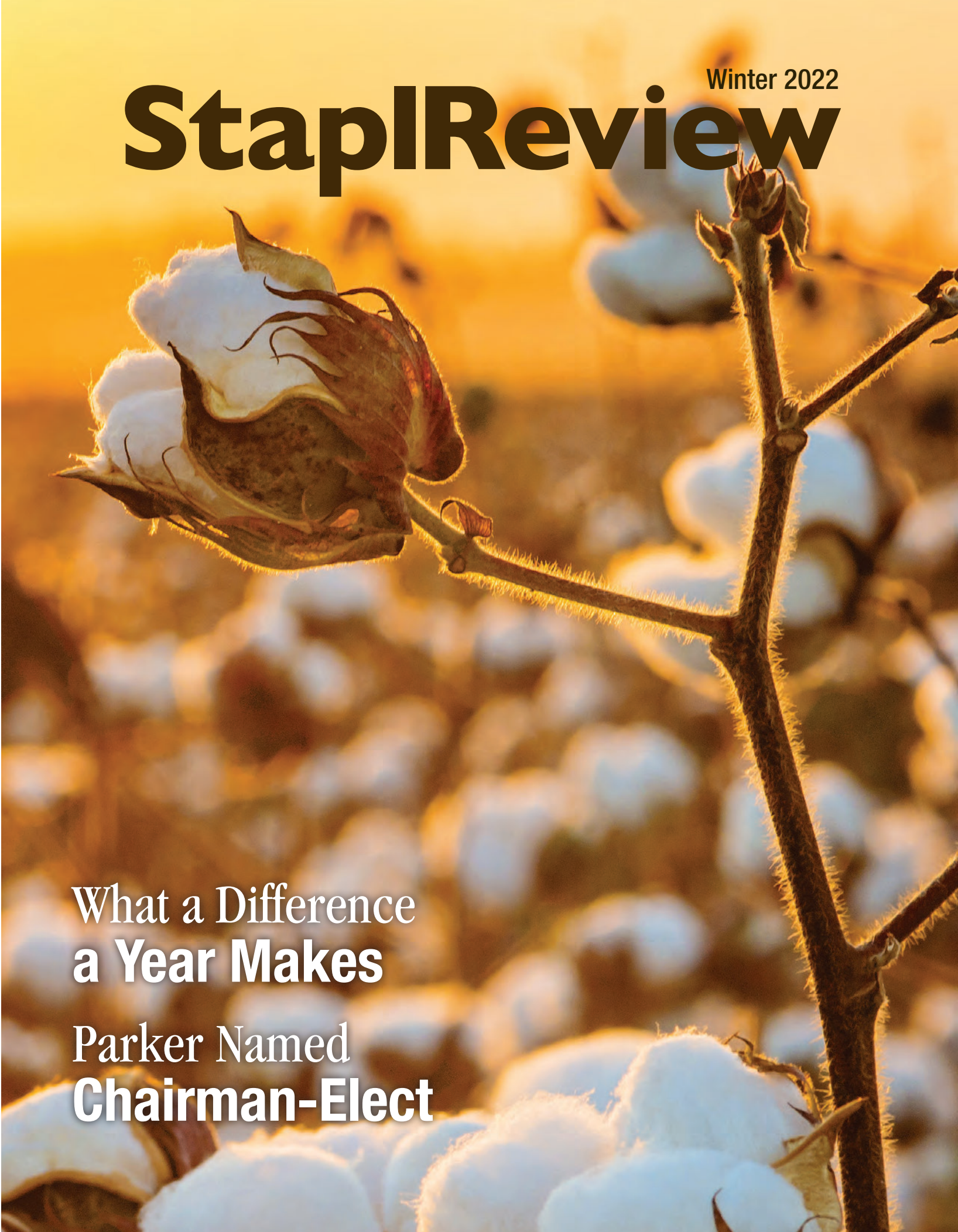
Winter 2022

StaplReview



What a Difference a Year Makes

Parker Named Chairman-Elect

What a Difference a Year Makes

The cotton market has taken us on another roller coaster ride this year. While COVID is not as great of a health issue as it was two years ago, the pandemic continues to have a lasting impact on our industry. Throw in Russia's war against Ukraine and the U.S. ban on products from Xinjiang, China, and these are the major factors that, directly or indirectly, are having adverse impacts on the cotton market. One year ago, I wrote in *StaplReview* about the explosion in cotton price that was driven by excellent demand that more than offset the somewhat miraculous boost in Texas production. What a difference a year makes. Still in the midst of an on-going drought pattern, Texas did not avoid disaster for a second straight season. When all the numbers are finalized for the 2022 crop, Texas will set a record for high abandonment and the U.S. crop will be smaller than usual. However, prices have tanked to levels hard to imagine last spring. The difference between this year and last is the demand picture.

The sell-off in cotton prices over the summer was primarily caused by speculative-related selling on macro-economic and technical considerations. Prices tried to recover in late August and early September, but ultimately the recovery was short lived because there was no follow through buying from the textile supply chain. Since that time, the reality of weak demand has become more and more apparent. An epic slowdown in retail orders for apparel and home textiles is negatively impacting each member of the textile value chain including our direct customer—spinning mills that consume raw cotton. Lower capacity utilization in the summer, the time of year when mills are generally a little slower, did not improve as fall rolled around and actually worsened.

Source: United States Census Bureau

Global textile mill consumption over the past few months is likely only running at two-thirds to three-quarters of capacity. Why this change occurred so abruptly is mainly attributable to the aftermath of the pandemic and has been exacerbated by Russia's war and the Xinjiang ban. At the outset of the pandemic, mills shut down longer than did retail, and consumers purchased more goods and less services, depleting supplies throughout the textile supply chain. For the better part of the next two years, demand was exceptional and supplies were both limited and difficult to distribute with the unprecedented logistics situation. As a result, brands and retailers ordered heavily and, in some cases, extra. During last year's all important holiday shopping season, demand was fantastic, and retailers did not get all the product they ordered. Over the last year, however, two things happened. First, all the product ordered finally started showing up, and second, the pace of demand slowed in the wake of reduced discretionary income as inflation took a bite out of household budgets and the services sector clawed back more household spending. While today we are not in the global economic recession that many economists predict is coming, the textile sector is already in its own micro-recession brought about by too much excess inventory. Thus far, demand has remained more resilient than most would have expected, but there are simply too many dollars of inventory on brands and retailers' balance sheets. Until those inventories get back in line with industry norms and shareholder expectations, brands and retailers will be slow to make

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Two New Directors Elected to Board

On September 21, 2022, the members of Staplcotn and Stapldiscount elected Stacie Jack Koger and Lambert Lynn Marshall III to its board of directors. Both Koger and Marshall were elected for two-year terms. Additionally, it was announced that Staplcotn Director, B.E. "Sonny" Davis, of Cottondale, Florida, retired after 17 years of service to the board.

Stacie Koger

Koger, who resides in Indianola, Mississippi, farms in Belzoni, Mississippi, at Silent Shade Planting Company. The operation has been in Staplcotn's membership since the late 1980s. Koger farms cotton, corn, soybeans and rice. She is a member of the Mississippi Society of CPAs and the American Institute of Certified Public Accountants. Koger serves as secretary of the Mississippi Soybean Association, the treasurer of the Belzoni Cemetery Association, is a member of AAPEX and is treasurer of the Indianola Academy Parent Teacher Organization. Koger is also the chief financial officer of Willard Jack Trucking and the vice president of Delta Crop & Research. She and her husband, Dr. Trey Koger, have two daughters, Emma Grace and Audrey.

Lambert Marshall III

Marshall's farming operation is called Bearskin Farms. It too has been involved with Staplcotn since the late 1980s. He farms cotton, soybeans, corn, rice and wheat in Scott, Arkansas. Marshall serves on the board of the Agricultural Council of Arkansas and is a trustee of Ag Comp Self-Insured Fund. Marshall and his wife, Lauren-Blair, reside in Little Rock with their two daughters, Virginia Lyle and Caroline Grace.

Staplcotn is grateful for the many years of service and leadership that Mr. Davis provided and looks forward to a working with Mrs. Koger and Mr. Marshall for many years to come.

Parker Named Chairman-Elect

Thomas A. "Tap" Parker was named chairman-elect at the Staplcotn and Stapldiscount annual meeting held on September 21, 2022. Parker will replace Mike Sturdivant III as chairman upon Sturdivant's retirement in September 2023.

Parker was elected to serve on Staplcotn's board in the year 2000. He has been an integral part of the agriculture industry in his local area of Lake Providence, Louisiana, in his state, and nationally. In addition to serving on Staplcotn's board, Parker is a board member for First South Farm Credit as well as a delegate for the National Cotton Council and the Cotton Board. He is the former president of Louisiana Cotton Producers and the former president of the East Carroll Parish Farm Bureau. Parker is also the owner of Deep Current Ag Management which manages farmland and property for individual clients.

Parker's farm is located in his native city of Lake Providence, Louisiana, where he grows cotton, corn, soybeans, milo and wheat. He and his wife, Jennifer, reside in Monroe, Louisiana. They have five children: Brooks (29), Nolan (25), Brockman (24), Elliott (21) and Adeline (17).

FOCUSING ON THE FUTURE WITH THE U.S. COTTON TRUST PROTOCOL

Sustainability, traceability, and conservation production practices are topics lighting up the Heat Maps of companies across the textile supply chain. These topics have become a distinct feature of most every conversation we have with cotton buyers. Clearly, possessing an understanding of where cotton is grown and under what management practices is going to be a central focus of buying decisions more often in the future. Unlike the traditional way of doing business, brands and retailers will take a much deeper look into their supply chains. This will mean business conducted throughout the supply chain will become less transactional and more partnership based. As a grower-owned marketing cooperative, it is imperative that we be at the forefront of these discussions to help not only shape them, but ultimately add value for our customers that accrues back to our membership. Staplcotn continues to selectively evaluate and participate in programs that are first and foremost, pragmatic, and for which there are demand opportunities that will enhance our overall marketing effectiveness and member returns.

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

While no one program out there is the only solution, the U.S. Cotton Trust Protocol is the U.S. cotton industry's best platform through which U.S. cotton producers can demonstrate their commitment to sustainability and traceability. It provides brands and retailers with the assurances they need to be able to purchase U.S. cotton and puts producers in the position to benefit from the sustainability movement as it evolves and matures. Staplcotn continues to be an advocate for the "Trust Protocol" with our membership and textile mills. With this program as the centerpiece of our sustainability initiatives, we are confident that our members will be where they need to be to

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President's Message, continued

new orders. That is cotton's main demand problem. Russia's war only exacerbates the problem by adding inflation and uncertainty to the economy, especially in Europe, the largest consumer market in the world.

China, the world's second largest economy and the largest player in cotton and textiles, has seen its broader economy struggle under the zero-COVID policy. And, for textiles specifically, the Xinjiang ban has reduced demand for Chinese-made products abroad. The one-two punch of weak demand and loss of share has depressed the price of cotton in China and diminished the commercial incentive for China to import cotton and cotton yarn from the rest of the world.

On an aggregate global basis, cotton production did not change materially from last year. So, cotton's price decline isn't about too much production, but rather too little demand. As we start to look at next year, the Russian war and its impact on the broader ag complex as well as agricultural input prices is going to be of great importance. The cost of production for all row crops remains elevated due to overall inflation, the Russian war's disruption of the inputs supply chain, and because of the circular influence of the high price of the major row crops. Cotton prices, however, are well below the relative price of the other row crops and the cost of production for many cotton growers. Over the next crop year, will we see global cotton production decline and the supply chain backlog improve? It is too early to tell, but it is not out of the realm of possibility. A lot will depend on how the global economy progresses, what happens with the Russian war, how successful China is in pivoting from their zero-COVID policy, and, of course, what sort of conditions Mother Nature throws our way.

It costs more to produce cotton than it used to, that's a simple fact. The good news is that spinning mills are not telling us that the price of cotton is too high, but rather that the problem is mainly the inventory backlog. The excess in the supply chain will eventually cure itself and with that major hurdle cleared, cotton prices will then have to get in line with the prevailing economics of growing cotton.

For a lot of our membership, the harvest weather was almost perfect. The yields and quality across our pool are above average —what a blessing! On that note, we hope you had an equally as blessed Holiday Season and New Year. We look forward to visiting with you at the grower meetings in January.

2023 GROWER MEETING SCHEDULE

ALABAMA

Athens
Thursday, January 5
11 a.m.
First National Bank

LOUISIANA

Ferriday
Wednesday, January 4
11 a.m.
Panola Woods Country Club

NORTH CAROLINA

Edenton
Tuesday, January 10
11 a.m.
Nixon Catering

Halifax
Tuesday, January 10
5:15 p.m.
Halifax Extension Service

GEORGIA

Millen
Wednesday, January 11
5:15 p.m.
Honey Cafe

Colquitt
Thursday, January 12
11:00 a.m.
Cotton Hall

Tifton
Thursday, January 12
5:15 p.m.
ABAC-Georgia Museum of Agriculture

MISSISSIPPI

Columbus
Friday, January 6
11:00 a.m.
Venue 208

Greenwood
Friday, January 13
12:00 p.m.
Staplcotn Main Office

SOUTH CAROLINA

Latta
Wednesday, January 11
11 a.m.
Shuler's BBQ

TENNESSEE

Memphis
Monday, January 9
11 a.m.
Bass Pro Shop

Below, CEO Hank Reichle meets with growers at the Colquitt, Georgia, meeting in January 2022.

Staplcotn
www.staplcotn.com
214 W. Market Street 38930
P. O. Box 547 • 38935-0547
Greenwood, MS

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ensure the successful marketing of their crop. We are proud to be the largest aggregator of bales into the Trust Protocol since its inception and we look forward to growing our membership's participation in this important program. We thank all our members who have allowed us to work with them during this journey and invite all of our members to participate.

Staplcotn members shared some of their photos from this year's cotton harvest. These are just two of the photos we received of beautiful cotton on picturesque landscapes. Please visit Staplcotn's photo gallery to see more at www.staplcotn.com. If you would like to submit a photo you can email them to your cotton specialist or to jean.blunden@staplcotn.com.

Below left is Daniel Baxley, Bennettsville, SC. On right is from Dunn Farms, Itta Bena, MS (photo credit: John Gibson).

Staplcotn

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Correspondence should be sent to
The Editor
P. O. Box 547
Greenwood, MS 38935-0547

Editor:
Jean Blunden,
Communications & Public Relations Director