, Indianola; David C. Camp, cooperative, Greenwood; and Coley L. Bailey, Jr., cooperative, Coffeeville

**Missouri/Illinois** - A.C. Riley James, producer, New Madrid, MO; Jeffrey J. Hux, producer, Sikeston, MO

**South Carolina** - Roy Baxley, producer, Dillon; and Levin Lynch, ginner, Florence

**Kentucky/Tennessee** - Jimmy Moody, producer, Dyersburg, TN; Jason R. Luckey, producer, Humboldt, TN

## American Cotton Producers: Officers

Mike Tate – Huntsville, AL, Vice Chairman
George King – Chatham, MS, Vice Chairman

## American Cotton Producers: State Chairmen

**Alabama** - Neal Isbell, Muscle Shoals, and Walter L. Corcoran, Jr., Eufaula

**Arkansas** - Herrick F. Norcross, III, Tyronza

**Florida** - B. E. "Sonny" Davis, Jr., Cottondale

**Georgia** - Ronald C. Lee, Bronwood

**Mississippi** - Cliff Heaton, Lyon

**Kentucky/Tennessee** - Jimmy Moody, Dyersburg, TN

## Cotton Council International Officers and Directors

President – Jimmy Webb, Leary, GA
Directors: Mike Tate, Meridianville, AL; Stewart Weaver, Jr., Edmonson, AR; Kent Fountain, Surrency, GA; Hank Reichle, Greenwood, MS

## Stapldiscount's Year-end Report

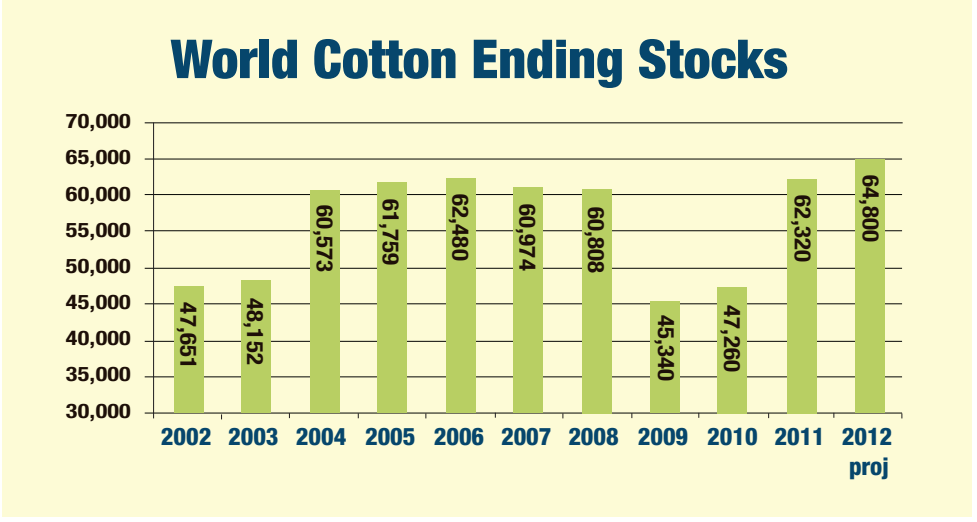
Staple Cotton Discount Corporation completed its 2011 fiscal year on January 31, 2012. The operating results and distribution of earnings were as follows:$1,717,616 in net earnings with $1,088,639 being paid as a cash patronage rebate to all Stapldiscount borrowers; $282,880 was added to retained earnings; $80,000 was paid to Staplcotn as an 8% dividend on $1,000,000 of stock. This resulted in a net interest rate of 3.70% for the 2011 fiscal year. Stapldiscount maintained loans at an average daily balance of $70.3 million, with a peak balance of $101.8 million. Also, Stapldiscount's Investment Note program maintained an average daily balance of $42.9 million with a peak balance of $58.8 million.

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President's message continued




six, or eight million bales? This 3-4 million bale swing is extremely important to our market since big production in Texas usually means large amounts of tenderable qualities that can be delivered against ICE futures.

The best advice anyone can give a cotton producer is this: Stay informed as best you can. If you are calling your own price, call your cotton when you can make a reasonable profit.

Good luck with your spring plantings.

Meredith Allen

Staplcotn

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