The Economic Outlook

For U.S. Cotton 2014

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Summary

As with any attempt to make projections into the future, there are uncertainties and unknowns that can alter the outcome. For the coming year, China's cotton policy stands above all others in terms of the potential impact on the U.S. cotton industry. With this report, NCC staff hopes to present a thorough review of the current landscape and the prospects for the coming year.

Beginning with the 2010 marketing year, and becoming much more pronounced during the 2011 through 2013 marketing years, world cotton production exceeded world consumption by a significant amount. In the last three years of that four-year period, the differential between global production and consumption was 48.8 million bales.

Normally, such a sustained surplus in the global balance sheet would translate into downward pressure on prices. However, that has not generally been the case as prices, after retreating from the record highs in early 2011, have maintained a sideways trading pattern for the past two and a half years as China's imports absorbed the excess supplies from other countries.

Prompted by the 2010-11 spike in cotton prices, the Chinese government initiated, beginning with the 2011 crop, a policy of purchasing the vast majority of their domestic production into government reserves at a price well above the world price. It is estimated that China purchased approximately 75 million bales into their reserves over the most recent three-year period (2011 to 2013). Even with sales of approximately 25 million bales, government-owned reserves grew by 45 million bales, with total stocks estimated at 58.3 million bales for the 2013 marketing year.

Outside China, production exceeded mill use by 56.8 million bales over that three-year period, and China imported 55.7 million bales. In effect, China absorbed extra supplies from the world market, thus supporting world prices.

China's internal cotton prices were supported by a reserve purchase price that was 50 to 60 cents above the "A" Index. In effect, the policy providing support to cotton farmers was acting as a tax on textile mills, forcing them to pay a higher price for cotton than their competitors in other countries. The result was a sharp loss of market share for cotton relative to manmade fibers as cotton prices proved uncompetitive.

For the 2014 crop, China has announced their intention to cease building reserves and offer support through a target price mechanism. The new policy will begin as a pilot program implemented in the country's western region of Xinjiang, which accounts for 60% of total cotton production. Presumably, if market prices fall below the target price, growers receive support based on the difference between the market price and the target price.

While details of the policy have not been finalized, the key question will be the manner in which China manages the current government reserves and the impact on China's imports of raw cotton. As previously discussed, China has been importing the world's surplus while its own production has entered the reserves. For the 2014 marketing year, that dynamic appears poised to change with China's diminished need for imported cotton. An examination of that balance between available supplies outside of China and China's imports will begin with a review of expected 2014 production in key countries.

To determine expected U.S. cotton production for the coming year, the National Cotton Council surveys farmers as to their acreage intentions for the coming year. Both regular mail and email are used in an effort to reach all cotton farmers, asking the number of acres devoted to cotton and other crops in 2013 and the acres planned for the coming season. As always, the survey results should be viewed as a measure of grower intentions prevailing at the time the survey was conducted. Changing weather and market conditions could cause actual plantings to be significantly different from growers' stated intentions.

Cotton growers are approaching the 2014 planting season with the December contract trading at essentially the same as year-ago levels. In contrast, the corn market is trading at much lower values when compared to the 2013 contract. Soybean prices, as measured by the Chicago Board of Trade November futures contract, have also weakened relative to year-ago levels. However, the decline in soybean prices is not as pronounced as the drop in corn prices. For 2014, soybeans are expected to continue to provide stiff competition for available acres, due in part to the lower production costs relative to cotton.

Beginning with the Southeast, survey results indicate a 1.2% decrease in the region's upland area to 2.63 million acres. The relatively modest change in the region's acreage is due to the largely offsetting effects of mixed results for the individual states. Alabama, Georgia and Virginia intend to increase cotton acres, while growers in Florida and the Carolinas indicate declines. In Alabama and Virginia, the increase in cotton acres is coming at the expense of corn. For states reporting declines in cotton area, respondents in the Carolinas indicated a shift into soybeans, while Florida's cotton acreage is moving into peanuts.

In the Mid-South, survey results show that growers intend to plant 1.39 million acres, an increase of 12.5% from the previous year. With the exception of Arkansas, all states indicate more acres of cotton relative to 2013, with the largest percentage increase in Mississippi. In Arkansas, survey respondents indicated a 4.6% decline in cotton area was due to an expected increase in acres devoted to soybeans. Responses for Louisiana, Mississippi and Tennessee indicated an increase in cotton acres coming at the expense of corn. For Louisiana and Mississippi, the reported declines in corn area were particularly pronounced as corn acres also appear to be moving to soybeans.

Growers in the Southwest are indicating an increase of 12.1%, bringing the regional total to 6.74 million acres. In general, respondents are indicating a shift out of grain and into cotton. For some respondents, improved moisture is also allowing some acres to be planted in 2014 that were left idle in 2013.

In the West region, results are mixed as growers in Arizona and New Mexico intend to plant more acres in 2014, while California will decrease upland acres. For the region as a whole, the survey reports 2014 upland area of 275 thousand acres, down 5.8% from 2013. In California, water availability and competition from other crops are limiting upland acres. With ELS prices up from year-ago levels, survey results indicate that U.S. cotton growers intend to increase ELS plantings 11.8% to 225 thousand acres in 2014.

Summing together the upland and ELS cotton intentions shows U.S. all-cotton plantings in 2014 of 11.26 million acres, 8.2% higher than 2013.

Planted acreage is just one of the factors determining supplies of cotton and cottonseed. Ultimately, weather, insect

pressures, and agronomic conditions play a significant role in determining crop size. Since the NCC economic outlook does not attempt to forecast weather patterns, the standard convention is to assume yields in line with recent trends and abandonment consistent with historical averages. With severe droughts gripping the Southwest in early 2012 and 2013, expected abandonment and yields were adjusted in the previous two economic reports. However, early in 2014, moisture conditions, though still drier than normal, are improved from each of the previous two years. As a result, this outlook returns to the standard convention of average abandonment and yields for all states.

With abandonment for the U.S. at 14.8%, Cotton Belt harvested area totals 9.59 million acres. Weighting individual state yields by 2014 area generates a U.S. average yield per harvested acre of 819 pounds. This compares to a 2013 yield of 826 pounds and a 2007-11 average yield of 814 pounds. Applying each state's yield to its 2014 projected harvested acres generates a cotton crop of 16.37 million bales, with 15.72 million bales of upland and 657 thousand bales of ELS.

Turning attention to other cotton-producing countries, an "A" Index in the range of $0.90 per pound is not signaling producers to reduce cotton area. In those countries where cotton competes with grains, the relative attractiveness of cotton is even more pronounced. For 2014, international area outside of China is expected to increase from 61.4 million acres to 62.1 million acres. The increase is attributable to Northern Hemisphere countries as it is expected that prices later in calendar 2014 could limit cotton acres in the Southern Hemisphere.

When combined with trend yields for each country, the resulting international production excluding China is 71.5 million bales. Although down slightly from 71.6 million bales in 2013, the expected 2014 crop is the third largest on record for these countries. Adding the U.S. crop of 16.4 million bales gives a total projected crop outside of China of 87.9 million bales, a 3.1 million bale increase from the previous year.

On the demand side, there has been a modest recovery in cotton mill use outside of China, bouncing back from a low of 64.8 million bales in the 2011 marketing year to an estimated 73.5 million bales in the current 2013 marketing year. Cotton prices that were less volatile and more competitive with polyester contributed to growth of 8.5% and 4.4% in each of the past two years, respectively.

In addition, the price distortions prevailing in the Chinese market due to its reserves policy caused their textile industry to look to other countries to supply cotton yarn. Imports of cotton yarn by China have increased in each of past three years, with an estimated 10.2 million bales being imported in the 2013 marketing year. India and Pakistan have been the primary yarn suppliers to the Chinese market.

For the 2014 marketing year, mill use outside of China is projected to continue to expand, reaching 76.4 million bales. A world economy projected by the International Monetary Fund (IMF) to expand by just under 4% in 2014 and 2015 will support growth in mill use. In addition, cotton prices are expected to remain relatively competitive with polyester. Growth is expected in most markets with India, Pakistan and Vietnam accounting for 1.9 million of the 3.3 million bales of total growth.

The U.S. textile industry has also participated in the recent growth in cotton spinning. After falling to a low of 3.3

million in the 2011 marketing year, U.S. mill use has moved higher and is estimated at 3.6 million bales in the current marketing year. The U.S. industry has been energized by the Economic Adjustment Assistance Program (EAAP) that began with the 2008 Farm Bill. Growth in U.S. mill use was interrupted by the spike in prices in 2011, but otherwise the recent trend has been positive.

In recent months, several press reports have indicated new investments and expansions within the U.S. textile industry. With the help of the EAAP, companies are upgrading existing facilities and/or building new facilities. New plants are scheduled to come online by early 2015 and beyond. As a result, U.S. mill use for the 2014 marketing year is projected to reach 3.7 million bales, up from 3.6 million bales in 2013.

To quickly recap the balance sheet outside of China, production of 87.9 million bales and mill use of 76.4 million bales gives a surplus of 11.5 million bales. With a surplus similar to the current marketing year and the smallest since 2009, the projected production-consumption differential would not appear burdensome. In recent years, China imports have been at least that level or larger. However, the key will be the extent to which China maintains that same pace of imports under the new policy.

Projecting China's cotton situation is always a challenging task, but given the significant, but not yet clearly defined, change in policy, the outlook is more uncertain. To date, the Chinese government has announced their intention to end the reserves policy and institute a target price program in the western region of the country. No support mechanism has been announced for the eastern growing regions.

In light of this uncertainty and speculation that the eventual target price will be below the current reserve purchase price, China's cotton acreage is expected to decline in 2014. Recent surveys by the China Cotton Association and Beijing Cotton Outlook indicated a decline of approximately 9%. In this outlook, the acreage decline is estimated at 8%. When combined with average yields, China's production falls to 30.1 million bales, down from 33.0 in 2013.

With the reserves policy in place, cotton prices in China have traded at levels twice that of polyester prices. In response to those relative prices, China's yarn spinners sharply reduced their cotton use, in many cases opting for the less expensive polyester. Between 2010 and 2013, annual mill use in China declined by 10 million bales, with 2013 mill use estimated at 36.0 million bales. For the 2014 marketing year, the change in cotton policy should alleviate some of the burden on textile mills and provide more competitively priced cotton. As a result, mill use is expected to see modest growth to 36.4 million bales, leaving a 6.3 million bale differential with production.

With an estimated 58.3 million bales of stocks on hand at the beginning of the 2014 marketing year, there are more than ample supplies to satisfy the production shortfall. In theory, China would not need to import any cotton. However, that is not expected to be the case. China must open 4.1 million bales of import quota at a minimal duty in order to comply with their WTO accession commitments. In addition, it is expected that some amounts of quota for the processing trade will be made available.

Under these assumptions, China is projected to import 6.4 million bales in the 2014 marketing year, down from 11.0 million bales in 2013. If realized, it would be the smallest level of imports in a dozen years.

Comparing the projected imports of 6.4 million bales with the production surplus from all other countries of 11.5 million bales illustrates the highly competitive market facing cotton exporters in 2014.

Smaller imports by China will translate into smaller cotton exports by the United States. However, the decline in exports would be mitigated if the United States is able to reclaim market share in other importing countries. In the current 2013 marketing year, U.S. cotton exports are on track to reach 10.5 million bales, the smallest total since 2000. To some extent, the smaller exports reflect fewer exportable supplies resulting from the sharply smaller 2013 U.S. crop.

In 2014, exportable supplies from the U.S. are not expected to be a constraint. However, the projected decline in total world trade will lead to lower U.S. exports, even if there is a small improvement in trade share. In this outlook, U.S. cotton exports are projected to decline to 10.0 million bales, down 500 thousand bales from 2013. The decline in exports to China is expected to be partially offset by increased exports to Turkey, Mexico, Pakistan and Vietnam.

Larger U.S. production and lower exports combine to give a significant increase in ending stocks. The 2014 marketing year is expected to close with stocks totaling 5.7 million bales, or 41% of total use. This total represents the highest since the end of the 2008 marketing year.

Globally, the 2014 marketing year represents the fifth consecutive year with production exceeding consumption. Production of 118.0 million bales and mill use of 112.8 million bales adds another 5.4 million bales to global stocks. At 103.0 million bales, ending stocks are projected to surpass the 100 million bale mark by a rather significant amount.

In recent years, China has accounted for the increase in global stocks as stocks in other countries declined. For 2014, the situation is expected to be reversed as China's stocks are projected to remain stable and the increase in world stocks occurs outside of China.

The outlook for the coming year highlights the competitive forces shaping the cotton market. Early in the year, cotton is expected to attract acres with prices more competitive relative to alternative crops. If weather cooperates, production in the United States should rebound, and global production is once again expected to exceed mill use.

The combination of policy changes in China and sufficient supplies should allow cotton to be more competitive with manmade fibers. Those same policy changes by China are likely to create a smaller import market that exporting countries will be aggressively trying to capture. For the U.S. cotton industry, being positioned to capture that market share is critical.

Table 1 - Balance Sheet for Selected Countries & Regions

World	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	75,534	74,459	82,687	88,254	84,820	81,840	83,301
Yield (Pounds/Acre)	686	663	680	689	697	691	680
Production (Thou Bales)	107,944	102,858	117,131	126,639	123,083	117,811	118,027
Trade (Thou Bales)	30,597	36,644	35,861	45,020	45,954	38,452	35,848
Mill Use (Thou Bales)	110,087	118,856	114,218	102,825	106,367	109,497	112,781
Ending Stocks (Thou Bales)	61,956	47,046	50,226	73,320	89,167	97,605	102,987

United States	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	7,569	7,529	10,699	9,461	9,373	7,665	9,594
Yield (Pounds/Acre)	813	777	812	790	887	826	819
Production (Thou Bales)	12,815	12,188	18,104	15,573	17,315	13,187	16,374
Net Exports (Thou Bales)	13,261	12,037	14,367	11,695	13,016	10,490	9,969
Mill Use (Thou Bales)	3,541	3,550	3,900	3,300	3,500	3,600	3,729
Ending Stocks (Thou Bales)	6,337	2,947	2,600	3,350	3,900	3,000	5,675

Australia	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	405	494	1,344	1,483	1,053	1,025	1,004
Yield (Pounds/Acre)	1,777	1,724	1,500	1,779	2,098	2,106	1,950
Production (Thou Bales)	1,500	1,775	4,200	5,495	4,600	4,500	4,078
Net Exports (Thou Bales)	1,201	2,112	2,500	4,640	6,174	4,000	4,154
Mill Use (Thou Bales)	45	40	40	40	40	40	40
Ending Stocks (Thou Bales)	979	752	2,637	3,677	2,288	2,973	3,082

Bangladesh	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	82	79	86	89	99	111	111
Yield (Pounds/Acre)	247	304	355	464	524	518	518
Production (Thou Bales)	42	50	64	86	108	120	120
Net Imports (Thou Bales)	3,800	3,900	3,700	3,200	3,600	3,700	3,937
Mill Use (Thou Bales)	3,800	3,900	3,700	3,300	3,600	3,800	4,001
Ending Stocks (Thou Bales)	748	788	842	818	916	926	972

Brazil	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	2,083	2,066	3,459	3,459	2,224	2,718	2,667
Yield (Pounds/Acre)	1,263	1,266	1,249	1,207	1,295	1,307	1,300
Production (Thou Bales)	5,480	5,450	9,000	8,700	6,000	7,400	7,222
Net Exports (Thou Bales)	2,689	1,839	1,297	4,763	4,242	2,425	2,476
Mill Use (Thou Bales)	4,200	4,400	4,300	4,000	4,100	4,200	4,298
Ending Stocks (Thou Bales)	4,992	4,353	7,906	7,993	5,801	6,726	7,325

China	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	14,950	13,096	12,973	13,591	13,096	12,726	11,656
Yield (Pounds/Acre)	1,178	1,173	1,129	1,201	1,283	1,245	1,240
Production (Thou Bales)	36,700	32,000	30,500	34,000	35,000	33,000	30,112
Net Imports (Thou Bales)	6,912	10,880	11,857	24,478	20,280	10,950	6,320
Mill Use (Thou Bales)	44,000	50,000	46,000	38,000	36,000	36,000	36,400
Ending Stocks (Thou Bales)	21,366	14,246	10,603	31,081	50,361	58,311	58,344

India	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	23,242	25,476	27,527	30,146	29,652	28,911	29,065
Yield (Pounds/Acre)	481	462	474	462	461	481	475
Production (Thou Bales)	23,300	24,500	27,200	29,000	28,500	29,000	28,762
Net Exports (Thou Bales)	1,560	6,070	4,550	10,480	6,550	6,400	4,460
Mill Use (Thou Bales)	17,750	19,750	20,550	19,400	21,800	23,000	24,014
Ending Stocks (Thou Bales)	11,019	9,699	11,799	10,919	11,069	10,669	10,957

Table 1 – Selected Countries and Regions (Continued)

Indonesia	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	22	25	22	22	25	22	22
Yield (Pounds/Acre)	648	583	540	648	583	648	647
Production (Thou Bales)	30	30	25	30	30	30	30
Net Imports (Thou Bales)	2,380	2,485	2,390	2,295	2,595	2,695	2,801
Mill Use (Thou Bales)	2,350	2,450	2,350	2,250	2,550	2,650	2,756
Ending Stocks (Thou Bales)	424	439	454	479	504	529	555

Mexico	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	250	190	274	474	388	292	323
Yield (Pounds/Acre)	1,091	1,198	1,281	1,194	1,349	1,301	1,310
Production (Thou Bales)	567	475	732	1,180	1,090	790	881
Net Imports (Thou Bales)	1,140	1,303	971	660	725	1,000	1,151
Mill Use (Thou Bales)	1,850	1,900	1,700	1,700	1,800	1,850	1,893
Ending Stocks (Thou Bales)	764	617	595	710	700	615	729

Pakistan	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	7,166	7,413	6,919	7,413	7,413	7,413	7,435
Yield (Pounds/Acre)	572	598	599	686	602	628	635
Production (Thou Bales)	8,540	9,240	8,640	10,600	9,300	9,700	9,835
Net Imports (Thou Bales)	1,560	849	763	-260	1,750	2,000	2,558
Mill Use (Thou Bales)	11,100	10,400	9,900	10,000	11,000	11,500	11,976
Ending Stocks (Thou Bales)	3,378	3,042	2,520	2,835	2,860	3,035	3,428

Turkey	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	840	692	791	1,211	1,013	815	877
Yield (Pounds/Acre)	1,103	1,214	1,281	1,364	1,232	1,324	1,300
Production (Thou Bales)	1,930	1,750	2,110	3,440	2,600	2,250	2,376
Net Imports (Thou Bales)	2,783	4,244	3,204	2,082	3,474	3,950	4,190
Mill Use (Thou Bales)	4,950	5,900	5,600	5,600	6,000	6,200	6,400
Ending Stocks (Thou Bales)	1,511	1,605	1,319	1,241	1,315	1,315	1,480

Uzbekistan	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	3,509	3,212	3,286	3,237	3,249	3,175	3,363
Yield (Pounds/Acre)	629	583	599	623	665	642	645
Production (Thou Bales)	4,600	3,900	4,100	4,200	4,500	4,250	4,519
Net Exports (Thou Bales)	3,000	3,800	2,650	2,500	3,200	2,800	2,730
Mill Use (Thou Bales)	1,000	1,100	1,250	1,350	1,450	1,500	1,553
Ending Stocks (Thou Bales)	1,948	948	1,148	1,498	1,348	1,298	1,534

Vietnam	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	12	20	22	27	20	17	17
Yield (Pounds/Acre)	466	413	475	424	413	416	420
Production (Thou Bales)	12	17	22	24	17	15	15
Net Imports (Thou Bales)	1,251	1,695	1,569	1,625	2,410	2,800	3,098
Mill Use (Thou Bales)	1,250	1,600	1,625	1,675	2,250	2,700	3,113
Ending Stocks (Thou Bales)	263	375	341	315	492	607	607

West Africa	**08/09**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Harvested Area (Thou Acres)	3,731	3,447	3,452	4,638	5,794	5,762	5,725
Yield (Pounds/Acre)	310	312	317	332	350	332	333
Production (Thou Bales)	2,412	2,242	2,280	3,211	4,231	3,984	3,975
Net Exports (Thou Bales)	2,146	2,191	2,130	2,436	3,959	3,770	3,710
Mill Use (Thou Bales)	188	208	188	188	188	188	188
Ending Stocks (Thou Bales)	751	594	556	1,143	1,227	1,253	1,330

U.S. and World Economy

Entering 2014, macroeconomists convey a generally positive outlook for the U.S. and world economy for the coming year with prospects continuing to improve in 2015. Even the rather disappointing jobs report in December did little to stem the optimism for the coming year. The Wells Fargo Securities January 2014 *Monthly Outlook* characterized the shortfall in job creation as more of a one-time distortion rather than a prolonged problem. Their forecast continues to take an upbeat view as consumer spending looks poised to build on the performance of late 2013.

The International Monetary Fund (IMF) brings a similar optimism to their January 2014 *World Economic Outlook*. Economic activity is expected to improve in 2014, largely due to recovery in developed economies. Their projections note that the Euro Area is turning the corner from recession to recovery. For the U.S. economy, final consumer demand is expected to support 2014 economic growth. However, the IMF notes that the recovery continues to be fragile in some economies and downside risks remain.

However, while economists remain optimistic about the 2014 economy, many consumers remain cautious about their view of the economy. That caution was evidenced by the latest results from the Thomas Reuters/University of Michigan's Consumer Sentiment Index. The index is designed to gauge the attitudes of the American consumer with regards to the economy.

Following a sharp increase in December 2013 to a value of 82.5, the preliminary January 2014 index fell to 80.4 (Figure 1). The dip in the Consumer Sentiment Index surprised most economists, who had predicted a value of 83.5 for January.

Though the latest index is down from December, it still exceeds the values for September through November.

The latest index suggests that consumers will remain somewhat cautious in their spending habits. The January index may also capture the short-term sentiments to the disappointing labor market numbers released in December. The latest Reuters/University of Michigan survey is also consistent with the findings of the Bloomberg Consumer Comfort Index.

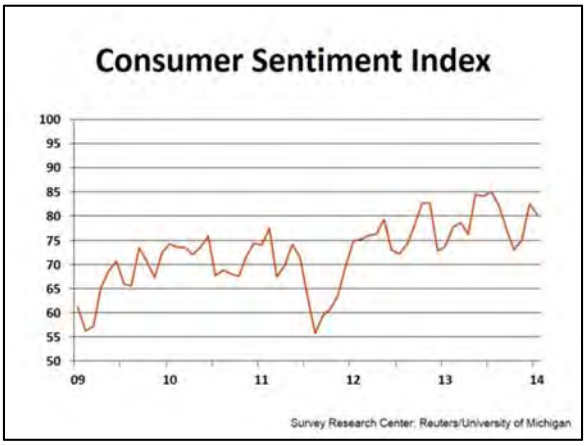

Figure 1 - Consumer Sentiment Index

U.S. Gross Domestic Product

As determined by the Bureau of Economic Analysis (BEA), the U.S. 2013 third quarter real Gross Domestic Product (GDP) expanded by 4.1% (Figure 2) from the second quarter, following on gains of 1.1% and 2.5% in the first and second quarters, respectively. The third quarter estimates also represent the first time since the fourth quarter of 2011 when the economy grew in excess of 4%.

The increase in real GDP in the third quarter primarily reflected positive contributions from private inventory investment, personal consumption expenditures (PCE), nonresidential fixed investment, exports,

residential fixed investment, and state and local government spending that were partly offset by a negative contribution from federal government spending.

The Wells Fargo economic outlook projected a fourth quarter number of 3.5%, led by a significant gain in exports and solid growth in consumer spending. The momentum is expected to carry over into 2014 with a projected GDP growth of 2.8%. Slightly stronger job growth is expected to support income and consumer spending. The Wells Fargo economists also expect housing and commercial construction to contribute to growth in 2014.

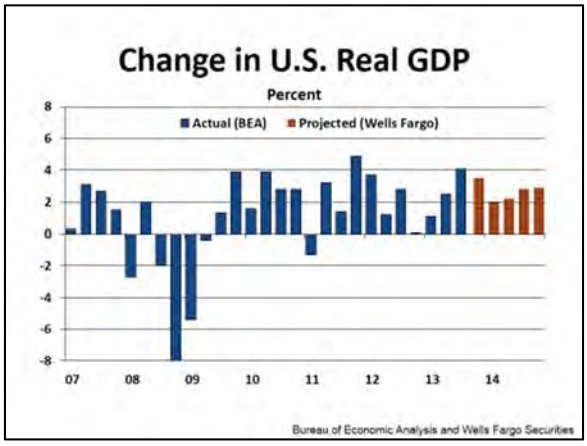

Figure 2 - Change in U.S. Real GDP

The latest IMF projections also peg U.S. GDP growth at 2.8% in 2014, followed by 3.0% growth in 2015. In addition to final domestic demand, the IMF outlook offers optimism for the U.S. economy based on a reduced fiscal drag resulting from the recent budget agreement.

U.S. real personal consumption expenditures (PCEs) expanded in the third quarter of 2013 by 2.0% (Figure 3), compared with an increase of 1.8% in the second quarter. Durable goods increased 7.9%, compared with an increase of 6.2%. Nondurable goods increased 2.9%, compared with an increase of 1.6%. Services increased 0.7%, compared with an increase of 1.2%.

The latest outlook by Wells Fargo puts the fourth quarter growth in PCEs at 3.7%, which if realized, would be the strongest quarterly performance since the fourth quarter of 2010. For 2014, PCEs are projected to grow at a slightly stronger pace than 2013, when tax increases and higher energy prices weighed on spending.

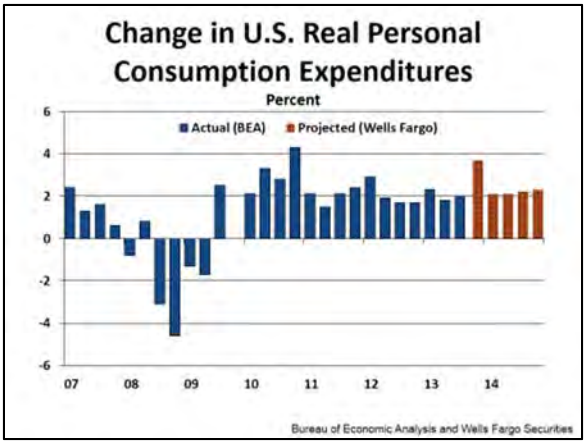

Figure 3 - Change in U.S. Real Personal Consumption Expenditures

U.S. Employment

After contracting through much of 2008 and 2009, the U.S. work force has since stabilized with some very modest improvement since the second half of 2011. By the end of 2013, civilian employment stood at 58.6% of the population (Figure 4), unchanged from year-earlier levels. However, it is important to keep in mind that current values are only slightly better than the post-recession low of 58.2%. When compared to the pre-recession levels of 63.0%, it is readily evident why the recent economic growth is often referred to as a jobless recovery.

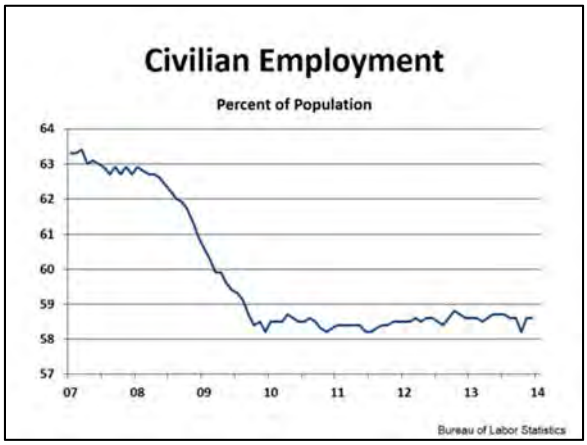

Figure 4 - Civilian Employment

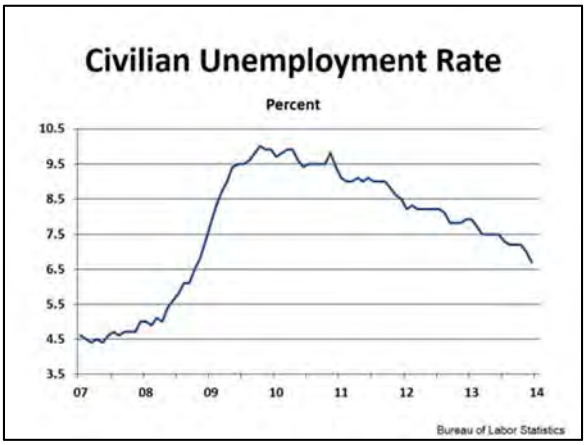

Figure 5 - Civilian Unemployment Rate

Total nonfarm payroll employment edged up in December (+74,000). In 2013, job growth averaged 182,000 per month, about the same as in 2012 (+183,000 per month). In December, job gains occurred in retail trade and wholesale trade, while employment declined in the information sector. The 74,000 jobs added in December are well below the pre-report expectations of 197,000. At this point, the December number is generally being viewed as an anomaly in part attributable to the harsh weather conditions.

According to the latest government estimates, the December 2013 unemployment rate fell to 6.7% (Figure 5), marking the first month since November 2008 with an unemployment rate below 7.0%. Among the major worker groups, the unemployment rates for adult men (6.3%) and whites (5.9%) declined in December. The rates for adult women (6.0%), teenagers (20.2%), blacks (11.9%), and Hispanics (8.3%) showed little change.

At 6.7%, the current unemployment rate is down from the post-recession high of 10.0%, but still well above the 4.5 to 5.0% levels observed in early 2008.

Looking forward, economists caution not to read too much optimism into the recent data regarding the labor market. Although weekly jobless claims have declined, one factor contributing to lower unemployment rates has been the fact that more people are ending their search for employment. Projections for 2014 call for unemployment to remain stable at 6.7%, with only modest improvements expected for 2015.

U.S. Housing Market

The housing industry, a key barometer of the well-being of the economy, showed renewed strength in the latter months of 2013 as new housing starts were the strongest in 5 years. According to the U.S. Census Bureau, new-home construction retained a strong pace with a seasonally-adjusted annual rate of 999 thousand units in December (Figure 6). Although down from the revised November estimated of 1.11 million, the December estimate exceeded economists' estimates.

Figure 6 - U.S. New Housing Starts

Figure 7 - 30-Year Mortgage Rate

According to Freddie Mac's *U.S. Economic and Housing Market Outlook*, the housing recovery was fully underway in 2013 after turning the corner in 2012. In their view, a functionally normal housing market in 2014 will be contingent on a healthy jobs market, mortgage delinquencies back down near historical averages, and home sales consistent with historical norms. Freddie Mac's latest report projects 2014 housing starts of 1.10 million, up from 920,000 in 2013. Further improvement is expected in 2015 with annual starts of 1.35 million.

For much of 2012, 30-year mortgage rates continued to drift lower, with a survey by Freddie Mac putting the December 2012 average at 3.35% (Figure 7), an all-time low. Rates increased throughout 2013, with strong upward momentum in the second half of the year. The increase, in part, was driven by speculation that the Federal Reserve would reduce its $85 billion a month in bond purchases.

The 30-year lending rate ended 2013 with an average value of 4.46%. Despite the increase, mortgage rates are still well below pre-recession levels and have been a contributing factor to the recovery in the housing market. For 2014, mortgage rates are expected to show modest increases relative to the December 2013 value, but remain below 5.0%.

Federal Reserve Board

As economic conditions deteriorated in 2008, the Federal Reserve quickly lowered the fund rate into the range of 0% to 0.25% (Figure 8), and the rate remained in that range for 2009 through 2013. In December, the Federal Reserve announced that a target range of 0% to 0.25% will be appropriate at least as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than a half percentage point above the 2% longer-run goal, and longer-term inflation expectations continue to be well anchored. The Federal Reserve now anticipates that it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the longer-term goal.

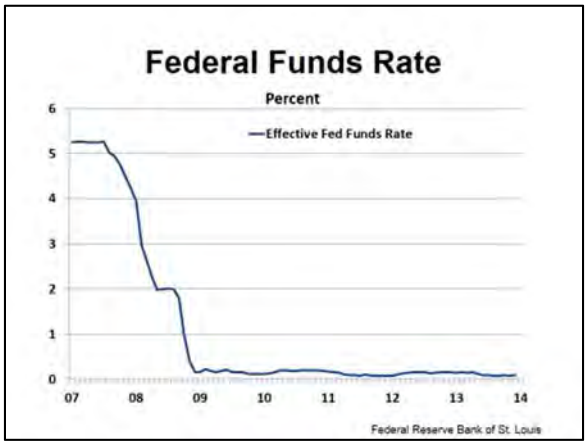

Figure 8 - Federal Funds Rate

In the December meeting, the Fed reported that the improvement in economic activity and labor market conditions are consistent with an underlying strength in the broader economy. In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, it was decided to modestly reduce the pace of asset purchases. Beginning in January 2014, the Federal Reserve will add to its holdings of agency mortgage-backed securities at a pace of $35 billion per month rather than $40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of $40 billion per month rather than $45 billion per month.

Federal Budget Situation

Projections by the Congressional Budget Office (CBO) indicate that federal outlays will continue to outpace revenues for the foreseeable future. For fiscal year 2013, federal spending totaled $3.5 trillion and revenue came in at $2.8 trillion (Figure 9), resulting in a deficit in excess of $600 billion. Though still significant, the 2013 deficit is the smallest since fiscal 2008.

Revenues for fiscal year 2013 represent an increase of 17.5% from the 2012 value and have surpassed the pre-recession levels. In contrast, outlays in fiscal 2013 are down by $80 billion from the previous year.

However, CBO projects that under current law, outlays will increase in fiscal 2014 and grow by 5.5% per year through fiscal 2023.

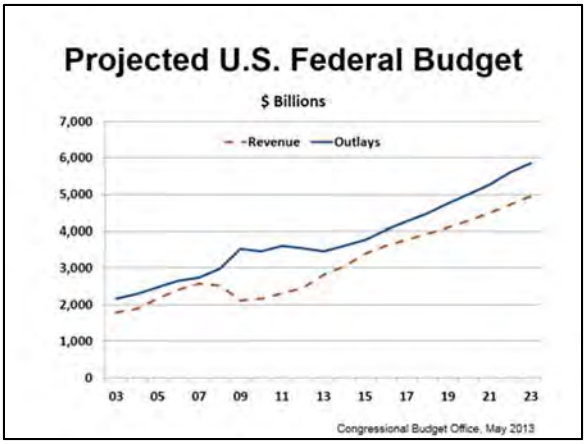

Figure 9 - Projected U.S. Federal Budget

The 2013 deficit of $642 billion comes on the heels of 4 years with annual deficits exceeding $1.0 trillion (Figure 10). Relative to the size of the economy, the 2013 deficit equals 4.0% of GDP and is less than half as large as the 2009 shortfall, which was 10.1% of GDP.

Because revenues, under current law, are projected to rise more rapidly than spending in the next two years, deficits in CBO's baseline projections continue to shrink, falling to 2.1% of GDP by 2015. However, budget shortfalls are projected to increase later in the coming decade, reaching 3.5% of GDP in 2023, because of the pressures of an aging population, rising health care costs, an expansion of federal subsidies for health insurance, and growing interest payments on federal debt.

For the 2014–2023 period, deficits in CBO's baseline projections total $6.3 trillion. With such deficits, federal debt held by the public is projected to remain above 70% of GDP, which is far higher than the 39% average seen over the past four decades.

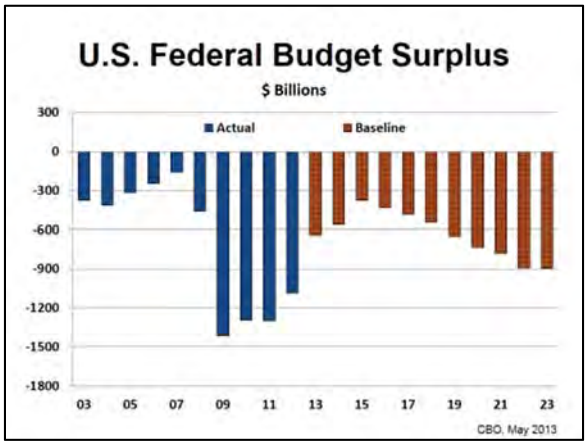

Figure 10 - U.S. Federal Budget Surplus

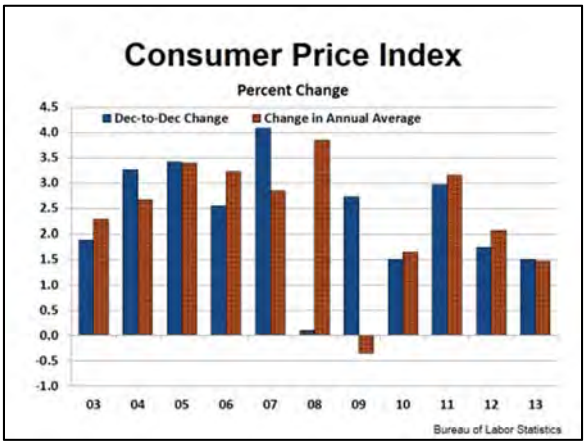

Figure 11 - Consumer Price Index

Consumer and Producer Price Indices

Inflation acts as a tax on investment by increasing the cost of equity-financed investment and reducing corporate equity values. U.S. inflation is commonly measured by the Consumer Price Index (CPI) and the Producer Price Index (PPI).

Measured by the December-to-December change, the CPI rose 1.5% in 2013 after a 1.7% increase in 2012 (Figure 11). This is lower than the 2.4% average annual increase over the last ten years. This is the first time the CPI has gone up less than 2.0% for consecutive years since 1997-98.

The energy index, while volatile from month to month, increased 0.5% in 2013, the same increase as in 2012. The index for food rose 1.1% in 2013 following a 1.8% increase in 2012. Aside from a decline in 2009, this is the smallest December-to-December increase since 1976. The index for food at home, which rose 1.3% in 2012, increased 0.4% in 2013.

The index for all items less food and energy rose 1.7% in 2013 after increases of 2.2% in 2011 and 1.9% in 2012. The index has risen at a 2.0% annual rate over the past ten years.

On a December-to-December basis, the PPI for finished goods rose in 2013 by just 1.2% (Figure 12), the lowest value since 2008. Leading the December rise in the finished goods index, prices for finished energy goods increased 1.6%. Also contributing to the advance, the index for finished goods less foods and energy moved up 0.3%. By contrast, prices for finished consumer foods decreased 0.6%.

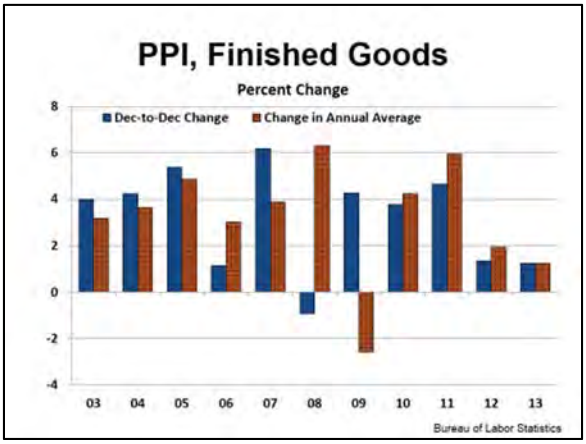

Figure 12 - Producer Price Index, Finished Goods

Energy Prices and Supply

According to the latest projections by the Department of Energy's Energy Information Administration (EIA), U.S. total crude oil production averaged 7.5 million barrels per day (bbl/d) in 2013, an increase of 1.0 million bbl/d from the previous year. Projected domestic crude oil production continues to increase to 8.5 million bbl/d in

2014 and 9.3 million bbl/d in 2015. The 2015 forecast would mark the highest annual average level of production since 1972.

Production from countries outside of the Organization of the Petroleum Exporting Countries (OPEC) is expected to grow year-over-year by a record high of 1.9 million bbl/d in 2014. OPEC crude oil production is forecast to decline by 0.5 million bbl/d in 2014, mostly as a result of some OPEC producers cutting back production to accommodate non-OPEC supply growth.

Global consumption is estimated to have grown by 1.2 million bbl/d in 2013, exceeding 91 million bbl/d by the second half of the year. The EIA expects global consumption to grow by a similar pace of 1.2 million bbl/d in 2014 and 1.4 million bbl/d in 2015, exceeding 93 million bbl/d by the second half of 2015.

Crude oil prices are expected to weaken as non-OPEC supply growth exceeds growth in world consumption. The forecast WTI crude oil spot price, which fell from an average of $106/bbl during September to $94/bbl in November, increased to $98/bbl in December as a result of strong U.S. refinery runs. EIA expects that WTI crude oil prices will average $93/bbl in 2014 and $90/bbl during 2015 (Figure 13).

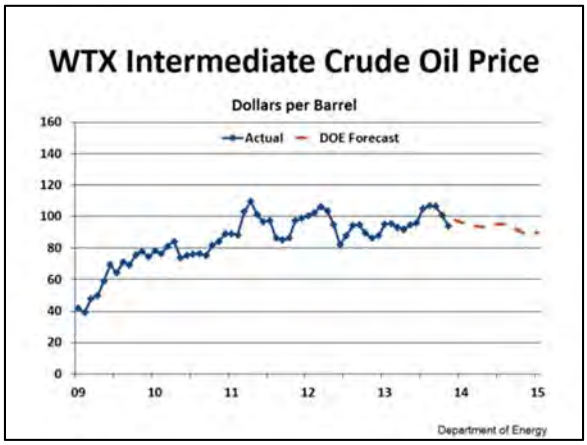

Figure 13 - WTX Intermediate Crude Oil Price

The EIA outlook cautions that energy price forecasts are highly uncertain, and the current values of futures and options contracts suggest that prices could differ significantly from the forecast levels.

Retail diesel fuel prices (Figure 14), which track closely with crude oil prices, averaged $3.88 per gallon in December 2013, down $0.08 per gallon from year-earlier levels. The EIA projects diesel prices to average $3.81 per gallon in 2014, reflecting the relatively stable crude oil prices.

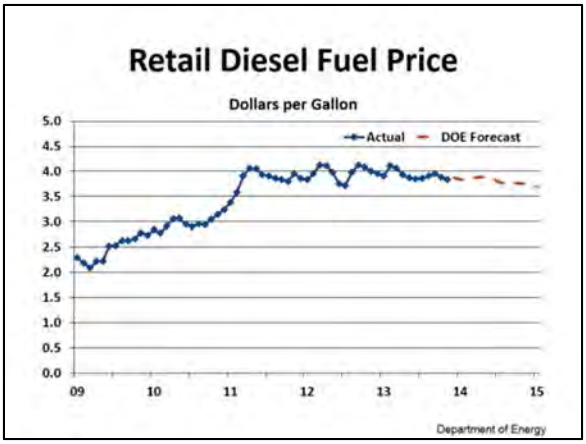

Figure 14 - Retail Diesel Fuel Price

The Henry Hub natural gas spot price averaged $4.24 per thousand cubic foot (Mcf) in December 2013 (Figure 15), up 60 cents from November, likely the result of colder-than-normal weather during the month. The current forecast for 2014 natural gas prices calls for weaker prices through the late winter months, reaching $3.69 per Mcf in May.

The EIA expects that total natural gas consumption to average a record high 71.2 billion cubic feet per day (Bcf/d) in 2013, an increase of 2.1% from the previous year. Projected natural gas consumption falls by 2.2% in 2014 because of the forecast 4.6% decline in heating degree days and lower natural gas use by the electric power sector. EIA expects natural gas marketed production will grow at an average rate of

2.1% in 2014 and 1.3% in 2015. As a result, prices are expected to remain relatively stable throughout 2014.

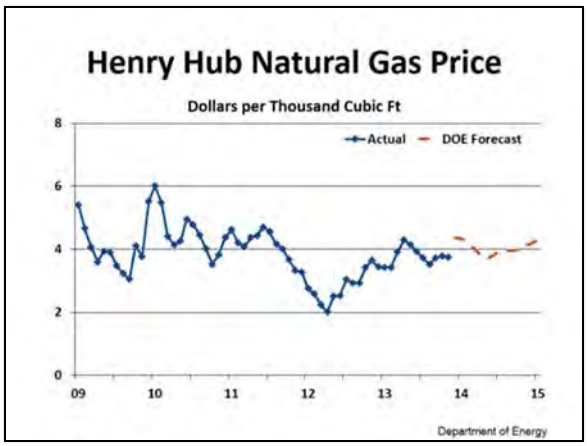

Figure 15 - Henry Hub Natural Gas Price

U.S. Equity Markets

Despite concerns regarding the slow pace of job creation and the uncertainty about the future size of asset purchases by the Federal Reserve, U.S. equity markets showed tremendous strength in 2013. After closing 2012 at 13,104, the Dow Jones Industrials Average (Dow) moved to 16,577 by the end of 2013 (Figure 16). The 26.5% return was the best performance since 1995. The S&P 500 soared nearly 30%, its best performance since a 31% jump in 1997.

In early 2014, equity markets have given up a portion of the 2013 gain, due primarily to concerns in emerging markets. Investors appear to be worried about sharp currency devaluations in countries such as Turkey, South Africa and Argentina. In addition, recent reports suggesting a slowdown in China's manufacturing segment has stymied some of the optimism.

Despite the somewhat rocky start to the year, the general expectation is for a modest gain in equity markets in 2014.

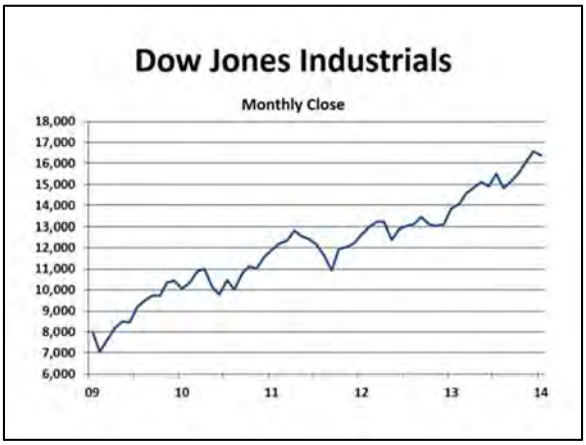

Figure 16 - Dow Jones Industrials

World Economies

The world economy continued its recovery in 2013, but at a slightly slower pace than observed in the previous three years. According to the latest projections by the International Monetary Fund, the world economy grew by 3.0% in 2013, down from 3.1% in 2012 (Figure 17).

According to the report, global activity picked up in the second half of 2013 due to higher inventory demand in advanced economies and an export rebound in emerging markets.

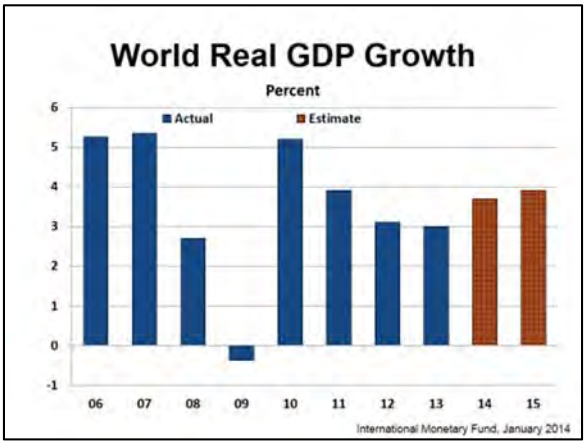

Figure 17 - World Real GDP Growth

Activity is expected to improve further in 2014 and 2015, primarily due to recovery in advanced economies. IMF projections call for the world economy to grow by 3.7% in 2014, which is consistent with the latest

report by the World Bank. Growth is expected to rise to 3.9% in 2015. The IMF projects that output of emerging and developing economies will expand at 5.1% in 2014 and 5.4% in 2015. In advanced economies, growth is projected at 2.2% in 2014 and 2.3% in 2015.

Looking across key countries and regions, the economy in the Euro Area is projected to grow by 1.0% in 2014 and 1.4% in 2015 (Table 2). The pickup will generally be more modest in economies under stress, despite some upward revisions including Spain. In Japan, growth is expected to remain stable at 1.7% in 2014. Temporary fiscal stimulus should partly offset the drag from the consumption tax increase in early 2014.

According to the IMF report, growth in China rebounded strongly in the second half of 2013, due largely to an acceleration in investment. This surge is expected to be temporary, in part because of policy measures aimed at slowing credit growth and raising the cost of capital. Growth is thus expected to moderate slightly to around 7.5% in 2014.

Growth in India picked up after a favorable monsoon season and higher export growth and is expected to firm further on stronger structural policies supporting investment. Many other emerging market and developing economies have started to benefit from stronger external demand in advanced economies and China. Growth in Russia and key Latin American countries ranges between 2.0 and 3.5%.

Table 2 - Selected Economies: Real GDP

Year-Over-Year % Changes				
	2012	2013e	2014f	2015f
World	3.1	3.0	3.7	3.9
U.S.	2.8	1.9	2.8	3.0
Euro Area	-0.7	-0.4	1.0	1.4
Japan	1.4	1.7	1.7	1.0
China	7.7	7.7	7.5	7.3
India	3.2	4.4	5.4	6.4
Russia	3.4	1.5	2.0	2.5
Brazil	1.0	2.3	2.3	2.8
Mexico	3.7	1.2	3.0	3.5

Source: International Monetary Fund, January 2014

Exchange Rates

During periods of market uncertainty, traders sell currencies that are perceived riskier and place their bets in safe havens. One sign that stability is returning to the global economy is an easing of the volatility in major currency pairs. Now, many traders turn to a carry-trade strategy as they seek to profit from the interest rate differential between currencies.

In 2013, the euro averaged 0.75 per dollar, which represents a modest appreciation from the 2012 value (Table 3). The euro's strength in 2013 surprised many analysts, who had expected tough economic conditions in some member states to weigh on the single currency.

In contrast, the Japanese yen depreciated sharply, moving to a 5-year low against the dollar. The Bank of Japan continued its radical monetary program in 2013, and the yen responded with sharp losses against the U.S. dollar. The Brazilian real also depreciated against the dollar, reflecting concerns regarding persistent inflation and lackluster growth in Latin America's largest economy, with doubts also surrounding the government's willingness to tackle its deteriorating fiscal picture during a presidential-election year.

While the South Korean won showed a slight appreciation against the dollar in

2013, performance in recent weeks has not been as encouraging. Other Asian currencies generally depreciated against the dollar in 2013. China is an exception with the yuan continuing a steady appreciation against the dollar.

Table 3 - Selected Exchange Rates

Currency per U.S. Dollar			
	2011	2012	2013
Euro	0.72	0.78	0.75
Japanese Yen	79.70	79.79	97.58
Brazilian Real	1.67	1.95	2.15
South Korean Won	1,106	1,123	1,090
Indian Rupee	46.85	53.46	58.44
Indonesia Rupiah	8,724	9,329	10,395
Pakistani Rupee	85.66	92.60	100.71
Chinese Yuan	6.45	6.30	6.19
Source: Oanda.com			

The Federal Reserve Board publishes a real exchange rate index comparing the dollar to a weighted average of currencies of important trading partners, excluding major developed economies. Between early 2009 and mid-2011, the trade weighted index fell by almost 15 percentage points (Figure 18). However, the trend reversed course during the latter half of 2011 before peaking in mid-2012. The index subsequently declined through early 2013 before stabilizing in the second half of the year.

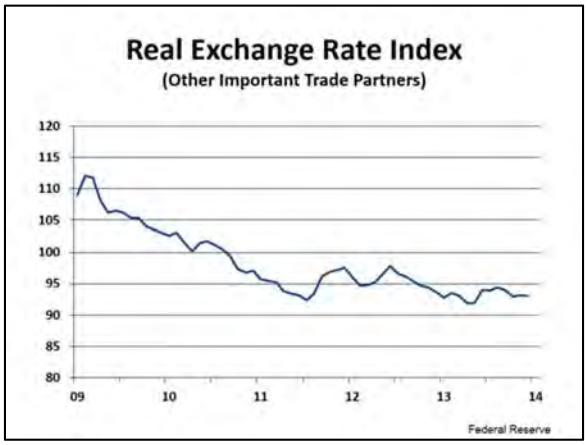

Figure 18 - Real Exchange Rate Index

Commodity Prices

The U.S. Department of Agriculture (USDA) publishes monthly indices of prices received by farmers. During 2013, the crop price index experienced a precipitous decline with the December index of 186 representing a 25.6% decline from January 2013. The latest price index is also the lowest value since December 2011 (Figure 19).

Relative to year-ago levels, crop price declines are the most evident in the grain and oilseed sectors. Larger crops in 2013 and a slow-down in the use of grains for renewable fuels have contributed to the weaker prices. Price indices from fruits and vegetables are roughly unchanged from year-ago levels.

In contrast to the grains, the cotton price index increased 2.5% throughout 2013. A generally tight balance sheet outside of China continues to offer support to cotton prices. With China continuing their reserves policy for 2013, the Chinese textile industry maintained significant imports of foreign growths in order to meet their demand.

Unlike crop prices, livestock prices presented a more stable appearance and actually ended the year up 4.0%. Meat animals and dairy contributed the bulk of the increase, with gains in poultry prices being more modest.

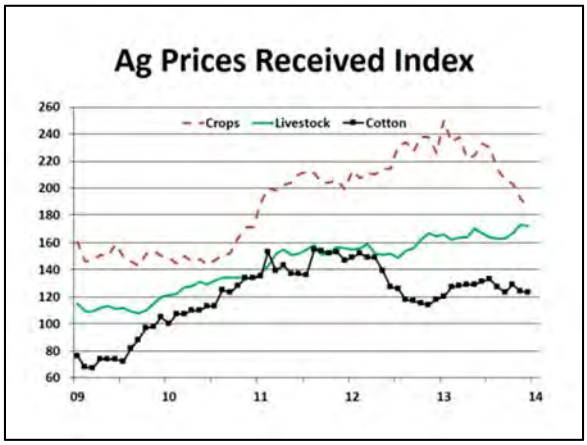

Figure 19 - Ag Prices Received Index

USDA also publishes monthly indices of prices paid by farmers for various production inputs. Of particular interest are the indices for energy related inputs such as diesel and nitrogen fertilizer. In line with the previous discussion on retail diesel prices, the diesel prices paid index was generally stable to weaker during 2013 (Figure 20). The diesel price index ended the year down just 1.0% from the beginning of 2013. Although stable in 2013, the index remained at the high levels observed since 2011.

For growers, the more encouraging development has been the drop in nitrogen prices, particularly over the past 6 months. The nitrogen prices paid index ended the year down 18.0%. The December 2013 index was also at the lowest value since January 2011.

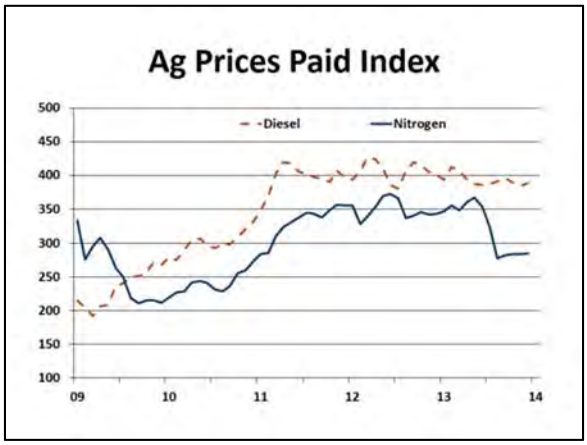

Figure 20 - Ag Prices Paid Index

U.S. Net Farm Income

The latest USDA estimates place U.S. net farm income at $131.0 billion in 2013, up 15.0% from 2012 (Figure 21), and represents a record high in nominal terms. After adjusting for inflation, 2013's net farm income is expected to be the highest since 1973.

Substantial year-end crop inventories are expected as a result of the record corn harvest Net cash income, which measures the difference between cash expenses and the combination of commodities sold during the calendar year plus other sources of farm income, is forecast at $129.7 billion, down just over 3.0% from 2012. Even so, 2013's forecast would be the fourth time net cash income, after adjusting for inflation, has exceeded $100 billion since 1973.

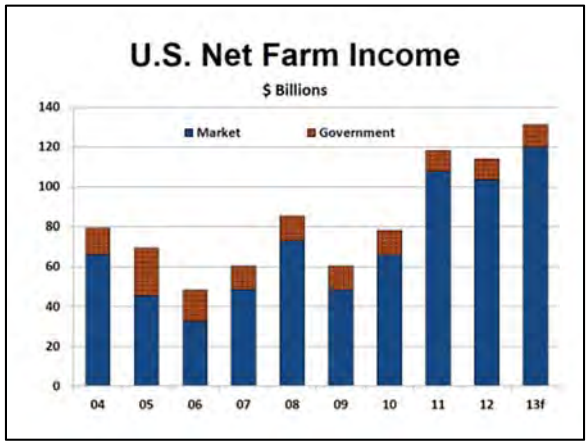

Figure 21 - U.S. Net Farm Income

According to USDA's Economic Research Service, the projected $10.9-billion increase in total expenses in 2013, to $352 billion, continues a string of year-to-year increases (except for 2009) that have taken place since 2002. In both nominal and inflation-adjusted dollars, 2013 production expenses are expected to be the highest on record. Labor and rent are the expense items expected to increase the most in 2013, while producers are expected to pay less for fuel and fertilizer.

Farm sector assets, debt, and equity are all forecast to increase in 2013. As in the last several years, increases in farm asset value are expected to exceed increases in farm debt, with farm real estate the main driving force. Confirming the strength of the farm sector's solvency, both the debt-to-asset ratio and debt-to-equity ratio are expected to reach historic lows.

U.S. Farm and Trade Policy

In late January, new farm legislation was moving toward final passage with the release of legislative language by the Conference Committee. Votes in the House and Senate were anticipated to follow soon after the release. The new farm bill, known as the Agricultural Act of 2014, will cover the 2014 through 2018 crops, although some programs will not be implemented until the 2015 crop.

Recall that the 2013 crop is covered by the American Taxpayer Relief Act, which extended the provisions of the Food, Conservation, and Energy Act of 2008, otherwise known as the 2008 Farm Bill. The 2008 Farm Bill continued the marketing loan, direct payments, and counter-cyclical payments. Certain marketing loan provisions for upland cotton were modified to reflect changes advocated by the cotton industry. Much-needed support was also introduced for the U.S. textile industry. Another new provision was an optional revenue-based counter-cyclical program that producers could choose as an alternative to the target price counter-cyclical program. The bill also made significant changes to payment limits and program eligibility requirements. A more complete overview of the 2008 bill can be found in the Economics section of www.cotton.org.

The Agricultural Act of 2014

Developing successor legislation to the 2008 Farm Bill has been a long and difficult process with almost 4 years having elapsed since the initial Congressional hearings. The House and Senate Agriculture Committees were faced with both budget and political pressures that demanded changes in farm program structure.

The Budget Control Act of 2011 was a failed attempt to reach a long-term budget agreement. At the time, it was also seen as a vehicle for new farm legislation. While that budget process did not produce a long-term budget agreement, it did establish general budget guidelines that would remain throughout the farm bill debate. The Agriculture Committees were tasked with writing new policies that would be projected to spend less than a continuation of the policies in the 2008 Farm Bill.

Given the strength of most commodity prices, particularly grains and oilseeds, over the life of the 2008 Farm Bill, there has been dwindling support for the Direct Payments (DPs) that were prominent features of both the 2002 and 2008 farm bills. Despite being viewed in a favorable light from a trade policy perspective, some members of Congress increasingly questioned the need for making payments that were decoupled from both price and production, especially in times of high market prices.

Cotton also faced the unique and serious challenge of resolving a dispute with Brazil within the World Trade Organization (WTO). In the longstanding trade dispute, the WTO Panel concluded that the combination of the marketing loan, market loss assistance payments, counter-cyclical payment (CCP) program and Step 2 influenced U.S. cotton production, trade and world price, and thus caused “serious prejudice” to Brazil. According to the panel, these are the only programs, working in combination, that were found to distort production and trade. Two of the programs have been eliminated. The market loss assistance payments, made from 1999 through 2001, were discontinued with the introduction of the CCP in 2002. The Step 2

provision was eliminated by Congressional action on July 31, 2006.

Crop insurance was specifically challenged by Brazil as providing trade-distorting support. However, these programs were found by the WTO to be non-trade distorting, and the arbitration panel did not include those programs in their analysis of damages.

In view of these pressures and constraints, the U.S. cotton industry sought fundamental changes in the structure of upland cotton support. With adjustments from the original industry proposal, the final legislation contains the general structure of the policies sought by the cotton industry.

Repeal DPs, CCPs and ACRE

The 2014 Farm Bill repeals the provisions of the 2008 legislation that authorize DPs, the target price CCP program, and the Average Crop Revenue Election (ACRE) program.

Base Loan Rates, Marketing Loans and LDP's

The marketing assistance loan for upland cotton is maintained in the new legislation with the determination of the level of the base loan rate modified in order to address the findings of the WTO panel. The upland cotton marketing loan was determined by the panel to provide trade-distorting domestic support. The new farm law determines the level of the upland cotton marketing loan rate based on the 2-year moving average of the adjusted world price (AWP) as announced by USDA.

The loan rate will be equal to the 2-year average AWP for the 2 most recently completed marketing years as of October 1 in the fall prior to planting. For example, the 2015 loan rate would be based on the 2012 and 2013 marketing years since those are the 2 most recent years as of October 1, 2014. However, the loan rate cannot exceed its 2008 Farm Bill level of 52 cents per pound nor be less than 45 cents per pound. Based on the formula, the base loan rate for 2014 will be 52 cents.

Marketing loan repayment provisions and the determination of the premium and discount schedules remain unchanged from current law. Storage credits are also maintained with the rate set at 90% of the 2006 rate.

Both the House and Senate legislation maintain the loan rate for ELS cotton at 79.77 cents per pound.

Stacked Income Protection Plan

To respond to the challenge of designing the most effective safety net with reduced funding, and to make modifications that will lead to the resolution of the Brazil case, upland cotton policy will include a new revenue-based crop insurance product available for purchase by all producers of upland cotton.

The Stacked Income Protection Plan (STAX) will be administered in a manner consistent with current crop insurance delivery systems and is designed to complement existing crop insurance products. The STAX plan addresses shallow revenue losses on an area-wide basis, with a county being the preferred area of coverage. In counties lacking sufficient data, larger geographical areas such as county groupings will be necessary in order to preserve the integrity of the program.

The "stacked" feature of the product implies that the coverage would sit on top of the producer's individual crop insurance product. While designed to complement an individual's buy-up coverage, a producer is not required to purchase an individual buy-up policy in order to be eligible to purchase a STAX policy.

STAX carries a premium subsidy of 80% and covers losses in expected revenue between 10% and 30%. In other words, the maximum coverage range is 70% to 90% of expected revenue. However, the coverage range is adjustable in 5% increments so a producer may customize the policy to best address their risk. Producers will also have the choice of customizing STAX based on the harvest price option and a protection factor that can scale indemnities up or down by 20%. STAX policies will be available by irrigated and non-irrigated practices to the greatest extent possible.

STAX will be available for purchase on all planted acres of upland cotton. As with other insurance products, STAX is not subject to payment limitations or means tests. However, due to implementation timelines required by USDA's Risk Management Agency (RMA), STAX will not be offered until the 2015 crop.

Transition Program

In the absence of STAX for the 2014 crop, a transition program is in place for upland cotton. The new farm law authorizes transition assistance at a rate of 9.0 cents per pound paid on the payment yield and 60% of base acres in existence for the 2013 crop year. Alternatively, the transition payment is equivalent to 5.4 cents on all base acres.

The new bill also provides authority for a second year of transition payments for any counties in which STAX is not available for purchase in 2015. If there are any counties eligible for the second year of transition assistance, the payments would be made on 36.5% of cotton base acres.

Cotton Import Provisions

The 2014 Farm Bill continues without change the rules for triggering import quotas. A Special Import Quota will be opened when the average U.S. quote in the international market exceeds the prevailing world market price for 4 consecutive weeks. Global Import Quotas are triggered when the base quality spot price for a month exceeds 130% of the average for the previous 36 months.

ELS Cotton Competitiveness Provisions

The new farm bill continues competitiveness payments for eligible domestic users and exporters of American Pima cotton. The payment rate reflects the difference between the American Pima quote in the Far Eastern market (APFE) and the lowest foreign quote in the Far East (LFQ), adjusted for quality.

Economic Assistance to Users of Upland Cotton

The highly successful assistance for U.S. textile mills is continued in the 2014 Farm Bill. The program makes a payment of 3 cents per pound for all upland cotton consumed. Payments must be used for specific purposes such as acquisition, construction, installation, modernization, development, conversion, or expansion of land, plant buildings, equipment, facilities, or machinery.

Payment Limitations and Eligibility Requirements

Unfortunately, the new farm law contains significant changes in payment limitations and eligibility requirements. A payment of limit of $125,000 per entity is established for payments received under Title I price and revenue programs and marketing loan benefits, both marketing loan gains (MLGs) and loan deficiency payments (LDPs). The LDP/MLG is a significant departure from current law, which imposes no limit on marketing loan benefits. In the new farm law, the separate limit for peanuts is maintained.

The new farm law modifies the income means test applied to determine eligibility for program benefits. Under the 2008 Farm

Bill, there were separate means test for farm and non-farm income. The 2014 Act establishes a means test based on total adjusted gross income (AGI) of $900,000 for commodity and conservation benefits.

In terms of eligibility for Title I price and revenue programs, the new law authorizes fundamental changes in the rules that determine whether an individual is considered to be actively engaged in farming. Under the 2008 farm law, actively engaged in farming requires a contribution of management and/or labor. The new legislation authorizes the Secretary of Agriculture to define what constitutes a significant contribution of management for the purpose of being considered actively engaged and provides discretionary authority to establish a limit on the number of individuals who may be considered actively engaged when a significant contribution of management is used to meet the actively engaged requirements. Any changes to actively engaged rules will not be effective until the 2015 crop. Also, new management rules will not apply to individuals in operations composed solely of family members.

Other Crop Insurance Changes

Beginning with the 2015 crop, the new legislation institutes a number of enhancements to crop insurance products available to cotton producers. STAX has been discussed in some detail in a previous section. For upland cotton acres, not purchasing a STAX policy, producers may purchase an alternative product known as a Supplemental Coverage Option (SCO). Unlike STAX, an underlying policy is required in order to purchase SCO. Essentially, SCO provides coverage for a portion of the individual's deductible from the underlying policy. SCO indemnities are triggered on county experience and the SCO policy will be either yield or revenue policy, depending on the underlying coverage. The SCO deductible is 14%, as opposed to 10% in STAX, and the SCO premium subsidy is 65%.

The new farm bill makes permanent the option of insuring enterprise units and adds the option to do enterprise units by practice. Producers will have the option to make adjustments to their approved yield history and insure production practices at different coverage levels. As a reminder, these changes in insurance products are not available until the 2015 crop.

Trade Negotiations & Disputes

In 2013, cotton continued to be a focal point in a number of contentious trade issues. The second half of the year was particularly active with the successful conclusion of the Peru countervailing duty (CVD) investigation, a cotton statement emerging from the December WTO ministerial, and renewed talk of retaliation by Brazil in the longstanding trade dispute.

Peru CVD Investigation

Following a lengthy investigation that began in 2012, the independent Peruvian commission, National Institute for the Defense of Competition and the Protection of Intellectual Property (INDECOPI), concluded its investigation of U.S. cotton and found no basis for imposing a CVD.

Although INDECOPI found that U.S. cotton received subsidies and also determined that the economic condition of Peru's cotton farmers had deteriorated in recent years, the commission could not establish a causal link between the imports of U.S. cotton and the economic situation facing Peru's farmers.

The November 2013 decision was followed by a mandatory 15-day period in which any party could file an appeal to the decision. However, no appeal was filed so the investigation is officially closed.
Based on recent market dynamics and drastically reduced cotton program spending, the Peruvian commission arrived at the correct decision. Trade in cotton and textile products between the United States and Peru may proceed without the threat of a CVD.

WTO Trade Talks

The ninth WTO Ministerial Conference held in Bali, Indonesia in December 2013 provided another opportunity to advance the stalled negotiations within the Doha Development Agenda. Following weeks of intense negotiations in Geneva prior to the Ministerial and further discussions in Bali, the Members reached agreement on a package of issues designed to streamline trade, allow developing countries more options for providing food security, boost least developed countries' trade and help development more generally.

For cotton, the Members approved a statement that reaffirmed the commitments of the 2005 Hong Kong Ministerial Declaration to address cotton "ambitiously, expeditiously and specifically", within the agriculture negotiations. In addition, the statement committed to dedicated discussions designed to enhance transparency and monitoring in relation to the trade-related aspects of cotton.

The cotton statement emphasized that the discussions will focus on factual information and data compiled by the WTO Secretariat from notifications, complemented, as appropriate, by relevant information provided by other Members of the WTO. The discussions shall in particular consider all forms of export subsidies for cotton and all export measures with equivalent effect, domestic support for cotton and tariff measures and non-tariff measures applied to cotton exports from the least developed countries in markets of interest to them.

A timetable for the discussions has not been established. However, the discussions provide an opportunity to highlight the array of trade-distorting programs being operated by many developing countries.

Brazil Trade Dispute

With new farm legislation not being passed in calendar 2013, the long-standing dispute between the United States and Brazil remained unresolved. Since June 2010, the two countries have been abiding by the terms of the Framework Agreement, which authorized the annual transfer of $147.3

million to the Brazil Cotton Institute. In exchange, Brazil would withhold any trade retaliation while the U.S. worked through the farm bill process to enact acceptable changes to the cotton program and export credit guarantees.

During an August 2013 visit to Brazil, Agriculture Secretary Tom Vilsack, announced that he did not have authority to continue the payments under the Framework beyond October 1, 2013. The secession of payments, which essentially terminated the Framework Agreement, coupled with continued delays in enactment of new farm legislation have prompted the Brazilian government agency CAMEX to take public action.

CAMEX met on December 18 and announced it will postpone until February 28 a decision on whether to initiate retaliation against U.S. exports, as authorized under the dispute. Following the meeting, the Ministers issued a statement that beginning on January 2, they would reopen public consultations on potential cross-retaliation on U.S. intellectual property rights and the consultations would be completed by the end of January.

It is notable that the announcement focused on the failure of the U.S. to continue the payments under the framework and not on the cotton provisions of the farm bill currently making its way through Congress. It is also notable that since 2010, USDA has operated the GSM export credit guarantee program, which is the driver in the formula for calculating the value of retaliation, in a manner that has reduced the level of retaliation below the threshold and eliminated Brazil's authority to take action against intellectual property rights. However, it appears Brazil will attempt to argue the retaliation level was frozen in 2010 when they agreed to suspend retaliation under the Framework.

Bringing further attention to the trade dispute were comments made by a Brazilian grower delegation during an early January visit to Washington, DC. If reports are accurate, a Brazilian cotton delegation misrepresented the carefully negotiated agreement between U.S. and Brazilian grower organizations and wrongly portrayed the reformed cotton provisions in the farm legislation being considered by Congress.

The growers' agreement was negotiated during a series of meetings conducted in Brazil and the United States. During the meetings, the Brazilian growers received a detailed explanation of the insurance program, requested further modifications to cotton provisions, and spent considerable time discussing ways the U.S. and Brazilian grower organizations could cooperate.

As a result of the discussions, U.S. growers asked Congress to make additional modifications to the cotton provisions and to broaden the scope of projects that could be conducted using the nearly $500 million in funds transferred to the Brazilian Cotton Institute (BCI) under the Framework Agreement.

In comments to the press, the Brazilian growers imply the acceptability of program reforms was contingent on the continued transfer of funds to the BCI. Throughout the negotiations, U.S. growers cautioned the Brazilian growers that the transfer of funds was increasingly controversial and in jeopardy.

U. S. growers were disappointed that Administration officials announced in August that the transfers would be terminated October 1, essentially abrogating the Framework Agreement under which Brazil has agreed to postpone retaliation while the new farm bill is developed by Congress. U.S. growers appreciate the patience of the Brazilian government in

delaying retaliation while work on the new farm bill is completed.

The comments by the Brazilian growers that they would support retaliation are deeply disappointing to U.S. growers who have delivered significant policy reform, supported further modifications to the cotton provisions, supported the request to expand authority to use the nearly $500 million already transferred to the BCI, and supported maintaining the Framework Agreement.

Today's agricultural markets, including cotton's, are entirely different from the period evaluated by the WTO Panel, which was 1999 through 2005. A comparison of the 1999-2005 period with the most recent five years (2009 to 2013) shows that U.S. upland cotton planted area is down 21%, U.S. upland cotton production is down 23%, Brazilian cotton area is up 27%, and Brazilian production is up 62%. World cotton prices averaged 88% higher over the past five years than during the period of the WTO challenge.

The U.S. cotton industry is prepared to accept, and in fact, has promoted major policy reforms to settle the longstanding dispute. Further, the U.S. industry is willing, on final settlement, to make good its commitment to cooperate with the Brazilian industry. In addition, the U.S. industry supports the reinstatement of the Framework Agreement. But, it is time for the Brazilian industry to acknowledge that the new cotton insurance program is substantial reform. It is time to put this matter behind us, but the reported comments by the Brazilian delegation are not a step in the right direction.

Textile Trade Issues

Textile trade policy continues to have a substantial impact on the U.S. textile industry, both in terms of opportunities to export textiles and the pressures brought to bear by imported textiles and apparel. While negotiations for the Trans-Pacific Partnership (TPP) continued and trade negotiations began for the Transatlantic Trade and Investment Partnership (TTIP), 2013 brought relatively few changes for U.S. textile trade policy.

Trans-Pacific Partnership

Negotiations on the TPP continued in 2013 among the negotiating partners of Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. In addition, South Korea expressed interest in November 2013 of joining TPP.

TPP ministers met numerous times in 2013 with the final 2013 round occurring in Singapore in December. After negotiations in December, ministers stated they identified potential “landing zones” for the majority of the key outstanding issues in the TPP text. Following additional work by negotiators, ministers intended to meet again in January 2014.

Transatlantic Trade and Investment Partnership

In June 2013, President Obama announced that the United States and the European Union (EU) would begin negotiations on TTIP. The first round of negotiations were held in July 2013 in Washington, DC and were followed by a second round of negotiations in Brussels in November. In December 2013, a third round of negotiations were held in Washington, DC. During this round, negotiating groups focusing on services, market access, competition, trade facilitation, sectoral issues, investment, textiles, labor and environment, intellectual property rights, and technical barriers to trade continued their work. A fourth round of negotiations

will be scheduled during the first quarter of 2014 in Brussels.

Trade Promotion Authority

On January 9, 2014, Finance Committee Chairman Baucus (D-MT), Ranking Member Hatch (R-UT) and Ways and Means Committee Chairman Camp (R-MI) introduced legislation -- the Bipartisan Congressional Trade Priorities Act of 2014 -- that would provide so-called Trade Promotion Authority (TPA) or fast-track for four years. If enacted, the legislation would allow free trade agreements negotiated in compliance with the legislation's provisions to be presented to Congress for approval by an up-or-down vote without amendments. In addition to allowing the Administration to submit trade agreements for up-or-down votes without amendments, the legislation lays out negotiating objectives for trade agreements in areas such as currency, state-owned enterprises, investment, labor, environment, agriculture, services and intellectual property rights. The negotiating objectives in the legislation specifically urge the White House to include a provision in future trade agreements that would direct countries to "avoid manipulating currency rates."

The legislation demands enforceable rules on sanitary and phyto-sanitary measures, which regulate how countries apply measures for food safety and animal and plant health.

The legislation also includes provisions to require that all members of Congress have access to negotiating texts and can observe trade talks. These later negotiating objectives are designed to respond to criticism that the negotiations have been less than transparent. The proposed legislation would allow Congress to vote to deny fast-track procedures if a trade agreement does not meet the negotiating objectives.

One complicating factor to passing the legislation is that Senator Baucus has been nominated to serve as the next U.S. ambassador to China and incoming Finance Committee Chairman Wyden (D-OR) has indicated he may want to modify the TPA legislation to better reflect his views.

It is generally accepted that TPA is essential to gain approval of both the TPP and TTIP free trade agreements. Congress last passed a trade promotion authority bill in 2002. Authority to negotiate trade agreements under that bill expired in 2007. President George W. Bush used the authority to negotiate trade agreements with nearly 15 countries, including South Korea, Colombia and Panama. Three of those agreements were approved with bipartisan support in 2011, during President Obama's first term.

A historical review of various trade agreements affecting textiles can be found at www.cotton.org.

U.S. Supply

Planted Acreage

U.S. farmers planted 10.2 million acres of upland cotton in 2013, a decrease of 15% from the previous year (Figure 22). Each of the four production regions contributed to the drop in U.S. acreage. Weaker cotton prices relative to primary competing crops such as corn and soybeans explained the acreage decline. In the weeks prior to planting the 2013 crop, cotton-to-corn and cotton-to-soybean price ratios were less favorable than in either 2011 or 2012.

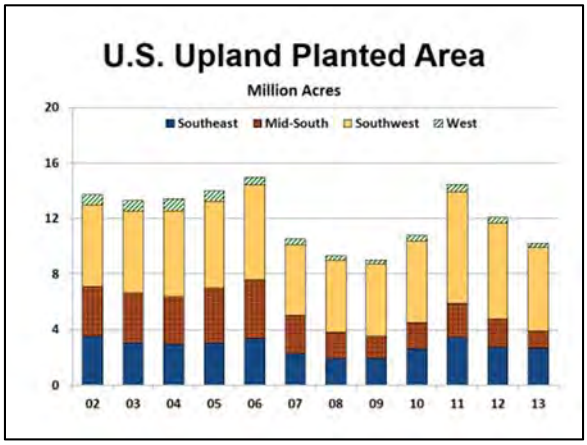

Figure 22 - U.S. Upland Planted Area

The decrease of 81 thousand acres in the Southeast represented the smallest drop of the four regions. With a regional total of just under 2.7 million acres, Southeastern cotton area was off 3% from the 2012 level (Figure 23). Despite the drop in 2013, the region's cotton acreage remained 41% higher than 2009's low. Across the region, state results were mixed relative to the previous year. Florida and Georgia increased cotton acreage by 21% and 6%, respectively, due to a shift away from peanuts. The remaining four states experienced declines, led by North Carolina's 21% decrease. Cotton acreage in South Carolina was off by 14%, while Virginia and Alabama fell by 9% and 4%, respectively. The reduction in cotton area in those four states reflected a shift from cotton to corn and soybeans.

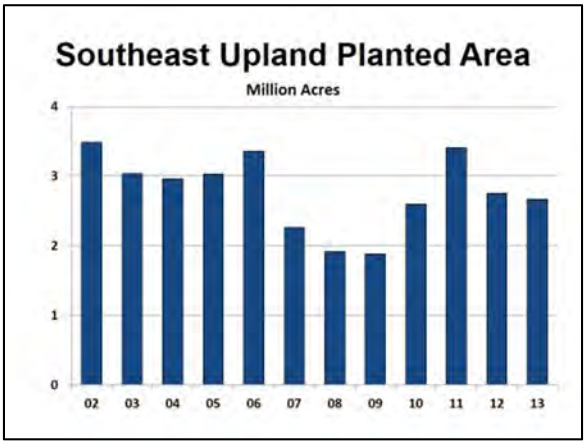

Figure 23 - Southeast Upland Planted Area

In 2013, plantings of 1.2 million acres in the Mid-South represented a 39% decrease (Figure 24) from the previous year. In recent years, Mid-South farmers have demonstrated their ability and willingness to adjust their crop mix based on market signals. The decline in 2013 continued that pattern as growers sought alternative crops offering a higher expected return. The regional total set a new low, at least in terms of recent years, falling 24% short of the previous 2009 total.

Each of the five states experienced declines in acreage as cotton was unable to compete with the expected returns of corn and soybeans. The decline was the most pronounced in Arkansas, where planted area of 310 thousand acres represented a 48% drop from 2012. Louisiana followed with a 43% decline, giving a total of 130 thousand acres for the state. In Mississippi, producers planted 39% fewer acres of cotton, while growers in Tennessee reduced acreage by 34%. Missouri, who typically has been the least responsive of the five states, experienced a 27% decline.

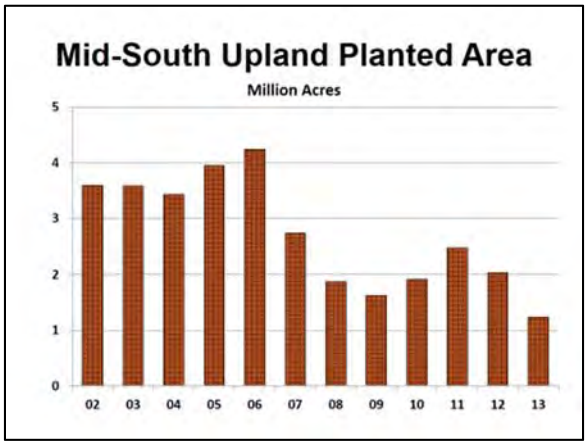

Figure 24 - Mid-South Upland Planted Area

In the Southwest, upland cotton area fell 13% to 6.0 million acres (Figure 25). Weaker cotton prices relative to wheat and sorghum contributed to the decline in cotton acres. In percentage terms, Kansas had the largest decline, with cotton acres falling by 52%. With just 27 thousand acres planted, the Kansas total was the lowest since 1998. In Oklahoma, cotton acres fell by 39% for a state total of 185 thousand acres. In Texas, cotton acres fell by 750 thousand acres, which equated to an 11% decline.

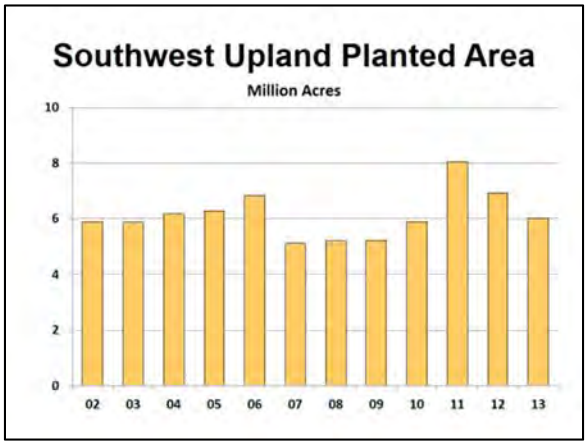

Figure 25 - Southwest Upland Planted Area

Upland acres in the West stood at 292 thousand acres, down 25% from 2012 (Figure 26). Each of the 3 states contributed to the drop in acres. In percentage terms, California's 35% decline was the largest among the three states. Producers in Arizona reduced acreage by 20%, while New Mexico accounted for a 13% decline from the previous year. Declines in California reflected cotton's continuing struggle to compete with a variety of specialty crops.

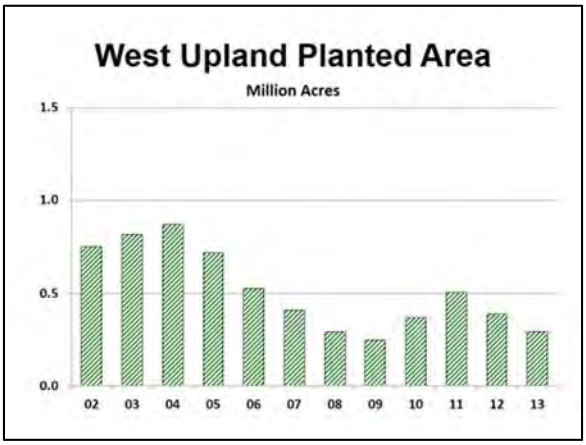

Figure 26 - West Upland Planted Area

In 2013, growers also reduced the area devoted to ELS cotton. For the U.S. as a whole, ELS acres fell 16%, leaving planted area at 201 thousand acres (Figure 27). California, down 17%, accounted for 187 thousand acres. Arizona reduced acreage by 50%, falling from 3,000 to 1,500 acres. However, moving further to the east, producers in New Mexico and Texas increased ELS acres by 46% and 13%, respectively. In those states, ELS cotton remained attractive as those growers face relatively less competition from specialty crops as compared to California and Arizona.

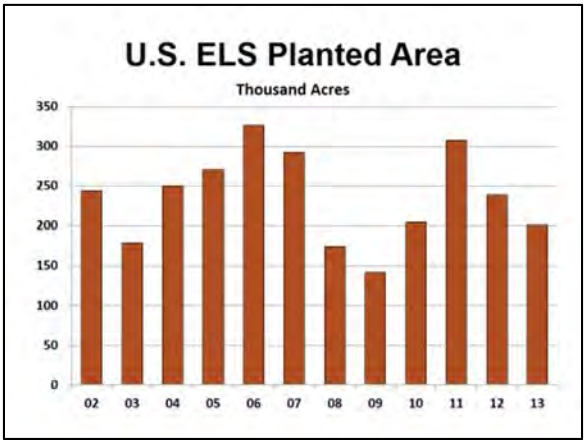

Figure 27 - U.S. ELS Planted Area

Harvested Acreage

Weather issues continued to plague portions of the Cotton Belt in 2013, though generally not to the devastating extent as in 2011. As a result, national abandonment stood at 26% (Figure 28). While much improved from the 2011 abandonment of 36%, the portion of acres un-harvested in 2013 was the second highest in recent history. By comparison, the 5-year average abandonment is 20%.

Drought conditions in the Southwest continued to be a problem in 2013, with south Texas being one of the hardest hit areas. On a state-wide basis, growers in Texas harvested just 55% of their upland cotton acres. By comparison, they harvested 38% of their acres in 2011. In Oklahoma, roughly two-thirds of cotton acres were harvested. Again, a better result than 2011 but still below the long-term average in terms of percent harvested. In other states, abandonment was generally in line with 5-year averages.

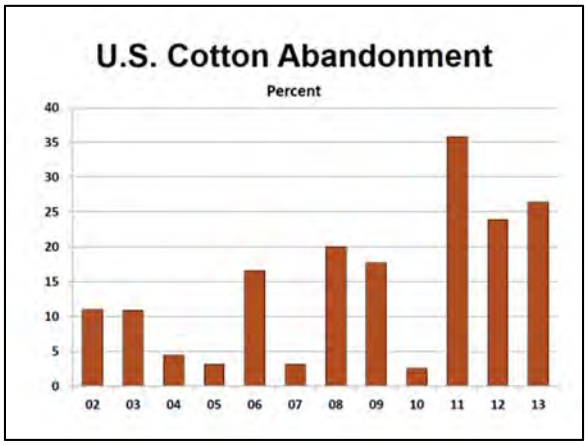

Figure 28 - U.S. Cotton Abandonment

Yields

The myriad of weather challenges faced during the 2013 growing season is evidenced by the decline in the national average yield from the 2012 level. With a U.S. yield of 826 pounds per acre, the 2013 yield is down by 61 pounds from the 2012 average (Figure 29). It is worth noting that the 2012 yield of 887 pounds was an all-time high.

However, looking at the numbers in more detail provides a better insight to the varying conditions faced by growers across the Cotton Belt. Relative to 2012, regional averages were mixed as the Southeast and West failed to replicate the 2012 results, while the Mid-South and Southwest showed improvements from the previous year.

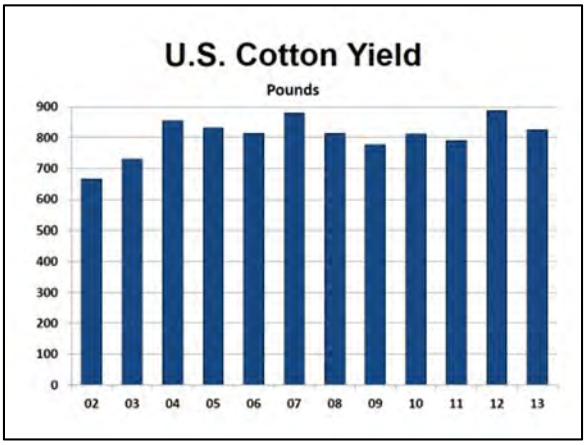

Figure 29 - U.S. Cotton Yield

Growers in the 6-state Southeast region faced less than ideal growing conditions in 2013, and the results are reflected in USDA yield data. For the region as a whole, the 2013 yield of 811 pounds was down by more than 200 pounds from the 2012 record and 45 pounds below the 5-year average (Figure 30). A combination of late plantings, excessive rains in some locations during the summer and an early freeze in other parts of the region contributed to the reduced yields.

Virginia, with an average yield of 960 pounds, recorded the highest yield of the six states. Although down from 2012, Virginia was the only state to exceed their 5-year average. At the other end of the spectrum was South Carolina, with an average yield of 680 pounds. Their 2013 results fall more than 200 pounds short of their 5-year average and is the lowest yield since 2007. Georgia was second in the region with an

average yield of 850 pounds, down from a 5-year average of 887 pounds. North Carolina was not far behind with an average yield of 819 pounds. Florida and Alabama produced yields of 750 and 736 pounds, respectively.

Southeast Upland Yields
Pounds per Harvested Acre

	2012	2013	5-Year Average
Alabama	946	736	772
Florida	897	750	805
Georgia	1,091	850	887
North Carolina	1,014	819	832
South Carolina	955	680	889
Virginia	1,118	960	873
SOUTHEAST	1,033	811	856

Figure 30 - Southeast Upland Yields

In contrast to the Southeast, average yields for the Mid-South region improved relative to 2012. At 1,085 pounds, the 2013 Mid-South yield reached a record high, surpassing the previous record set in 2012 (Figure 31). The regional yield exceeded the 5-year average by more than 150 pounds.

Arkansas, Louisiana and Mississippi led the way with each state achieving record yields. Louisiana recorded the highest yield in the region, with an average of 1,248 pounds. The 2013 result was more than 400 pounds better than their 5-year average. Mississippi followed closely with an average yield of 1,229 pounds, approximately 300 pounds over the 5-year average. In Arkansas, the average yield of 1,149 pounds was roughly 175 pounds above the average. Of the five states, Missouri faced the most challenging year when compared to 2012 as reflected by an average yield of 956 pounds. In Tennessee, an average yield of 871 pounds surpassed the 5-year average but failed to repeat the 2012 results.

Mid-South Upland Yields
Pounds per Harvested Acre

	2012	2013	5-Year Average
Arkansas	1,064	1,149	976
Louisiana	1,020	1,248	807
Mississippi	1,014	1,229	931
Missouri	1,063	956	1,028
Tennessee	946	871	862
MID-SOUTH	1,025	1,085	932

Figure 31 - Mid-South Upland Yields

As previously discussed, the Southwest region continued to face drought conditions but not to the extent seen in 2011 and modestly better than 2012. For the region as a whole, the average yield of 649 pounds per acre was a 49-pound improvement from 2012 and very similar to the 5-year average (Figure 32).

State-by-state results present a more mixed picture. Relative to 2012, Kansas and Oklahoma showed a significant increase, while the improvement in Texas was less pronounced. In Oklahoma, the average yield of 730 pounds was a 200-pound increase from 2012 and 10 pounds better than the 5-year average. The Kansas yield of 720 pounds was an increase of almost 100 pounds from 2012 and more than 70 pounds above the 5-year average. With an average yield of 645 pounds, Texas improved by 22 pounds from 2012 but fell 4 pounds short of the 5-year average.

Southwest Upland Yields
Pounds per Harvested Acre

	2012	2013	5-Year Average
Kansas	622	720	648
Oklahoma	531	730	720
Texas	623	645	649
SOUTHWEST	620	649	652

Figure 32 - Southwest Upland Yields

The average upland yield in the West is estimated at 1,470 pounds, a figure that is consistent with the 5-year average (Figure 33) but down by more than 50 pounds from the previous year. California again led the way with an average yield of 1,643 pounds, which falls short of the 2012 record but still represents the third highest average yield for the state. Arizona's average yield of 1,449 pounds was down from both 2012 and the 5-year average. The results for Arizona were also the lowest since 2006. In contrast to California and Arizona, yields in New Mexico improved 30 pounds from 2012.

West Upland Yields
Pounds per Harvested Acre

	2012	2013	5-Year Average
Arizona	1,474	1,449	1,502
California	1,729	1,643	1,558
New Mexico	1,061	1,091	1,087
WEST	1,528	1,470	1,473

Figure 33 - West Upland Yields

The national average ELS yield is estimated at 1,530 pounds, down 51 pounds from the 2012 record but still the second highest of all time (Figure 34). With the majority of ELS acres, California heavily influences the U.S. average. With an average yield of 1,574 pounds, California surpassed their 5-year average by 168 pounds while falling short of the 2012 record by 40 pounds. At 1,184 pounds, ELS yields in Arizona set a new record, surpassing the previous mark set in 2009 by 14 pounds. New Mexico's yield of 847 pounds was in line with the 5-year average but off by almost 200 pounds from 2012. With a yield of 904 pounds, ELS producers in Texas also fell short of 2012 yields but did exceed the 5-year average.

ELS Yields
Pounds per Harvested Acre

	2012	2013	5-Year Average
Arizona	1,168	1,184	976
California	1,614	1,574	1,406
New Mexico	1,043	847	839
Texas	928	904	896
U.S.	1,581	1,530	1,355

Figure 34 - ELS Yields

Production

USDA's latest estimate places the 2013 U.S. cotton crop at 13.2 million bales (Figure 35), down 4.1 million bales from 2012. The 24% decline in production reflects the combined effects of reduced planted area, slightly higher abandonment and lower yields. The 2013 crop was the lowest since 2009. Upland production is estimated at 12.6 million bales, and ELS farmers harvested 636 thousand bales.

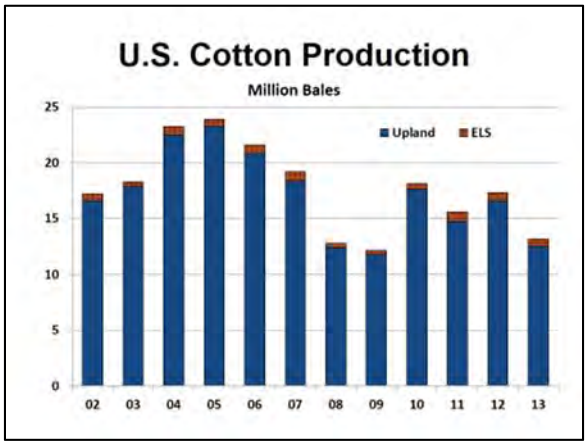

Figure 35 - U.S. Cotton Production

In 2013, the Southeast is estimated to have produced just under 4.5 million bales, accounting for 35% of the total upland crop (Figure 36). Primarily due to lower yields, the Southeast crop was down by 1.4 million bales from the 2012 total. However, the 2013 crop was approximately 60 thousand bales better than the 5-year average.

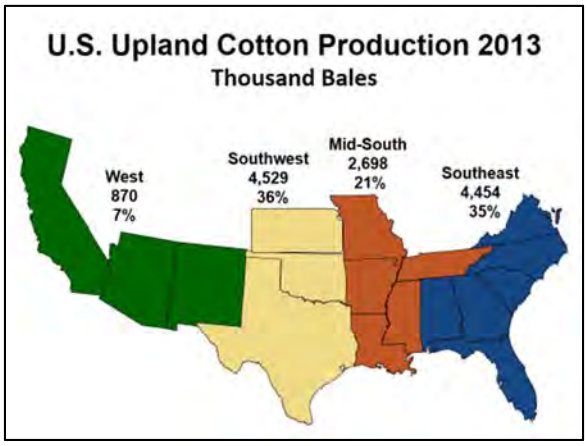

Figure 36 - U.S. Upland Cotton Production 2012

For 2013, the Mid-South accounted for 21% of the total U.S. upland crop. At 2.7 million bales, the 2013 crop was 1.5 million bales lower than 2012 and 1.0 million bales below the 5-year average. Compared to year-earlier results, the smaller crop can be attributed to reduced area more than offsetting increased yields.

At 4.5 million bales, production in the Southwest accounted for 36% of the U.S. upland crop. The 700 thousand bale decline from 2012 was due to reduced planted area and slightly higher abandonment. The 2013 Southwest crop was also 860 thousand bales below the region's 5-year average.

The West produced 870 thousand bales of upland cotton in 2013, down 330 thousand bales from the region's 2012 crop. The region accounted for 7% of U.S. production. The Western crop also fell short of the 5-year average by more than 200 thousand bales. Reduced plantings and lower yields contributed to the lower production.

The 2013 ELS crop of 636 thousand bales was 144 thousand bales lower than 2012, but exceeded the 5-year average by 43 thousand bales. At 610 thousand bales, the California ELS crop was down 143 thousand bales from 2012, but still exceeded their 5-year average by 57 thousand bales (Figure 37). The state accounted for 96% of the total 2013 U.S. ELS crop. Arizona's ELS crop also declined from 2012, while production in New Mexico and Texas exceeded their 2012 totals.

Figure 37 - U.S. ELS Cotton Production 2012

Stock Levels

With U.S. cotton production exceeding total demand for the 2012 marketing year, cotton

stocks bounced back from the previous year, but still remained at relatively low levels. The resulting carryout from the 2012 marketing year, and equivalent carry-in or beginning stocks for the 2013 marketing year, stood at 3.9 million bales (Figure 38). That represented a 550 thousand bale increase from the stocks that were brought into the 2012 marketing year. However, beginning stocks remained well below the levels observed for the 2005 though 2009 marketing years. Upland stocks increased by 624 thousand bales, while ELS stocks fell by 74 thousand bales.

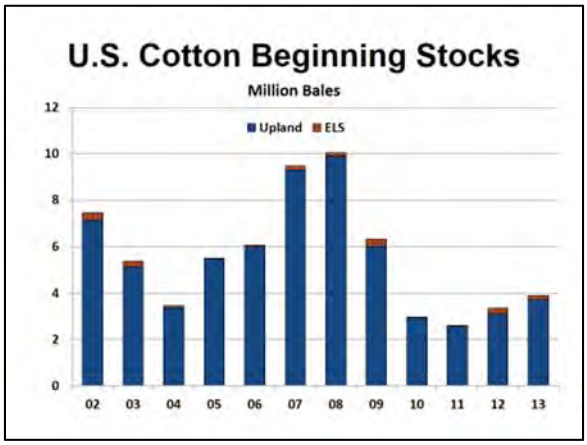

Figure 38 - U.S. Cotton Beginning Stocks

After reaching almost 6 million bales for the 2009 crop, total bales of upland cotton placed under the CCC loan peaked at approximately 4 million bales for each of the 2010 through 2012 crops. With cotton prices well above the loan rate, a smaller proportion of the crop has entered the CCC loan.

Midway through the 2013 marketing year, a smaller crop and late harvest has limited the amount of cotton placed in the CCC loan. As of December 31, 2013, outstanding CCC loan stocks were 1.8 million bales (Figure 39), down from 4.4 million bales in 2012 and 4.1 million bales in 2011. The Mid-South accounts for approximately 37% of cotton placed under loan, while the Southwest accounts for another 32% of the U.S. total.

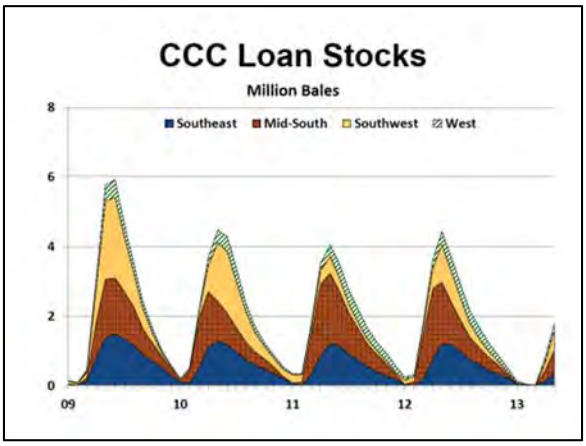

Figure 39 - CCC Loan Stocks

Total Supply

Total supply for the 2013 marketing year is estimated to be 17.1 million bales, down from 20.7 million bales the previous year (Figure 40). The lower supplies are due to reduced production more than offsetting slightly larger beginning stocks. Total supplies for the 2013 marketing year are at the lowest level since the mid-1980's.

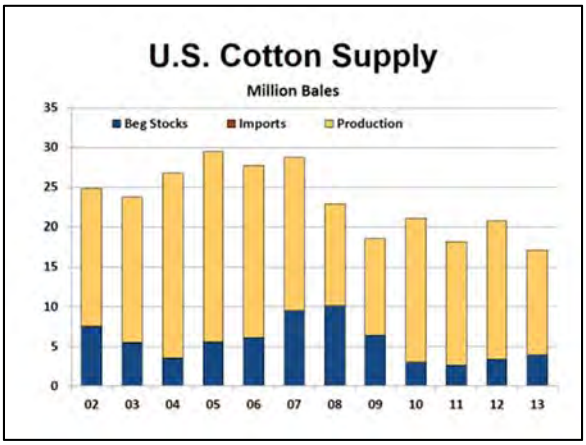

Figure 40 - U.S. Cotton Supply

Upland Cotton Quality

With 11.6 million running bales classed through January 23, the national average staple length (measured in thirty-second's of an inch) is 35.9, up from a 5-year average of 35.6 (Figure 41). The Southeast staple length of 36.0 is 0.7 thirty-seconds of an

inch better than their 5-year average. If sustained for the remainder of the crop, the 2013 staple length would equal the 2012 result as an all-time best for the region. In the Mid-South, the average staple length of 36.2 exceeds the 5-year average by 0.6 thirty-second's and represents a record length for the region. The Southwest's average staple length of 35.4 falls just short of the 5-year average of 35.5, but that is not unexpected given the drought conditions. The West reports the longest staple, with an average of 36.8, down 0.1 from the 5-year average.

2013 Crop Staple and Strength

	Staple		Strength	
	2013	5-Year	2013	5-Year
Southeast	36.0	35.3	29.7	29.1
Mid-South	36.2	35.6	30.7	30.1
Southwest	35.4	35.5	30.3	29.6
West	36.8	36.9	31.6	31.4
U.S.	35.9	35.6	30.3	29.7

Figure 41 - 2012 Crop Staple and Strength

The strength of the 2013 upland crop, averaging 30.3 grams per tex, is substantially better than the 5-year average of 29.7. All regions are exceeding their 5-year average, and in the West, the average of 31.6 grams per tex would equal the record set in 2012. The Southeast and Southwest are also on track to set all-time highs for average strength.

In total for the Cotton Belt, 87.5% of the 2013 crop is grading 41 or better, which compares to a 5-year average of 89.3% (Figure 42). The U.S. average is being bolstered by color grades in the Mid-South and West. However, due to wet conditions during harvest, color grades in the Southeast have suffered with 82.3% grading 41 or better.

2013 Crop Color and Mike

	%SLM+		Micronaire	
	2013	5-Year	2013	5-Year
Southeast	82.3	85.2	46.7	46.1
Mid-South	93.0	91.4	46.4	46.9
Southwest	87.6	89.9	39.3	42.2
West	94.3	95.2	45.0	43.9
U.S.	87.5	89.3	43.9	44.7

Figure 42 - 2012 Crop Color and Mike

The average micronaire of the 2013 upland cotton crop is 43.9, down from the 5-year average of 44.7. The national result is primarily due to the Southwest, with an average micronaire of 39.3, down from the 5-year average of 42.2. Results for the Southeast and the Mid-South are generally in line with the 5-year averages. The West has an average micronaire of 45.0, above the 5-year average of 43.9.

Cotton Prices

Upland Cotton Prices

After the extreme volatility in 2010 and 2011, upland cotton has presented a much more stable picture over the past two years. In 2013, the nearby New York futures contract traded in a narrow range between $0.75 and $0.95 per pound (Figure 43). The "A" Far East (FE) Index exhibited a similar pattern to futures prices, moving in a sideways range bound by $0.99 on the upside and $0.83 on the downside.

The relatively stable price pattern emerged in the absence of significant surprises or changes in the global balance sheet. Cotton demand continued to grow at a modest but cautious pace. Price rallies were generally met with little enthusiasm from textile mills, while price dips presented opportunities for mills to cover their short-term needs.

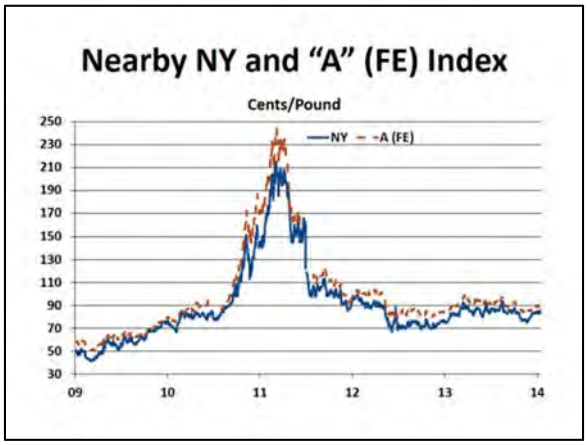

Figure 43 - Nearby NY and "A" (FE) Index

Figure 44 - Spot 4134 Price

In 2013, China continued to operate their reserves policy in much the same manner as the previous two years. Despite world production exceeding world consumption for the fourth consecutive year, China continued to be a significant importer, essentially buying the world's surplus while putting the vast majority of domestic production in government reserves. As a result, upland markets saw little reason to deviate from the trading range.

Spot prices in the U.S. followed a similar pattern to the futures market and the "A" Index. Thus far into the 2013 marketing year, spot 4134 values have averaged $0.79 per pound with a maximum price of $0.89 per pound and a minimum price of $0.73 per pound (Figure 44). The average spot 4134 value for the 2012 crop cotton was $0.75 cents per pound.

ELS Prices

In contrast to the narrow trading range of upland prices, market prices for extra-long staple cotton steadily increased throughout 2013. ELS cotton prices began 2013 at $1.20 per pound, after generally declining through 2012 (Figure 45). By the middle of 2013, prices reached $1.45 per pound as the balance sheet began to tighten. As it became evident that 2013 production would be sharply lower, prices climbed further during the latter half of the year. Prices ended the year at $1.80 per pound, which was the highest value since the beginning of 2012. Prices remain firm in early 2014 as demand continues to outpace production.

Figure 45 - ELS Spot Price

Cottonseed Situation

Cottonseed Supply

USDA estimates 2013 cottonseed production at 4.4 million tons, down 1.3 million tons from the previous year (Figure 46). The changes in cottonseed production mirror the movements in cotton lint production as average seed-to-lint ratios have remained relatively stable in recent years. For 2013, USDA's latest estimates indicated an average ratio of 1.4 pounds of seed per pound of lint.

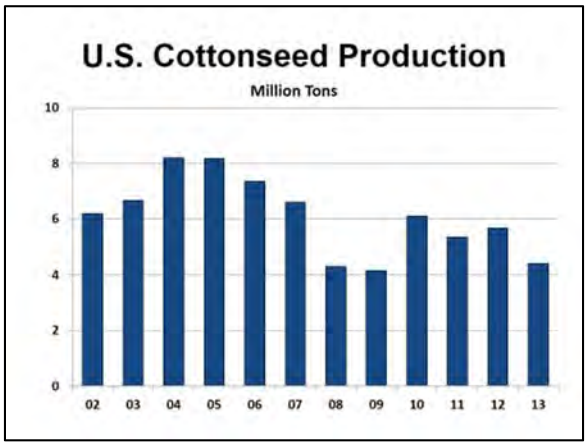

Figure 46 - U.S. Cottonseed Production

For the 2013 crop, a regional breakdown of production shows that the Southwest produced 1.5 million tons or 35% of the total, the largest of any region (Figure 47). They were closely followed by the Southeast with estimated production of 1.4 million tons for a 31% share. The Mid-South produced 935 thousand tons, or 21% of total production, and the West accounted for 561 thousand tons, 13% of the total.

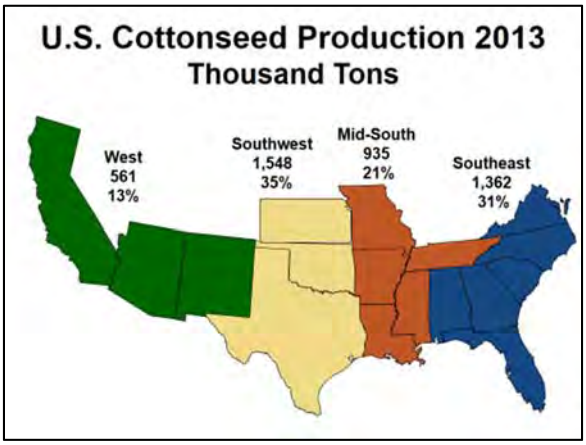

Figure 47 - U.S. Cottonseed Production 2012

Supplementing U.S. production, beginning stocks of 492 thousand tons and imports of 100 thousand tons bring total cottonseed supply for the 2013 marketing year to 5.0 million tons (Figure 48). Total supplies for 2013 are down by 1.1 million tons from the previous year and the smallest since 2009. The 2013 total also falls more 600 thousand tons below the 5-year average.

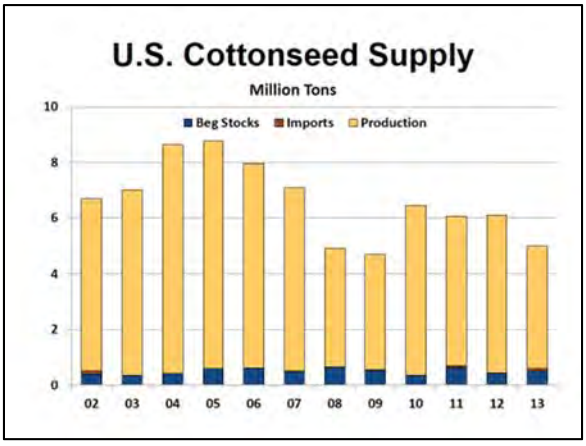

Figure 48 - U.S. Cottonseed Supply

Disappearance and Stock Levels

USDA's latest estimate places 2013 cottonseed disappearance at 4.6 million tons, down 1.0 million tons from the previous year (Figure 49). Crush is estimated at 2.2 million tons, down 300 thousand tons from 2012. Whole seed feeding for the 2013 marketing year is estimated at 2.2 million tons, down 700 thousand tons from the 2012 level. Estimated exports of 200 thousand

tons are similar to levels from the previous year.

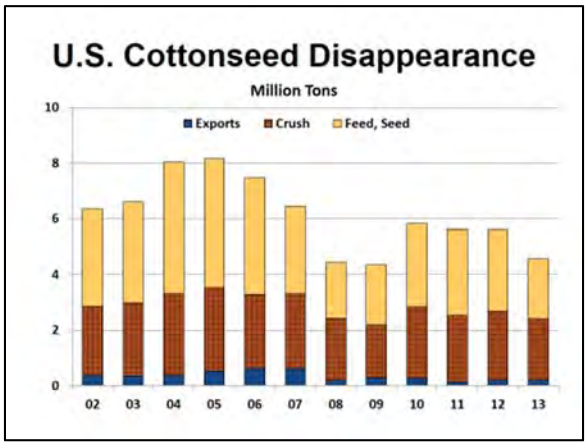

Figure 49 - U.S. Cottonseed Disappearance

With reduced supplies for the 2013 marketing year, cottonseed stocks are projected to fall to 433 thousand tons, a decline of almost 60 thousand tons from the previous year (Figure 50).

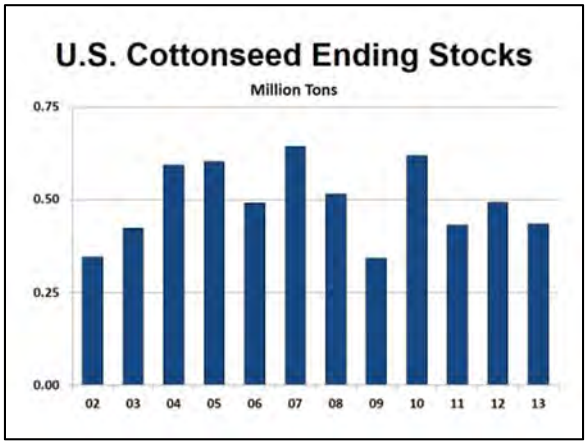

Figure 50 - U.S. Cottonseed Ending Stocks

Cottonseed Prices

The movement in cottonseed prices reflects changes in competing feed prices as well as available supplies. Cottonseed prices remained firm in the initial months of calendar 2013, but then declined from July through November as grain and protein prices weakened. The U.S. average spot price began 2013 at $290 per ton before advancing to a monthly average high of $357 in July (Figure 51). By November, the average cottonseed spot price had weakened to $283 per ton before rallying in December. Prices continued to trade higher into January, reaching an average of $324 per ton. Despite the continuing weakness in grain and oilseed markets, the recent strength in cottonseed prices likely reflects concerns about available supplies.

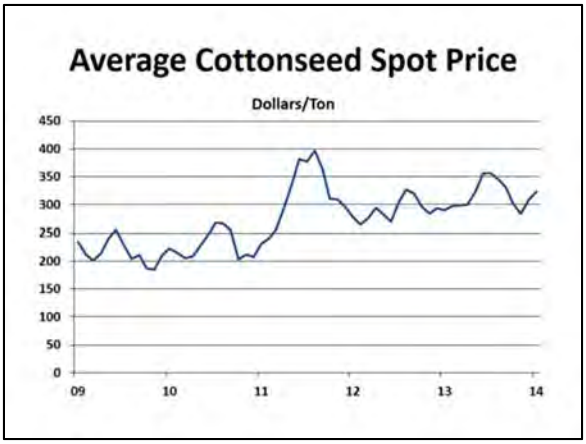

Figure 51 - Average Cottonseed Spot Price

2014 Planting Intentions

Price Prospects

Cotton growers are approaching the 2014 planting season with the December contract trading the same as year-ago levels. In fact, over the past six months, the December 2014 contract has mirrored the movements of the December 2013 contract from the year before. As of late January, the December 2014 contract was trading just below $0.80 per pound (Figure 52). Since mid-2012, December cotton futures prices have settled into a narrow sideways range between $0.75 and $0.90 cents. Harvest progress and largely hand-to-mouth purchases are keeping a lid on the upside, while China's reserve purchases are lending support to the downside.

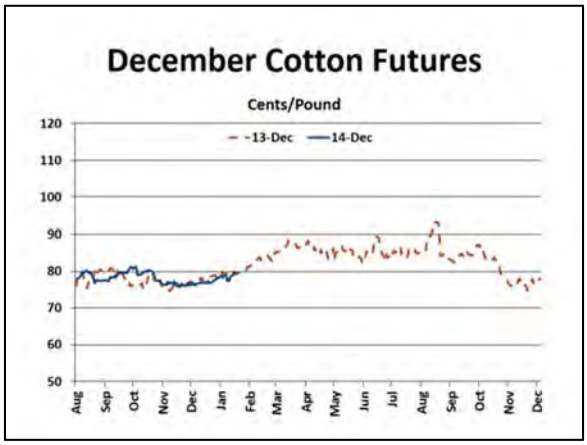

Figure 52 - December Cotton Futures

While cotton prices are comparable to last year's level, the corn market is trading at much lower values when compared to the 2013 contract. As of late January, the December 2014 contract was trading at $4.50 per bushel, as compared to almost $6.00 for a comparable time for the 2013 contract (Figure 53). Last year, the December 2013 contract was finding support from the tight balance sheet that resulted from the severe drought in 2012. As 2013 progressed, corn production rebounded at the same time that the Environmental Protection Agency announced a scale-back of the renewable fuels standard. The combined effect has been sharply lower corn prices heading into 2014.

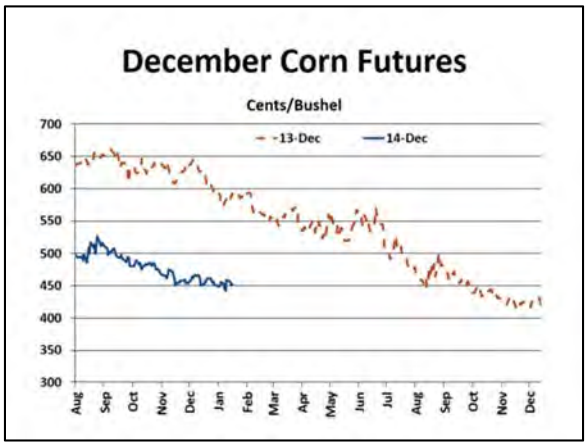

Figure 53 - December Corn Futures

Soybean prices, as measured by the Chicago Board of Trade November futures contract, have also weakened relative to year-earlier levels. By late January, the November 2014 contract traded at just over $11.000 per bushel, approximately $2.00 lower than the November 2013 contract was trading a year earlier (Figure 54). Since August 2013, the November 2014 contract has drifted lower in response to increased U.S. production and cross-commodity effects from the grain markets. However, the decline in soybean prices is not as pronounced as the decline in corn prices. For 2014, soybeans are expected to continue to provide stiff competition for available acres, due in part to the lower production costs relative to cotton.

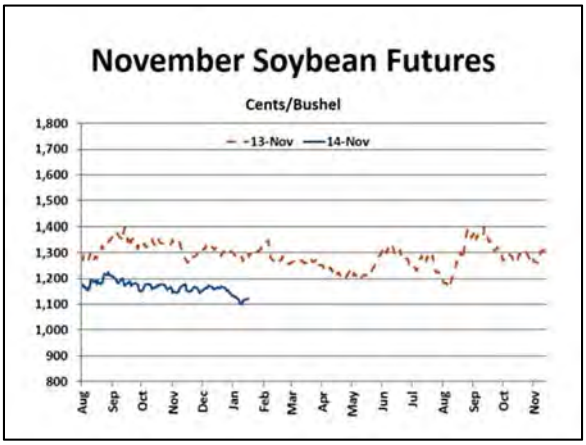

Figure 54 - November Soybean Futures

As growers consider their 2014 planting decisions, they are comparing prices for cotton, corn, soybeans and other regional crops. Growers will also be influenced by production costs. Although fuel costs remain at levels comparable to 2012 and 2013, recent declines in nitrogen fertilizer prices could prove beneficial to cotton's role in the acreage mix. While final acreage decisions are influenced by expected returns of cotton and competing crops, farmers will also take into account weather and agronomic considerations such as crop rotation.

2014 U.S. Cotton Acreage Intentions

In mid-December 2013, the NCC distributed the annual early season planting intentions survey. Respondents are asked to give their

plantings of cotton, corn, soybeans, wheat, and other crops for 2013 and intended acreage for 2014. As always, the survey results should be viewed as a measure of grower intentions prevailing at the time the survey was conducted. Changing climate and market conditions could cause actual plantings to be significantly different from growers' stated intentions.

Beginning with the Southeast, survey results indicate a 1.2% decrease in the region's upland area to 2.63 million acres (See Table 4 on page 43). The relatively modest change in the region's acreage is due to the largely offsetting effects of mixed results for the individual states. Alabama, Georgia and Virginia intend to increase cotton acres, while growers in Florida and the Carolinas indicate declines. Virginia reported the largest increase at 4.1%, followed by Alabama at 2.9% and Georgia at just 0.1%. The largest percentage decline is in Florida, with survey respondents indicating a decline of 10.9%. The survey indicates a 5.3% drop in North Carolina's cotton area, while South Carolina responded with a planned decrease of 3.7%. In Alabama and Virginia, the increase in cotton acres is coming at the expense of corn. For states reporting declines in cotton area, respondents in the Carolinas indicated a shift into soybeans, while Florida's cotton acreage is moving into peanuts. Total 2014 acreage for each of the states is as follows: Alabama at 376 thousand acres, Florida at 117 thousand, Georgia at 1.37 million, North Carolina at 440 thousand, South Carolina at 248 thousand, and Virginia at 81 thousand.

In the Mid-South, survey results show that growers intend to plant 1.39 million acres, an increase of 12.5% from the previous year. With the exception of Arkansas, all states indicate more acres of cotton relative to 2013, with the largest percentage increase in Mississippi (+34.6%). Louisiana intends to devote 20.7% more area to cotton in 2014, while growers in Tennessee indicate an increase of 15.4%. Planned acreage in Missouri is relatively stable, with an increase of less than 1%. In Arkansas, survey respondents indicated that the 4.6% decline in cotton area was due to an expected increase in acres devoted to soybeans. Responses for Louisiana, Mississippi and Tennessee all indicated that the increase in cotton acres was coming at the expense of corn. For Louisiana and Mississippi, the reported declines in corn area were particularly pronounced as corn acres also appear to be moving to soybeans. Total 2014 acreage for each of the states is as follows: Arkansas at 296 thousand acres, Louisiana at 157 thousand, Mississippi at 390 thousand, Missouri at 257 thousand, and Tennessee at 289 thousand.

Growers in the Southwest are indicating an increase of 12.1%, bringing the regional total to 6.74 million acres. Among the states, Kansas growers intend to plant 31 thousand acres, a 13.9% increase from the 2013 total of 27 thousand. Acreage in Oklahoma is showing an 8.4% increase, bringing the total for the state to 201 thousand acres. For Texas, survey respondents intend to increase area by 12.2%, bringing the state total up to 6.51 million acres. In south Texas, respondents indicated a shift out of grain sorghum and wheat. In the Blacklands, cotton is picking up area at the expense of corn and wheat. In west Texas, the acres shifting into cotton are moving out of wheat. For some respondents, improved moisture is also allowing some acres to be planted in 2014 that were left idle in 2013.

In the West region, results are mixed as growers in Arizona and New Mexico intend to plant more acres in 2014, while California will decrease upland acres. For the region as a whole, the survey reports 2014 upland area of 275 thousand acres, down 5.8% from 2013. The regional decline is due to California's reduction of 26.9%, giving a

state total of 68 thousand acres. The expected decrease in upland acres reflects a shift to ELS cotton. In Arizona, intended area of 165 thousand acres represents a 3.2% increase from the previous year. The survey indicates that cotton is picking up acres from the 'Other Crops' category. New Mexico is reporting intentions of 42 thousand acres, up 7.4% from 2013.

Summing across the 4 regions gives intended 2014 upland cotton area of 11.04 million acres, 8.1% higher than 2013.

With ELS prices up from year-ago levels, survey results indicate that U.S. cotton growers intend to increase ELS plantings 11.8% to 225 thousand acres in 2014. The state-level results show increases across all four ELS-producing states. Results are as follows: Arizona planting 3,600 acres (+137.2%); California planting 205 thousand acres (+9.6%); New Mexico planting 4,000 acres (+13.4%); and Texas planting 12,200 acres (+35.2%).

Summing together the upland and ELS cotton intentions shows U.S. all-cotton plantings in 2014 of 11.26 million acres, 8.2% higher than 2013 (See Table 4 on page 43 and Figure 55).

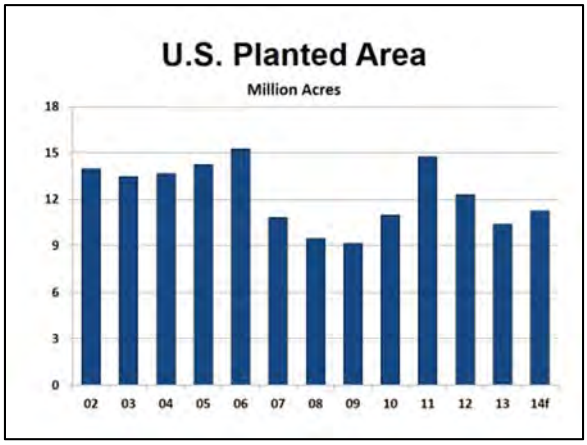

Figure 55 - U.S. Planted Area

2014 U.S. Cotton and Cottonseed Supply

Planted acreage is just one of the factors that will determine supplies of cotton and cottonseed. Ultimately, weather, insect pressures, and agronomic conditions play a significant role in determining crop size. Since the NCC economic outlook does not attempt to forecast weather patterns, the standard convention is to assume yields in line with recent trends and abandonment consistent with historical averages. With severe droughts gripping the Southwest in early 2012 and 2013, expected abandonment and yields were adjusted in the previous two economic reports. However, early in 2014, moisture conditions, though still on the dry side, are improved from each of the previous two years. As a result, this outlook returns to the standard convention of average abandonment and yields for all states. It is important to remember the volatility around projected production given the uncertainty of weather patterns.

With average abandonment for the U.S. at 14.8%, Cotton Belt harvested area totals 9.59 million acres (Figure 56). Weighting individual state yields by 2014 area generates a U.S. average yield of 819 pounds. This compares to a 2013 yield of 826 pounds and a 2007-11 average yield of 814 pounds. Applying each state's yield to its 2014 projected harvested acres generates a cotton crop of 16.37 million bales, with 15.72 million bales of upland and 657 thousand bales of ELS.

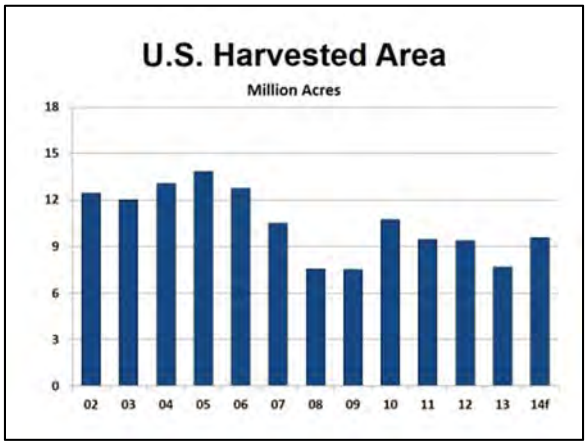

Figure 56 - U.S. Harvested Area

Combining projected production with expected beginning stocks of 3.00 million bales and imports of 10 thousand bales gives a total U.S. supply of 19.38 million bales (Figure 57). This is an increase of 2.29 million bales from the 2013 level.

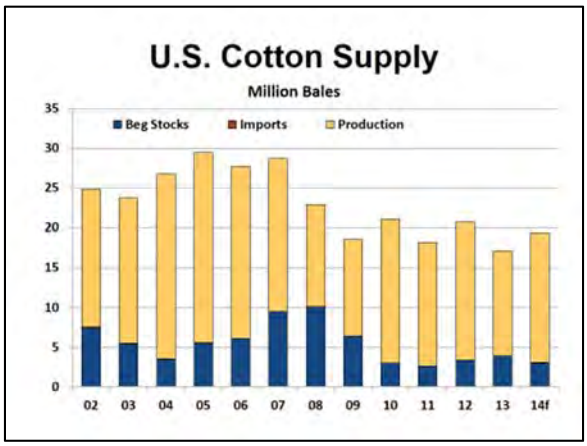

Figure 57 - U.S. Cotton Supply

For cottonseed, multiplying the point estimate of lint production by an average lint-seed ratio generates expected production of 5.48 million tons. With 433 thousand tons of beginning stocks and 50 thousand tons of imports, 2014 cottonseed supply totals 5.96 million tons (Figure 58).

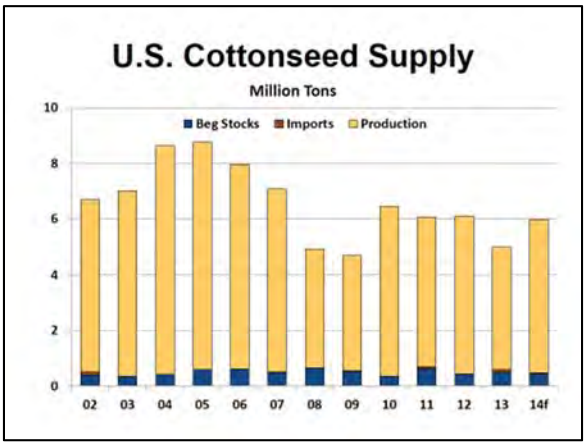

Figure 58 - U.S. Cottonseed Supply

Table 4 - Prospective 2014 U.S. Cotton Area

	2013 Actual (Thou.) 1/	2014 Intended (Thou.) 2/	Percent Change
SOUTHEAST	**2,667**	**2,634**	**-1.2%**
Alabama	365	376	2.9%
Florida	131	117	-10.9%
Georgia	1,370	1,372	0.1%
North Carolina	465	440	-5.3%
South Carolina	258	248	-3.7%
Virginia	78	81	4.1%
MID-SOUTH	**1,235**	**1,389**	**12.5%**
Arkansas	310	296	-4.6%
Louisiana	130	157	20.7%
Mississippi	290	390	34.6%
Missouri	255	257	0.8%
Tennessee	250	289	15.4%
SOUTHWEST	**6,012**	**6,739**	**12.1%**
Kansas	27	31	13.9%
Oklahoma	185	201	8.4%
Texas	5,800	6,508	12.2%
WEST	**292**	**275**	**-5.8%**
Arizona	160	165	3.2%
California	93	68	-26.9%
New Mexico	39	42	7.4%
TOTAL UPLAND	**10,206**	**11,037**	**8.1%**
TOTAL ELS	**201**	**225**	**11.8%**
Arizona	1.5	3.6	137.2%
California	187	205	9.6%
New Mexico	3.5	4.0	13.4%
Texas	9.0	12.2	35.2%
ALL COTTON	**10,407**	**11,261**	**8.2%**

1/ USDA-NASS

2/ National Cotton Council

U.S. Market

U.S. Textile Industry

The U.S. textile industry continued to experience job losses in 2013. Preliminary data from the U.S. Bureau of Labor Statistics indicate that textile industry employment in 2013 fell by approximately 12,500 workers. These figures represent employment in all three sectors of the U.S. textile industry - textile mills, textile product mills, and apparel mills.

Mill Use

Mill use of cotton increased from the previous year and is estimated at 3.58 million bales in calendar 2013, 5.7% above 2012 (Figure 59). For calendar 2014, NCC forecasts domestic mill use of cotton at 3.69 million bales and estimates the 2013 marketing year at 3.60 million bales (Figure 60). NCC projects domestic mill use of cotton at 3.73 million bales for the 2014 marketing year.

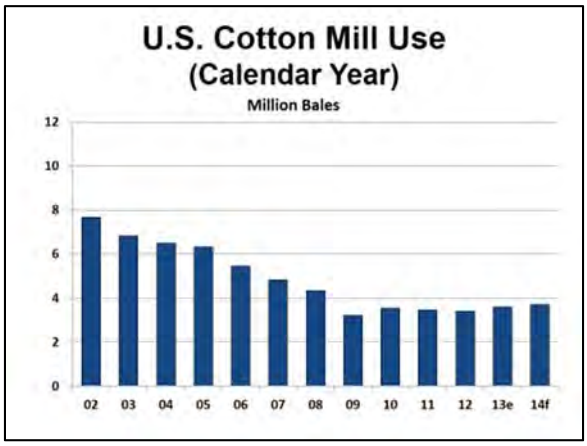

Figure 59 - U.S. Cotton Mill Use (Calendar Year)

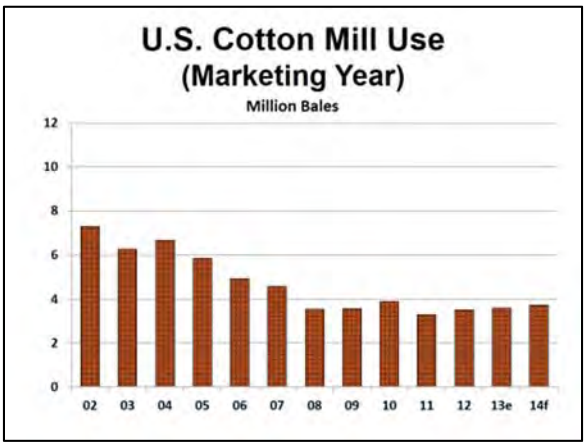

Figure 60 - U.S. Cotton Mill Use (Marketing Year)

U.S. mill consumption of manmade fibers also increased in 2013. NCC estimates mill use of manmade fibers at 15.9 million bales for 2013, an increase of 4.7% from 2012 (Figure 61). Manmade fiber mill use is projected to increase to 16.4 million bales in calendar 2014.

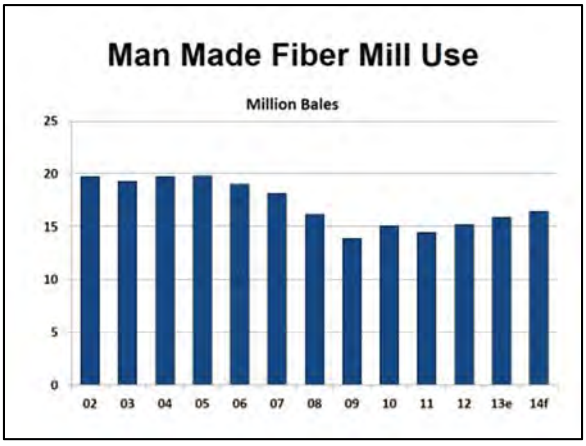

Figure 61 - Man Made Fiber Mill Use

Upland Cotton Economic Adjustment Assistance Program

The Upland Cotton Economic Adjustment Assistance Program (EAAP), authorized in the 2008 Farm Bill, has provided U.S. cotton textile manufacturers with much-needed assistance for capital investments and improvements.

Under the EAAP, from August 1, 2008 through July 31, 2012, domestic users received 4 cents per pound for all upland cotton consumed. Beginning August 1, 2012 the rate was adjusted to 3 cents per pound. Recipients must agree to invest the EAAP proceeds in plants and equipment. In fiscal year 2013, almost 50 U.S. companies received payments under the EAAP.

Net Domestic Consumption

Net domestic consumption is a measure of the U.S. retail market's size. It measures both cotton spun in the U.S. (mill use) and cotton consumed through textile imports. Total fiber consumption in 2013 is estimated to be 46.5 million bale equivalents (Figure 62). Cotton's share of net domestic consumption decreased 0.6% this past year to 37.7%, which translates to 17.5 million bales. For 2014, NCC projects net domestic consumption of all fibers to increase to 48.1 million bales. With a projected share of 37.4%, cotton's net domestic consumption is projected to be 18.0 million bales.

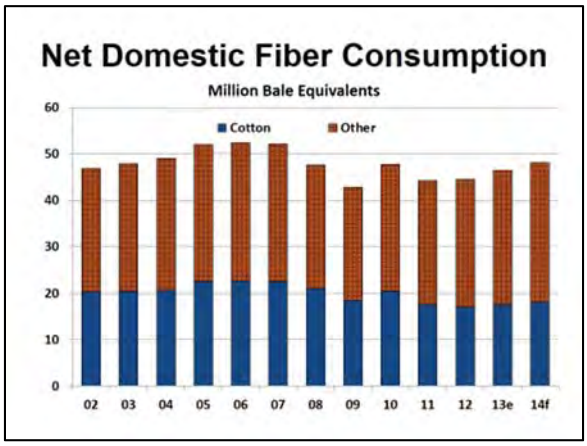

Figure 62 - Net Domestic Fiber Consumption

Imported goods make up the largest portion of U.S. net domestic consumption. Imported cotton textiles increased from 17.1 million bale equivalents in 2012 to an estimated 17.6 million in 2013 (Figure 63).

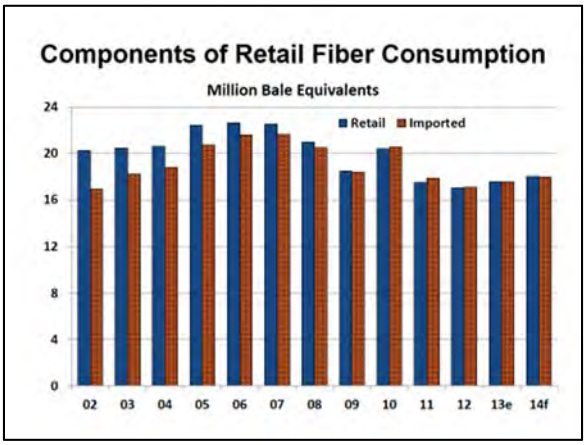

Figure 63 - Components of Retail Cotton Consumption

Textile Trade

Imports of cotton goods in calendar 2013 were estimated to have increased by 2.9% to 17.6 million bale equivalents (Figure 64). In calendar 2014, NCC projects cotton textile imports to increase to 18.0 million bales.

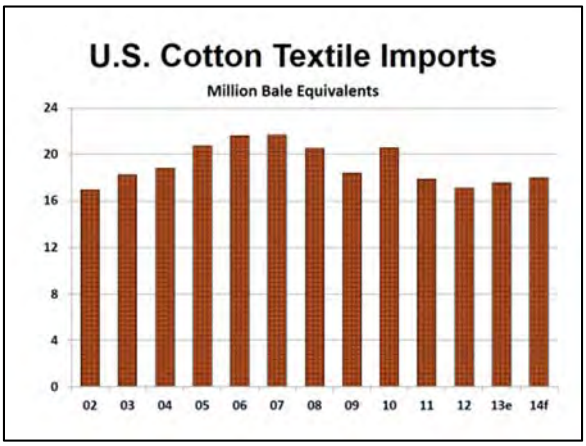

Figure 64 - U.S. Cotton Textile Imports

For imports, it is important to consider that a significant portion of imported goods contain U.S. cotton. Since much of what the U.S. exports to the NAFTA (North American Free Trade Agreement) and the CBI (Caribbean Basin Initiative) countries is in the form of fabric and piece goods that come back in the form of finished goods, the trade gap is not as wide as implied by gross imports and exports. NCC analysts estimate that 27.9% of all cotton goods imported in 2013 contained U.S. cotton. This is a 0.5%

decrease over the previous year. In bale equivalents, these imported cotton goods contained 4.9 million bales of U.S. cotton (Figure 65). This is due, in large part, to our trading partners in NAFTA and the CBI.

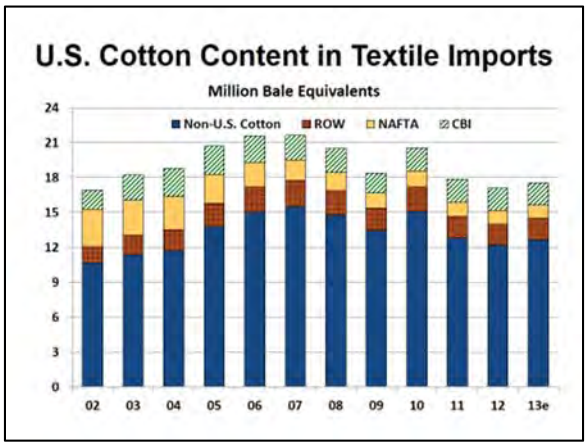

Figure 65 - U.S. Cotton Content in Textile Imports

U.S. Cotton Product Imports

Apparel was once again the largest category of imported cotton goods when compared to yarn, thread and fabric, and home furnishings (Figure 66). Cotton apparel imports were estimated at 13.0 million bale equivalents for 2013, up 2.8% from 2012. Imports of cotton home furnishings (including floor coverings) increased 4.1% in 2013 to an estimated 3.3 million bale equivalents. Cotton yarn, thread and fabric imports increased 1.5% in 2013 to an estimated 1.3 million bales.

Once again, countries in NAFTA and CBI represented significant sources of imported cotton goods in 2013 (Figure 67). Imports from Mexico in 2013 were estimated at 1.1 million bales, up approximately 1.0% from the previous year (Figure 68). Imports of cotton goods from Canada fell to an estimated 70 thousand bales in 2013, sliding 3.9% from the previous year (Figure 69). Imported cotton goods from CBI for the year were estimated at 2.3 million bale equivalents (Figure 70), down 1.5% from the previous year. The CAFTA-DR countries of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic are all part of the CBI region. Imports of cotton goods from CAFTA-DR in 2013 were 1.9 million, or 85.9% of the cotton textile imports from CBI. Combined, imports from NAFTA and CBI countries decreased 0.7% and accounted for 19.6% of total U.S. cotton product imports in 2013.

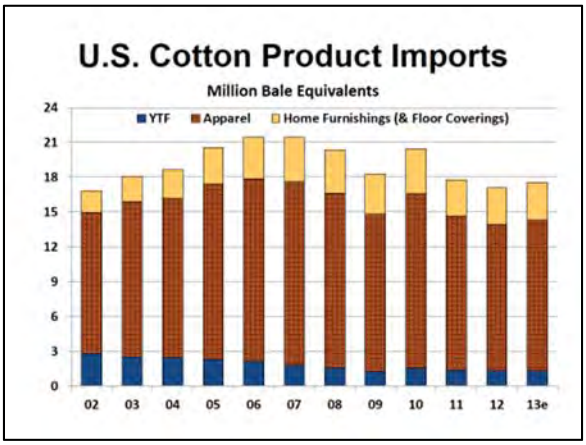

Figure 66 - U.S. Cotton Product Imports

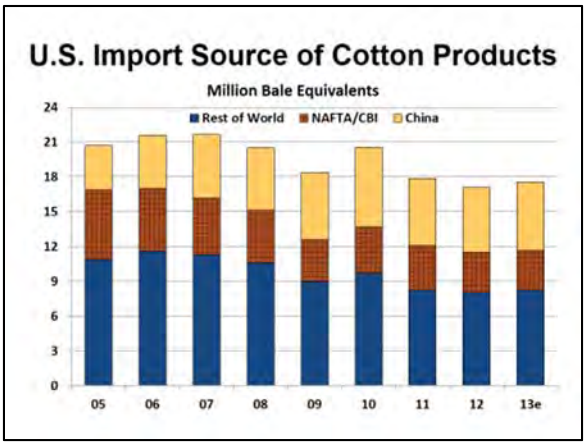

Figure 67 - U.S. Import Source of Cotton Products

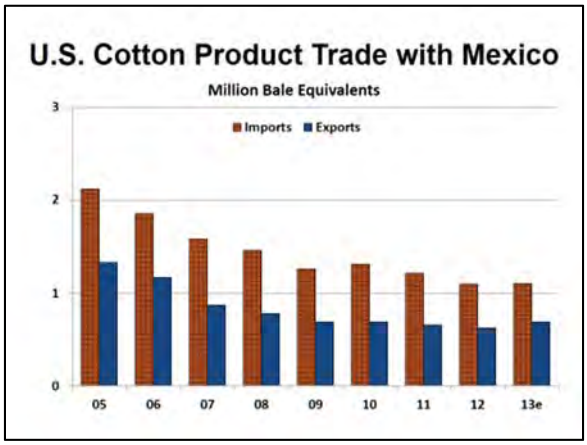

Figure 68 - U.S. Cotton Product Trade with Mexico

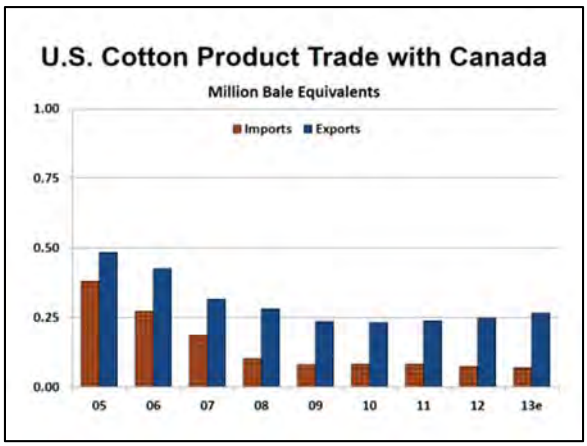

Figure 69 - U.S. Cotton Product Trade with Canada

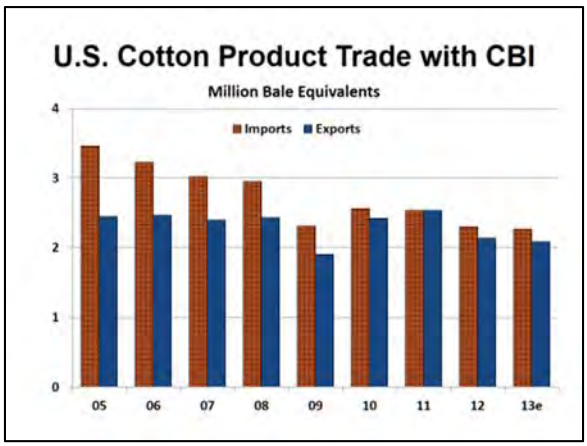

Figure 70 - U.S. Cotton Product Trade with CBI

Other top sources of imported cotton goods in 2013 were China, Pakistan, India, Hong Kong, Bangladesh, Vietnam, South Korea, and Turkey. For the ninth consecutive year, China was the largest supplier of cotton textile imports into the U.S. (Figure 71). Total cotton product imports from China increased to an estimated 5.9 million bale equivalents in 2013, up 5.6% from 2012 and up by approximately 612% from 2001 when China entered the WTO. China's share of imported cotton goods in the U.S. market accelerated from 10.9% in 2004 to an estimated 33.3% in 2013.

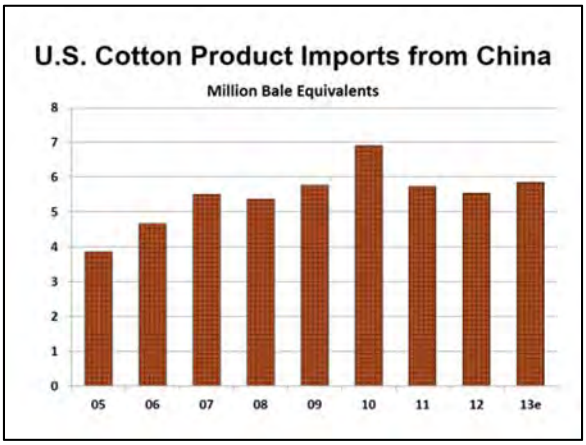

Figure 71 - U.S. Cotton Product Imports from China

Imports of cotton products from Pakistan are estimated at 1.5 million bale equivalents in 2013, an increase of 15 thousand bales. Since 1997, Pakistan imports have increased 127%. Pakistan slightly lowered its share of imported cotton goods in the U.S. market last year to 8.6%.

Imports from India stood at 1.5 million bale equivalents for 2013. This was a 1.9% increase from last year but a 111% increase from 1997. India now accounts for 8.6% of all U.S. cotton product imports.

Imports from Hong Kong in 2013 were 22 thousand bale equivalents, up 14.2% from 2012. Hong Kong's share of imported cotton goods in the U.S. remained at 0.1% in 2013.

Bangladesh showed an increase in cotton product imports into the U.S. when compared to the previous year. Imports from Bangladesh in 2013 were up 12.0% from

2012 to 1.2 million bale equivalents. Bangladesh accounted for an estimated 7.1% of all cotton goods imported into the U.S. in 2013.

Vietnam showed an increase in cotton product imports into the U.S. when compared to the previous year. Total cotton product imports from Vietnam increased to an estimated 1.1 million bale equivalents in 2013, up 10.4% from 2012. Vietnam's share of cotton goods imported into the U.S. in 2013 increased to 6.3%, up 0.4% from the previous year. Cotton product imports from South Korea decreased 4.6% from 2012 to 136 thousand bale equivalents in 2013.

It is important to note in the following discussion that the most reliable data on imports by product category and by country is in the form of square meter equivalents (SME), rather than pounds or bales. Since different products have different weights per square meter, total imports reported in bale equivalents will not necessarily show the same trend as total imports expressed in SME. NCC expresses imports in bale equivalents whenever possible, but the measurement of SME best represents product categories imported from individual countries.

Mexico

Although declining relative to other countries, Mexico remained a large shipper of cotton goods to the U.S. in 2013. Cotton trousers remained the largest category of imported cotton goods from Mexico. Trousers accounted for 34.9% of all cotton product imports from Mexico based on SME (Figure 72). Knit cotton shirts were the next largest category of imports, accounting for 19.5%, followed by cotton hosiery (8.5%) and "other cotton apparel" (7.1%). The U.S. Customs Service category "other cotton apparel" includes items such as waistcoats, swimwear, bodysuits and scarves.

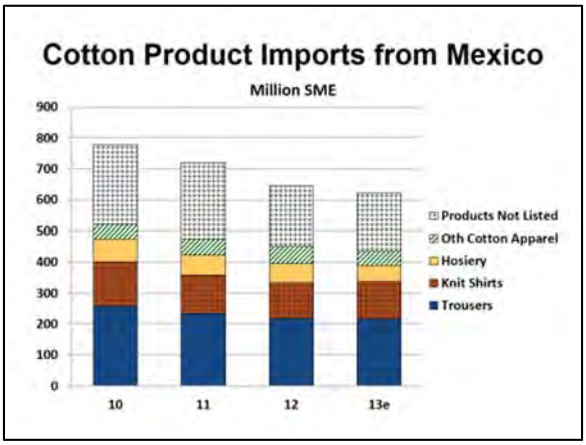

Figure 72 - Cotton Product Imports from Mexico

Canada

U.S. cotton imports from Canada decreased again in 2013. The largest category of imports from Canada in 2013 was "other cotton manufactures", which accounted for 27.7% of total SME of cotton product imports from Canada (Figure 73). The U.S. Customs Service category "other cotton manufactures" includes items such as tablecloths, napkins, dishtowels and pillow covers. The next largest category was "other cotton apparel" with 9.7% of total imports, followed by terry towels at 4.7% and carded cotton yarn at 4.4%.

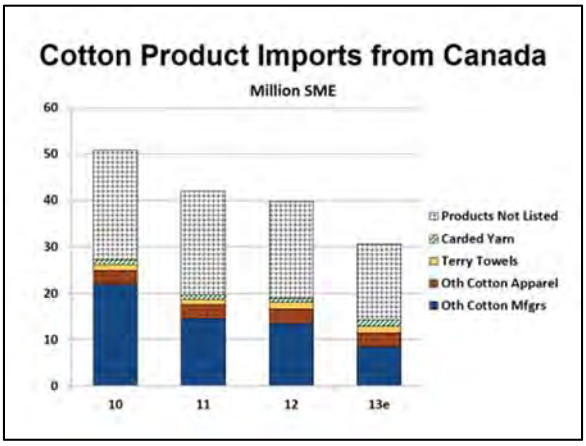

Figure 73 - Cotton Product Imports from Canada

Caribbean Basin Initiative (CBI)

Continuing the trend, CBI countries shipped more cotton goods to the U.S. than did NAFTA countries in 2013. The largest category of imported cotton goods from the region was knit shirts, accounting for 40.3%

of total imports, based on SME (Figure 74). Approximately 83.4% of the cotton knit shirt imports from CBI came from the CAFTA-DR countries. The second largest category, underwear, accounted for 33.0% of imports, followed by cotton hosiery (10.3%) and trousers (9.6%). Of these imports, 87.2% of the underwear, almost 100.0% of the cotton hosiery and 92.3% of the cotton trousers were from the CAFTA-DR countries.

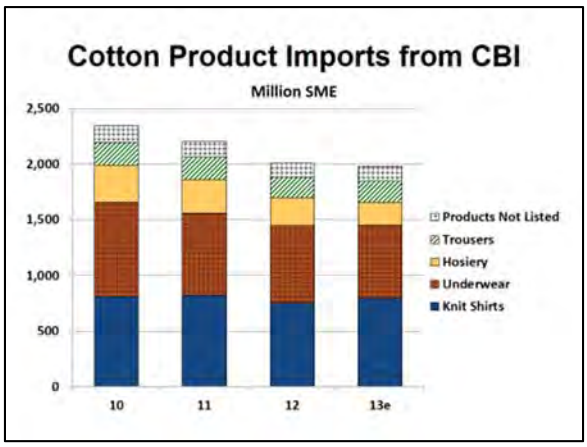

Figure 74 - Cotton Product Imports from CBI

African Growth & Opportunity Act (AGOA)

Over the past year, total cotton apparel product imports from the AGOA region decreased by 7.2% to an estimated 104.7 million SMEs (Figure 75). Also, during the past year, the percentage of U.S. cotton apparel imports from the AGOA region receiving preferential treatment under the act decreased from 99.3% to 98.8%.

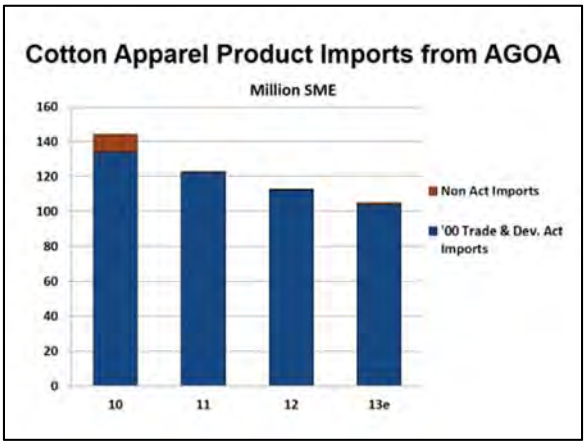

Figure 75 - Cotton Apparel Product Imports from AGOA

Pakistan

The largest category of imported goods from Pakistan in 2013 was "other cotton manufactures" (Figure 76). This category accounted for 41.4% of all cotton product imports from Pakistan based on SME. The second largest category imported from Pakistan was cotton sheets with 13.8% of total imports, followed by bedspreads and quilts (8.3%) and terry towels (5.0%).

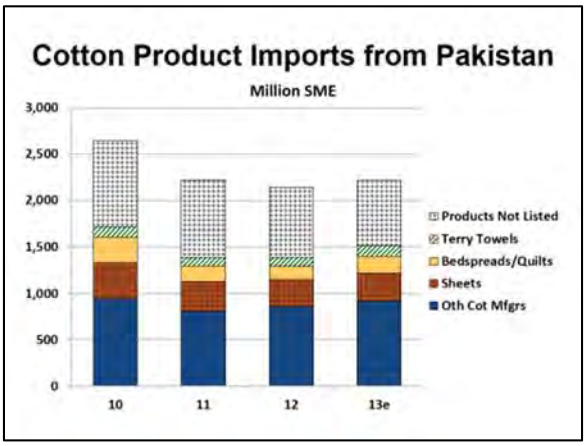

Figure 76 - Cotton Product Imports from Pakistan

China

Again last year, the single largest supplier of imported cotton goods into the U.S. market was China. On a SME basis, the largest category of cotton product imports from China in 2013 was "other cotton manufactures", which accounted for 21.9% of all cotton product imports from that country (Figure 77). Trousers was the

second largest category of cotton imports from China in 2013, comprising 14.3% of total cotton product imports from that country. Knit shirts accounted for 6.1% of U.S. cotton textile and apparel imports from China in 2013. Nightwear was the fourth largest category and accounted for 5.2% of cotton product imports.

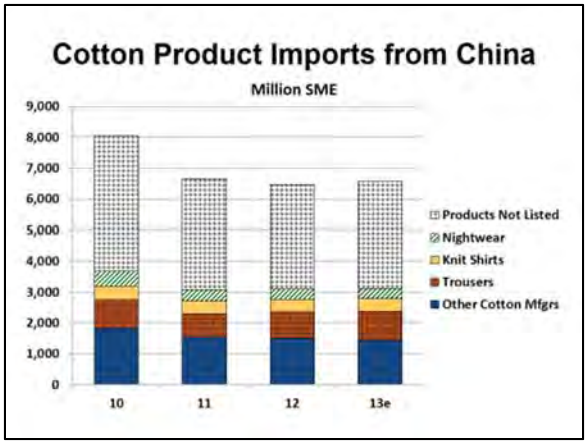

Figure 77 - Cotton Product Imports from China

India

As was the case with Pakistan and China, the largest category of imported cotton goods from India in 2013 was the category of "other cotton manufactures" (Figure 78). When based on SMEs, this category represented 29.6% of all cotton goods imported from India. The next largest category was cotton sheets (16.8%), followed by underwear (7.1%) and knit shirts (5.5%).

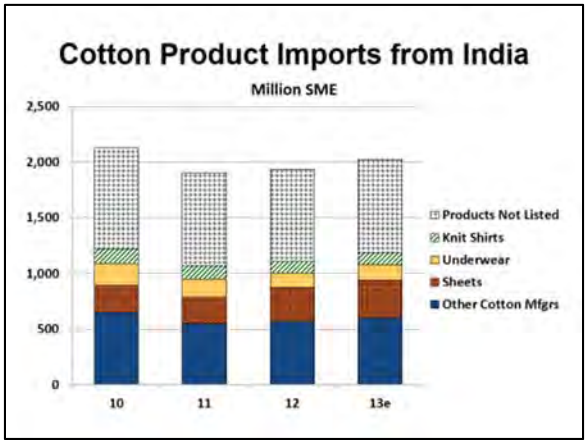

Figure 78 - Cotton Product Imports from India

Hong Kong

Hong Kong's share of U.S. imports has been declining over the past several years. The largest category of imported cotton goods from Hong Kong in 2013 was trousers (Figure 79). When looking at SMEs, trousers accounted for 32.8% of all cotton products imported. The second largest category was "other cotton manufactures" with 11.1% of imports, followed by woven shirts (9.5%) and cotton dresses (7.1%).

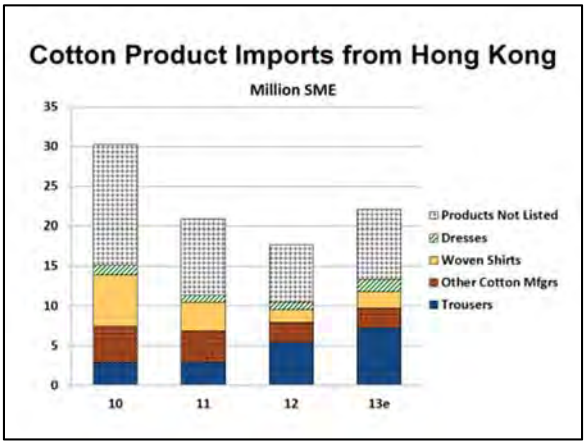

Figure 79 - Cotton Product Imports from Hong Kong

Bangladesh

Based on SMEs, the largest category of cotton goods imported from Bangladesh in 2013 (38.7%) was trousers (Figure 80). The second largest category in 2013 was woven shirts (17.1%). Cotton underwear was the third largest category in 2013, representing 14.7% of total cotton goods imported from Bangladesh, followed by knit shirts at 6.7%.

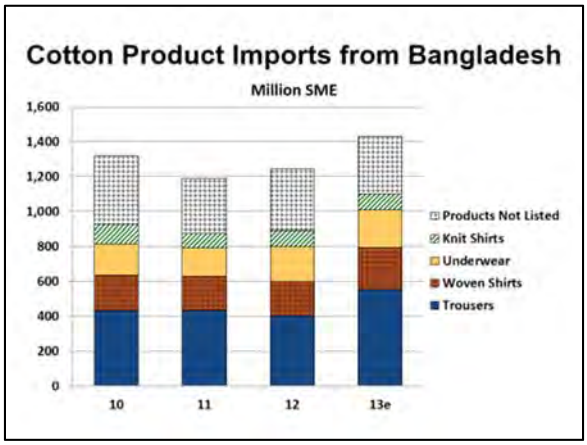

Figure 80 - Cotton Product Imports from Bangladesh

Vietnam

Vietnam continues to be a more significant supplier of cotton product imports (Figure 81). U.S. cotton product imports from Vietnam have increased by over 5,300% based on SME since 2001. In 2001, the U.S. imported 24.3 million SME of cotton goods from Vietnam. This number increased to an estimated 1.3 billion SME in 2013. The largest category of imported cotton goods from Vietnam in 2013 was underwear. Based on SMEs, this category represented 23.7% of all cotton goods imported from Vietnam. The next largest category was trousers (20.8%), followed by knit shirts (18.5%) and woven shirts (5.9%).

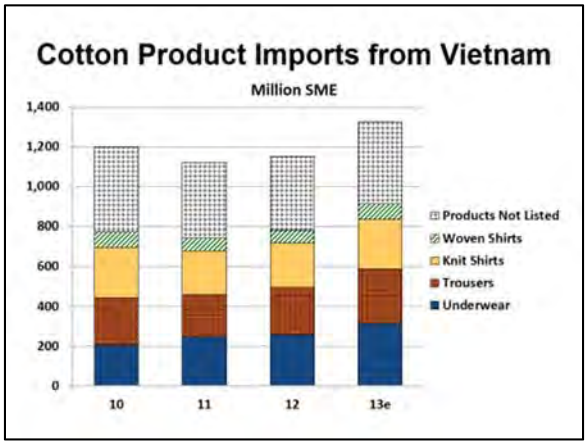

Figure 81 - Cotton Product Imports from Vietnam

South Korea

Based on SMEs, the largest category of cotton goods imported from South Korea in 2013 was cotton sheeting fabric, which accounted for 32.0% (Figure 82). The second largest category in 2013 was combed cotton yarn (30.2%), cotton hosiery (17.1%) and cotton nightwear (2.1%).

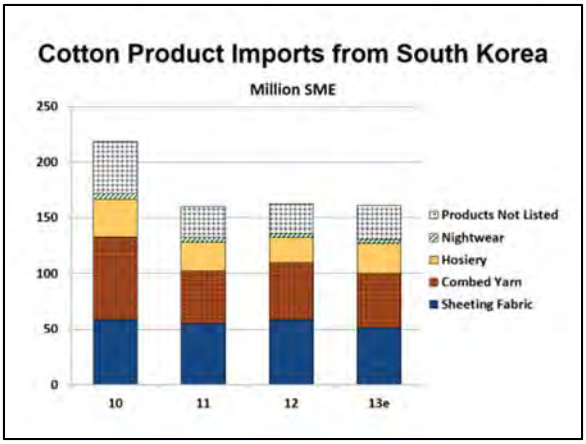

Figure 82 - Cotton Product Imports from South Korea

Turkey

Based on SMEs, the largest category of cotton goods imported from Turkey in 2013 was cotton sheets, which accounted for 31.1% (Figure 83). The second largest category in 2013 was "other cotton manufactures" (20.6%), followed by cotton trousers (5.7%) and bedspreads and quilts (4.8%).

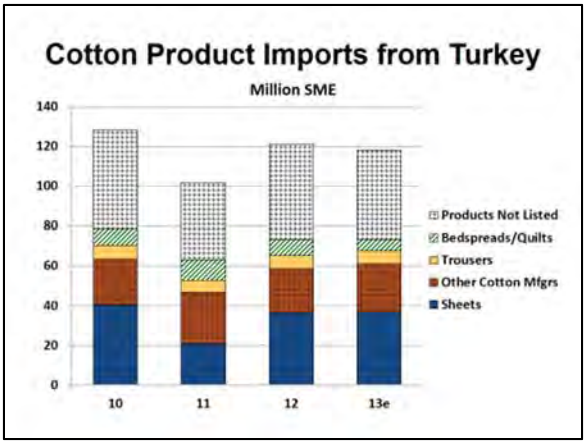

Figure 83 - Cotton Product Imports from Turkey

U.S. Cotton Product Exports

Exports of U.S. cotton textile and apparel products experienced an increase in 2013 (Figure 84). Exports increased by 5.4% in 2013 to an estimated 3.6 million bale equivalents. This increase was due to an increase in all three export category of cotton yarn, thread and fabric, cotton apparel, and cotton home furnishings (Figure 85). Exports of cotton yarn, thread, and fabric increased by 5.2% to 3.2 million bale equivalents in 2013. Exports of cotton apparel increased by 9.4% in 2013 to 296 thousand bale equivalents. Exports of home furnishings (including floor coverings) rose by 2.2% over the previous year to an estimated 116 thousand bale equivalents. For 2014, NCC projects U.S. cotton textile exports to increase 50 thousand bales to 3.65 million bale equivalents.

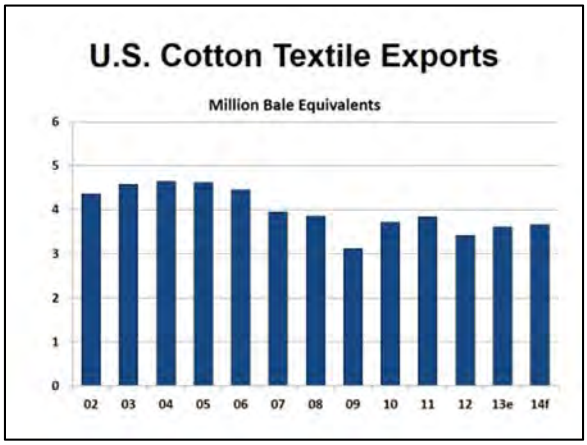

Figure 84 - U.S. Cotton Textile Exports

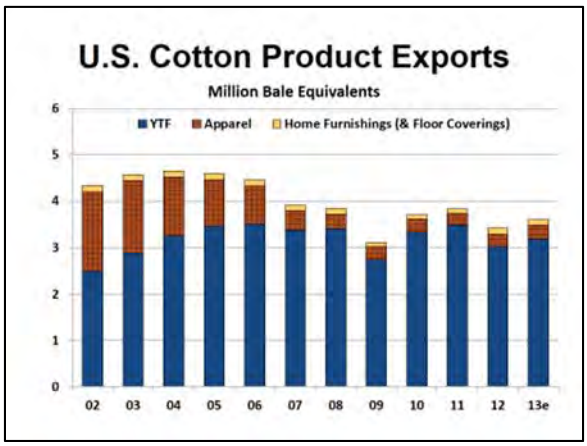

Figure 85- U.S. Cotton Product Exports

The top customers of exported U.S. cotton textiles and apparel in 2013 were once again the NAFTA and CBI countries (Figure 86). Exports to the NAFTA countries last year totaled an estimated 957 thousand bale equivalents, up 9.4% from the previous year. Exports to the region accounted for 26.6% of all U.S. cotton product exports. Exports to Mexico increased to an estimated 690 thousand bale equivalents from 626 thousand in 2012. Cotton product exports to Canada grew by an estimated 7.5% to 267 thousand bale equivalents for 2013.

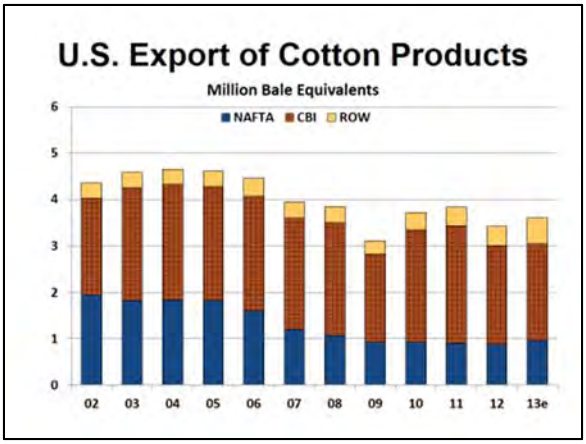

Figure 86 - U.S. Exports of Cotton Products

U.S. exports to the CBI countries declined last year. In 2013, exports decreased 2.3%, totaling 2.1 million bale equivalents or 58.0% of all U.S. cotton exports. Approximately 98.1% of the cotton products exported to CBI went to the CAFTA-DR countries.

World Market Situation

World cotton prices, as measured by Cotlook Ltd.'s "A" Index, ranged between 83.10 and 98.85 cents per pound during the course of calendar 2013 (Figure 87). For the current marketing year-to-date, the "A" Index has averaged 89.12 cents per pound, roughly 6.00 cents higher than this time last year.

Figure 87 - "A" (FE) Index

World

The 2013 marketing year saw a decline in cotton production with an estimated world crop of 117.8 million bales (Figure 88). The smaller cotton crop was in part due to fewer harvested acres. China remains the leading producer while India and Pakistan continue to be significant producers. The United States produced a crop of 13.2 million bales, 4.1 million bales lower than the 2012 crop.

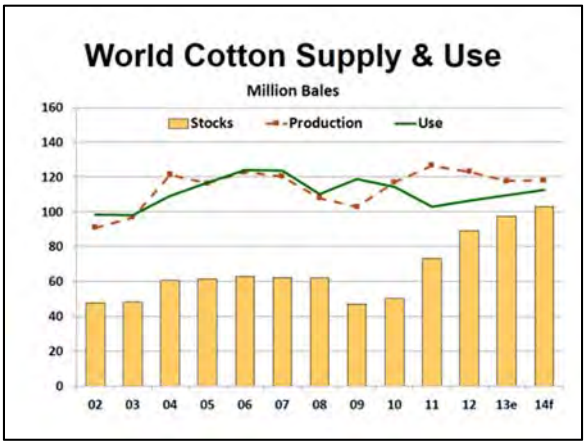

Figure 88 - World Cotton Supply & Use

World production bounced back above mill use in 2010 and 2011. This trend continues with the most recent 2012 and 2013 marketing year estimates. World consumption is estimated at 106.4 million bales for the 2012 marketing year and 109.5 for 2013 while production is estimated to be 123.1 million bales for 2012 and 117.8 million bales for the 2013 marketing year.

Production is projected to grow in the 2014 marketing year to 118.0 million bales with an increase in consumption to 112.8 million. Ending stocks will climb to 103.0 million bales resulting in a stock-to-use ratio of roughly 91.3%.

China

China remained the largest cotton producer with a 2013 crop of 33.0 million bales (Figure 89). The crop was 2.0 million bales less than the 2012 crop. Factors contributing to the decline include both fewer harvested acres and lower yields.

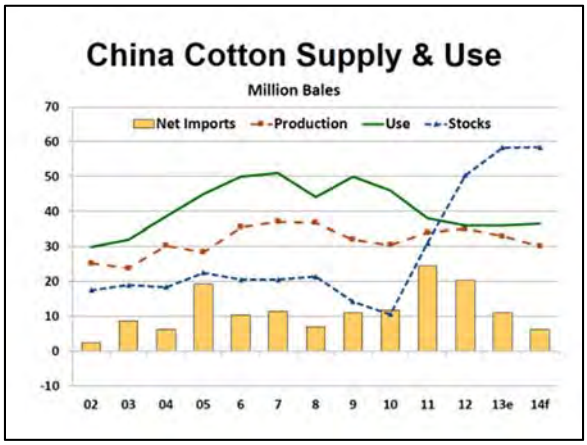

Figure 89 - China Cotton Supply & Use

In November 2013, the National Cotton Council (NCC) and Cotton Council International (CCI) participated in a meeting organized by the China Cotton Association (CCA). Approximately 25 Chinese officials from 16 government agencies attended the meeting in order to learn more about U.S. cotton programs. In a follow-up session to this meeting held in early January, the CCA made the following comments regarding policy trends of the China cotton industry: 1.) China is going to enact direct subsidization in lieu of the national cotton reserve policy in 2014 and Xinjiang will be the pilot region. The target price could be RMB18300 per ton. 2.) China's cotton import quota system is unlikely to change in 2014. The TRQ will set the main import quotas, with some additional quotas set for processing trade. The amount of sliding scale tariff quotas will be reduced for 2014. 3.) Cotton pricing will be more subject to market influences.

Taking these policy changes into account, a drop in cotton area and production is expected in 2014. China's 2014 harvested cotton area is projected at 11.7 million acres, down 1.1 million from 2013. Assuming trend yields, China is projected to remain the world's largest cotton producer with a projected 2014 crop of 30.1 million bales.

Along with being the world leader in cotton production, China is also the largest consumer of raw cotton. The textile industry in China employs over 23 million people and is considered an economic pillar industry. In China's twelfth Five Year (2011-2015) Plan, the government confirmed its support to upgrade this sector. According to China's National Statistics Bureau (NSB), fixed asset investment in the textile industry in 2012 reached $65.5 billion, up 12% over 2011, but significantly lower than the 30.9% in 2010. Despite this financial influx, the textile industry faces significant challenges, including rising production costs for key inputs such as raw materials and labor.

With the reserves policy in place since 2011, cotton prices in China have traded at levels twice that of polyester prices. In response to those relative prices, China's yarn spinners sharply reduced their cotton use, in many cases opting for the less expensive polyester. Between 2010 and 2013, annual mill use in China declined by 10 million bales, with 2013 mill use estimated at 36.0 million bales. For the 2014 marketing year, the change in cotton policy should alleviate some of the burden on textile mills and provide more competitively priced cotton. As a result, mill use is expected to see modest growth to 36.4 million bales, leaving a 6.3 million bale differential with production.

With an estimated 58.3 million bales of stocks on hand at the beginning of the 2014 marketing year, there are more than ample supplies to satisfy the production shortfall. In theory, China would not need to import any cotton. However, that is not expected to be the case. China must open 4.1 million bales of import quota at a minimal duty in order to comply with their WTO accession commitments. In addition, it is expected that some amounts of quota for the processing trade will be made available.

Under these assumptions, China is projected to import 6.4 million bales in the 2014 marketing year, down from 11.0 million bales in 2013. If realized, it would be the smallest level of imports in a dozen years.

India

The latest estimates have India producing 29.0 million bales for the 2013 marketing year (Figure 90). If these estimates hold, the 2013 crop will be 500,000 bales higher than the 2012 crop.

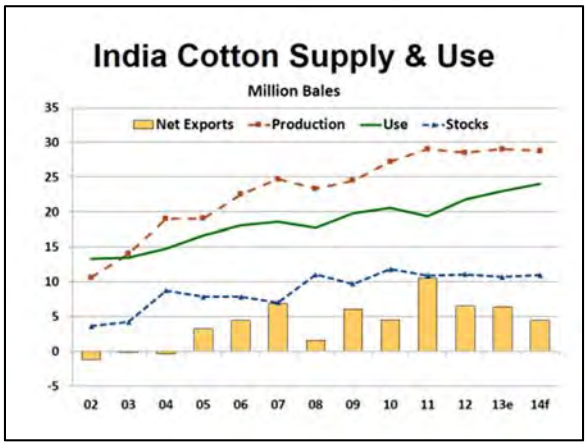

Figure 90 - India Cotton Supply & Use

Cotton production has been a major success story in Indian agriculture as production more than doubled from 10.6 million bales in the 2002 marketing year to a then record 24.0 million bales in 2007. Since 2007, cotton production in India has averaged over 26.0 million bales per year. India now accounts for a third of global cotton area. The production growth in recent years has been largely fueled by rapid gains in productivity. Cotton yields have gone from 269 pounds per acre in 2002 to 481 pounds per acre in 2013. The rapid growth in yields can be attributed to the introduction and expansion of Bt cotton and improved hybrid cotton varieties, improved crop management practices and overall favorable weather conditions.

However, it should be noted that the upward trend in yields has slowed since 2008. Although potential exists for a further increase in yields, cotton farmers will have to invest more in production technologies to improve management of irrigation, usage of fertilizers and micro nutrients, and control of pests and diseases. If prices remain firm and cotton area expands, industry sources suggest that India's cotton production could peak at somewhere over 30.0 million bales within the next few years.

Assuming normal weather, India's cotton production is forecast at 28.8 million bales in 2014. This is slightly lower than the 2013 crop. India's mill consumption is estimated to reach 23.0 million bales in the 2013 marketing year, up 1.2 million bales from the previous year.

On a macro level, India's economy continues to expand, which bodes well for domestic demand for textiles. If this trend continues to hold true, then India's mill use should grow to 24.0 million bales in the 2014 marketing year.

India is expected to continue as a net exporter. India's cotton exports have defied expectations for the past two marketing years, largely because of stronger than expected exports to China. Aside from China, India's primary markets are Bangladesh, Vietnam, other Southeast Asia markets and occasionally Pakistan. If Indian cotton is priced attractively, it will likely find a home somewhere, but the key unknown is how much cotton China will buy.

In terms of overall trade, for the 2014 marketing year, India is expected to export 5.6 million bales of cotton. Imports will grow to 1.1 million bales, roughly 30,000 bales higher than the 2013 crop year.

Uzbekistan

Current estimates put Uzbek cotton production at 4.3 million bales for 2013 (Figure 91), down 250,000 bales from the previous year. Cotton has been the cash crop in Uzbekistan for generations and a significant source of employment and foreign exchange. Currently, all state farms have been privatized and reorganized into private farms. In spite of implementing structural reforms in the agricultural sector, the government still maintains tight control over all aspects of production including planted area, production targets, prices, inputs, procurement and marketing of nearly all of the cotton in Uzbekistan.

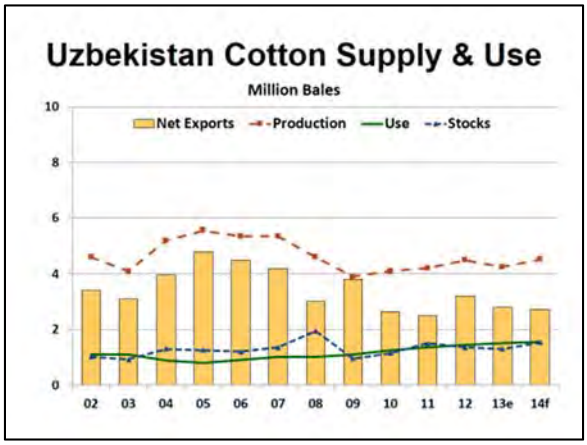

Figure 91 - Uzbekistan Cotton Supply & Use

For the 2014 marketing year, Uzbek cotton production will return to near 2012 levels with an estimate of 4.5 million bales.

In terms of Uzbekistan's domestic lint consumption, the government has often stated that it would like Uzbekistan to process more of its cotton domestically, but it has never been a quick process and it has always depended on the pace of local textile industry development. Prior to the world economic slump, the spinning and weaving industries had been investing heavily in new equipment and renovation of existing equipment, as domestic and export demand grew, especially for cotton yarn. As global markets have contracted, the local textile industry must aggressively pursue quality improvements and production diversification to include more value-added products, rather than to rely mainly on low-value yarn based exports, if it wants to remain competitive. And this is well understood by many local textile mills who are trying to widen their production assortment in order to expand to high-value added products. As a result, Uzbek domestic cotton consumption is estimated at 1.5 million bales in the 2013 marketing year. For 2014, Uzbekistan's mill use is projected to increase slightly to 1.6 million bales.

Currently, a well-established local system of logistics, consisting of 23 specialized cotton terminals with a storage capacity of 1.8 million bales and a good transportation infrastructure with shipment corridors facilitate timely deliveries of Uzbek cotton to buyers. Asia, with Bangladesh, China, and Russia, is still the major market for Uzbek cotton. With those markets, Uzbekistan will remain a net exporter of cotton for the foreseeable future exporting an estimated 2.7 million bales of cotton in the 2014 marketing year.

Pakistan

Pakistan is the world's fourth largest producer and third largest consumer of cotton and also one of the largest exporters of cotton yarn in the world. Cotton is the country's foremost non-food cash crop and is considered the backbone of the national economy. Cotton production supports Pakistan's largest industrial sector comprised of over 400 textile mills, 1,000 gins, and 300 cotton seed oil crushers and refiners.

In 2013, cotton production was estimated at 9.7 million bales. A slight increase in production is expected for the upcoming marketing year resulting from an expected bump in yields and stale area. Assuming

normal weather conditions and low pest infestation, production is projected to be 9.8 million bales in 2014 (Figure 92).

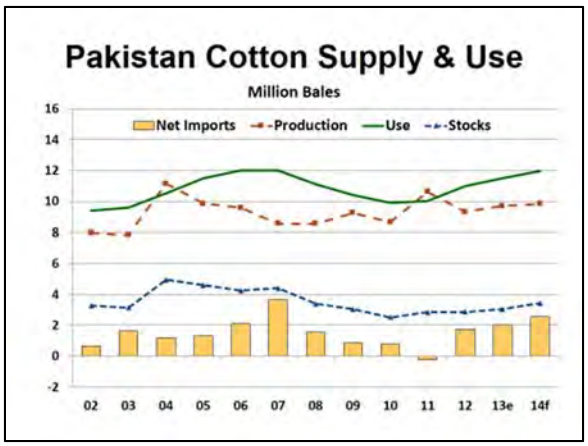

Figure 92 - Pakistan Cotton Supply & Use

After nearly a decade of growth, consumption fell to 11.1 million bales in 2008, down roughly 900,000 from the previous year. The spike in cotton prices pushed mill use even lower through the 2011 marketing year.

Pakistan's textile and clothing sector is anticipating increased trade as a result of EU approval of Generalized System of Preferences (GSP Plus) status to Pakistan, expected to be effective in January 2014. The EU Committee on International Trade has already approved GSP Plus status in favor of Pakistan. The formal approval is expected to allow 20% of Pakistani exports to enter into the EU market at zero tariff and 70% at preferential rates. These concessions are a result of efforts to help Pakistan's economy recover losses from the devastating 2010 floods. Pakistan's mill consumption is projected to grow to 12.0 million bales for the 2014 marketing year.

Pakistan is a net importer of cotton due to strong domestic demand for better grades of cotton. Pakistan remained a net importer of cotton with 2.0 million more bales of cotton imported than exported during the 2013 marketing year. With growing demand for better quality fabrics for the export market and specialized products for the domestic market, Pakistan's textile industry is expected to increasingly rely on imported U.S. Pima cotton and contamination-free upland cotton for the production of higher quality textile products. Pakistan is one of the largest importers of U.S. Pima cotton, particularly for its specialized export industry. These practices should keep Pakistan a net cotton importer in 2014. Net cotton imports for the 2014 marketing year are expected to be 2.6 million bales.

Turkey

Production declined to 2.6 million bales in 2012, due in part to a decline in acreage (Figure 93). For 2013, production continues to follow this trend of lower production with an estimated 2.3 million bales, and fewer acres, an estimated 815,000 harvested acres, down roughly 198,000 acres. If estimates hold for 2014, a slight increase in acres should increase production slightly to 2.4 million bales.

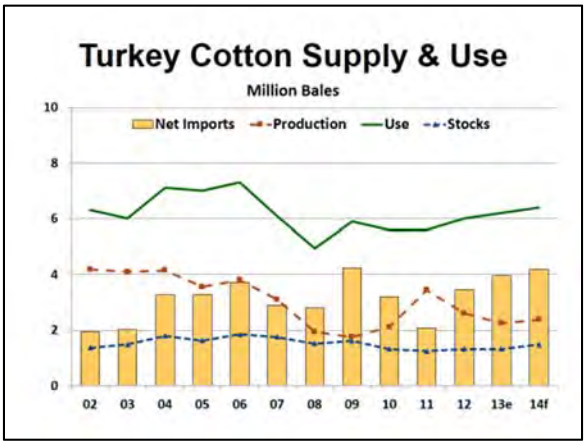

Figure 93 - Turkey Cotton Supply & Use

The textile and garment industries continue to be crucial to the Turkish economy. Turkey is the second biggest apparel and textile supplier to the EU after China, and is the eighth largest textile exporter in the world and fifth largest apparel exporter. Increased domestic consumption and cost of production in leading competitors such as

China and India have made Turkish products more competitive in export markets. Mill use for the 2014 marketing year should increase to 6.4 million bales, while imports are projected to increase to 4.3 million bales.

Australia

Australia appears to have fully recovered from the long and severe drought which began in 2002. Current estimates put Australia's cotton production at 4.5 million bales for the 2013 marketing year (Figure 94). A return to a more normal weather pattern puts Australia's cotton production at roughly 4.1 million bales in 2014.

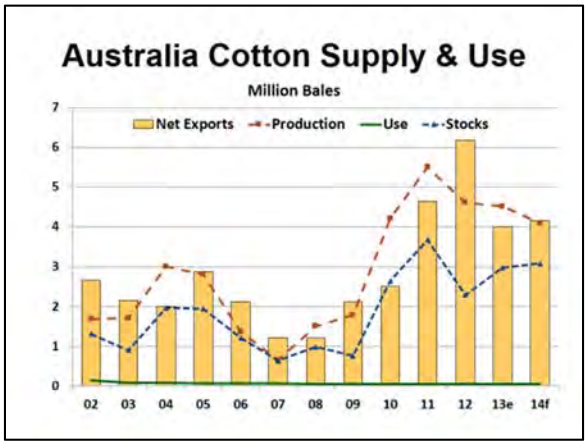

Figure 94- Australia Cotton Supply & Use

Australia exports virtually all of their cotton production. For the 2013 marketing year, exports are estimated to reach 4.0 million bales. With production hovering around the 4.0 million bale mark during the 2014 marketing year, exports are expected to climb to 4.2 million bales.

Brazil

With the adoption of new biotech cottonseed varieties and continued support in the form of government programs, the 2013 crop saw increased cotton acreage. Current estimates place production for the 2013 marketing year at 7.4 million bales (Figure 95). For the 2014 marketing year, harvested area is estimated at 2.7 million acres, roughly the same as the previous year, resulting in a production estimate of 7.2 million bales in 2014.

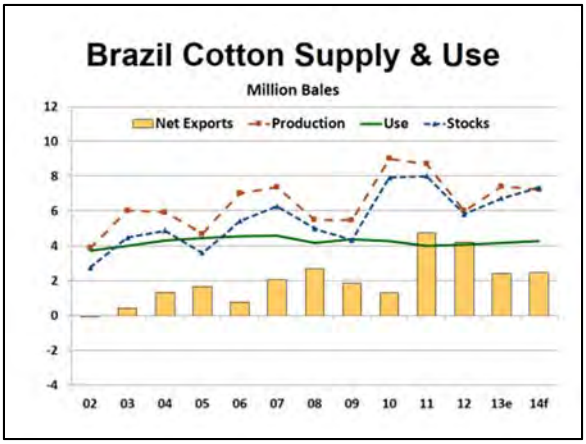

Figure 95 - Brazil Cotton Supply & Use

Brazilian mill use for the 2013 marketing year was up 100,000 bales to 4.2 million bales. Brazilian cotton consumption will remain stable in the 2014 marketing year with mill use estimated at 4.3 million bales.

In terms of trade, Brazil is expected to export 2.5 million bales of cotton in the 2013 marketing year. For the 2014 marketing year, exports are expected to climb 50,000 bales to 2.6 million bales.

West Africa

In the West African cotton-producing countries, cotton production continues to play an important role in the economy. A farmer's decision to grow cotton depends on several factors, including payment received for last year's crop, procurement and distribution of inputs, access to input credits and national pricing policy. Government policies and farmers' associations are pushing aggressive seed cotton production goals by addressing these factors. As a result, cotton production in 2013 was an estimated 4.0 million bales.

In Burkina Faso, Bt cotton yielded more than previously estimated contributing around 40% to total seed cotton production.

Farmers adopting better agronomic practices also contributed to fairly consistent yields. The International Service for the Acquisition of Agri-biotech Applications reported Burkina Faso as the fourteenth largest producer of biotech crops worldwide, and one of the three African countries planting biotech crops, after South Africa and Egypt. Malian and Ivoirian farmers are willing to adopt Bt cotton. For Mali, its biosafety law needs to be revised and made functional. For Cote d'Ivoire, it needs to be formally approved by government officials.

Cote d'Ivoire is reorganizing its cotton sector by dividing the country into several cotton zones and allocating each zone to a specific cotton company. The latter has to work with farmers in this zone and buy cotton from that zone. A draft law that regulates marketing and activities of the cotton and cashew sectors was passed by parliament in August 2013. It was expected to be promulgated by the president by December 2013.

Despite all the obstacles facing cotton producers in these countries, and the remaining cotton producing countries in this region, cotton remains an important cash crop in most of Francophone West Africa, Cote d'Ivoire and Senegal. The current projections have West Africa producing 4.0 million bales in 2014 (Figure 96), basically unchanged from 2013. With this size crop, West Africa continues to measurably affect the cotton export market, since virtually all of its production is sold abroad. The region exports between 95 and 98% of its cotton production. For the 2013 marketing year, it is estimated that the region will export roughly 3.8 million bales. For 2014, West African exports are expected to remain relatively unchanged at 3.7 million bales.

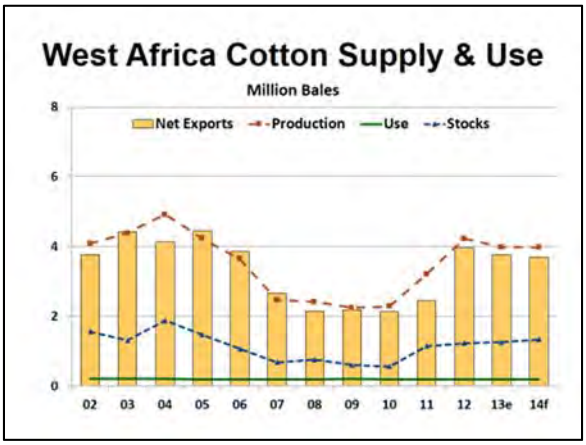

Figure 96 - West Africa Cotton Supply & Use

Longer term, West Africa's potential for growth and stability depends on whether or not they can address a number of internal issues related to their production, ginning, price discovery, and distribution systems.

Mexico

Mexican cotton production for marketing year 2013 dropped 300,000 bales, to 790,000 bales. Fewer planted acres account for some of the decline in production. Harvested area has gone from 474,000 acres in the 2011 marketing year to 292,000 acres in 2013. The reduction in cotton acres was in part due to the fall in international cotton prices which, in turn, compelled farmers to switch to other crops.

With a slight increase in acres, a crop of 881,000 bales in the 2014 marketing year is expected (Figure 97).

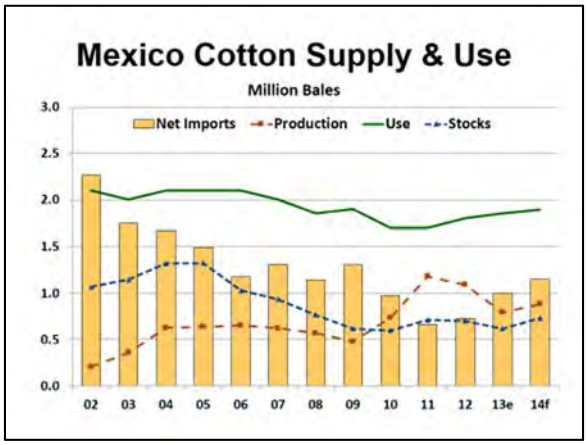

Figure 97 - Mexico Cotton Supply & Use

In terms of consumption, Mexico's outlook remains basically unchanged. Marketing year 2013 mill use is estimated at 1.9 million bales. For the 2014 marketing year, Mexican mill consumption is projected to remain stable at 1.9 million bales.

Cotton imports climbed to 1.1 million bales during the 2013 marketing year. The U.S. should continue to be the main supplier, accounting for practically 100% of cotton imports. Mexico's imports are expected to climb to 1.3 million bales for the 2014 marketing year.

Indonesia

Indonesian cotton production was estimated to reach 30,000 bales in the 2013 marketing year (Figure 98). Current projections show this number unchanged for 2014.

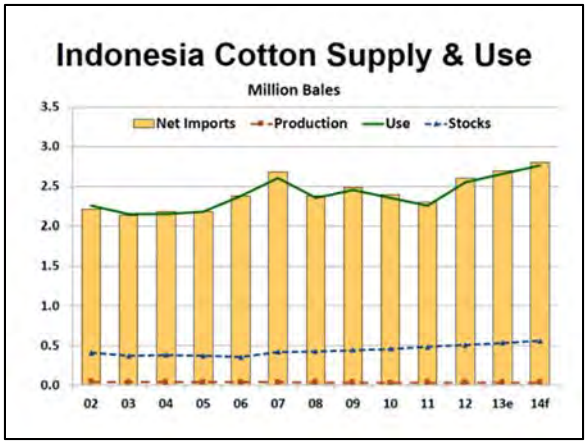

Figure 98 - Indonesia Cotton Supply & Use

As the main contributor to Indonesian export revenue and a labor intensive industry absorbing approximately 1.5 million workers (which equated to just over 10% of the total Indonesian manufacturing workforce in 2012), the textile industry continues to receive attention from the Indonesian government. The Indonesian industry's outdated textile machines amount to lower productivity levels, and increased energy and power usage. In 2007, the Indonesian Ministry of Industry launched a textile industry revitalization program. This program reduced the percentage of reimbursement provided to any textile company that purchased new textile machines to 10%. Additionally, if the new machines were domestically produced, the program would provide a subsidy of up to 25% of the cost of the machines. The reimbursement provided has been increased, but is not allowed to exceed Indonesian Rupiah 3 billion ($326,513) per company annually. With this type of government support, Indonesian cotton consumption in marketing year 2014 is estimated to improve modestly to 2.8 million bales. The same holds true for imports, estimated at 2.8 million bales for the 2014 marketing year.

Vietnam

Cotton production in Vietnam is highly susceptible to weather conditions and can fluctuate widely year-to-year. More than 90% of the cotton production area in Vietnam is rain-fed, with planting initiated in the rainy season (May/June – August) and harvesting taking place from October - December. In areas where irrigation is possible, cotton may be planted in the dry season (November/December), thereby allowing for harvesting from March through May. For the 2013 marketing year, production stands at 15,000 bales with no change expected for the 2014 crop (Figure 99).

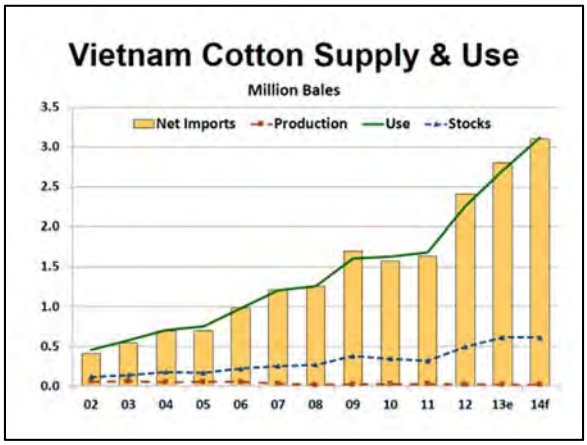

Figure 99 - Vietnam Cotton Supply & Use

Vietnam's domestic consumption continues to increase to meet strong demand from the expanding textile industry. Demand for textiles is strong for both the export and domestic markets. Vietnam is now ranked among the world's top seven textile, garment, and apparel-exporting countries. Despite the global economic downturn, Vietnam's 2012 textile, garment, and apparel exports still met the government's target, reaching a value of $16.9 billion, an increase of 7.0% over 2011. This growth is mainly due to the sector maintaining its traditional export markets (USA, EU, Japan), while also expanding to new export markets (China, Turkey, Korea, the Middle East, Africa, etc.). Vietnam has set ambitious targets for the textile industry, with exports targeted by the Vietnam Ministry of Industry and Trade to reach $25 billion by 2020. The Trans-Pacific Partnership Agreement (TPP), if finalized, would help Vietnam achieve this target.

Vietnam has shown tremendous expansion in its yarn spinning sector in recent years. From only 2 million spindles in 2000, Vietnam spindle capacity reached over 5.1 million spindles (equivalent) in 2012 creating the potential for voracious demand for imported cotton.

Estimates place 2013 marketing year mill use at 2.7 million bales. Growth continues into the 2014 marketing year with consumption climbing to 3.1 million bales.

In order to keep pace with this rising cotton demand, Vietnam will remain a net importer for the foreseeable future, with the U.S. being a significant supplier. For the 2013 marketing year, Vietnam will import 2.8 million bales and estimates are higher for the 2014 marketing year at 3.1 million bales.

Bangladesh

Marketing year 2013 cotton production in Bangladesh totaled 120,000 bales (Figure 100). Cotton production is vulnerable to excessive rainfalls/floods and pest infestations which are common in Bangladesh. With that in mind, production for the 2014 marketing year is expected to remain unchanged at 120,000 bales.

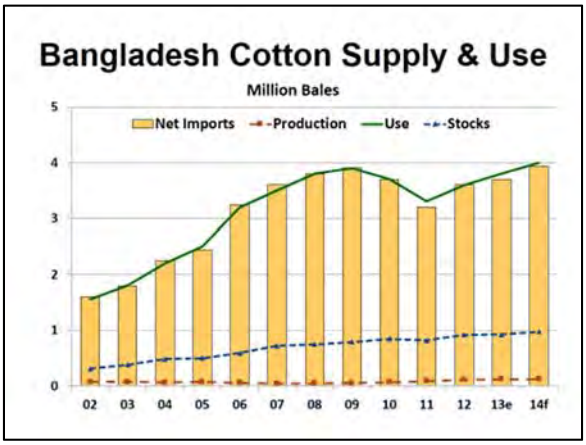

Figure 100 - Bangladesh Cotton Supply & Use

The Bangladesh textile industry, the largest manufacturing sub-sector of the industrial sector, provides employment to 5.5 million people. It contributes 12% to the country's GDP, 40% of manufacturing value and 78% of export earnings. During the last three decades, the Bangladesh textile sector has received a total investment of more than $5.5 billion. Increasing demand from the rapidly growing private sector spinning mills and steady growth in domestic demand and strong growth in export demand for cotton textiles and ready-made garments are

contributing to the escalation in cotton consumption. Marketing year 2013 mill use was estimated at 3.8 million bales and an increase is expected in the 2014 marketing year with estimates approaching 4.0 million bales.

As a result of increasing demand, raw cotton imports have steadily grown. Imports have increased to an estimated 3.7 million for the 2013 marketing year and are projected to further expand in 2014 to roughly 3.9 million.

United States Trade

For the 2013 marketing year, U.S. exports of raw cotton are estimated at 10.5 million bales (Figure 101), down 2.5 million bales from 2012. Exports fall in the 2014 marketing year with projections of 10.0 million bales. The reliance of the U.S. cotton market on exports has increased dramatically over the past decade as the domestic textile industry has contracted. It is estimated that exports will constitute roughly 75% of total use for the 2013 marketing year.

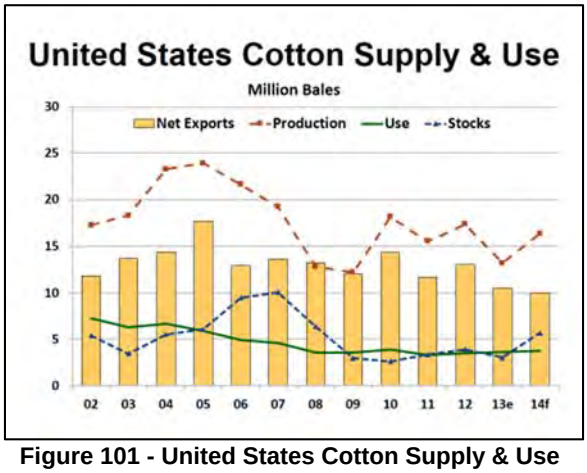

Figure 101 - United States Cotton Supply & Use

Customers of U.S. exports have changed in recent years. While Mexico remains one of the top customers, China, Turkey, Vietnam, Indonesia, and Thailand have emerged as significant buyers (Figure 102).

Top U.S. Raw Cotton Export Destinations

2000		2013YTD	
Country	(000 480-Lb. Bales)	Country	(000 480-Lb. Bales)
Mexico	1,819	China	1,994
Turkey	613	Turkey	1,780
Indonesia	541	Mexico	1,018
Taiwan	407	Vietnam	682
Japan	383	Indonesia	548
Hong Kong	297	Thailand	466

Figure 102 - Top U.S. Raw Cotton Export Destinations

World Trade

In the 2013 marketing year, world cotton trade declined over 7.5 million bales to 38.5 million bales (Figure 103). Current estimates put 2014 marketing year world cotton trade at 35.8 million bales. As previously discussed, U.S. exports are projected to fall to 10.0 million bales in the 2014 marketing year. India is also expected to see a major decline in exports going from an export estimate of 7.5 million bales in 2013 to 5.6 million bales in the 2014 marketing year.

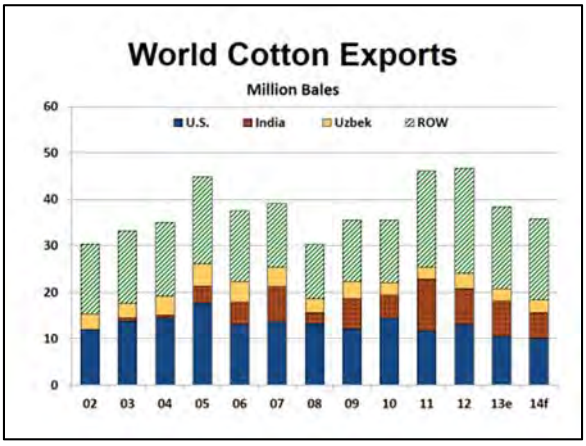

Figure 103 - World Cotton Exports

China has the greatest drop in imports with an estimated 6.3 million bales, 4.6 million bales fewer than the previous year (Figure 104).

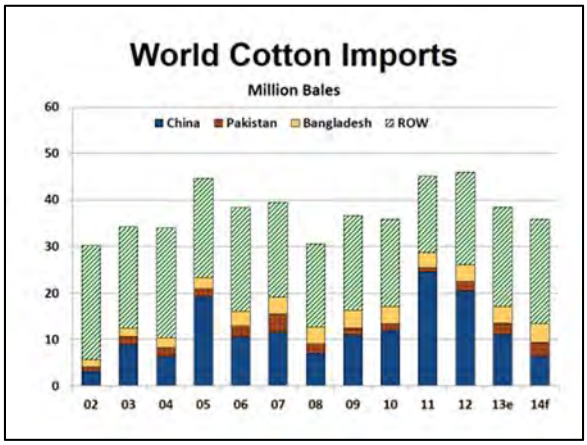

Figure 104 - World Cotton Imports

Examining the world trade-to-mill use ratio for the 2013 marketing year shows a drop to 35% from 44% in 2012 (Figure 105). For 2014 the ratio is expected to continue to fall to 32%.

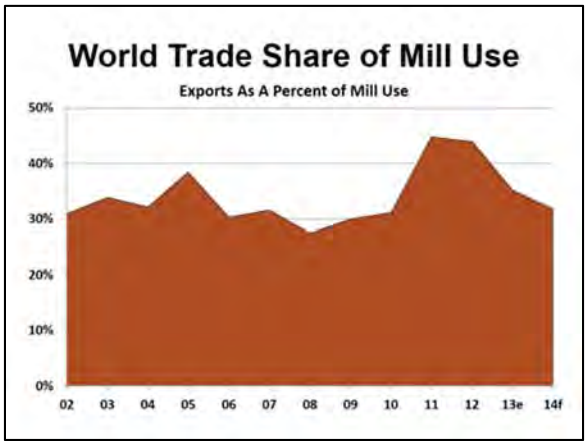

Figure 105 - World Trade Share of Mill Use

World Ending Stocks

For the 2014 marketing year, ending stocks are estimated to increase by 5.4 million bales while the stocks-to-use ratio is estimated at 92% (Figure 106). The 3 largest producers – China, India, and the U.S. – are also significant holders of cotton stocks. In the case of China and India, various government programs can play a major role in overall stock levels.

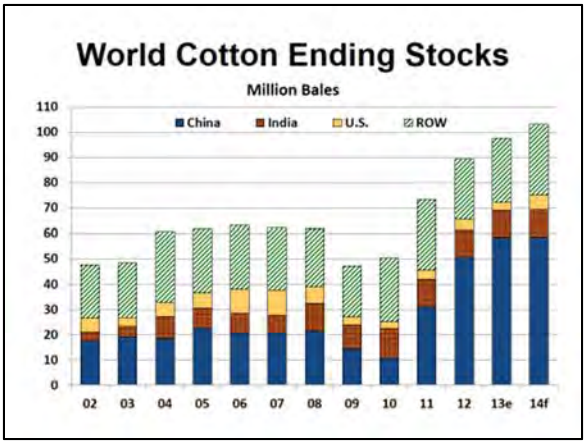

Figure 106 - World Cotton Ending Stocks

The overall balance sheet would normally indicate continued pressure on prices as the projected world stocks-to-use ratio climbs to 89% for the 2013 marketing year (Figure 107). However, traditional relationships between prices and stocks-to-use ratios do not hold in the current environment since almost half of world stocks are being held in government reserves.

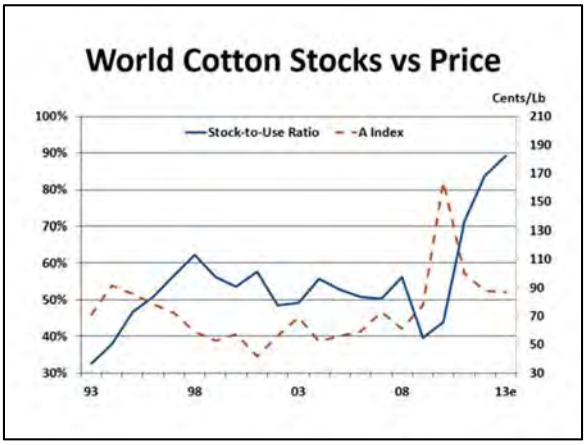

Figure 107 - World Cotton Stocks vs Price