The Economic Outlook

For U.S. Cotton 2015

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Summary

Over the course of 2014, cotton markets experienced significant changes, influenced by dramatic shifts in government policies, developments in other commodity markets, and a changing macroeconomic climate. Many of those influences will carry over into the outlook for 2015. With this report, National Cotton Council (NCC) staff hopes to present a thorough review of the current economic landscape and the prospects for the coming year.

To recap the current 2014 marketing year, U.S. producers planted 11.0 million acres of cotton in 2014, an increase of 6.1% from the previous spring. The added acres were the result of cotton prices maintaining a stronger appearance relative to grains and oilseeds. Overall, the 2014 crop progressed through the growing season with fewer weather challenges than observed in the previous three years. That is not to suggest that there were not problems for portions of the Cotton Belt. Of particular note were the severe water restrictions in California. Due to prolonged drought conditions, growers were limited in available irrigation water, and some cotton acreage was not planted as a result.

According to USDA's January 2015 estimates, only 12.0% of U.S. cotton acres were un-harvested, and the resulting 2014 crop of 16.1 million bales marked a 3.2 million bale increase from 2013.

Upland cotton prices maintained a stable appearance through June but declined sharply during July. The lack of widespread problems with Northern Hemisphere production, weakness in other commodity markets, a strengthening U.S. dollar, continued competition from manmade fibers and China's reduced cotton imports all contribute to the more bearish tone. As a result, prices midway through the 2014 marketing year are the lowest since 2009.

The current marketing year began with cotton stocks at their lowest level in more than 20 years, at essentially pipeline levels of just under 2.5 million bales. When added to recent harvest, total supplies for the 2014 marketing year are estimated at 18.5 million bales. Total supplies will be more than sufficient to satisfy estimated use of 13.8 million bales.

U.S. textile mills are expected to consume 3.6 million bales in the current marketing year, up 50 thousand bales from 2013 and marking the fourth consecutive year of increased consumption. The growth reflects the continued benefits of the Economic Adjustment Assistance Program (EAAP), which allows mills to invest in new facilities and equipment.

The United States will remain the largest exporter of cotton with 2014 shipments estimated at 10.2 million bales. Although down from 10.5 million bales in the previous year, the current export number represents a gain in overall U.S. trade share. World trade is declining due to sharply lower imports by China, with the underlying reasons to be discussed in more detail.

The current U.S. export estimate breaks down into 9.7 million bales of upland cotton and 500 thousand bales of ELS cotton. The current estimate may prove to be conservative for the 2014 marketing year as weekly export sales triggered marketing year high's for three consecutive weeks in January. The U.S. is benefitting from competitive prices relative to other growths and limited availability of Indian cotton due to its Minimum Support Price (MSP) program.

The current supply and demand estimates generate 4.7 million bales of ending stocks in the U.S. balance sheet, up more than 2 million bales from July 31, 2014. Ending stocks for the current marketing year are also the highest since 2008.

With that review in mind, the projections for the 2015 marketing year will begin with the outlook for U.S. production. As in past years, the prospects for the U.S. crop are based on the results of the NCC planting intentions survey with assumptions made for abandonment and yields. Survey respondents are asked to give their plantings of cotton, corn, soybeans, wheat, and other crops for 2014 and intended acreage for 2015. As always, the survey results should be viewed as a measure of grower intentions prevailing at the time the survey was conducted. In this year's survey, growers are faced with lower price expectations across the board. With cotton prices 20% below year-ago levels and corn and soybeans off by approximately 10%, the survey results reflect the weaker competitiveness of cotton.

In the Southeast, survey results indicate a 10.6% decrease in the region's upland area to 2.4 million acres Declines are reported for each of the six states in the region as cotton acres move into competing crops. In Alabama, the survey responses indicate a shift to peanuts and soybeans, while Florida's acreage is almost exclusively moving to peanuts. In Georgia, the acreage shifts are more varied with peanuts, corn and soybeans all expected to pull acres from cotton. A similar picture emerges for South Carolina. In North Carolina, the shift is to soybeans, while corn benefits from the modest decline in Virginia.

In the Mid-South, growers have demonstrated their ability to adjust acreage based on market signals. This year's survey results are no different with growers intending to plant 1.1 million acres, a decrease of 25.9% from the previous year. Without exception across the five states, the respondents indicate that cotton acres will move into soybeans for 2015. The survey results also show cotton moves into neither wheat nor corn in any significant amount as acres devoted to those crops are expected to decline.

Growers in the Southwest intend to plant 5.6 million acres of cotton, a decrease of 13.5%. Reductions in cotton area are expected in each of the three states. In Kansas, land shifting out of cotton is moving into corn and the 'Other Crops' category, likely grain sorghum. Wheat is the expected beneficiary based on the Oklahoma survey results. In south Texas, respondents indicate a shift out of cotton and into grain sorghum. Respondents from the Blacklands are moving predominantly to wheat, with a smaller shift to corn. In west Texas, the acres shifting away from cotton are split between wheat, corn and grain sorghum.

The West region accounts for the largest percentage reduction across the four production regions. With upland intentions of 134 thousand acres, cotton producers in the West are expecting to plant 46.6% fewer acres of upland cotton. The survey results for Arizona suggest a shift from cotton to wheat, as well as the 'Other Crops' category. Arizona upland growers also indicate a shift to ELS cotton. In New Mexico, the reduction in cotton coincides with responses indicating more acres of grain crops.

Summing across the 4 regions gives intended 2015 upland cotton area of 9.2 million acres, 15.2% below 2014.

The survey indicates that growers intend to plant more ELS cotton in 2015, in some cases due to expectations of increased water allocations, and in other instances, due to reductions in upland cotton. Overall, U.S.

cotton growers intend to increase ELS plantings 22.8% to 236 thousand acres in 2015. Summing together the upland and ELS cotton intentions shows U.S. all-cotton plantings in 2015 of 9.4 million acres, 14.6% lower than 2014.

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. However, it is important to remember the volatility around projected production given the uncertainty of weather patterns.

With average abandonment for the U.S. at 12.8%, Cotton Belt harvested area totals 8.2 million acres. Weighting individual state yields by 2015 area generates a U.S. average yield of 817 pounds. Applying each state's yield to its 2015 projected harvested acres generates a cotton crop of 14.0 million bales, with 13.3 million bales of upland and 694 thousand bales of ELS.

Turning attention to demand for U.S. cotton, increasing consumption by the domestic textile industry is projected to continue into the 2015 marketing year. The benefits of the Economic Adjustment Assistance Program (EAAP) are evident with new investment continuing to occur. U.S. mill use is projected to increase by approximately 100 thousand bales, bringing the total to 3.7 million bales. Textile trade estimates for 2015 suggest that the overwhelming majority of products manufactured by the U.S. textile industry will move into export markets for further processing.

Export markets continue to be the primary outlet for U.S. raw fiber production. International markets for U.S. cotton remain very competitive, with competition from not only growths of other cotton, but also manmade fibers. To fully assess the prospects for 2015 cotton exports, it is important to review the expectations for key importing and exporting countries.

That assessment begins with a review of China, the largest importer in the world market, as well as the largest customer of U.S. cotton exports. China's policies have been the single largest factor influencing cotton markets for the past four years. From 2011 through 2013, China supported its cotton farmers by purchasing the vast amounts of China's production into government reserves at a price well above the world market. With most domestic production locked in reserves, China imported annually between 14 and 24 million bales from the world market.

After three years of amassing more than 50 million bales of cotton in government reserves, China instituted a target price program for the 2014 crop at a level of roughly $1.45 per pound. The new target price program was applicable to the western province of Xinjiang, while the remaining cotton-producing provinces receive a direct subsidy of $0.15 per pound. While details regarding the exact implementation of the new policies have been slow to emerge, this outlook assumes that the policies remain in place for the 2015 crop.

Given the structure of the policies, acreage decisions in Xinjiang must be evaluated separately from the decisions in the eastern provinces. In recent years, the trend in Xinjiang cotton area stands in stark contrast to the other provinces. Since 2008, cotton area in Xinjiang has steadily increased while area in the remaining provinces declined by more than 50%. For 2015, those trends are

expected to continue as the target price program is expected to encourage a modest increase in Xinjiang's area devoted to cotton. In the eastern provinces, area is expected to decline as China's internal cotton prices are below year-ago levels. The presence of the direct support can serve to temper the reduction, but nonetheless, a decline of more than 20% is expected. For the country as a whole, a decline in harvested area of 10% is expected. Barring weather problems, China's cotton production will not fall as much as area since yields in Xinjiang are much higher than those in other provinces. A 2015 crop of 28.3 million is projected, down 5.8% from 2014.

Despite being the largest spinner of cotton, China's mill use remains a concern as domestic use struggles to recover. Between 2009 and 2013, China's mill use fell by almost 16 million bales as high cotton prices relative to manmade fibers forced spinners to turn away from cotton. In the current marketing year, China's internal cotton price has dropped by approximately 50 cents per pound, but at close to $1.00, is still almost twice the level of polyester prices. As a result, cotton mill use is expected to show only modest growth in the current marketing year, and the outlook takes a conservative view for 2015 as well.

China's policy change for cotton farmers was coupled with an announcement that import quotas for 2015 would be limited to the required WTO minimum tariff rate quota (TRQ) of 4.1 million bales. Considering the massive stockpiles of cotton and expectations for limited quota, China's imports are expected to fall further in 2015. Under the assumption that some additional import licenses will be available, total imports are projected at 6.2 million bales.

The adjustments in China's supply and demand will allow a modest reduction in stocks, but only down 1.4 million bales to 63.2 million. The stocks remain a burden on the 2015 cotton market. Unfortunately, government policies, and their impacts on China's prices, are not allowing either cotton production or demand to adjust to a market-driven level, and imports are reduced as a result.

Turkey, the second largest export market for U.S. cotton is also being impacted by government actions. In this case, the action is a self-initiated antidumping (AD) investigation of imports of U.S. cotton launched by Turkey in October 2014. A review of publicly available price data indicates no evidence of dumping, and public statements by Turkey's Minister of Economy suggest that the investigation is conducted in retaliation of U.S. investigations of imported steel products from Turkey.

Regardless of the motivations, the investigation is ongoing and already having a detrimental impact on sales to Turkey due to the uncertainty of not knowing when or if a duty will be imposed. Assuming the investigation follows a conventional timeline, it should be concluded at some point during the 2015 marketing year. For this economic outlook, NCC assumes that the investigation results in no duty applied to imports of U.S. cotton. Whether this is a valid assumption will depend on the outcome of the investigation, but this assumption is appropriate for two reasons. First, this assumption is supported by the economic analysis of available data. Second, this assumption allows the outlook to serve as a baseline projection against which alternative duties could be evaluated.

Under these assumptions, Turkey's mill use is projected to show a modest expansion in 2015. Weaker cotton prices relative to grains are expected to reduce cotton production, and Turkey is projected to import 3.8

million bales, up from 3.6 million bales in 2014.

As cotton prices have weakened and become more competitive with manmade fibers in markets outside of China, cotton mill use is growing, although not at the pace hoped for. However, the growth is leading to additional cotton import demand in key countries such as Vietnam, Indonesia and Bangladesh. Further growth is projected for the coming year, lending support to better trade numbers for the U.S.

In terms of the global trade picture, government policies in India will play a role in the outlook for the coming year. Under the current climate of weaker market prices, an increased Minimum Support Price (MSP) for the 2014 crop has caused a significant amount of India's production to move into government stocks. In the short term, procurements by the Cotton Corporation of India have reduced India's presence in the world, which is significant since India normally occupies the spot as the second largest exporter. However, unlike the Chinese government, India generally does not hold stocks for an extended period of time, and at some point, the cotton will be sold from reserves and enter the marketing channels. A key question becomes timing and at what price.

With internal market prices below the MSP, the decline in India's 2015 cotton acreage is mitigated by the support of the MSP. The resulting production reaffirms India's position as the largest producing country. India's domestic use of cotton is projected to continue to grow, but not enough to reduce India's export potential. For the 2015 marketing year, India is expected to export 5.9 million bales, but the potential for greater exports exists if the government chooses to be more aggressive in the pricing of cotton from reserves.

As the net effects of the trade adjustments are aggregated together, world cotton trade for 2015 is estimated at 34.6 million bales, up from 34.1 million in 2014 but well below the 2009-13 5-year average of 41.2 million bales. The United States is expected to capture approximately 30% of world trade by exporting 10.6 million bales in the upcoming year.

When trade is added to U.S. mill use, total offtake is 14.3 million bales. Recall that the U.S. crop is estimated at 14.0 million bales, thus leading to a decline in ending stocks of approximately 250 thousand bales.

For the world balance sheet, smaller crops in the U.S. and China account for more than 60% of the 6 million bale decline in world production. At 113.2 million bales, the projected crop is the smallest since 2009. World mill use is projected at 113.7 million bales, exceeding production for the first time also since 2009.

World cotton stocks decline in the 2015 balance sheet, but the modest decline of 440 thousand bales does little to reduce global inventories that begin the year at 109.8 million bales. In addition, stocks outside of China – an important barometer of price conditions – are projected to increase by 900 thousand bales.

While the Council's economic outlook does not attempt to project cotton prices, it is important to review some of the factors shaping the current price situation. Record levels of cotton stocks, smaller imports by China, weakness in other commodity markets, and a strengthening dollar create a bearish climate for U.S. and world cotton prices. Based on the underlying assumptions and resulting cotton balance sheet, many of those same factors remain prevalent in the outlook for the coming year. However, recent experience has shown that market conditions can change quickly.

Table 1 - Balance Sheet for Selected Countries & Regions

World	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	74,592	82,843	88,860	84,975	80,999	84,636	79,516
Yield (Pounds/Acre)	665	681	689	698	714	676	683
Production (Thou Bales)	103,359	117,590	127,480	123,584	120,441	119,167	113,179
Trade (Thou Bales)	37,077	36,765	45,319	46,301	40,584	34,143	34,616
Mill Use (Thou Bales)	119,829	115,778	104,044	107,782	109,099	111,137	113,703
Ending Stocks (Thou Bales)	47,373	50,578	73,805	89,973	101,664	109,835	109,396
United States	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	7,534	10,699	9,461	9,321	7,544	9,707	8,224
Yield (Pounds/Acre)	776	812	790	892	821	795	817
Production (Thou Bales)	12,183	18,102	15,573	17,314	12,909	16,084	14,005
Net Exports (Thou Bales)	12,037	14,367	11,695	13,016	10,517	10,190	10,549
Mill Use (Thou Bales)	3,550	3,900	3,300	3,500	3,550	3,600	3,711
Ending Stocks (Thou Bales)	2,947	2,600	3,350	3,800	2,450	4,700	4,446
Australia	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	494	1,433	1,619	1,100	1,077	581	738
Yield (Pounds/Acre)	1,724	1,407	1,631	2,008	1,827	1,819	1,825
Production (Thou Bales)	1,775	4,200	5,500	4,600	4,100	2,200	2,804
Net Exports (Thou Bales)	2,112	2,500	4,640	6,168	4,852	3,000	2,133
Mill Use (Thou Bales)	40	40	40	40	40	35	35
Ending Stocks (Thou Bales)	852	2,762	3,807	2,399	1,807	1,072	1,808
Bangladesh	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	79	86	89	99	104	106	106
Yield (Pounds/Acre)	304	355	464	524	532	542	542
Production (Thou Bales)	50	64	86	108	115	120	120
Net Imports (Thou Bales)	4,000	4,250	3,300	3,900	4,100	4,450	4,582
Mill Use (Thou Bales)	4,000	4,200	3,500	3,900	4,150	4,400	4,620
Ending Stocks (Thou Bales)	888	992	868	966	1,021	1,131	1,203
Brazil	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	2,066	3,459	3,459	2,224	2,768	2,471	2,380
Yield (Pounds/Acre)	1,266	1,249	1,207	1,295	1,388	1,360	1,360
Production (Thou Bales)	5,450	9,000	8,700	6,000	8,000	7,000	6,744
Net Exports (Thou Bales)	1,839	1,297	4,763	4,242	2,083	3,250	2,834
Mill Use (Thou Bales)	4,400	4,300	4,000	4,100	4,200	4,000	4,012
Ending Stocks (Thou Bales)	4,353	7,906	7,993	5,801	7,668	7,568	7,617
China	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	13,096	12,973	13,591	13,096	11,861	10,872	9,796
Yield (Pounds/Acre)	1,173	1,129	1,201	1,283	1,325	1,324	1,385
Production (Thou Bales)	32,000	30,500	34,000	35,000	32,750	30,000	28,265
Net Imports (Thou Bales)	10,880	11,857	24,478	20,280	14,096	7,050	6,180
Mill Use (Thou Bales)	50,000	46,000	38,000	36,000	34,500	35,200	35,814
Ending Stocks (Thou Bales)	14,246	10,603	31,081	50,361	62,707	64,557	63,188
India	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	25,476	27,527	30,146	29,652	28,911	31,382	30,141
Yield (Pounds/Acre)	462	474	462	461	515	467	470
Production (Thou Bales)	24,500	27,200	29,000	28,500	31,000	30,500	29,514
Net Exports (Thou Bales)	6,070	4,550	10,480	6,574	8,580	3,600	4,883
Mill Use (Thou Bales)	19,750	20,550	19,450	21,850	23,350	24,100	24,869
Ending Stocks (Thou Bales)	9,699	11,799	10,869	11,945	11,515	14,315	14,077

Table 1 – Selected Countries and Regions (Continued)

Indonesia	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	25	22	22	25	22	22	22
Yield (Pounds/Acre)	583	540	648	583	540	540	540
Production (Thou Bales)	30	25	30	30	25	25	25
Net Imports (Thou Bales)	2,685	2,590	2,495	3,132	2,984	3,195	3,217
Mill Use (Thou Bales)	2,600	2,600	2,450	3,050	3,050	3,150	3,230
Ending Stocks (Thou Bales)	489	454	529	641	600	670	682
Mexico	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	190	274	474	383	294	445	417
Yield (Pounds/Acre)	1,198	1,281	1,194	1,298	1,508	1,317	1,325
Production (Thou Bales)	475	732	1,180	1,036	924	1,220	1,152
Net Imports (Thou Bales)	1,303	971	660	725	880	850	806
Mill Use (Thou Bales)	1,900	1,700	1,700	1,800	1,850	1,875	1,907
Ending Stocks (Thou Bales)	617	595	710	646	575	745	770
Pakistan	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	7,413	6,919	7,413	7,413	7,413	7,537	7,325
Yield (Pounds/Acre)	598	599	686	602	615	650	640
Production (Thou Bales)	9,240	8,640	10,600	9,300	9,500	10,200	9,766
Net Imports (Thou Bales)	849	763	-260	1,350	690	550	1,137
Mill Use (Thou Bales)	10,400	9,900	10,000	10,750	10,400	10,500	10,765
Ending Stocks (Thou Bales)	3,042	2,520	2,835	2,710	2,475	2,700	2,813
Turkey	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	692	791	1,211	1,013	815	1,063	992
Yield (Pounds/Acre)	1,214	1,281	1,364	1,256	1,354	1,446	1,425
Production (Thou Bales)	1,750	2,110	3,440	2,650	2,300	3,200	2,946
Net Imports (Thou Bales)	4,244	3,204	2,082	3,474	4,042	3,370	3,519
Mill Use (Thou Bales)	5,900	5,600	5,600	6,050	6,300	6,400	6,448
Ending Stocks (Thou Bales)	1,605	1,319	1,241	1,315	1,357	1,527	1,544
Uzbekistan	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	3,212	3,286	3,237	3,249	3,175	3,175	3,127
Yield (Pounds/Acre)	583	599	623	665	620	605	620
Production (Thou Bales)	3,900	4,100	4,200	4,500	4,100	4,000	4,039
Net Exports (Thou Bales)	3,800	2,650	2,500	3,200	2,700	2,300	2,410
Mill Use (Thou Bales)	1,100	1,250	1,350	1,450	1,500	1,500	1,528
Ending Stocks (Thou Bales)	948	1,148	1,498	1,348	1,248	1,448	1,549
Vietnam	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	20	22	27	20	17	20	20
Yield (Pounds/Acre)	413	475	424	413	416	413	415
Production (Thou Bales)	17	22	24	17	15	17	17
Net Imports (Thou Bales)	1,695	1,569	1,625	2,410	3,200	3,600	3,856
Mill Use (Thou Bales)	1,600	1,625	1,675	2,250	3,200	3,600	3,897
Ending Stocks (Thou Bales)	375	341	315	492	507	724	700
West Africa	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Harvested Area (Thou Acres)	3,442	3,388	4,722	5,812	5,869	6,252	5,838
Yield (Pounds/Acre)	312	322	326	351	357	362	367
Production (Thou Bales)	2,237	2,275	3,206	4,250	4,365	4,713	4,459
Net Exports (Thou Bales)	2,193	2,130	2,441	4,139	4,100	4,100	4,236
Mill Use (Thou Bales)	208	188	187	166	169	164	164
Ending Stocks (Thou Bales)	587	544	1,122	1,067	1,163	1,612	1,671

U.S. and World Economy

In the early weeks of 2015, many of the uncertainties that have plagued the global economy in recent years are still prevalent in the current macroeconomic environment. 'Cross currents' was the term used by the International Monetary Fund (IMF) in their January 2015 *World Economic Outlook* to summarize the outlook for the global economy. Global growth is expected to receive a boost from lower oil prices, but the boost is expected to be more than offset by negative factors such as investment weakness. The IMF also cite concerns about stagnation and low inflation in Europe and Japan. Those concerns recently prompted the European Central Bank to announce an aggressive plan to buy 60 billion euros a month in bonds beginning in March and continuing at least through September 2016.

The Wells Fargo Securities January 2015 *Monthly Outlook* echoed similar concerns for the global economy. In addition to the concerns in the Eurozone, Chinese economic activity is also expected to slow down from the experience of recent years. However, Wells Fargo economists were quick to note that the "decline in petroleum and gasoline prices, while hurting oil producers and exporters all across the world, is helping consumers at a time when the world economy needs those consumers to step up to the plate and start consuming again. That is, disposable personal income across the world is expected to benefit and this should help global demand and economic growth during the year."

The benefit to consumers of lower energy prices appears to be a driving factor behind the latest survey of consumer attitudes. As measured by the Reuters/University of Michigan's Consumer Sentiment Index, consumer confidence jumped in January to its highest level in 11 years. The index is designed to gauge the attitudes of the American consumer with regards to the economy.

For January 2015, the preliminary index jumped to 98.2, up from 93.6 in December (Figure 1). Steady job gains and plunging gas prices were cited as the major factors behind the improved attitudes of U.S. households. The latest increase in the index continues a 6-month recovery in consumer attitudes.

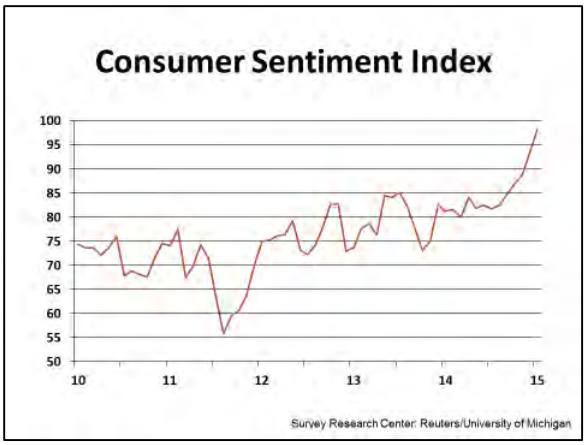

Figure 1 - Consumer Sentiment Index

U.S. Gross Domestic Product

As determined by the Bureau of Economic Analysis (BEA), the U.S. 2014 third quarter real Gross Domestic Product (GDP) expanded by 5.0% (Figure 2), following on gains of 4.6% in the second quarter. The third quarter estimates also represent the best quarterly performance since the third quarter of 2003.

The increase in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, federal government spending, exports, state and local government spending, and residential fixed investment. Imports, which

are a subtraction in the calculation of GDP, decreased.

The Wells Fargo economic outlook projected a fourth quarter number of 3.0%, led by gains in residential construction and consumer spending. The momentum is expected to carry over into 2015 with a projected GDP growth of 3.1%. The composition of growth is expected to remain broad-based. Consumer spending will be supported by an improving labor market, stronger consumer confidence and improved household wealth. However, the Wells Fargo outlook calls for less optimism on fixed business investment, but that is largely offset with growth in government purchases.

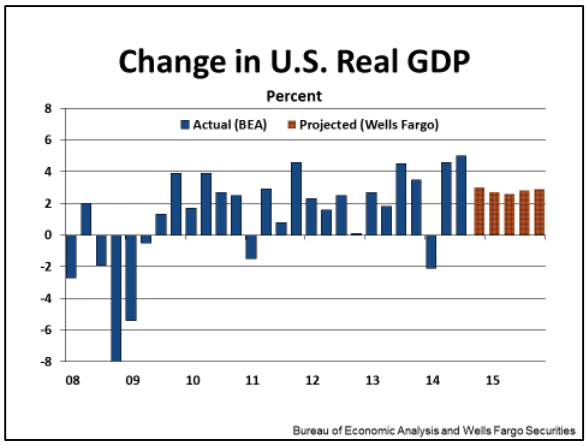

Figure 2 - Change in U.S. Real GDP

The latest IMF projections take an even more optimistic tone regarding U.S. GDP growth with expansion of 3.6% in 2015, followed by 3.3% growth in 2016. Expectations for continued growth are supported by improved domestic demand and the continuation of accommodative monetary policy.

U.S. real personal consumption expenditures (PCEs) expanded in the third quarter of 2014 by 3.2% (Figure 3), compared with an increase of 2.5% in the second quarter. Durable goods increased 9.2%, compared with an increase of 14.1%. Nondurable goods increased 2.5%, compared with an increase of 2.2%. Services increased 2.5%, compared with an increase of 0.9%.

The latest outlook by Wells Fargo puts the fourth quarter growth in PCEs at 4.5%, which if realized, would be the strongest quarterly performance in more than a decade. For 2015, PCEs are projected to grow at 3.1%, up from annual growth of 2.5% in 2014.

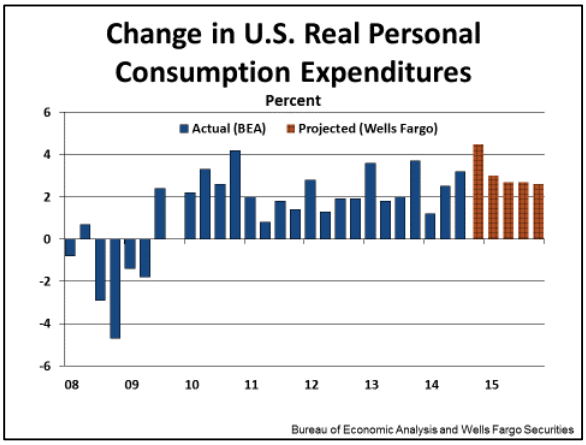

Figure 3 - Change in U.S. Real Personal Consumption Expenditures

U.S. Employment

Although still well below pre-recession levels, the 2014 U.S. jobs market experienced its best performance of the current economic recovery. In December 2014, civilian employment stood at 59.2% of the population (Figure 4), up 0.6% from year-earlier levels. The latest data still fall well short of the pre-recession levels of 63.0%, but still come as welcomed news after the stagnant data reported between 2010 and 2013.

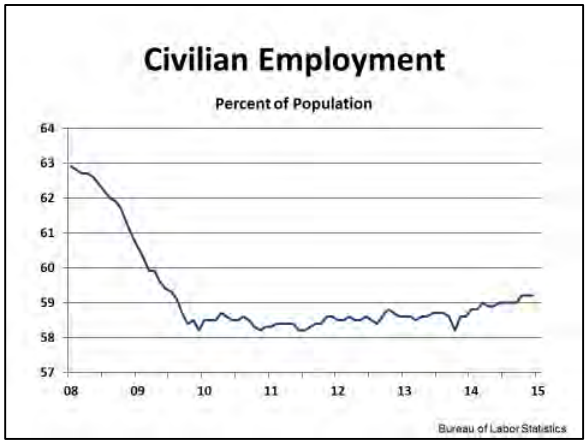

Figure 4 - Civilian Employment

Total nonfarm payroll employment increased by 252,000 in December. In 2014, job growth averaged 246,000 per month, compared with an average monthly gain of 194,000 in 2013. In December, employment increased in professional and business services, construction, food services and drinking places, health care, and manufacturing.

Employment in professional and business services rose by 52,000 in December. Monthly job gains in the industry averaged 61,000 in 2014. Construction added 48,000 jobs, well above the employment gains in recent months. In December, employment in food services and drinking places increased by 44,000, while health care added 34,000 jobs. Manufacturing employment increased by 17,000, with durable goods (+13,000) accounting for most of the gain. Employment in wholesale trade and in financial activities continued to trend up in December. Employment in retail trade changed little in December, following a large gain in November.

According to the latest government estimates, the December 2014 unemployment rate fell to 5.6% (Figure 5), marking the lowest level since June 2008. Over the year, the unemployment rate was down by 1.1%. For 2015, economists expect the labor market to continue to improve. The Wells Fargo outlook expects employers to add approximately 220,000 jobs per month and the unemployment rate to continue to steadily decline during the coming year.

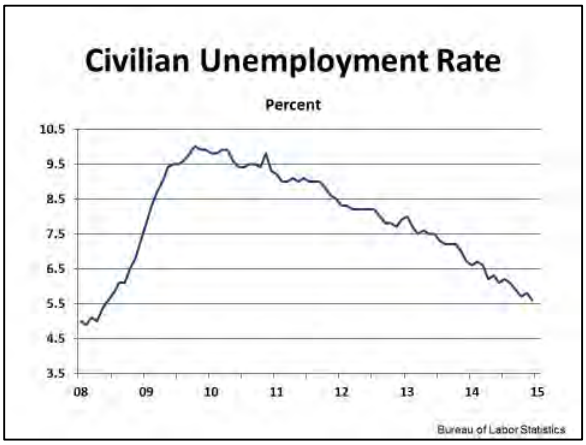

Figure 5 - Civilian Unemployment Rate

U.S. Housing Market

The housing industry, a key barometer of the well-being of the economy, showed continued improvement in 2014 as housing starts recovered to levels not seen since early 2008. According to the U.S. Census Bureau, new-home construction retained a strong pace with a seasonally-adjusted annual rate of 1.09 million units in December (Figure 6). This is 4.4% above the revised November estimate of 1.04 million units and is 5.3% above the December 2013 rate. An estimated 1,005,800 housing units were started in 2014, up 8.8% from 2013.

Figure 6 - U.S. New Housing Starts

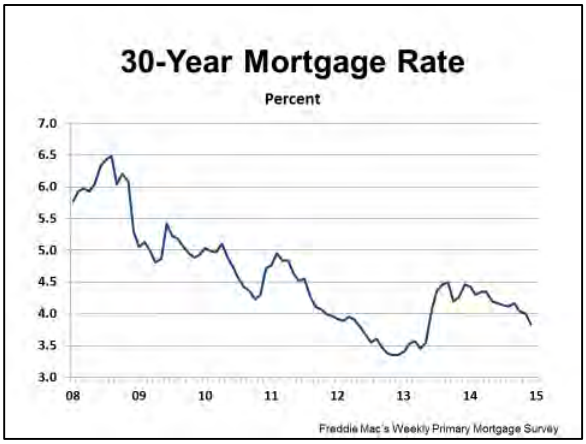

Figure 7 - 30-Year Mortgage Rate

According to Freddie Mac's January *U.S. Economic and Housing Market Outlook*, the 2015 housing market is prepared for a strong start. Unlike the start of 2014, the outlook is bolstered by "positive tailwinds" from the overall economy. An improving labor market, favorable mortgage rates and lower oil prices should lend support to the housing market.

At 3.83%, the 30-year mortgage rate for December 2014 averaged below 4% for the first time since May 2013 (Figure 7). December continued the trend of steadily falling mortgage rates prevalent throughout 2014. In early 2015, mortgage rates were continuing to slide lower with the most recent surveys indicating a preliminary January number of 3.66%. The lower rates are making it possible for refinancing activity to pick up for loans originating in the past year.

For 2015, Freddie Mac expects mortgage rates to inch higher, reaching 4.5% by the fourth quarter of 2015. Until interest rates exhibit the projected increase later in 2015, housing markets should remain positive. Housing starts for 2015 are projected at 1.2 million units, up from 1.0 million in 2014. The outlook for the housing market will be contingent on the performance of the overall economy. In addition, economists caution that changes in domestic policy, particularly by the Federal Reserve, can alter the outlook.

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 2014. In December, the Federal Reserve reaffirmed its belief that a target range of 0% to 0.25% remains appropriate. According to a press release by the Federal Open Market Committee, the duration of the current target range will depend on progress toward the objectives of maximum employment and 2% inflation.

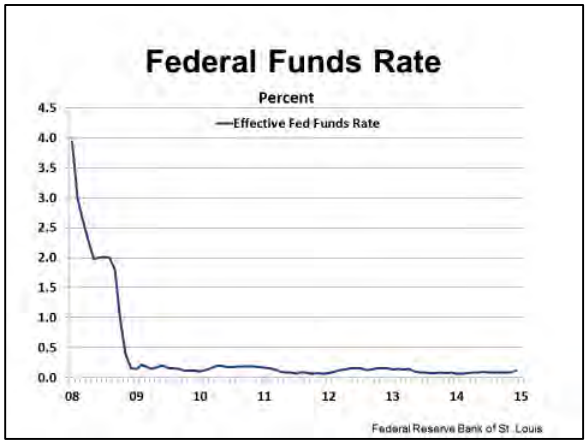

Figure 8 - Federal Funds Rate

Based on its current assessment, the Committee decided that it can be patient in beginning to normalize the stance of monetary policy. The Committee sees this guidance as consistent with its previous statement that it likely will be appropriate to maintain the 0% to 0.25% target range for a considerable time following the end of its asset purchase program in October. However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.

A January 2015 *Wall Street Journal* survey indicates that turmoil in global markets and weak overseas growth have trimmed the expectations of economists regarding an increase the federal funds rate. Inflation is below the Fed's 2% target and looks set to move even lower due to falling oil prices before rebounding. Respondents to the WSJ survey noted that the economy has been giving the Fed conflicting signals. Though inflation is below the Fed's target, the labor market has improved more quickly than officials had anticipated, with unemployment falling to 5.6% in December.

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 2014, federal spending totaled $3.5 trillion and revenue came in at $3.0 trillion (Figure 9), resulting in a deficit of $500 billion. Though still significant, the 2014 deficit is the smallest since fiscal 2008.

Revenues for fiscal year 2014 represent an increase of 8.9% from the 2013 value and represent a new high. Outlays in fiscal 2014 are up just $50 billion, or 1.4% from the previous year. Federal outlays also remain short of the peak of $3.6 trillion in fiscal 2011. For fiscal 2015, CBO projects that revenue will grow by 5.6% and outlays up by 4.3%. Longer term, the CBO projections call for revenue to expand by 4.5% while spending increases at an annual rate of 4.9%.

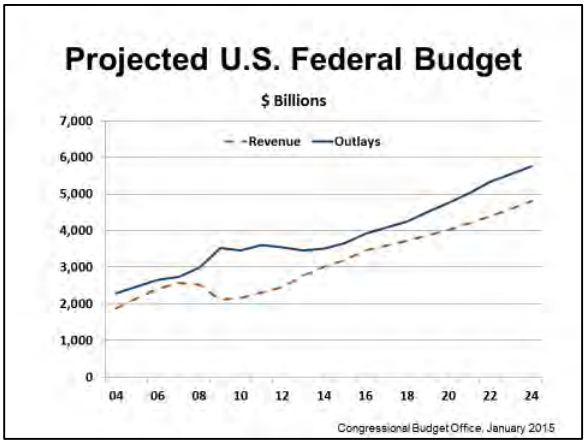

Figure 9 - Projected U.S. Federal Budget

For fiscal 2014, CBO estimates a deficit of $483 billion (Figure 10). At 2.8% of GDP, the 2014 deficit will be much smaller than those of recent years (which reached almost 10% of GDP in 2009) and slightly below the average of federal deficits over the past 40 years.

Because revenues are projected to rise more rapidly than spending in fiscal 2015, the

deficit shrinks to $468 billion. However, smaller deficits last only a couple of years before increasing in 2017. According to CBO's long-term projections, the annual deficit would remain less than 3% of GDP through 2018, but would grow thereafter, reaching 4% by 2025.

The persistent and growing deficits that CBO projects would result in increasing amounts of federal debt held by the public. In CBO's baseline projections, that debt rises from 74% of GDP this year to 79% of GDP in 2025. As recently as 2007, federal debt equaled 35% of GDP, but the very large deficits of the past several years caused debt to surge.

According to CBO, the large and increasing amount of federal debt would have serious negative consequences, including: increasing federal spending for interest payments; restraining economic growth in the long term; giving policymakers less flexibility to respond to unexpected challenges; and eventually increasing the risk of a fiscal crisis (in which investors would demand high interest rates to buy the government's debt).

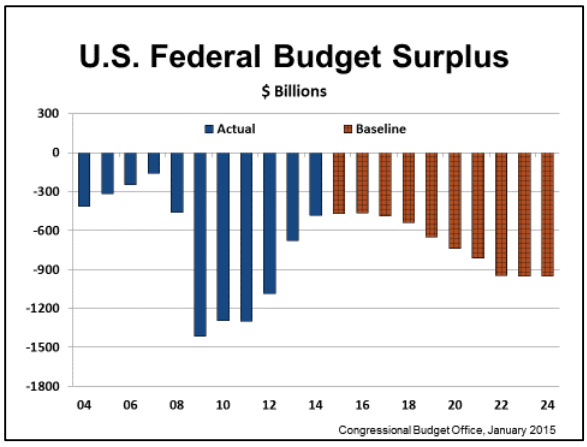

Figure 10 - U.S. Federal Budget Surplus

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 just 0.8% in 2014 after a 1.5% increase in 2013 (Figure 11). The most recent December-to-December change is the smallest since 2008. The inflation picture is a bit more pronounced based on annual averages. For 2014, the annual average CPI grew at 1.6%, which is slightly more than the 2013 value but still below historical averages.

The energy index, which rose slightly in both 2012 and 2013, declined sharply in 2014, falling 10.6%, the largest decline since 2008. The gasoline index was the main cause of the decline, falling 21.0%, with most of the decrease over the last few months of the year. Despite the decline in 2014, the energy index has risen at a 3.2% annual rate over the past 10 years.

The index for food rose 3.4% in 2014, a substantial acceleration from its 2013 increase of 1.1%. The index for all items less food and energy rose 1.6% in 2014, a slight deceleration from its 1.7% increase in 2013, and below its 1.9% annual rate over the past ten years.

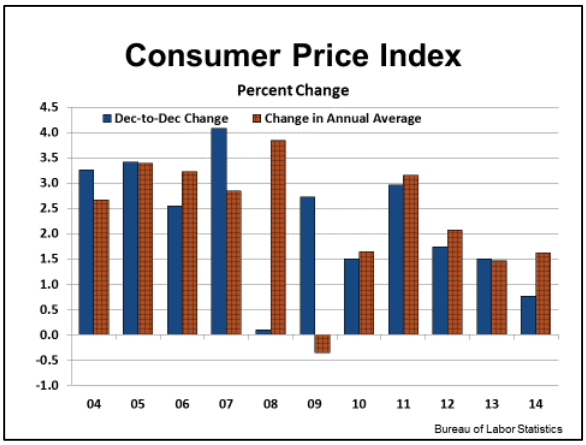

Figure 11 - Consumer Price Index

On a December-to-December basis, the PPI for finished goods rose in 2014 by just 1.1% (Figure 12), the lowest value since 2008. Lower energy prices kept the inflation measure for 2014 largely in check by partially offsetting increases in other categories.

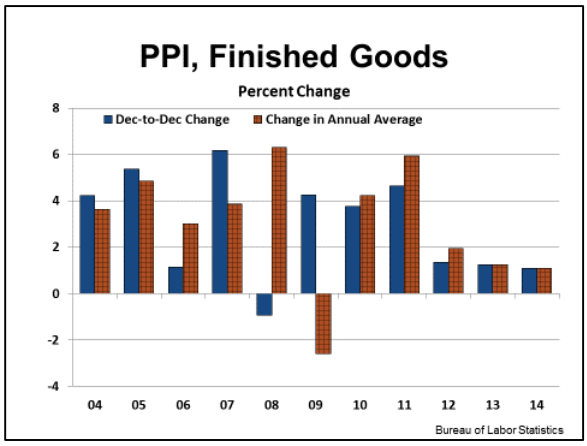

Figure 12 - Producer Price Index, Finished Goods

Energy Prices and Supply

For 2015, energy prices have moved to the forefront of any analysis of the general economy. After 5 years of crude oil prices (as measured by West Texas Intermediate market) ranging between $80 and $100 per barrel, the latter half of 2014 brought a pronounced change in energy markets with price declines approaching 50%.

The Department of Energy's Energy Information Administration (EIA) estimates that global oil inventories increased by almost 0.8 million barrels per day (bbl/d) in 2014, the largest build since 2008. However, unlike in 2008, the current market imbalance has been predominantly supply-driven, as production from countries outside of the Organization of the Petroleum Exporting Countries (OPEC) grew by a record high of 2.0 million bbl/d in 2014. Global oil inventories are expected to continue to grow by 0.9 million bbl/d during the first half of 2015, but to taper off by the end of the year as non-OPEC supply growth, particularly from the United States, weakens because of lower oil prices.

EIA estimates that global consumption grew by 0.9 million bbl/d in 2014, averaging 91.4 million bbl/d for the year. EIA expects global consumption to grow by 1.0 million bbl/d in both 2015 and 2016.

The combination of robust world crude oil supply growth and weak global demand has contributed to rising global inventories and falling crude oil prices. EIA expects global oil inventories to continue to build in 2015, keeping downward pressure on oil prices. Based on current market balances, EIA expects downward price pressures to be concentrated in the first half of 2015 when global inventory builds are expected to be particularly strong.

The monthly average WTI crude oil spot price fell from an average of $76/bbl in November to $59/bbl in December (Figure 13). WTI prices have decreased considerably, with monthly average prices falling by more than 44% as of December after reaching their 2014 peak of $106/bbl in June. EIA now expects WTI crude oil prices to average $55/bbl in 2015, $8/bbl lower than in last month's short-term outlook.

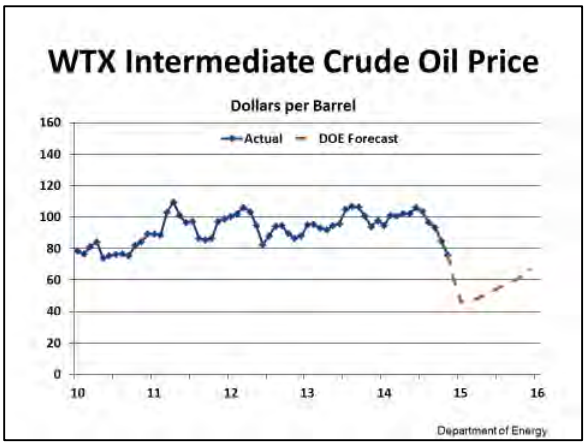

Figure 13 - WTX Intermediate Crude Oil Price

The EIA outlook cautions that current values of futures and options contracts suggest high

uncertainty in the price outlook. The recent declines in oil prices and associated increase in oil price volatility continue to contribute to a particularly uncertain forecasting environment, and several factors could cause oil prices to deviate significantly from current projections. Among these factors is the responsiveness of supply to lower prices.

Retail diesel fuel prices (Figure 14), which track closely with crude oil prices, averaged $3.41 per gallon in December 2014, down $0.47 per gallon from year-earlier levels. The EIA projects diesel prices to average $2.85 per gallon in 2015, with monthly lows projected in April and May.

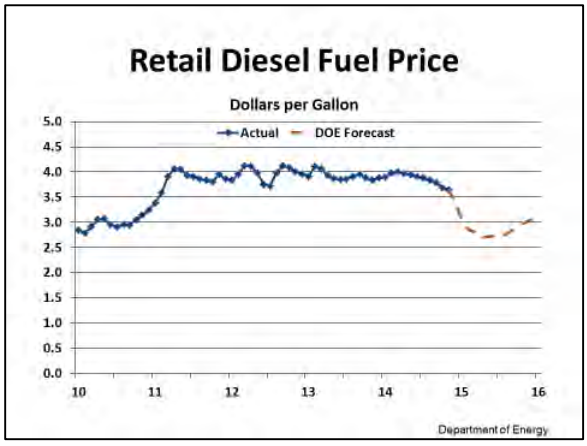

Figure 14 - Retail Diesel Fuel Price

Natural gas prices dropped sharply at the end of 2014, due in part to a warmer-than-normal December, which along with robust production contributed to lower-than-average storage withdrawals. The Henry Hub natural gas spot price averaged $3.59 per thousand cubic foot (Mcf) in December 2014 (Figure 15), down 66 cents from November.

The current forecast for natural gas prices calls for weaker prices through the first half of 2015. EIA projects that U.S. total natural gas consumption will increase to an average of 73.8 Bcf/d in 2015, compared with an estimated 73.6 Bcf/d in 2014. Growth is largely driven by the industrial and electric power sectors, while residential and commercial consumption is projected to decline in 2015. EIA expects that growth in marketed natural gas production will continue through 2015. This increase is the result of continuing strong growth in the Lower 48 states, which more than offsets the long-term trend of declining production in the Gulf of Mexico.

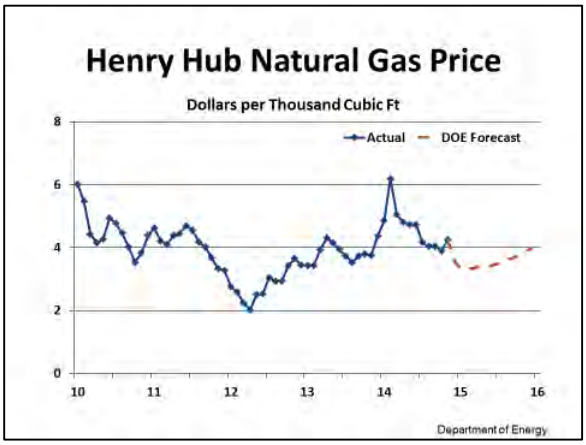

Figure 15 - Henry Hub Natural Gas Price

U.S. Equity Markets

An improving U.S. economy lifted equity markets to new highs in 2014. After closing 2013 at 16,577, the Dow Jones Industrials Average (Dow) moved to 17,823 by the end of 2014 (Figure 16). While the 7.5% growth in 2014 fell short of the strong performance of 2013, U.S. stock markets continue a run that has lasted almost 70 months, which according to data from Standard and Poor's, makes it the fourth longest bull market since World War II.

The market's performance in 2014 was not without several challenges. In recent months, investors have encountered deterrents that might have thwarted the market's progress. The Federal Reserve, for instance, wound down its bond-buying program, which had helped drive stocks higher. The economies of Europe and Japan remain fragile, while conflicts in Ukraine and the Middle East, as well as a steep

plunge in oil prices, created instability in the market.

The latter part of 2014 brought greater volatility to equity markets with two big sell-offs in October and early December. However, markets rebounded from the sell-off, and some analysts feel that the stock market is ripe for a correction.

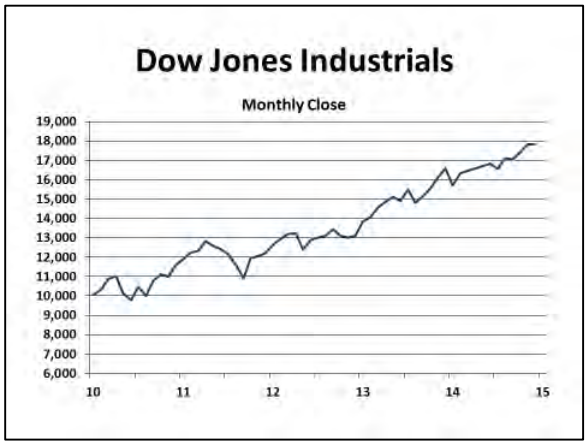

Figure 16 - Dow Jones Industrials

World Economies

The world economy continued its recovery in 2014 at roughly the same pace as in 2012 and 2013. According to the latest projections by the International Monetary Fund, the world economy grew by 3.3% in 2014, which was the same rate as observed in 2013 (Figure 17).

According to the IMF report, global growth increased broadly as expected in the latter half of 2014, but there were significant differences among major economies. "Specifically, the recovery in the United States was stronger than expected, while economic performance in all other major economies, most notably Japan, fell short of expectations. The weaker-than-expected growth in these economies is largely seen as reflecting ongoing, protracted adjustment to diminished expectations regarding medium-term growth prospects."

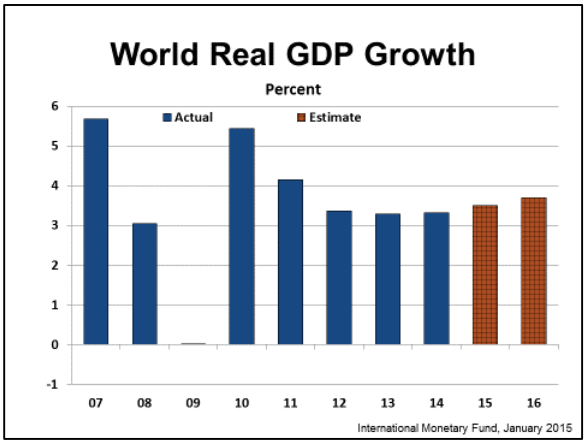

Figure 17 - World Real GDP Growth

Activity is expected to improve modestly in 2015 and 2016, primarily due to recovery in advanced economies. IMF projections call for the world economy to grow by 3.5% in 2015, and growth is expected to rise to 3.7% in 2016. However, the latest projections reflect downward revisions relative to IMF's October 2014 outlook. The revisions reflect a reassessment of prospects in China, Russia, the euro area, and Japan as well as weaker activity in some major oil exporters because of the sharp drop in oil prices. The United States is the only major economy for which growth projections have been raised.

The IMF projects that output of emerging and developing economies will expand at 4.3% in 2015 and 4.7% in 2016. In advanced economies, growth is projected at 2.4% in both 2015 and 2016.

Looking across key countries and regions, the economy in the Euro Area is projected to grow by 1.2% in 2015 and 1.4% in 2016 (Table 2). Activity is projected to be supported by lower oil prices, further adjustments in monetary policy, a more neutral fiscal policy stance, and the recent euro depreciation. But these factors will be offset by weaker investment prospects.

In Japan, growth is expected to remain below 1.0% in 2015 and 2016. Policy

responses are assumed to support a gradual rebound in activity.

According to the IMF report, investment growth in China declined in the third quarter of 2014, and leading indicators point to a further slowdown. The authorities are now expected to put greater weight on reducing vulnerabilities from recent rapid credit and investment growth and hence the forecast assumes less of a policy response to the underlying moderation. Slower growth in China will also have important regional effects, which partly explains the downward revisions to growth in much of emerging Asia.

In India, the growth forecast is broadly unchanged, as weaker external demand is offset by the boost to the terms of trade from lower oil prices and a pickup in industrial and investment activity after policy reforms.

The IMF projections reflect the economic impact of sharply lower oil prices and increased geopolitical tensions, both through direct and confidence effects. Russia's sharp slowdown and ruble depreciation have also severely weakened the outlook.

Table 2 - Selected Economies: Real GDP

Year-Over-Year % Changes				
	2013	2014e	2015f	2016f
World	3.3	3.3	3.5	3.7
U.S.	2.2	2.4	3.6	3.3
Euro Area	-0.5	0.8	1.2	1.4
Japan	1.6	0.1	0.6	0.8
China	7.8	7.4	6.8	6.3
India	5.0	5.8	6.3	6.5
Russia	1.3	0.6	-3.0	-1.0
Brazil	2.5	0.1	0.3	1.5
Mexico	1.4	2.1	3.2	3.5
Source: International Monetary Fund, January 2015				

Exchange Rates

During periods of market uncertainty, traders sell currencies that are perceived riskier and place their bets in safe havens.

In 2014, the euro averaged 0.75 per dollar, which equals the average value for 2013 (Table 3). However, the average can be misleading as the euro weakened against the dollar in the latter half of the year. At the close of 2014, the euro stood at 0.83 per dollar. The euro weakened further in January following the announcement of a stimulus package for the Eurozone. Some analysts have even projected parity with the dollar by 2016.

Likewise, the Japanese yen further depreciated in 2014. After sliding more than 36% since the end of 2011, economists surveyed by Bloomberg call for an additional drop of almost 4% through the end of 2015. The currency market is bracing for more yen-debasing stimulus measures from the Bank of Japan after government data show little evidence of a rebound in the world's third-largest economy.

The Brazilian real also depreciated against the dollar. In the view of some analysts, the Brazilian real remains overvalued and should therefore continue to weaken against the backdrop of a deterioration in economic activity and high inflation. The real's performance will depend on government's efforts to curb the budget deficit and the risks the country's ratings might be downgraded.

While the South Korean won showed a slight appreciation against the dollar in 2014, other Asian currencies generally depreciated against the dollar. China is an exception with the yuan continuing a steady appreciation against the dollar.

Table 3 - Selected Exchange Rates

Currency per U.S. Dollar			
	2012	2013	2014
Euro	0.78	0.75	0.75
Japanese Yen	79.78	97.55	105.82
Brazilian Real	1.95	2.15	2.35
South Korean Won	1,123	1,090	1,051
Indian Rupee	53.45	58.42	60.90
Indonesia Rupiah	9,328	10,391	11,836
Pakistani Rupee	92.60	100.69	100.21
Chinese Yuan	6.30	6.19	6.14
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. The cyclical performance continued in 2014, with the index on an upswing in the latter half of the year. For December, the index was at the highest level since mid-2012.

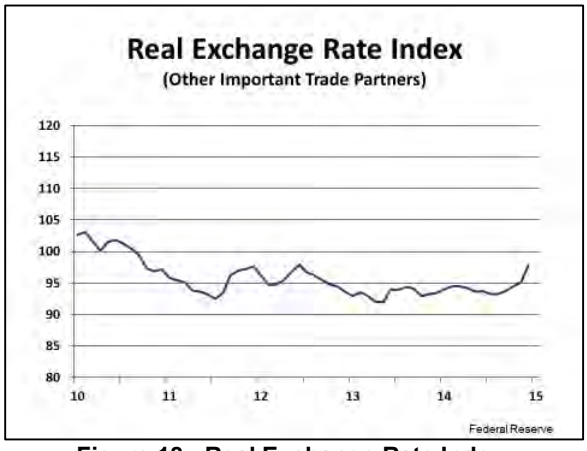

Figure 18 - Real Exchange Rate Index

Commodity Prices

The U.S. Department of Agriculture (USDA) publishes monthly indices of prices received by farmers. During 2014, the crop price index increased through May only to experience a precipitous decline in the latter half of the year. The December index of 82 represented a 17.2% decline from the May high (Figure 19).

Relative to year-ago levels, crop price declines are the most evident in the feed grain and oilseed sectors. Larger crops in 2014 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 above year-ago levels.

Cotton prices exhibited a similar movement to the grain and oilseed sectors. After steadily increasing through June, the cotton price index had fallen by 28% by December. Lower prices reflected expectations of smaller imports by China and a world crop exceeding mill use for a fifth consecutive year.

Unlike crop prices, livestock prices presented a more stable appearance and actually ended the year up 15.0%. Compared with a year ago, the price for milk is down, but prices are higher for cattle, market eggs, calves, hogs, broilers, and turkeys.

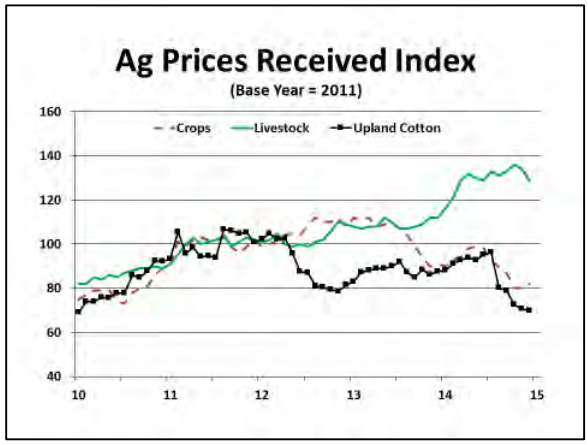

Figure 19 - Ag Prices Received Index

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 2014 (Figure 20). The diesel price index ended the year down 9.4% from the beginning of 2014. By December, the diesel price index approached levels not seen since early 2011.

The nitrogen price ended the year at the same value as the beginning of the year. However, prices were far from stagnant over the course of 2014. Between January and May, the price index rose by 17.3% only to have those gains disappear over the course of the second half of the year.

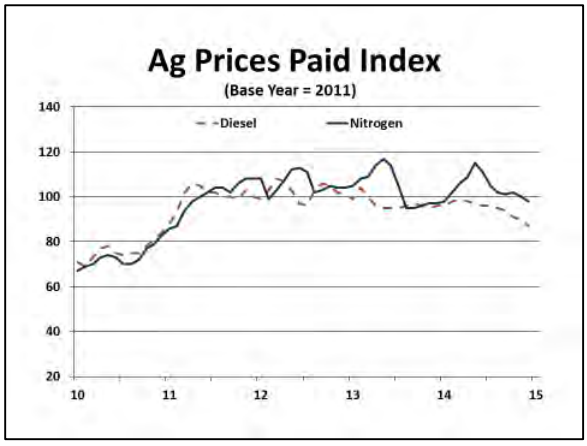

Figure 20 - Ag Prices Paid Index

U.S. Net Farm Income

The latest USDA estimates place U.S. net farm income at $97.3 billion in 2014, down almost 25% from 2013's estimate of $129 billion (Figure 21). The 2014 forecast would be the lowest since 2010, but would remain $12.3 billion above the previous 10-year average.

Offsetting changes in crop and livestock receipts leave higher expenses as the main driver of changes in 2014 net farm income from 2013. Net cash income is forecast at $108.2 billion, down over 17% from the 2013 estimate. Net cash income is projected to decline less than net farm income primarily because it reflects the sale of carryover stocks from 2013.

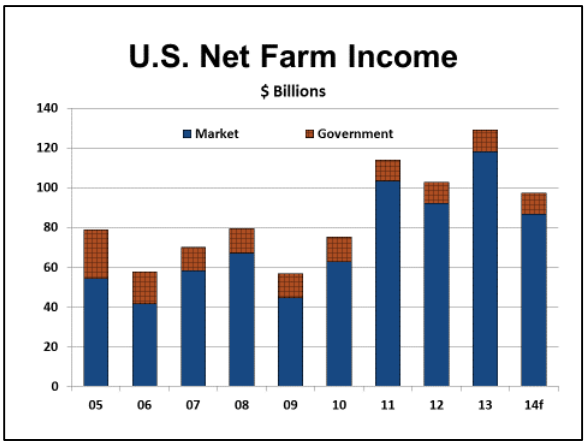

Figure 21 - U.S. Net Farm Income

According to USDA's Economic Research Service, crop receipts are expected to decrease by $25.1 billion in 2014, led by a projected $10.9-billion decline in corn receipts and a $9.5-billion decline in oil crop receipts. Livestock receipts are forecast to increase by $25.9 billion in 2014 largely due to anticipated record prices for beef cattle and milk.

The elimination of direct payments under the Agricultural Act of 2014 results in a projected 4% decline in government payments due to offsetting supplemental and ad hoc disaster assistance payments related to drought. Total production expenses are forecast to increase $18.1 billion in 2014 extending the upward movement in expenses for a fifth straight year.

The rate of growth in farm assets is forecast to diminish in 2014 compared to recent years. The slowdown in growth is a result of lower net income leading to less capital investment, and moderation in the growth of farmland values. Farm sector debt is expected to increase 3.1%, slightly less than the expected increase in the value of farm assets (3.2%).

U.S. Farm and Trade Policy

Agricultural policy provisions applying to the 2015 crop are authorized by the Agricultural Act of 2014, also known as the 2014 Farm Bill. As of early 2015, the bill, which covers the 2014 through 2018 crops, is still in various stages of implementation.

The Agricultural Act of 2014

Developing successor legislation to the 2008 Farm Bill was a long and difficult process. The House and Senate Agriculture Committees were faced with both budget and political pressures that demanded changes in farm program structure.

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. 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 a WTO 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.

Base Loan Rates, Marketing Loans and LDP's

The marketing assistance loan for upland cotton is maintained in the 2014 Farm Bill with the determination of the level of the base loan rate modified in order to address the findings of the WTO panel. The level of the upland cotton marketing loan rate is based on the 2-year moving average of the adjusted world price (AWP) as announced by USDA.

The loan rate is 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 is 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. For 2015, the base loan rate remains at 52 cents.

Marketing loan repayment provisions and the determination of the premium and discount schedules remain unchanged from the 2008 farm law. Storage credits are maintained with the rate set at 90% of the 2006 rate.

The loan rate for ELS cotton is set 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 address the findings of the Brazil case, upland cotton policy includes a new revenue-based crop insurance product available for purchase by all producers of upland cotton.

Beginning in 2015, the Stacked Income Protection Plan (STAX) is available for purchase in all counties in which USDA's Risk Management Agency (RMA) offers insurance products. Administered in a manner consistent with current crop insurance delivery systems, STAX is designed to complement existing crop insurance products. The STAX plan addresses revenue losses on an area-wide basis, with a county being the designated area of coverage. In counties lacking sufficient data, larger geographical areas such as county groupings are necessary in order to preserve the integrity of the program.

The "stacked" feature 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 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 are available by irrigated and non-irrigated practices to the greatest extent possible.

As with other insurance products, STAX is not subject to payment limitations or means tests. County-specific details are available both on the NCC website www.cotton.org and the USDA-RMA website www.rma.usda.gov.

Other Crop Insurance Changes

Beginning in 2015, the 2014 Farm Bill 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 current farm law makes permanent the option of insuring enterprise units and adds the option to insure enterprise units by practice. Producers will also have the option to make adjustments to their approved yield history and insure acres under different production practices at different coverage levels. In some regions of the Cotton Belt, the provision to adjust their approved yield will have significant benefits. Producers are encouraged to consult closely with their insurance agents to determine the best risk management options for their farming operation.

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 farm law 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 continues 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.

Generic Base

The 2014 Farm Bill converts upland cotton base to generic base. For each farm, the number of cotton base acres credited to the farm on September 30, 2013 will be the number of generic acres established for 2014 and beyond.

Generic base acres planted to a covered commodity are eligible for Agriculture Risk Coverage and Price Loss Coverage (ARC/PLC) payments in that year and will be attributed to a covered commodity as determined by formulas detailed in the legislation.

Payment Limitations and Eligibility Requirements

Unfortunately, the 2014 Farm Bill contains significant changes in payment limitations and eligibility requirements. A payment 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 the 2008 farm law, which imposed no limit on marketing loan benefits. The current legislation maintains the separate limit for peanuts.

Prices are at a level that currently generate marketing loan gains and loan deficiency payments for upland cotton. Common marketing practices for cotton will result in many growers being unaware of the amount of marketing loan gains being accumulated against their respective limits. Growers who have sold options-to-purchase or delivered cotton to marketing cooperatives will not control the exact timing of marketing loan redemptions and thus not know the accumulated benefits assigned against their limit.

As part of a NCC Payment Limit Working Group, industry members representing producers, ginners, marketing cooperatives and private merchants met with officials from USDA to stress that common cotton marketing practices prevent many growers from individually tracking their assigned benefits. The data on individual bales at each redemption date are known by the specific merchant or cooperative but not the producer. In addition, merchants and cooperatives will be unaware if there are other bales owned by the producer being redeemed by other merchandisers.

USDA has informed the Working Group that it is in the process of establishing a system for data collection and management regarding benefits from marketing loan programs. At some point, USDA will disaggregate the data to eventually provide a detailed report of marketing loan gains and LDPs that are directly attributed to an individual.

It is the Working Group's understanding that this will be an internal report for use by USDA and will be generated prior to the issuance of any benefits under the ARC or PLC programs, which are scheduled to be made after October 1, 2015. Depending upon available limit remaining after the preliminary reconciliation of marketing loan benefits, producers could receive full, partial or no payments for covered commodities under ARC or PLC.

The 2014 Farm Bill establishes an income 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 farm bill 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 current 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 likely not be effective until the 2016 crop. Also, new management rules will not apply to individuals in operations composed solely of family members.

Trade Negotiations & Disputes

In 2014, cotton was once again the focal point of a number of contentious trade issues. The second half of the year was particularly active as the Turkish government self-initiated an antidumping (AD) investigation of U.S. cotton. In October, the U.S. and Brazil reached an agreement that brought some resolution to the longstanding World Trade Organization (WTO) dispute. Although there was little movement within the WTO multilateral negotiations, there continue to be efforts in Geneva to advance the stalled negotiations.

Turkey Antidumping Investigation

In October 2014, Turkey's Ministry of Economy (MoE) announced the self-initiation of an antidumping (AD) investigation of imports of U.S. cotton. Dumping of a product is defined as selling the product into a market at a price that is less than the product is sold into the exporting country's domestic market or being sold to another importing country. Dumping can also be determined if a product is sold at a price less than the costs of production. In order to conclude an investigation in the affirmative, there must first be a finding of dumping; then it must be concluded that there is economic injury in the domestic market; and finally conclude that the dumping caused the injury. If all 3 conditions are met, the investigating country may apply a duty on the imported product.

The current investigation is cause of serious concern to the U.S. cotton industry. First, Turkey is the second largest market for U.S. cotton, importing as much as 2 million bales annually. Second, the current investigation has all appearances of being politically motivated and launched in retaliation for the United States conducting AD and countervailing duty (CVD) investigations of imports of Turkish steel products. Third, the early stages of the investigation have been lacking in transparency. Turkish officials were not forthcoming with data that supposedly validates their initiation of the investigation. In addition, while self-initiation of an investigation is allowed under WTO rules, a country is required to demonstrate the 'special circumstances' prompting the self-initiation. Turkish officials failed to provide those circumstances.

U.S. merchandising firms received detailed questionnaires from Turkish authorities requesting data on all transactions to Turkey and other markets. U.S. companies complied with the request by the December 11 deadline. The National Cotton Council was accepted as an interested party to the investigation and submitted preliminary written arguments in January. The NCC, as well as several merchandising firms, have retained counsel in Turkey to assist in defending the U.S. industry against this baseless investigation.

As of mid-January, Turkish authorities are continuing with the investigation by analyzing the data submitted via the questionnaires. There is the possibility of follow-up questions, and an oral hearing is also anticipated at some point in the spring. The exact timelines of the investigation are unclear, but in general, these investigations are to be completed within 1 year of initiation with the possibility of a 6-month extension.

Even in the absence of duties, the uncertainty caused by the investigation is having a detrimental effect on sales of U.S. cotton to Turkey. Any application of a duty would put U.S. cotton at a disadvantage to competing growths, thus jeopardizing the second largest market.

Brazil Trade Dispute

Following passage of the 2014 Farm Bill, extensive discussions between U.S. and Brazilian government officials sought to bring a resolution to the longstanding dispute. In October 2014, the two governments reached an agreement to resolve the dispute and avoid a return to a WTO compliance panel.

Under the terms of the agreement, Brazil will terminate the existing case, giving up its rights to countermeasures against U.S. trade or any further proceedings in this dispute. Brazil has also agreed not to bring new WTO actions against U.S. cotton support programs while the 2014 Farm Bill is in force or against agricultural export credit guarantees under the GSM-102 program as long as the program is operated consistent with the agreed terms.

Other terms and conditions contained in the Memorandum of Understanding (MOU) include new rules governing the fees and tenor for guarantees under the GSM-102 Program and a final transfer of $300 million to the Brazil Cotton Institute. The MOU provides for additional support for the technical assistance and capacity building activities begun under a 2010 Memorandum of Understanding. The 2014 MOU also provides for additional uses for the funds, such as research in conjunction with U.S. institutions.

While the agreement brought an end to the dispute, it must be recognized that Brazil retained rights to challenge the cotton provisions of the 2014 farm law once the original term of the bill expires in 2018.

WTO Trade Talks

Heading into 2015, officials at the WTO continue to explore avenues that can advance the multilateral trade talks known as the Doha Round. In January, Director-General Roberto Azevedo announced a new process of consultations with the aim of agreeing to a work program on the remaining Doha Development Agenda (DDA) issues. Under the intensified process, discussions on the substantive issues of the DDA will be convened by the Chairs of the various negotiating groups and by the Director-General. The success of this latest effort remains in doubt given the division between long-held positions that have been established by a number of countries. U.S. officials has repeatedly expressed their views that the agriculture draft text from December 2008 is no longer a relevant starting point for further talks.

Regardless of progress in the multilateral talks, the ninth WTO Ministerial Conference held in Bali, Indonesia in December 2013 provided an opportunity for future cotton-specific discussions. In Bali, 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, including China and India.

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) and the Transatlantic Trade and Investment Partnership (TTIP) continued, 2014 brought relatively few changes for U.S. textile trade policy.

Trans-Pacific Partnership

Negotiations on the TPP continued in 2014 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, but its membership has not materialized.

TPP leaders met numerous times in 2014 with the final 2014 meeting occurring in Beijing in November. According to the United States Trade Representative (USTR), significant progress was made in the areas of market access, services and investment, and government procurement in 2014. Further negotiations are planned for 2015.

Transatlantic Trade and Investment Partnership

Negotiating teams for the United States and the European Union (EU) conducted four rounds of negotiations on TTIP in 2014. During the G20 Summit meeting in Australia in November 2014, President Obama and EU leaders reaffirmed their commitment to “an ambitious, comprehensive, and high standard” TTIP agreement. Further negotiations are expected in 2015.

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 have provided so-called Trade Promotion Authority (TPA) or fast-track for four years. However, the legislation was not enacted in the last Congress. If enacted, the legislation would have allowed 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 laid 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 urged the White House to include a provision in future trade agreements that would direct countries to "avoid manipulating currency rates."

The legislation demanded 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 included provisions to require that all members of Congress have access to negotiating texts and can observe trade talks. These later negotiating objectives were designed to respond to criticism that the negotiations have been less than transparent. The proposed legislation would have allowed Congress to vote to

deny fast-track procedures if a trade agreement does not meet the negotiating objectives.

In President Obama's 2015 State of the Union Address, he offered specific comments on the Administration's pursuit to gain TPA from Congress this year. While a large majority of Republicans in the House and Senate are expected to support TPA, there appears to be few Democrats currently willing to support TPA, meaning the Administration will have to ramp up its lobbying efforts to build more support among House and Senate Democrats. In January, Senate Finance Committee Chairman Orrin Hatch (R-Utah) stated that he is working with his committee ranking member Senator Ron Wyden (D-Ore), as well as the chairman of the House Ways and Means Committee, Rep. Paul Ryan, (R-Wis) to consider possible improvements to TPA. Some reports have indicated they may introduce a TPA bill in the very near future, perhaps February, and move the bill through their committees, preparing it for floor action once there is sufficient support for passage.

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.

AGOA

The African Growth and Opportunity Act (AGOA) provides preferential access of textile and apparel products to the U.S. market for qualifying countries in Africa. AGOA is currently set to expire at the end of September 2015.

In January 2015, a delegation of trade ministers from Africa were in Washington, DC to urge quick action on the renewal of AGOA. The trade ministers would like quick renewal of AGOA to prevent apparel buyers from sourcing elsewhere due to any uncertainty caused by AGOA not already being renewed. The Administration and AGOA countries have discussed possible improvements to AGOA, including simplified rules of origin and expansion of the list of products eligible for duty-free access. The delegation said they were assured by key House and Senate lawmakers that AGOA would be renewed.

The AGOA legislation requires an annual determination of which countries are eligible to receive benefits under the trade act. Countries must make continued progress toward a market-based economy, rule of law, free trade, and economic policies that will reduce poverty, and protect workers' rights. There are now 38 countries that are eligible for economic and trade benefits under AGOA. Of those 38 Sub-Saharan countries, 26 of them are eligible to receive AGOA's apparel benefits. Twenty-eight countries also qualify for the LDC special rule for apparel (third-country fabric). In August of 2012, the AGOA third-country fabric provision was extended through September 30, 2015. Nineteen countries also qualify for AGOA's provisions for hand-loomed and handmade articles. Seven countries qualify for AGOA's ethnic printed fabric benefits.

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 10.8 million acres of upland cotton in 2014, an increase of 6% from the previous year (Figure 22). Increases were observed in all production regions, with the exception of the West. In that region, competition from specialty crops and reduced water allocations for irrigation limited upland cotton area. From Texas to the east, the increased acres were primarily the result of cotton prices strengthening relative to grains and soybeans.

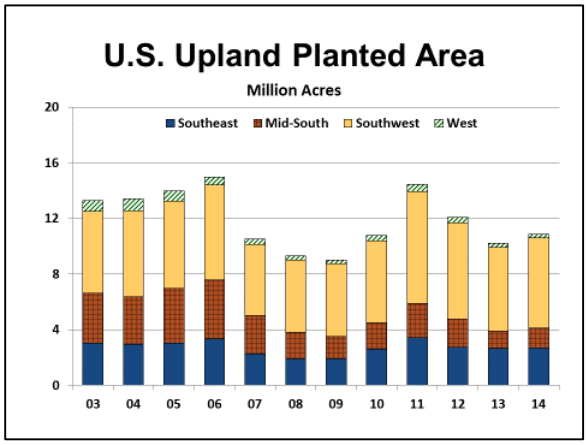

Figure 22 - U.S. Upland Planted Area

In the Southeast, the increase in 2014 cotton area was a very modest 2,000 acres, or less than one-tenth of a percent. (Figure 23). With total area just short of 2.7 million acres, 2014 plantings in the Southeast fell within the tight range observed since 2010, with the one exception experienced in 2011. Across the region, state results were mixed relative to the previous year. Alabama and Florida decreased cotton acreage by 4% and 18%, respectively. North Carolina's acreage was unchanged from 2013, while Georgia (+1%), South Carolina (+9%) and Virginia (+12%) all increased cotton area. The increase in cotton area in those three states reflected a shift from corn to cotton.

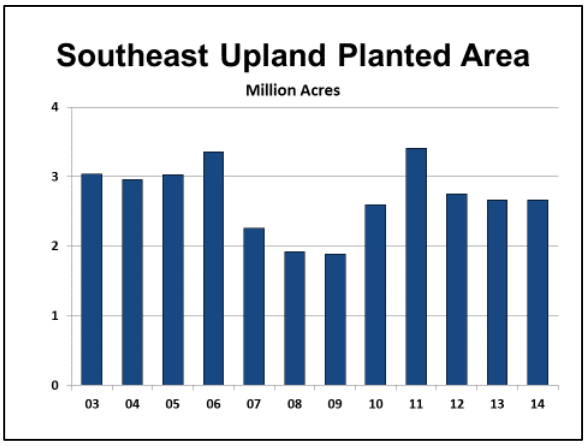

Figure 23 - Southeast Upland Planted Area

In 2014, plantings of 1.5 million acres in the Mid-South represented an 18% increase (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 expansion in 2014 continued that pattern as growers moved into cotton and away from corn primarily. While a rebound from the low set in 2013, cotton area in the region is still well below the 5-year average of 1.9 million acres.

Among the five states, only Missouri failed to expand cotton area in 2014. The 2% decline gave the state its lowest cotton area since 1990. The remaining four states expanded cotton area with only Arkansas at 8% failing to register a double-digit gain. Mississippi led the way with acreage up 47%, while growers in Louisiana increased cotton area by 31%. Producers in Tennessee expanded cotton area by 10%. State totals for the region are: Arkansas – 335 thousand acres, Louisiana – 170 thousand acres, Mississippi – 425 thousand acres, Missouri – 250 thousand acres, and Tennessee – 275 thousand acres.

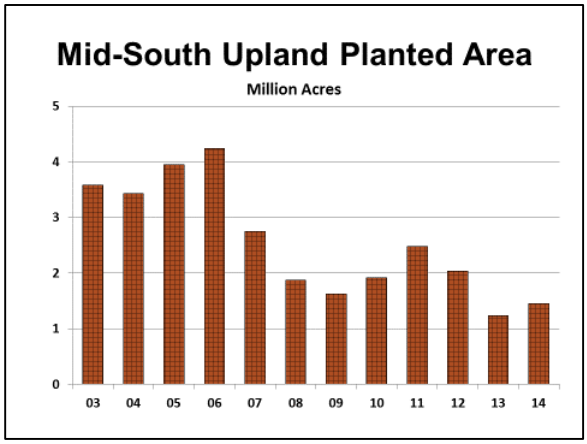

Figure 24 - Mid-South Upland Planted Area

In the Southwest, upland cotton area expanded by 8% to 6.5 million acres (Figure 25). Improved cotton prices relative to wheat and sorghum contributed to the increase in each of the three states in the region. With a 30% increase, Oklahoma's cotton area jumped from 185 thousand acres to 240 thousand acres. Kansas area jumped 15%, bringing the 2014 total to 31 thousand acres. In Texas, producers planted 6.2 million acres, a 7% increase from 2013.

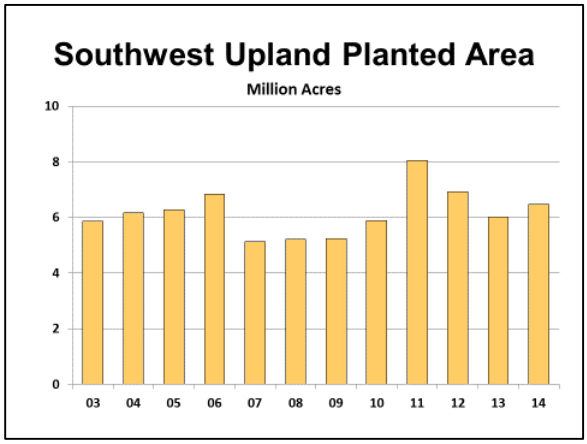

Figure 25 - Southwest Upland Planted Area

Upland acres in the West stood at 250 thousand acres, down 14% from 2013 (Figure 26) and only slightly higher than the 2009 low of 247 thousand acres. The decline in the regional total was driven by reduced acres in Arizona and California. In percentage terms, California's 39% decline outpaced the 6% drop in Arizona. In New Mexico, cotton producers added 10% to the total, bringing the state's acreage to 43 thousand acres. Declines in California reflected cotton's continuing struggle to compete with a variety of specialty crops, as well as severe limitations in irrigation water for 2014.

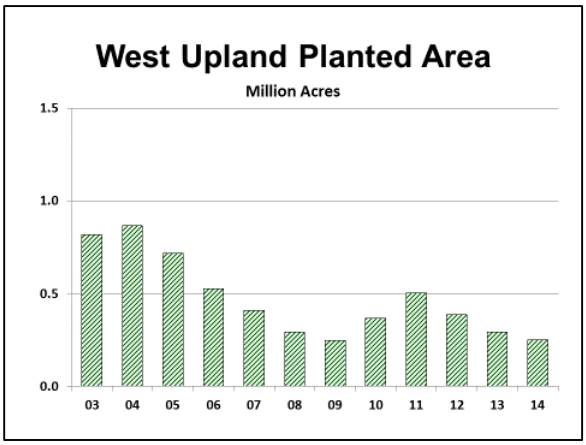

Figure 26 - West Upland Planted Area

In 2014, growers also reduced the area devoted to ELS cotton. For the U.S. as a whole, ELS acres fell 4%, leaving planted area at 192 thousand acres (Figure 27). However, it should be noted that the decline in the U.S. total was the result of a 17% decline in California's area more than offsetting increases in the remaining three ELS states. Arizona added almost 14,000 acres of ELS to the 2013 plantings of just 1,500 acres. Growers in New Mexico added 1,500 acres of ELS cotton, while producers in Texas almost doubled acreage, going from 9 to 17 thousand acres.

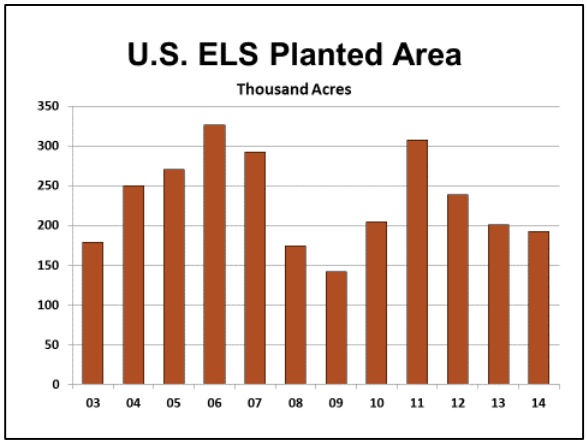

Figure 27 - U.S. ELS Planted Area

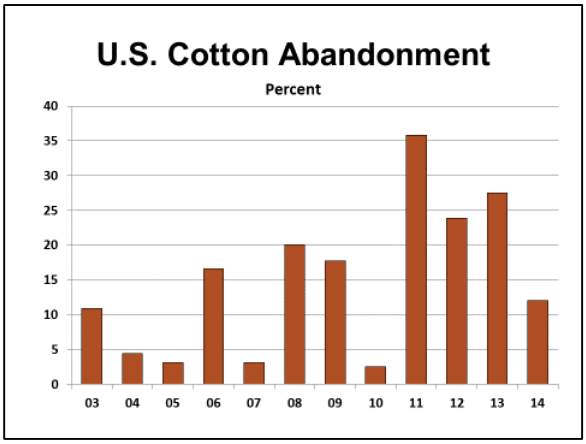

Figure 28 - U.S. Cotton Abandonment

Harvested Acreage

Although weather issues continued to plague portions of the Cotton Belt in 2014, the overall impacts were generally less devastating than the previous three years. As a result, national abandonment stood at 12%, which compares to a 5-year average of 23% (Figure 28).

Despite drought conditions still prevalent in parts of the Southwest, abandonment rates in Texas and Oklahoma fell to their lowest levels since 2010. On a state-wide basis, growers in Texas harvested 80% of their upland cotton acres. This is much improved from the 2011-13 average of 50%. In Oklahoma, only 8% of acres were un-harvested, which approaches the 5% levels observed in 2009 and 2010. In other states, the 2014 abandonment was generally in line or improved from 5-year averages.

Yields

Despite an overall improvement in growing conditions in 2014, the national average cotton yield of 795 pounds fell short of both 2012 and 2013 (Figure 29). The 2014 yield was also below the 5-year average by 24 pounds.

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 the 5-year average, only the Southwest fell short of that mark.

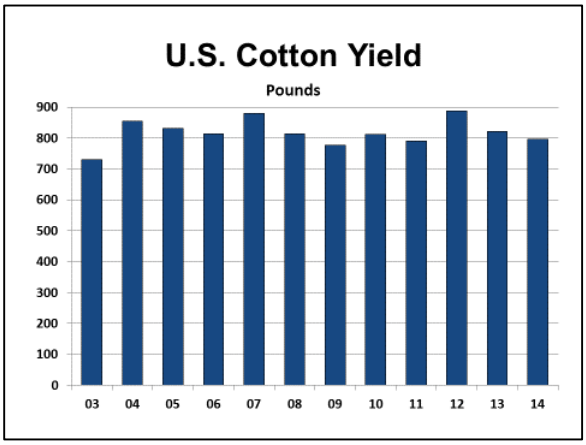

Figure 29 - U.S. Cotton Yield

Growers in the 6-state Southeast region generally faced favorable growing conditions in 2014, and the results are reflected in the USDA yield data. For the region as a whole, the 2014 yield of 926 pounds was 79 pounds better than the 5-year

average and second only to 2012 in terms of an all-time high (Figure 30).

Virginia, with an average yield of 1,239 pounds recorded the highest yield of the six states. The Virginia yield also sets a new all-time high for the state. At the other end of the spectrum was Georgia, with an average yield of 876 pounds. While the lowest yield of the six states, Georgia's 2014 result represents a 45-pound improvement from 2013 and is just 7 pounds below the 5-year average. At 1,049 pounds, North Carolina also recorded an all-time high for the state. At 914 and 910 pounds, respectively, Florida and Alabama produced yields well above 5-year averages. South Carolina's yield of 898 pounds followed closely on the heels of Florida and Alabama.

Southeast Upland Yields
Pounds per Harvested Acre

	2013	2014	5-Year Average
Alabama	789	910	773
Florida	661	914	756
Georgia	831	876	883
North Carolina	799	1,049	824
South Carolina	691	898	847
Virginia	941	1,239	880
SOUTHEAST	801	926	847

Figure 30 - Southeast Upland Yields

Overall, cotton acreage in the Mid-South produced excellent yields in 2014. At 1,114 pounds, the 2014 harvest reached a new high for productivity (Figure 31). This past harvest now marks the third consecutive year of record yields for the region as a whole. The regional yield exceeded the 5-year average by more than 150 pounds.

Record yields were established in Arkansas and Missouri with Louisiana and Mississippi falling just shy of new records. At 1,193 pounds, Arkansas recorded the highest yield of the five states and bettered its 5-year average by more than 200 pounds. Mississippi's average yield of 1,183 pounds was the second highest in the region and just 20 pounds below the record set in 2013. Louisiana harvested 1,171 pounds per acre, and like Mississippi, fell just short of the 2013 record. With an average yield of 1,117 pounds, Missouri was the fourth state in the region to exceed 1,110 pounds. In Tennessee, growers harvested 875 pounds per acre, up relative to 2013 and the 5-year average.

Mid-South Upland Yields
Pounds per Harvested Acre

	2013	2014	5-Year Average
Arkansas	1,133	1,193	986
Louisiana	1,223	1,171	903
Mississippi	1,203	1,183	972
Missouri	968	1,117	1,002
Tennessee	853	875	854
MID-SOUTH	1,071	1,114	949

Figure 31 - Mid-South Upland Yields

As previously discussed, portions of the Southwest region continued to face drought conditions that limited yields, particularly in dryland fields. For the region as a whole, the average yield of 581 pounds per acre fell short of 2013 by 63 pounds and was 67 pounds below the 5-year average (Figure 32).

State-by-state results present a more mixed picture. Relative to 2013, Kansas actually recorded a record yield of 861 pounds. The 2014 yield represents roughly a 200-pound improvement from 2013 and the 5-year average. In contrast, Oklahoma and Texas both fell short of the 2013 results, as well as the 5-year averages. At 578 pounds, Oklahoma's yield was more than 100 pounds below the 5-year average. In Texas, the average yield of 580 pounds was 67 pounds below the 5-year average.

Southwest Upland Yields
Pounds per Harvested Acre

	2013	2014	5-Year Average
Kansas	757	861	660
Oklahoma	591	578	682
Texas	646	580	647
SOUTHWEST	644	581	648

Figure 32 - Southwest Upland Yields

The average upland yield in the West is estimated at 1,536 pounds, a figure that is 52 pounds above the 5-year average (Figure 33). Of particular note within the region is California's record yield of 2,014 pounds. The 2014 harvest exceeds the previous record by almost 300 pounds. Arizona's average yield of 1,508 pounds was slightly better than both 2013 and the 5-year average. Unfortunately, growers in New Mexico did not have the same results. At 891 pounds, New Mexico's yield fell short of 2013 and the 5-year average.

West Upland Yields
Pounds per Harvested Acre

	2013	2014	5-Year Average
Arizona	1,449	1,508	1,499
California	1,737	2,014	1,595
New Mexico	929	891	1,083
WEST	1,486	1,536	1,484

Figure 33 - West Upland Yields

The national average ELS yield is estimated at 1,490 pounds, down 37 pounds from 2013 but still an improvement from the 5-year average of 1,407 pounds (Figure 34). With the majority of ELS acres, California heavily influences the U.S. average. With an average yield of 1,621 pounds, California not only surpassed their 5-year average but also set a new record for ELS yields. At 894 pounds, ELS yields in Arizona fell well below both 2013 and the 5-year average. New Mexico's yield of 784 pounds was also short of the 2013 result and the 5-year average. With a yield of 990 pounds, Texas ELS yields exhibited a solid improvement from both 2013 and the 5-year average.

ELS Yields
Pounds per Harvested Acre

	2013	2014	5-Year Average
Arizona	1,024	894	1,001
California	1,574	1,621	1,458
New Mexico	847	784	852
Texas	847	990	917
U.S.	1,527	1,490	1,407

Figure 34 - ELS Yields

Production

USDA's latest estimate places the 2014 U.S. cotton crop at 16.1 million bales (Figure 35), up 3.2 million bales from 2013. The 25% increase in production comes about as increases in planted and harvested area more than offset slightly lower yields. The 2014 crop represents a 900 thousand bale increase relative to the 5-year average. Upland production is estimated at 15.5 million bales, and ELS farmers harvested 588 thousand bales.

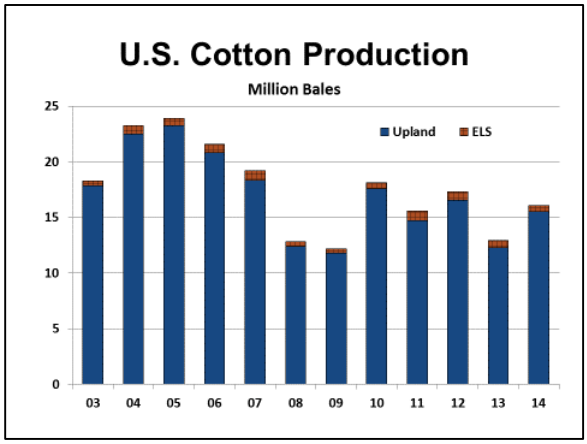

Figure 35 - U.S. Cotton Production

In 2013, the Southeast is estimated to have produced 5.1 million bales, accounting for 33% of the total upland crop (Figure 36). With improved yields across the Southeast, the region's 2014 crop was up by 745 thousand bales from the 2013 total. In addition, the 2014 crop was approximately 500 thousand bales better than the 5-year average.

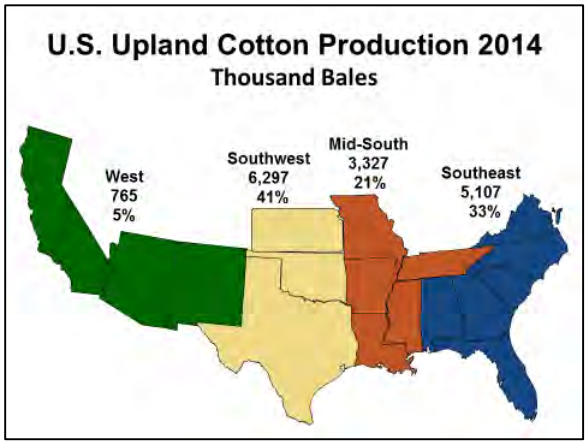

Figure 36 - U.S. Upland Cotton Production 2014

For 2014, the Mid-South accounted for 21% of the total U.S. upland crop. At 3.3 million bales, the 2014 crop was 652 thousand bales higher than 2013 but still 250 thousand bales below the 5-year average. Compared to year-earlier results, the larger crop can be attributed to increased area and yields.

At 6.3 million bales, production in the Southwest accounted for 41% of the U.S. upland crop. The 1.9 million bale increase from 2013 resulted from harvested area expanding by almost 2 million acres. The additional acres were more than enough to offset a lower average yield.

The West produced 765 thousand bales of upland cotton in 2014, down 108 thousand bales from the region's 2013 crop. The region accounted for 5% of U.S. production. The Western crop also fell short of the 5-year average by more than 300 thousand bales. Reduced plantings more than offset better yields to lead to the smaller crop.

The 2014 ELS crop of 588 thousand bales was 46 thousand bales lower than 2013, and also fell short of the 5-year average by a similar amount. At 520 thousand bales, the California ELS crop was down 90 thousand bales from 2013 (Figure 37). The state accounted for 88% of the total 2014 U.S. ELS crop, which is a smaller percentage of the nation's crop due to the large increase in Arizona's production. Arizona's ELS crop jumped to 27 thousand bales, the largest for the state since 1998. At 33 thousand bales, Texas produced its largest crop since 2007. New Mexico's 8,000 bales were also the largest since 2007.

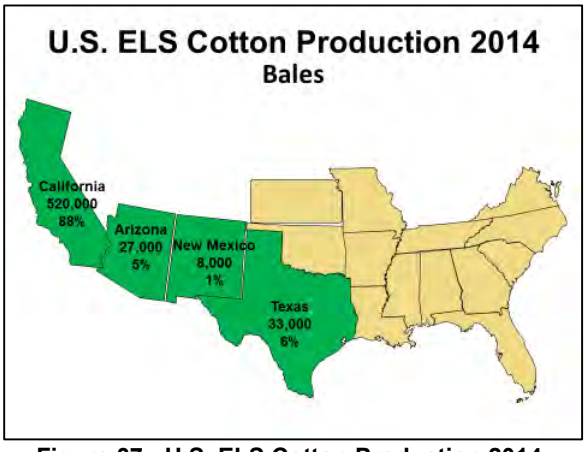

Figure 37 - U.S. ELS Cotton Production 2014

Stock Levels

With U.S. cotton production falling short of total demand for the 2013 marketing year,

cotton stocks fell to the lowest levels since the end of the 1990 marketing year. The resulting carryout from the 2013 marketing year, and equivalent carry-in or beginning stocks for the 2014 marketing year, stood at just under 2.5 million bales (Figure 38). That represented a decline of almost 1.4 million bales from the stocks that were brought into the 2013 marketing year. For the 2014 marketing year, beginning stocks stood at a level that essentially represented a pipeline level of carry-in. Upland stocks totaled just over 2.3 million bales, while ELS stocks stood at 125 thousand bales.

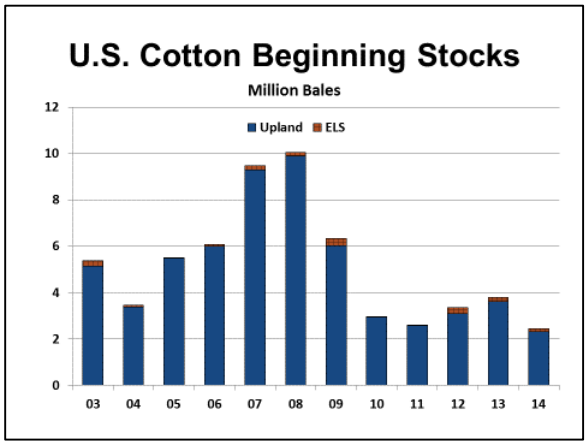

Figure 38 - U.S. Cotton Beginning Stocks

With increased production and lower market prices, total bales of 2014 upland cotton under the CCC loan peaked at 2.7 million bales in November. Cotton under the CCC loan is up from 2013 crop levels, but still below the approximately 4 million bales for each of the 2010 through 2012 crops.

As of December 31, 2014, outstanding CCC loan stocks were 2.4 million bales (Figure 39), up from 1.8 million bales in 2013. The Mid-South accounts for approximately 40% of cotton placed under loan, while the Southwest accounts for another 33% of the U.S. total. The Southeast comprises another 20% of the cotton under CCC loan.

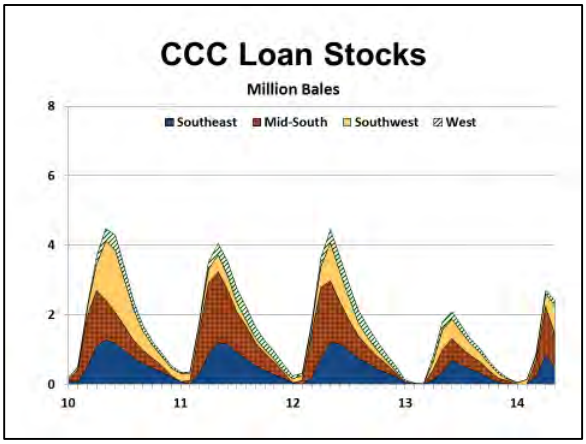

Figure 39 - CCC Loan Stocks

Total Supply

Total supply for the 2014 marketing year is estimated to be 18.5 million bales, up from 16.7 million bales the previous year (Figure 40). The increased supplies result from increased production more than offsetting smaller beginning stocks. Total supplies for the 2014 marketing year are 500 thousand bales below the 5-year average.

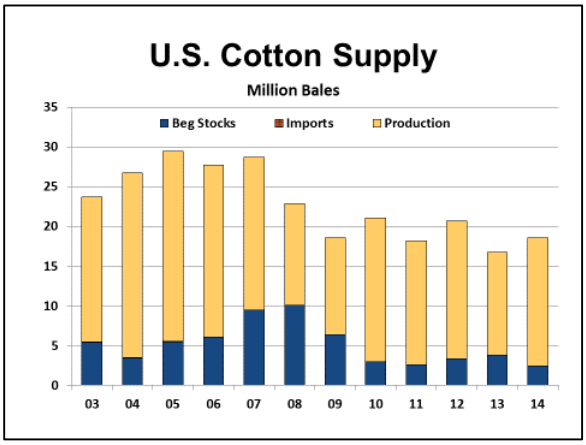

Figure 40 - U.S. Cotton Supply

Upland Cotton Quality

With 14.7 million running bales classed through January 22, the national average staple length (measured in thirty-second's of an inch) is 35.7, up from a 5-year average of 35.6 (Figure 41). The Southeast staple length of 35.6 is 0.1 thirty-seconds of an inch better than their 5-year average. In the Mid-South, the average staple length of 36.1 exceeds the 5-year average by 0.4 thirty-

second's and falls just short of the record of 36.2 for the region. The Southwest's average staple length of 35.3 falls in line with the 5-year average of 35.5, but still below past years that experienced better growing conditions. The West reports the longest staple, with an average of 36.6, down 0.2 from the 5-year average.

2014 Crop Staple and Strength

	Staple		Strength	
	2014	5-Year	2014	5-Year
Southeast	35.6	35.5	29.1	29.2
Mid-South	36.1	35.7	30.9	30.3
Southwest	35.3	35.3	30.3	29.8
West	36.6	36.8	31.1	31.5
U.S.	35.7	35.6	30.1	29.8

Figure 41 - 2014 Crop Staple and Strength

The strength of the 2014 upland crop, averaging 30.1 grams per tex (gpt), is above the 5-year average of 29.8. The highest strength occurs in the West, with an average of 31.1 gpt, but the region falls short of the 5-year average of 31.5. At 29.1 gpt, the Southeast also falls short of its 5-year average. The Southwest crop has an average strength of 30.3 gpt, which is 0.5 better than the 5-year average. The strength of the 2014 Southwest crop would be an all-time high. In the Mid-South, an average strength of 30.9 gpt is 0.6 above the 5-year average and equals the record set in 2011.

Overall, color grades for the 2014 crop are excellent. In total for the Cotton Belt, 91.4% of the 2014 crop is grading 41 or better, which compares to a 5-year average of 88.6% (Figure 42). The U.S. average is being bolstered by color grades in the Mid-South and West. Color grades in the Southeast are also above the 5-year average. Only in the Southwest are the color grades falling short of the 5-year average. In some cases, wet conditions in the Southwest delayed harvest and contributed to the lower color grades.

2014 Crop Color and Mike

	%SLM+		Micronaire	
	2014	5-Year	2014	5-Year
Southeast	91.1	83.9	46.3	46.2
Mid-South	95.3	91.3	46.8	47.0
Southwest	88.9	89.6	42.5	42.6
West	95.6	94.7	46.0	44.1
U.S.	91.4	88.6	44.9	44.9

Figure 42 - 2014 Crop Color and Mike

The average micronaire of the 2014 upland cotton crop is equal to the 5-year average of 44.9. Regionally, only the upland crop in the West, with a mike of 46.0, was substantially different than the 5-year average. Results for the other regions are generally consistent with the 5-year averages.

Cotton Prices

Upland Cotton Prices

Cotton prices experienced a pronounced decline during calendar 2014. Prices began the year trading in the $0.75-to-$0.95 range that prevailed for much of 2012 and 2013 (Figure 43). The nearby New York futures and the Cotlook "A" Index maintained a relationship consistent with historical experience. Prices found support as China continued to import cotton in the 2013 marketing year. In addition, a smaller U.S. harvest in 2013 contributed to lower ending stocks by mid-2014.

However, supportive factors quickly turned bearish in the middle of 2014, and cotton prices declined. Projections during the summer indicated no major production problems for the 2014 crop. Initial fears of a smaller Indian crop due to the late onset of monsoons subsided, and India's production

prospects improved. At the same time, China announced significant changes to support programs for cotton farmers and also indicated that import quotas for 2015 would be limited to the WTO minimum of 4.1 million bales.

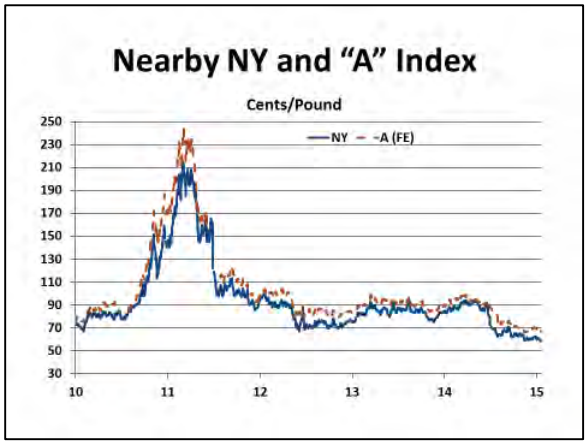

Figure 43 - Nearby NY and "A" (FE) Index

By August 2014, NY futures fell to the low 60's and the "A" Index dipped to the low 70's. Prices continued to remain under pressure as other commodity markets weakened and the dollar began to strengthen. In early 2015, bearish factors are still prevalent in the market. Global stocks, and in particular stocks outside of China will increase in the 2014 marketing year. Cotton demand, though increasing, has thus far failed to rebound to meet expectations and textile mills are cautious to do any more than hand-to-mouth buying until a market bottom is perceived.

Spot prices in the U.S. followed a similar pattern to the futures market and the "A" Index. Thus far into the 2014 marketing year, spot 4134 values have averaged $0.62 per pound with a maximum price of $0.70 per pound and a minimum price of $0.57 per pound (Figure 44). The average spot 4134 value for the 2013 crop cotton was $0.80 cents per pound.

Figure 44 - Spot 4134 Price

ELS Prices

For 2014, ELS prices maintained a stronger appearance than upland prices. ELS cotton prices began 2014 at $1.78 per pound and ended the year at $1.75 (Figure 45). However, by the beginning of 2015, prices began to soften due to sluggish export business. International mills were reluctant to pay the higher prices for U.S. ELS cotton, particularly with Egyptian cotton being offered at a significant discount. As of mid-January, export sales reports showed a slight uptick in volume as ELS spot prices fell to $1.60.

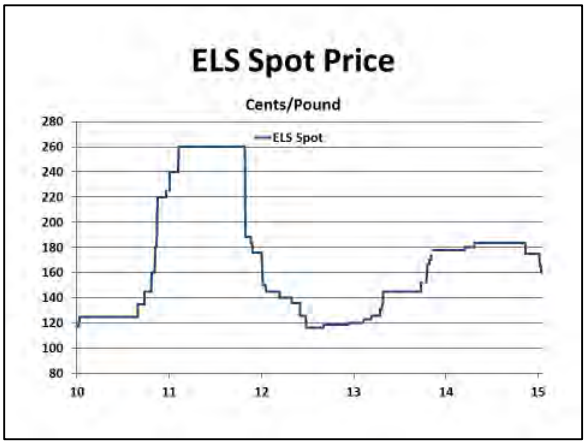

Figure 45 - ELS Spot Price

Cottonseed Situation

Cottonseed Supply

USDA estimates 2014 cottonseed production at 5.3 million tons, up 1.1 million tons from the previous year (Figure 46). The

changes in cottonseed production generally mirror the movements in cotton lint production as average seed-to-lint ratios have remained relatively stable compared to 2013. From a longer term perspective, seed-to-lint ratios, recently ranging between 1.36 and 1.38, are down over the past 15 years from a range of 1.55 to 1.60.

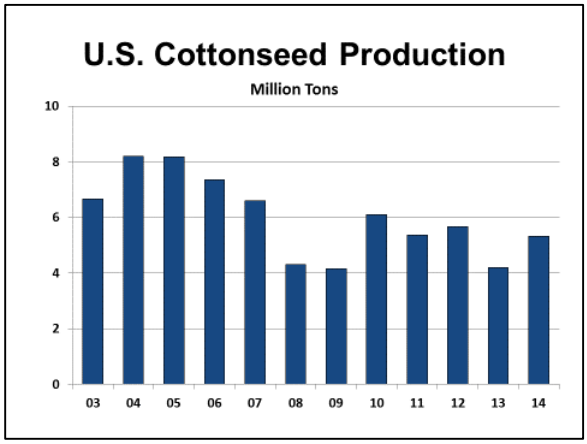

Figure 46 - U.S. Cottonseed Production

For the 2014 crop, a regional breakdown of production shows that the Southwest produced 2.1 million tons or 40% of the total, the largest of any region (Figure 47). They were followed by the Southeast with estimated production of 1.5 million tons for a 29% share. The Mid-South produced 1.2 million tons, or 22% of total production, and the West accounted for 489 thousand tons, 9% of the total.

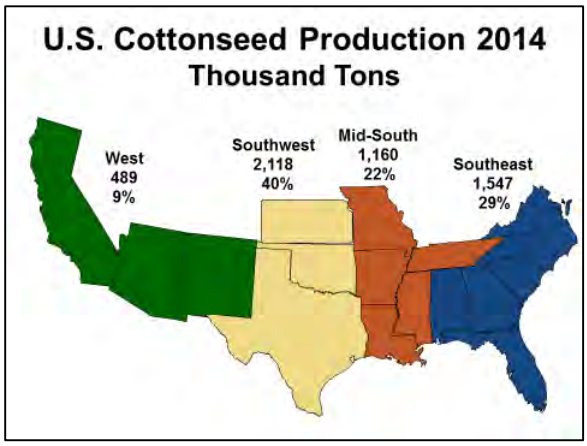

Figure 47 - U.S. Cottonseed Production 2014

Supplementing U.S. production, beginning stocks of 424 thousand tons and imports of 75 thousand tons bring total cottonseed supply for the 2014 marketing year to 5.8 million tons (Figure 48). Total supplies for 2014 are up by more than 900 thousand tons from the previous year. The 2014 total surpasses the 5-year average by more than 100 thousand tons.

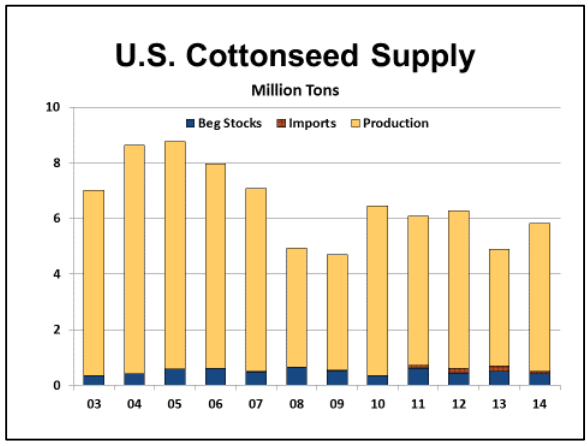

Figure 48 - U.S. Cottonseed Supply

Disappearance and Stock Levels

Based on monthly data for the current marketing year, USDA's January estimates for 2014 cottonseed disappearance appear too optimistic. Monthly crushing data from the National Cottonseed Products Association indicate that while crushings improved in November and December, monthly totals are below levels observed in the same months of the 2012 and 2013 marketing years. Based on this information, crush is estimated at 2.0 million tons for 2014, similar to the 2013 level (Figure 49). *Cottonseed Digest* indicates that current crush economics are not strong enough to encourage a significant increase in crushing.

With increased supplies, whole seed feeding is estimated to improve to 2.5 million tons for the 2014 marketing year. However, feeding totals are expected to remain well below the peak levels observed in 2010 through 2012 as milk prices struggle and prices of competing feeds have softened.

Estimated exports of 374 thousand tons are up from previous years.

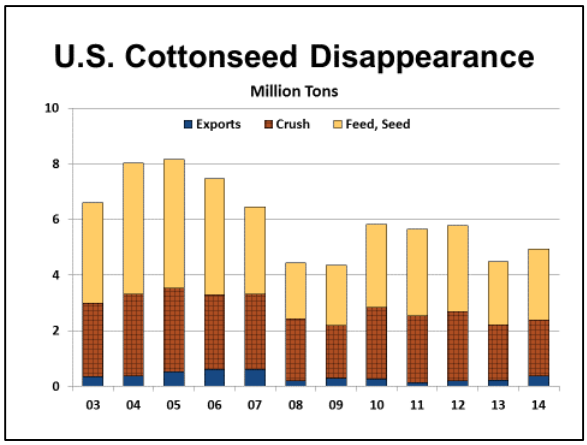

Figure 49 - U.S. Cottonseed Disappearance

Modest increases on feeding and stable crush are not expected to keep pace with the larger supplies for the 2014 marketing year. As a result, cottonseed stocks are projected to jump to more than 800 thousand tons, which would be a record high (Figure 50).

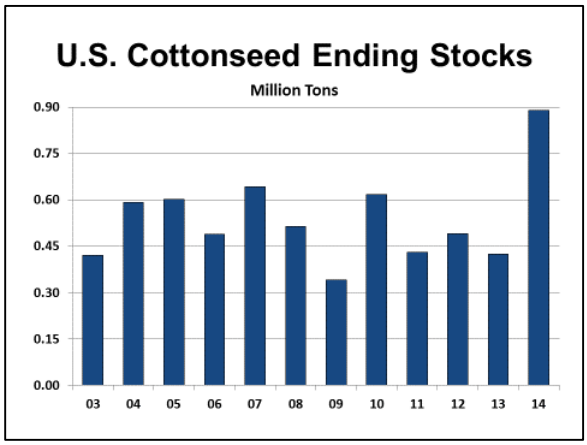

Figure 50 - U.S. Cottonseed Ending Stocks

Cottonseed Prices

The movement in cottonseed prices reflects changes in competing feed prices as well as available supplies. Cottonseed prices strengthened in the first half of 2014 before falling to their lowest levels since early 2011. The monthly average price of $232 per ton in November 2014 was the lowest since January 2011 (Figure 51). The average cottonseed spot price increased to $250 per ton in December and strengthened further to $272 in the first half of January. There are concerns that prices will drift lower if demand does not improve in the coming months.

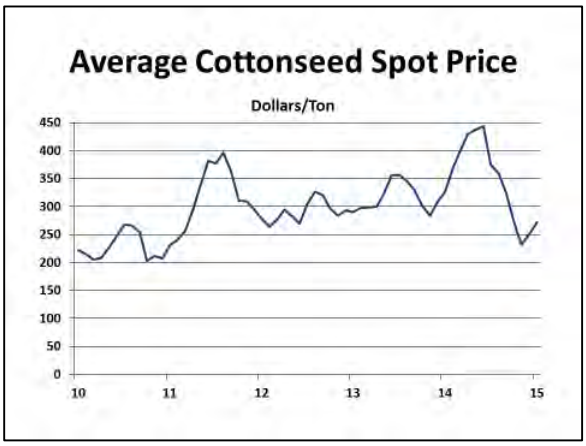

Figure 51 - Average Cottonseed Spot Price

2015 Planting Intentions

Price Prospects

Cotton growers are approaching the 2015 planting season with harvest-time futures contracts at the lowest level since planting of the 2009 crop. After more than five years of stronger markets, cotton prices fell sharply during the second half of 2014 and are now trading 18 cents below year-ago levels. As of late January, the December 2015 contract was trading at $0.62 per pound (Figure 52). Record high global stocks of cotton and expectations for reduced imports by China are contributing to the weaker price environment.

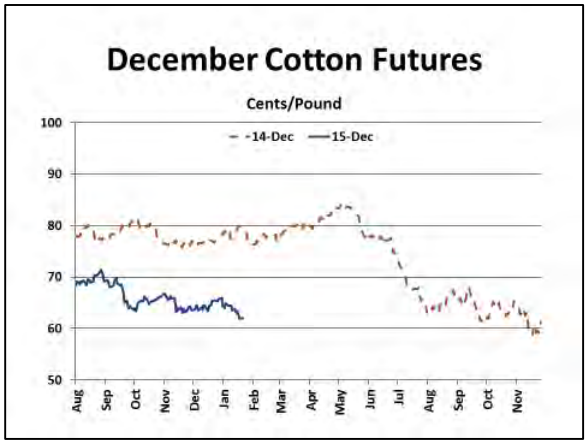

Figure 52 - December Cotton Futures

Weaker prices are not limited to cotton as grain and oilseed prices are also below year-ago levels. As of late January, the December 2015 contract was trading at $4.15 per bushel, as compared to $4.50 for a comparable time for the 2014 contract (Figure 53). A record U.S. harvest of more than 14 billion bushels and slowing growth for renewable fuels are contributing to the weaker prices. USDA estimates that ending stocks of corn for the 2014 marketing year will increase to 1.9 billion bushels.

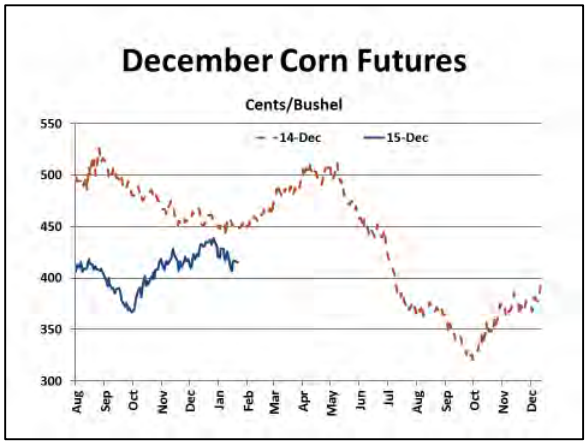

Figure 53 - December Corn Futures

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 2015 contract traded at $9.65 per bushel, approximately $1.35 lower than the November 2014 contract was trading a year earlier (Figure 54). The dynamics in the soybean balance sheet are similar to those of corn as a larger 2014 harvest will lead to an increase in stocks.

Relative to 2014, soybean futures prices are down by 13% while corn prices are trading 8% below year-ago levels. However, given the relatively lower costs of production, soybeans are expected to provide strong competition for cotton in 2015 acreage decisions.

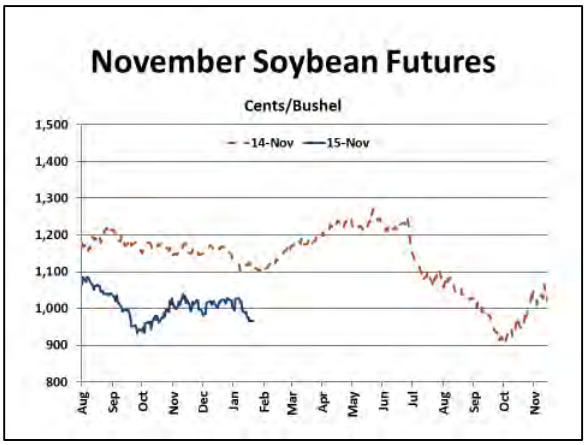

Figure 54 - November Soybean Futures

As growers consider their 2015 planting decisions, they will compare prices for cotton, corn, soybeans and other regional crops. Growers will also be influenced by production costs. Given the recent decline in oil prices, diesel fuel costs should be substantially below 2014 levels. A question mark remains for fertilizer costs. In January, fertilizer prices were similar to year-ago. However, recent weakness in natural gas prices could provide a more favorable situation for nitrogen fertilizer expenses. 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.

2015 U.S. Cotton Acreage Intentions

In mid-December 2014, 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 2014 and intended acreage for 2015. 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 10.6% decrease in the region's upland area to 2.39 million acres (See Table 4 on page 43). Declines are expected in each of the six states in the region as cotton acres move into competing crops. Even with the expected reduction, cotton acreage in the region remains well above the recent low of 1.89 million acres registered in 2009.

The largest percentage decline is in Florida where growers report intentions down 23.2% to 82 thousand acres. Declines in the remaining states are more modest with Alabama's drop of 12.5% being the next largest. The decrease reduces 2015 cotton acreage to 306 thousand acres for Alabama. Surveys from South Carolina call for a 12.0% drop, resulting in planted acreage of 246 thousand acres. North Carolina indicates an 11.5% reduction, giving the state 411 thousand acres of cotton. Growers in Georgia intend to plant 1.26 million acres, down 8.8% from 2014, while Virginia will cut cotton acres by 7.4%, bringing the total down to 81 thousand acres.

In Alabama, the survey responses indicate a shift to peanuts and soybeans, while Florida's acreage is almost exclusively moving to peanuts. In Georgia, the acreage shifts are more varied with peanuts, corn and soybeans all expected to pull acres from cotton. A similar picture emerges for South Carolina. In North Carolina, the shift is to soybeans, while corn benefits from the modest decline in Virginia. The recent strong cotton yields in Virginia could be a factor behind the relatively small decline expected for 2015.

In the Mid-South, growers have demonstrated their ability to adjust acreage based on market signals. This year's survey results are no different with growers intending to plant 1.08 million acres, a decrease of 25.9% from the previous year. As was the case in the Southeast, all states in the Mid-South responded with intentions to plant less cotton in 2015. If intentions are realized, the surveyed acreage would represent a new low for Mid-South cotton acres.

Arkansas reports the largest decline of 39.4%, giving a state-wide total of 203 thousand acres. Growers in Tennessee indicate a reduction of 35.9%, bringing cotton area down to 176 thousand acres. Growers in Missouri intend to plant 192 thousand acres of cotton, down 23.3%. Louisiana will cut acreage by 17.9%, leaving the state with 140 thousand acres of cotton. In Mississippi, the survey indicates that cotton acreage will fall to 368 thousand acres, down 13.5% from 2014.

Without exception across the five states, the respondents indicate that cotton acres will move into soybeans for 2015. The survey results also show cotton moves into neither wheat nor corn in any significant amount as acres devoted to those crops are expected to decline.

Growers in the Southwest intend to plant 5.60 million acres of cotton, a decrease of 13.5%. Reductions in cotton area are expected in each of the three states. Although down from 2014, the regional total remains above the recent low of 5.12 million acres planted in 2007.

Growers in Kansas intend to plant 26 thousand acres, a 15.0% decrease from the

2014 total of 31 thousand. Acreage in Oklahoma is showing a 6.2% drop, bringing the total for the state to 225 thousand acres. For Texas, survey respondents intend to decrease area by 13.8%, lowering the state total to 5.34 million acres.

In Kansas, land shifting out of cotton is moving into corn and the 'Other Crops' category, likely grain sorghum. Wheat is the expected beneficiary based on the Oklahoma survey results. In south Texas, respondents indicate a shift out of cotton and into grain sorghum. Respondents from the Blacklands are moving predominantly to wheat, with a smaller shift to corn. In west Texas, the acres shifting away from cotton are split between wheat, corn and grain sorghum.

The West region accounts for the largest percentage reduction across the four production regions. With upland intentions of 134 thousand acres, cotton producers in the West are expecting to plant 46.6% fewer acres of upland cotton. The 2015 acreage represents a new low for recent history.

Upland intentions are down across the three states, but to varying degrees. Respondents for Arizona indicate the most drastic reduction, with plantings of 59 thousand acres representing a decline of 60.6% from 2014. California intends to plant 35 thousand acres, down 39.2% from year-ago levels. The survey for New Mexico puts 2015 acreage down 8.3% to 39 thousand acres.

The survey results for Arizona suggest a shift from cotton to wheat, as well as the 'Other Crops' category. In Arizona, this category would reflect a shift to alfalfa or specialty crops. Upland growers also indicate a shift to ELS cotton. In New Mexico, the reduction in cotton coincides with responses indicating more acres of grain crops.

Summing across the 4 regions gives intended 2015 upland cotton area of 9.19 million acres, 15.2% below 2014.

With ELS prices offering a more attractive appearance relative to upland cotton and modestly improved expectations of water availability in California, survey results indicate that U.S. cotton growers intend to increase ELS plantings 22.8% to 236 thousand acres in 2015. If realized, the U.S. total would exceed the 5-year average by 18 thousand acres.

The state-level results show increases across all four ELS-producing states. Results are as follows: Arizona planting 36 thousand acres (+140.5%); California planting 174 thousand acres (+12.3%); New Mexico planting 6,600 acres (+31.4%); and Texas planting 19,200 acres (+12.7%).

Summing together the upland and ELS cotton intentions shows U.S. all-cotton plantings in 2015 of 9.43 million acres, 14.6% lower than 2014 (See Table 4 on page 43 and Figure 55).

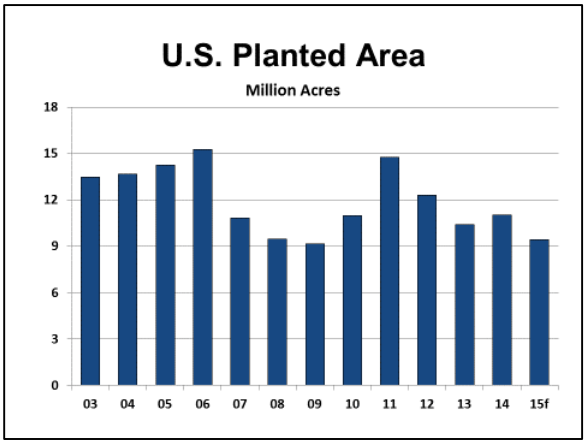

Figure 55 - U.S. Planted Area

2015 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. However, it is important to remember the volatility around projected production given the uncertainty of weather patterns.

With average abandonment for the U.S. at 12.8%, Cotton Belt harvested area totals 8.22 million acres (Figure 56). Weighting individual state yields by 2015 area generates a U.S. average yield of 817 pounds. This compares to a 2014 yield of 795 pounds and a 2009-13 average yield of 818 pounds. Applying each state's yield to its 2015 projected harvested acres generates a cotton crop of 14.01 million bales, with 13.31 million bales of upland and 694 thousand bales of ELS.

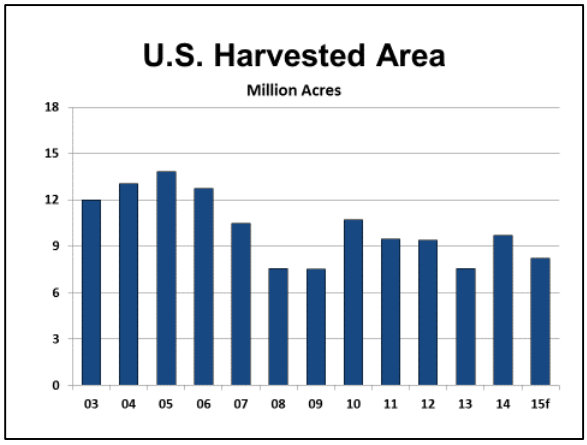

Figure 56 - U.S. Harvested Area

Combining projected production with expected beginning stocks of 4.70 million bales and imports of 10 thousand bales gives a total U.S. supply of 18.72 million bales (Figure 57). This is an increase of 171 thousand bales from the 2014 level.

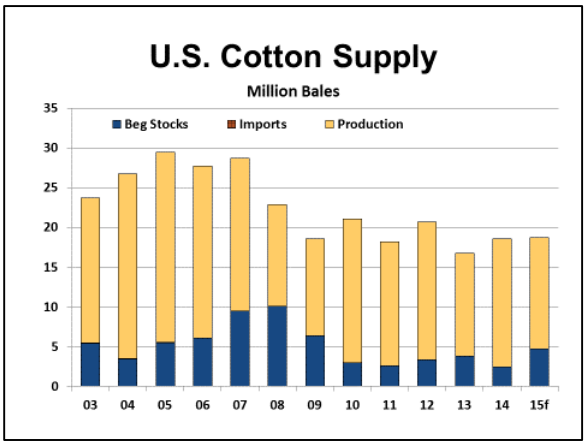

Figure 57 - U.S. Cotton Supply

For cottonseed, multiplying the point estimate of lint production by an average lint-seed ratio generates expected production of 4.57 million tons. With 889 thousand tons of beginning stocks and 75 thousand tons of imports, 2015 cottonseed supply totals 5.54 million tons (Figure 58).

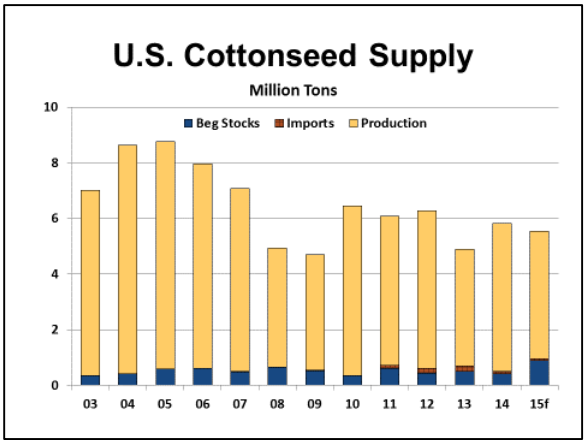

Figure 58 - U.S. Cottonseed Supply

Table 4 - Prospective 2015 U.S. Cotton Area

	2014 Actual (Thou.) 1/	2015 Intended (Thou.) 2/	Percent Change
SOUTHEAST	**2,669**	**2,386**	**-10.6%**
Alabama	350	306	-12.5%
Florida	107	82	-23.2%
Georgia	1,380	1,259	-8.8%
North Carolina	465	411	-11.5%
South Carolina	280	246	-12.0%
Virginia	87	81	-7.4%
MID-SOUTH	**1,455**	**1,078**	**-25.9%**
Arkansas	335	203	-39.4%
Louisiana	170	140	-17.9%
Mississippi	425	368	-13.5%
Missouri	250	192	-23.3%
Tennessee	275	176	-35.9%
SOUTHWEST	**6,471**	**5,595**	**-13.5%**
Kansas	31	26	-15.0%
Oklahoma	240	225	-6.2%
Texas	6,200	5,343	-13.8%
WEST	**250**	**134**	**-46.6%**
Arizona	150	59	-60.4%
California	57	35	-39.2%
New Mexico	43	39	-8.3%
TOTAL UPLAND	**10,845**	**9,192**	**-15.2%**
TOTAL ELS	**192**	**236**	**22.8%**
Arizona	15	36	140.5%
California	155	174	12.3%
New Mexico	5	7	31.4%
Texas	17	19	12.7%
ALL COTTON	**11,037**	**9,428**	**-14.6%**

1/ USDA-NASS
2/ National Cotton Council

U.S. Market

U.S. Textile Industry

Preliminary data from the U.S. Bureau of Labor Statistics indicate that textile industry employment in 2014 fell by approximately 8,900 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 decreased from the previous year and is estimated at 3.49 million bales in calendar 2014, 2.5% below 2013 (Figure 59). For calendar 2015, NCC forecasts domestic mill use of cotton at 3.62 million bales and estimates the 2014 marketing year at 3.60 million bales (Figure 60). NCC projects domestic mill use of cotton at 3.71 million bales for the 2015 marketing year.

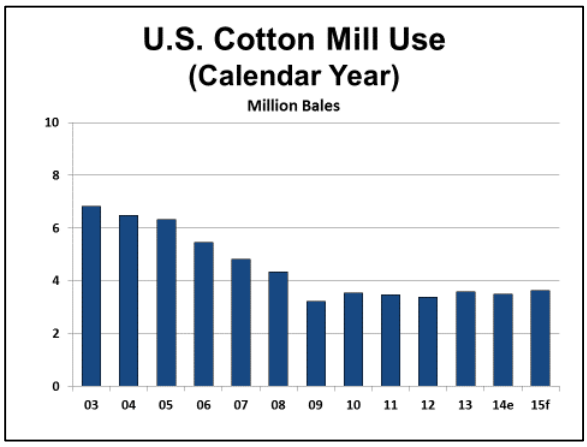

Figure 59 - U.S. Cotton Mill Use (Calendar Year)

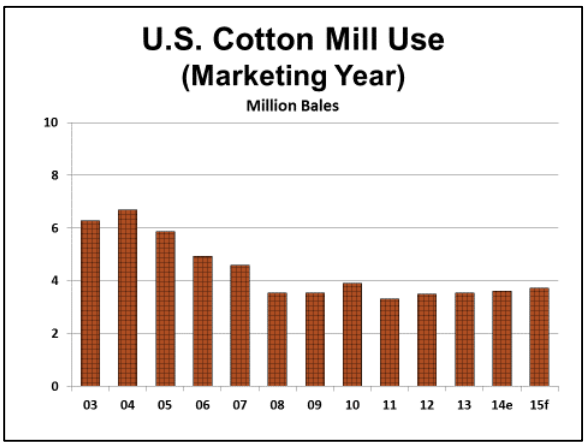

Figure 60 - U.S. Cotton Mill Use (Marketing Year)

U.S. mill consumption of manmade fibers increased in 2014. NCC estimates mill use of manmade fibers at 16.2 million bales for 2014, an increase of 1.6% from 2013 (Figure 61). Manmade fiber mill use is projected to increase to 16.7 million bales in calendar 2015.

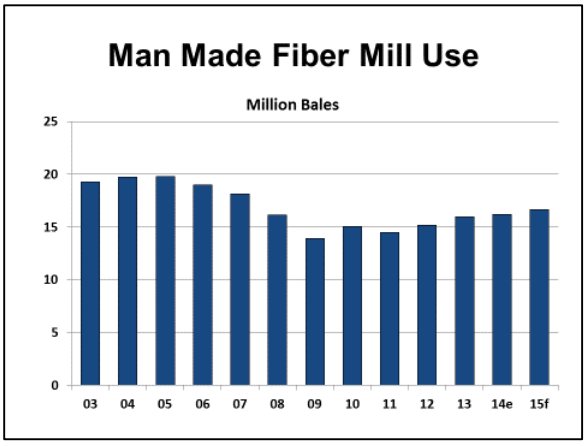

Figure 61 - Man Made Fiber Mill Use

Upland Cotton Economic Adjustment Assistance Program

The Upland Cotton Economic Adjustment Assistance Program (EAAP), re-authorized in the 2014 Farm Bill, has provided U.S. cotton textile manufacturers with much-needed assistance for capital investments and improvements.

Under the EAAP, domestic users receive 3 cents per pound for all upland cotton consumed. Recipients must agree to invest the EAAP proceeds in plants and equipment. In fiscal year 2014, over 40 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 2014 is estimated to be 47.6 million bale equivalents (Figure 62). Cotton's share of net domestic consumption decreased 1.6% this past year to 36.1%, which translates to 17.2 million bales. For 2015, NCC projects net domestic consumption of all fibers to increase to 49.1 million bales. With a projected share of 36.2%, cotton's net domestic consumption is projected to be 17.7 million bales.

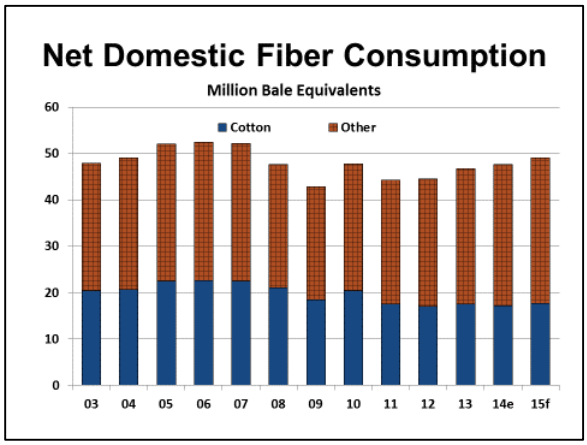

Figure 62 - Net Domestic Fiber Consumption

Imported goods make up the largest portion of U.S. net domestic consumption. Imported cotton textiles decreased from 17.6 million bale equivalents in 2013 to an estimated 17.4 million in 2014 (Figure 63).

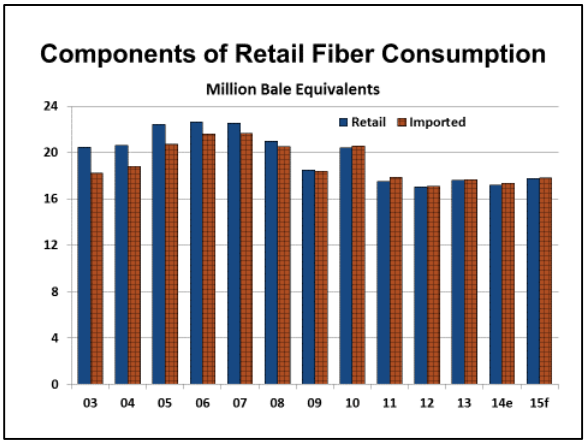

Figure 63 - Components of Retail Cotton Consumption

Textile Trade

Imports of cotton goods in calendar 2014 were estimated to have decreased by 1.6% to 17.4 million bale equivalents (Figure 64). In calendar 2015, NCC projects cotton textile imports to increase to 17.8 million bales.

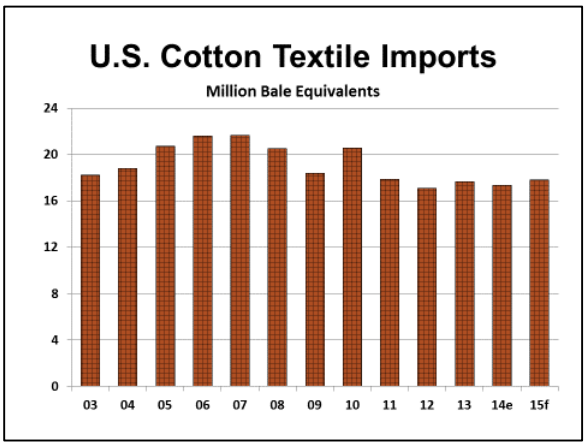

Figure 64 - U.S. Cotton Textile Imports

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 27.7% of all cotton goods imported in 2014 contained U.S. cotton. This is a 0.01%

increase over the previous year. In bale equivalents, these imported cotton goods contained 4.8 million bales of U.S. cotton (Figure 65). This is due, in large part, to our trading partners in NAFTA and the CBI.

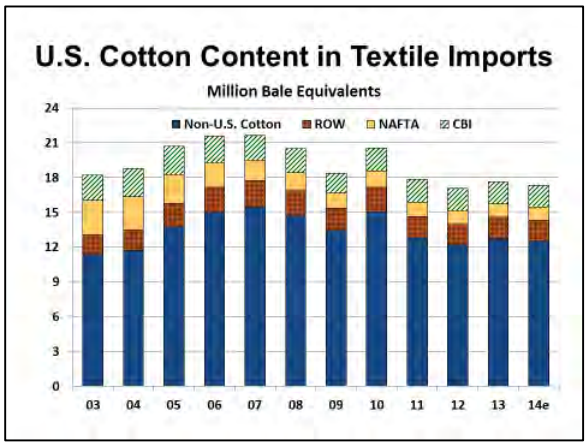

Figure 65 - U.S. Cotton Content in Textile Imports

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 12.6 million bale equivalents for 2014, down 2.6% from 2013. Imports of cotton home furnishings (including floor coverings) increased 0.1% in 2014 to an estimated 3.3 million bale equivalents. Cotton yarn, thread and fabric imports increased 3.7% in 2014 to an estimated 1.4 million bales.

Once again, countries in NAFTA and CBI represented significant sources of imported cotton goods in 2014 (Figure 67). Imports from Mexico in 2014 were estimated at 1.1 million bales, down approximately 2.0% from the previous year (Figure 68). Imports of cotton goods from Canada fell to an estimated 70 thousand bales in 2014, sliding 0.02% from the previous year (Figure 69). Imported cotton goods from CBI for the year were estimated at 2.3 million bale equivalents (Figure 70), up 3.5% 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 2014 were 2.0 million, or 86.0% of the cotton textile imports from CBI. Combined, imports from NAFTA and CBI countries increased 1.7% and accounted for 20.0% of total U.S. cotton product imports in 2014.

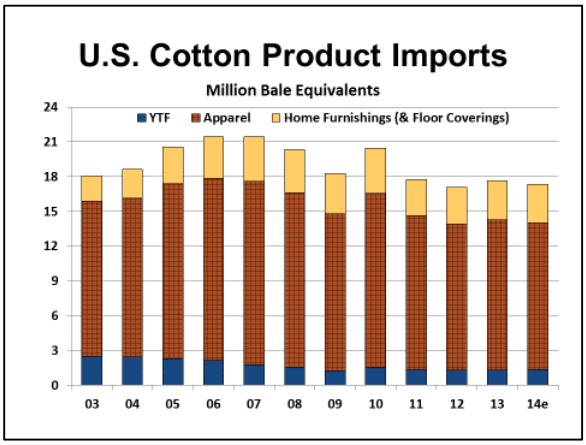

Figure 66 - U.S. Cotton Product Imports

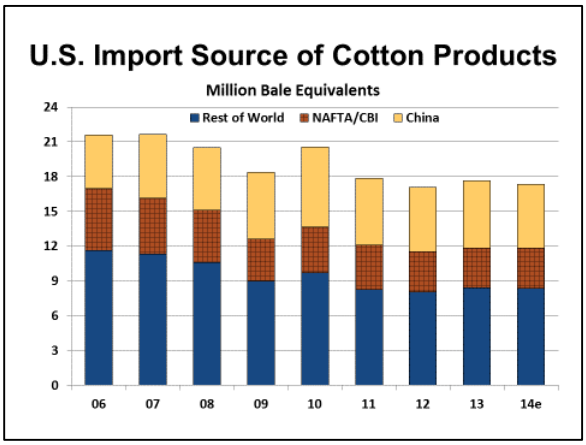

Figure 67 - U.S. Import Source of Cotton Products

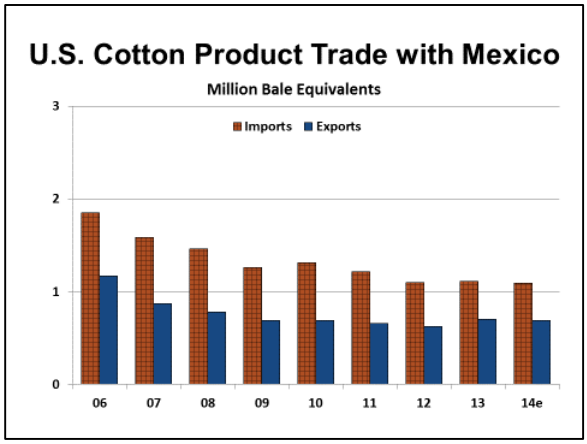

Figure 68 - U.S. Cotton Product Trade with Mexico

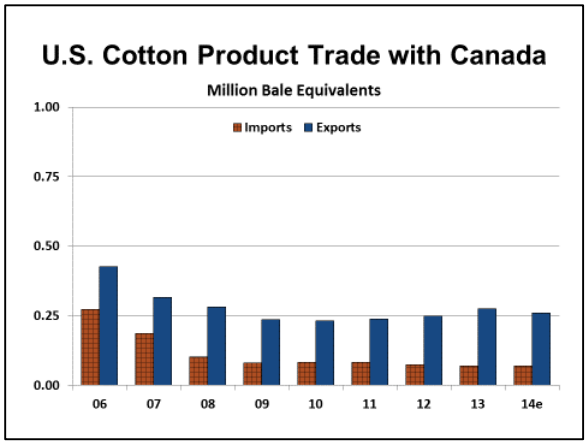

Figure 69 - U.S. Cotton Product Trade with Canada

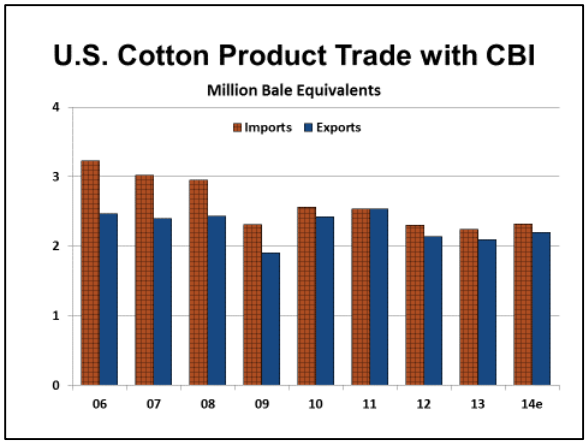

Figure 70 - U.S. Cotton Product Trade with CBI

Other top sources of imported cotton goods in 2014 were China, Pakistan, India, Hong Kong, Bangladesh, Vietnam, South Korea, and Turkey. For the tenth consecutive year, China was the largest supplier of cotton textile imports into the U.S. (Figure 71). Total cotton product imports from China decreased to an estimated 5.5 million bale equivalents in 2014, down 4.5% from 2013 and up by approximately 573% 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 31.9% in 2014.

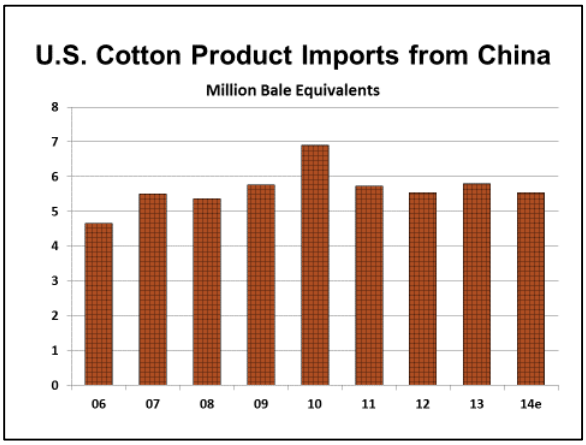

Figure 71 - U.S. Cotton Product Imports from China

Imports of cotton products from Pakistan are estimated at 1.8 million bale equivalents in 2014, an increase of over 300 thousand bales. Since 1997, Pakistan imports have increased 176%. Pakistan increased its share of imported cotton goods in the U.S. market last year to 10.6%.

Imports from India stood at 1.6 million bale equivalents for 2014. This was a 0.8% increase from last year but a 121% increase from 1997. India now accounts for 9.1% of all U.S. cotton product imports.

Imports from Hong Kong in 2014 were 21 thousand bale equivalents, down 14.8% from 2013. Hong Kong's share of imported cotton goods in the U.S. remained at 0.1% in 2014.

Bangladesh showed a decrease in cotton product imports into the U.S. when compared to the previous year. Imports from

Bangladesh in 2014 were down 7.4% from 2013 to 1.2 million bale equivalents. Bangladesh accounted for an estimated 6.7% of all cotton goods imported into the U.S. in 2014.

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 1.2 million bale equivalents in 2014, up 9.0% from 2013. Vietnam's share of cotton goods imported into the U.S. in 2014 increased to 7.1%, up 0.7% from the previous year. Cotton product imports from South Korea increased 7.8% from 2013 to 149 thousand bale equivalents in 2014.

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 2014. Cotton trousers remained the largest category of imported cotton goods from Mexico. Trousers accounted for 33.8% of all cotton product imports from Mexico based on SME (Figure 72). Knit cotton shirts were the next largest category of imports, accounting for 17.4%, followed by cotton hosiery (8.4%) and "other cotton apparel" (8.3%). The U.S. Customs Service category "other cotton apparel" includes items such as waistcoats, swimwear, bodysuits and scarves.

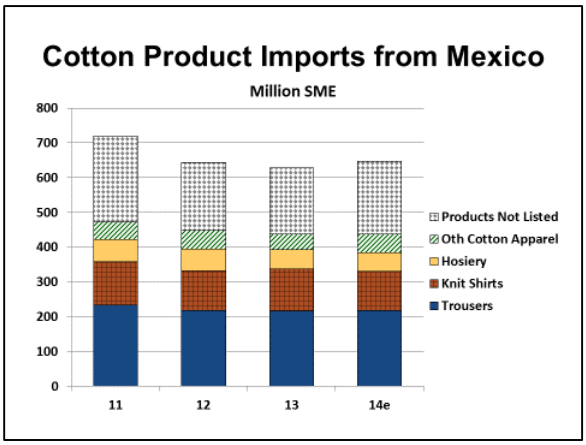

Figure 72 - Cotton Product Imports from Mexico

Canada

U.S. cotton imports from Canada decreased slightly again in 2014. The largest category of imports from Canada in 2014 was "other cotton manufactures", which accounted for 23.2% 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 15.0% of total imports, followed by carded cotton yarn at 3.7% and terry towels at 3.2%.

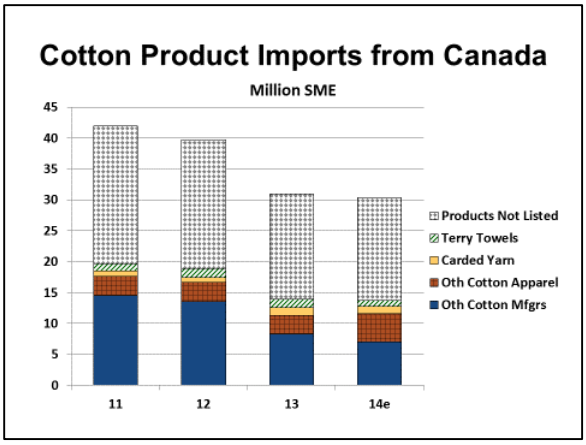

Figure 73 - Cotton Product Imports from Canada

Caribbean Basin Initiative (CBI)

Continuing the trend, CBI countries shipped more cotton goods to the U.S. than did NAFTA countries in 2014. 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 83.5% of the cotton knit shirt imports from CBI came from the CAFTA-DR countries. The second largest category, underwear, accounted for 32.2% of imports, followed by cotton hosiery (10.7%) and trousers (9.5%). Of these imports, 88.7% of the underwear, 96.2% of the cotton hosiery and 93.2% of the cotton trousers were from the CAFTA-DR countries.

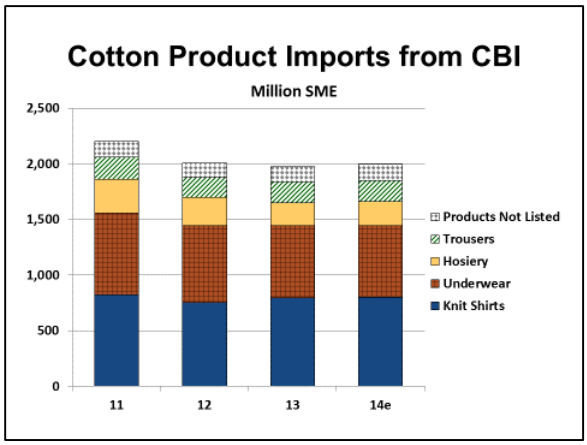

Figure 74 - Cotton Product Imports from CBI

African Growth & Opportunity Act (AGOA)

Over the past year, total cotton apparel product imports from the AGOA region decreased by 1.4% to an estimated 102.0 million SMEs (Figure 75). However, during the past year, the percentage of U.S. cotton apparel imports from the AGOA region receiving preferential treatment under the act increased from 98.4% to 98.9%.

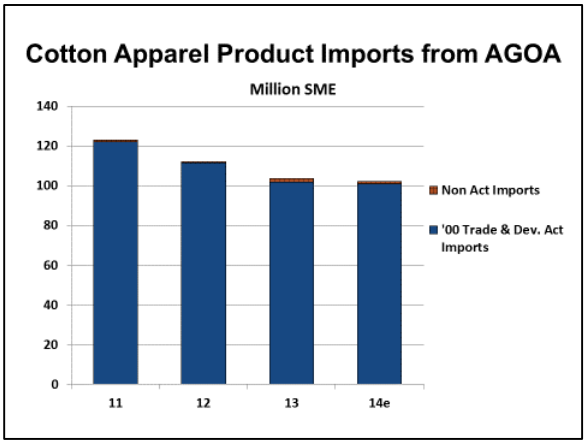

Figure 75 - Cotton Apparel Product Imports from AGOA

Pakistan

The largest category of imported goods from Pakistan in 2014 was "other cotton manufactures" (Figure 76). This category accounted for 41.3% of all cotton product imports from Pakistan based on SME. The second largest category imported from Pakistan was cotton sheets with 14.2% of total imports, followed by bedspreads and quilts (8.0%) and terry towels (4.9%).

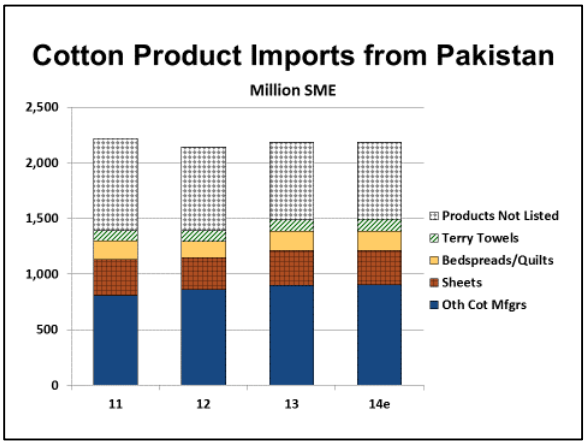

Figure 76 - Cotton Product Imports from Pakistan

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 2014 was "other cotton manufactures", which accounted for 22.2% of all cotton product imports from that

country (Figure 77). Trousers was the second largest category, comprising 13.0% of total cotton product imports from that country. Nightwear accounted for 5.8% of U.S. cotton textile and apparel imports from China in 2014. Knit shirts was the fourth largest category and accounted for 5.7% of cotton product imports.

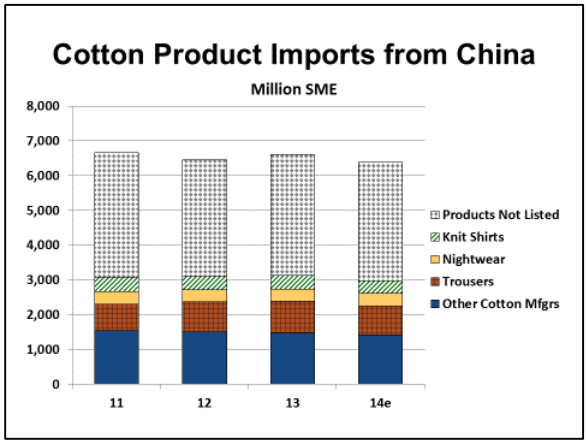

Figure 77 - Cotton Product Imports from China

India

As was the case with Pakistan and China, the largest category of imported cotton goods from India in 2014 was the category of "other cotton manufactures" (Figure 78). When based on SMEs, this category represented 30.5% of all cotton goods imported from India. The next largest category was cotton sheets (16.6%), followed by underwear (5.9%) and knit shirts (5.3%).

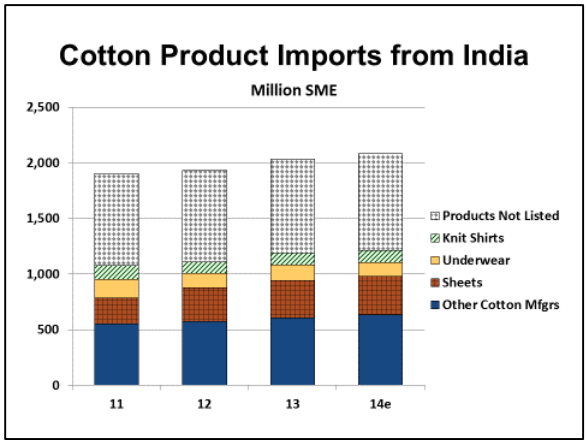

Figure 78 - Cotton Product Imports from India

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 2014 was "other cotton manufactures" (Figure 79). When looking at SMEs, "other cotton manufactures" accounted for 27.9% of all cotton products imported. The second largest category was trousers with 18.8% of imports, followed by woven shirts (15.3%) and "other cotton apparel" (8.7%).

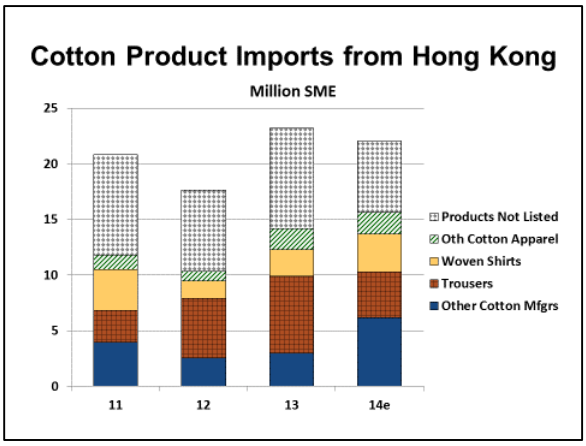

Figure 79 - Cotton Product Imports from Hong Kong

Bangladesh

Based on SMEs, the largest category of cotton goods imported from Bangladesh in 2014 (34.9%) was trousers (Figure 80). The second largest category in 2014 was woven shirts (18.4%). Cotton underwear was the third largest category in 2014, representing 13.5% of total cotton goods imported from Bangladesh, followed by knit shirts at 7.4%.

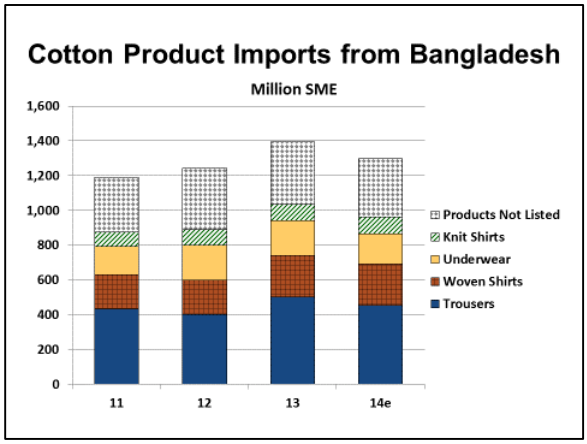

Figure 80 - Cotton Product Imports from Bangladesh

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 5,800% 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 1.4 billion SME in 2014. The largest category of imported cotton goods from Vietnam in 2014 was underwear. Based on SMEs, this category represented 23.0% of all cotton goods imported from Vietnam. The next largest category was trousers (20.7%), followed by knit shirts (18.8%) and woven shirts (6.1%).

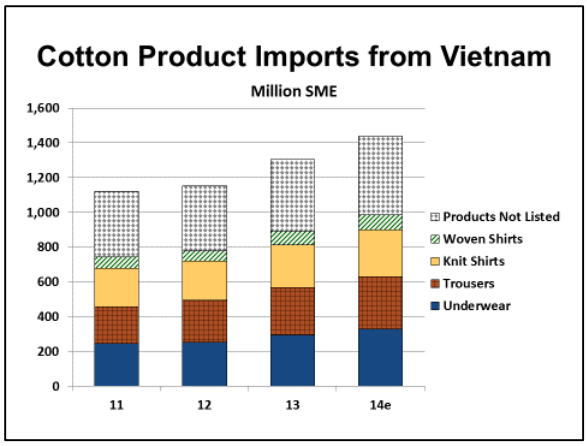

Figure 81 - Cotton Product Imports from Vietnam

South Korea

Based on SMEs, the largest category of cotton goods imported from South Korea in 2014 was combed cotton yarn, which accounted for 40.1% (Figure 82). The second largest category in 2014 was cotton sheeting fabric (27.2%), cotton hosiery (15.6%) and cotton gloves and mittens (1.8%).

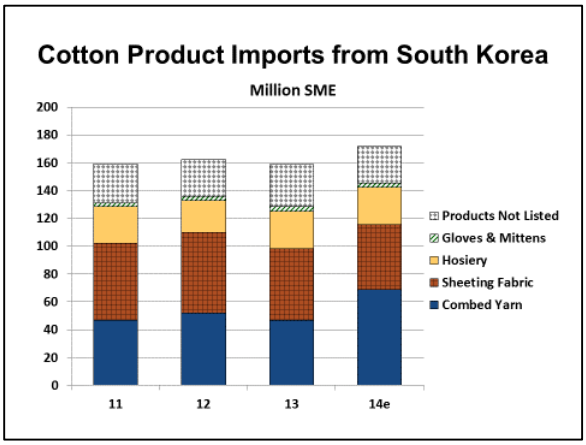

Figure 82 - Cotton Product Imports from South Korea

Turkey

Based on SMEs, the largest category of cotton goods imported from Turkey in 2014 was cotton sheets, which accounted for 30.3% (Figure 83). The second largest category in 2014 was "other cotton manufactures" (21.9%), followed by cotton trousers (5.6%) and pillowcases (4.9%).

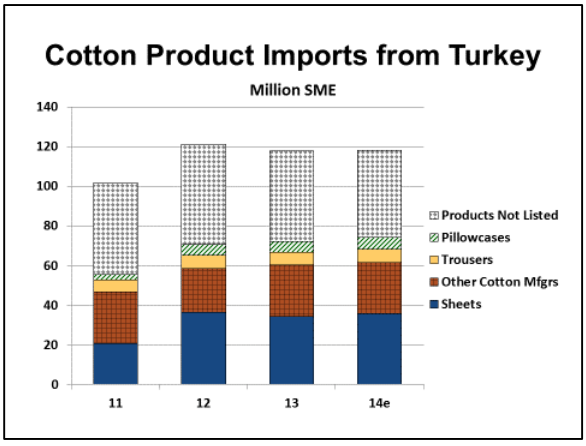

Figure 83 - Cotton Product Imports from Turkey

U.S. Cotton Product Exports

Exports of U.S. cotton textile and apparel products experienced an increase in 2014 (Figure 84). Exports increased by 0.6% in 2014 to an estimated 3.7 million bale equivalents. This increase was due to an increase in exports of cotton yarn, thread and fabric (Figure 85). Exports of cotton yarn, thread, and fabric increased by 1.5% to 3.3 million bale equivalents in 2014. Exports of cotton apparel decreased by 6.9% in 2014 to 280 thousand bale equivalents. Exports of home furnishings (including floor coverings) declined by 4.4% over the previous year to an estimated 115 thousand bale equivalents. For 2015, NCC projects U.S. cotton textile exports to increase 73 thousand bales to 3.72 million bale equivalents.

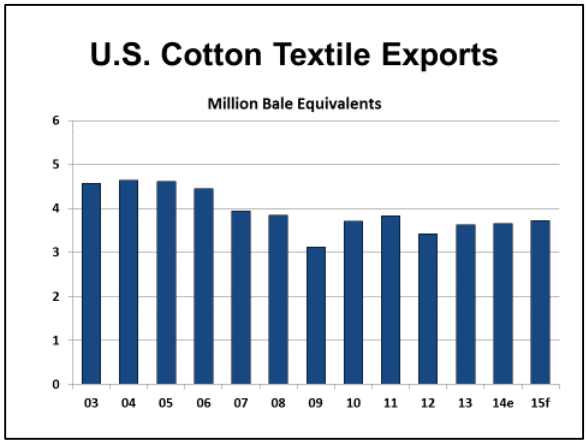

Figure 84 - U.S. Cotton Textile Exports

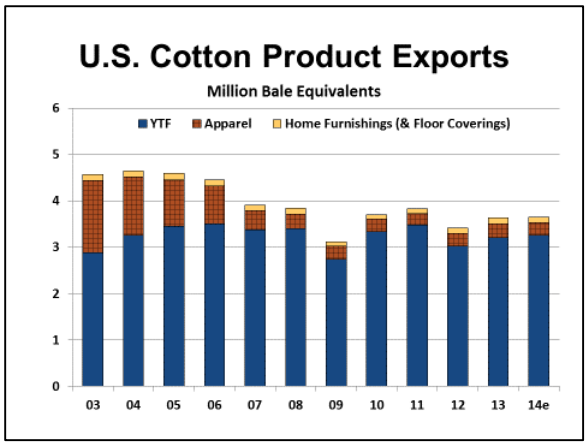

Figure 85- U.S. Cotton Product Exports

The top customers of exported U.S. cotton textiles and apparel in 2014 were once again the NAFTA and CBI countries (Figure 86). Exports to the NAFTA countries last year totaled an estimated 952 thousand bale equivalents, down 2.7% from the previous year. Exports to the region accounted for 26.1% of all U.S. cotton product exports. Exports to Mexico decreased to an estimated 692 thousand bale equivalents from 703 thousand in 2013. Cotton product exports to Canada declined by an estimated 5.5% to 260 thousand bale equivalents for 2014.

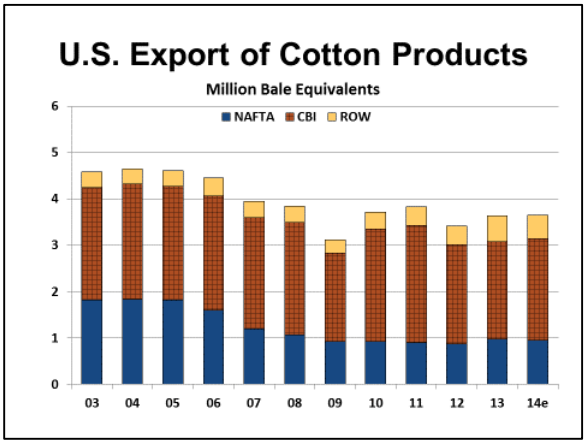

Figure 86 - U.S. Exports of Cotton Products

U.S. exports to the CBI countries grew last year. In 2014, exports increased 4.8%, totaling 2.2 million bale equivalents or 60.1% of all U.S. cotton exports. Approximately 98.3% 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 65.9 and 98.9 cents per pound during the course of calendar 2014 (Figure 87). For the current marketing year-to-date, the "A" Index has averaged 67.5 cents per pound, just over 23.0 cents lower than this time last year.

Figure 87 - "A" (FE) Index

World

The 2014 marketing year saw a decline in cotton production with an estimated world crop of 119.2 million bales (Figure 88). The smaller cotton crop was in part due to lower yields. India and China remain the leading producers while Pakistan continues to be a significant producer. The United States produced a crop of 16.1 million bales, 3.2 million bales higher than the 2013 crop.

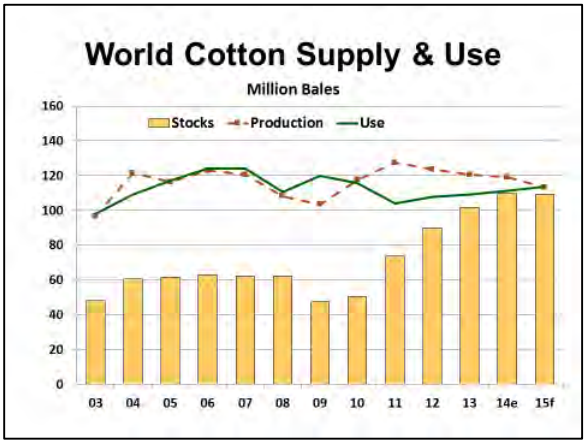

Figure 88 - World Cotton Supply & Use

World production bounced back above mill use in 2010 and 2011. This trend continues with the most recent 2013 and 2014 marketing year estimates. World consumption is estimated at 109.1 million bales for the 2013 marketing year and 111.1 million bales for 2014 while production is estimated to be 120.4 million bales for 2013 and 119.2 million bales for the 2014 marketing year.

Production is projected to fall in the 2015 marketing year to 113.2 million bales with an increase in consumption to 113.7 million. Ending stocks will fall slightly to 109.4 million bales resulting in a stock-to-use ratio of 96.2%.

China

China remained one of the largest cotton producers with a 2014 crop of 30.0 million bales (Figure 89). The crop was 2.8 million bales less than the 2013 crop. Factors contributing to the decline include both fewer harvested acres and slightly lower yields.

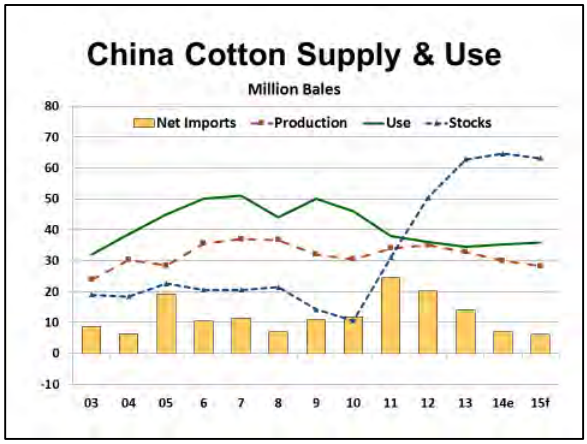

Figure 89 - China Cotton Supply & Use

In September 2014, China's National Development and Reform Commission (NDRC) published policy details of a subsidy program in Xinjiang for the 2014 crop. The program gives Xinjiang cotton farmers a direct subsidy if the price falls below a target price of 19,800 yuan per ton ($1.45 per pound). Farmers will be compensated based on a combination of their acreage and the volume sold to cotton ginners.

Specifically, based on the difference between the target price and the market price, and the National Statistics Bureau (NSB) estimated Xinjiang cotton production, the central government will estimate the total subsidy amount and then appropriate funds to the Xinjiang government. The Xinjiang government will then distribute the funds in two ways: (1) 60% of the funds will be based on the certified planted area, and (2) 40% of the funds will be based on production. The subsidy is scheduled to be distributed to cotton farmers in February 2015. In addition to the policies in Xinjiang, cotton producers in the remaining provinces will receive a direct subsidy of 2,000 yuan per ton ($0.15 per pound).

Given the structure of the policies, acreage decisions in Xinjiang must be evaluated separately from the decisions in the eastern provinces. In recent years, the trend in Xinjiang cotton area stands in stark contrast to the other provinces. Since 2008, cotton area in Xinjiang has steadily increased while area in the remaining provinces declined by more than 50%. For 2015, those trends are expected to continue as the target price program is expected to encourage a modest increase in Xinjiang's area devoted to cotton. In the eastern provinces, area is expected to decline as China's internal cotton prices are below year-ago levels. The presence of the direct support can serve to temper the reduction, but nonetheless, a decline of more than 20% is expected. For the country as a whole, a decline in harvested of 10% is expected. Barring weather problems, China's cotton production will not fall as much as area since yields in Xinjiang are much higher than those in other provinces. A 2015 crop of 28.3 million is projected, down 5.8% from 2014.

Along with being a leading cotton producer, China is the largest consumer of raw cotton. The textile industry in China employs over 23 million people and is considered an economic pillar industry. However, the textile industry faces significant challenges, including declining orders from overseas, appreciating Chinese currency and rising production costs for key inputs such as raw materials and labor.

Between 2009 and 2013, China's mill use fell by almost 16 million bales as high cotton prices relative to manmade fibers forced spinners to turn away from cotton. In the current marketing year, China's internal cotton price has dropped by approximately 50 cents per pound, but at close to $1.00, is still almost twice the level of polyester prices. As a result, cotton mill use is expected to show only modest growth in the current marketing year, and the outlook takes a conservative view for 2015 as well.

China's policy change for cotton farmers was coupled with an announcement that import quotas for 2015 would be limited to required WTO minimum tariff rate quota (TRQ) of 4.1 million bales. Considering the massive stockpiles of cotton and expectations for limited quota, China's imports are expected to fall further in 2015. Under the assumption that some additional import licenses will be available, total imports are projected at 6.2 million bales.

The adjustments in China's supply and demand will allow a modest reduction in stocks, but only down 1.4 million bales to 63.2 million. The stocks remain a burden on the 2015 cotton market. Unfortunately, government policies, and their impacts on China's prices, are not allowing either cotton production or demand to adjust to a market-driven level, and imports are reduced as a result.

India

The latest estimates have India producing 30.5 million bales for the 2014 marketing year (Figure 90). If these estimates hold, the 2014 crop will be 500,000 bales lower than the 2013 crop.

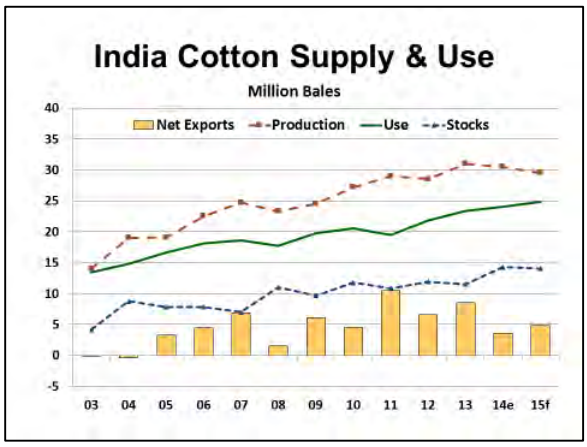

Figure 90 - India Cotton Supply & Use

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 24.7 million bales in 2007. Since 2007, cotton production in India has averaged over 27.7 million bales per year. India now accounts for a third of global cotton area.

Within India, two-thirds of cotton is produced in the central cotton growing zone in the states of Maharashtra, Madhya Pradesh, Gujarat and Odisha where much of the crop is rain fed. The northern zone, which consist of the states of Punjab, Haryana and Rajasthan, produces cotton under irrigated conditions and accounts for about 15% of production. In the south, the states of Andhra Pradesh, Karnataka and Tamil Nadu account for 30% of production. The Central and Southern zones typically grow long duration cotton that allows farmers to reap multiple pickings or harvests. While the number of pickings has declined as traditional varieties have been replaced by biotech hybrids, farmers can still extract up to five pickings per plant depending on weather conditions. In contrast, the irrigated cotton in the northern zone is mostly a short season crop that fits into a cotton-wheat cropping rotation.

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 515 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.

Government policies in India will play a role in the outlook for the coming year. Under the current climate of weaker market prices, an increased Minimum Support Price (MSP) for the 2014 crop has caused a significant amount of India's production to move into government stocks. In the short term, procurements by the Cotton Corporation of India have reduced India's presence in the world, which is significant since India normally occupies the spot as the second largest exporter. However, unlike the Chinese government, India generally does not hold stocks for an extended period of time, and at some point, the cotton will be sold from reserves and enter the marketing channels. A key question becomes timing and at what price.

With internal market prices below the MSP, the decline in India's 2015 cotton acreage is mitigated by the support of the MSP. The resulting production reaffirms India's position as the largest producing country.

The textile sector is in relatively good condition compared to a few years ago and capacity in the industry continues to expand. Major production states like Gujarat and Maharashtra are taking steps to attract industry investment nearer to cotton production. If this trend continues to hold true, then India's mill use should grow to 24.9 million bales in the 2015 marketing year.

In terms of the global trade picture, government policies in India will play a role in the outlook for the coming year. Under the current climate of weaker market prices, an increased Minimum Support Price (MSP) for the 2014 crop has caused a significant amount of India's production to move into government stocks. In the short term, procurements by the Cotton Corporation of India have reduced India's presence in the world, which is significant since India normally occupies the spot as the second largest exporter. However, unlike the Chinese government, India generally does not hold stocks for an extended period of time, and at some point, the cotton will be sold from reserves and enter the marketing channels. A key question becomes timing and at what price.

India is expected to continue as a net exporter, again being a regional supplier to Pakistan and Bangladesh along with Southeast Asian markets like Vietnam and Indonesia. For the 2015 marketing year, India is expected to export 5.9 million bales, but the potential for greater exports exists if the government chooses to be more aggressive in the pricing of cotton from reserves.

Uzbekistan

Current estimates put Uzbek cotton production at 4.0 million bales for 2014 (Figure 91), down 100,000 bales from the previous year. Cotton has been the cash crop in Uzbekistan for generations and a significant source of employment and foreign exchange.

Each year, Uzbekistan is planting a greater percentage of cotton acres with faster-maturing varieties. The government initiated a major program to reform the cotton sector since 2008, largely aimed at improving fiber quality. Currently, 10% of all cotton seeds targeted for sowing will be newly developed breeds, 35% mid-season varieties and 55% early maturing breeds.

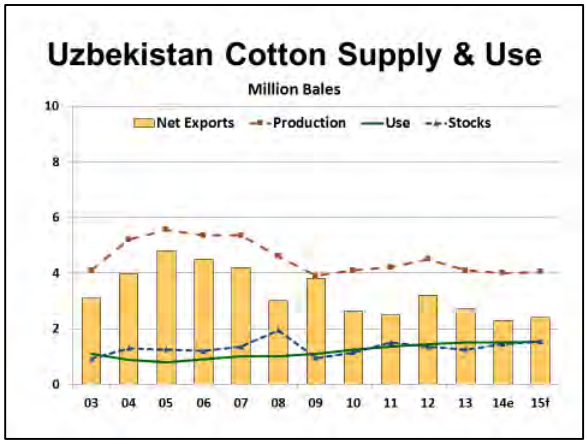

Figure 91 - Uzbekistan Cotton Supply & Use

For the 2015 marketing year, Uzbek cotton production will remain relatively unchanged with an estimate of 4.0 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. Currently, roughly 30% of all cotton is consumed domestically. Also, in the past 5 years, Uzbekistan's spinning and weaving industries have been investing heavily in new equipment and renovation of existing equipment, as domestic and export demand grew especially for cotton yarn.

Currently, many local mills are trying to widen their production assortment in order to expand to high value added products. There are more than 50 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2013, total foreign investments in the textile industry exceeded $2.0 billion. The main products produced and exported by textile mills remain cotton yarn, gray fabrics, knitted fabrics, knitted garments and hosiery.

As a result, Uzbek domestic cotton consumption is estimated at 1.5 million bales in the 2014 marketing year. For 2015, Uzbekistan's mill use is projected to remain unchanged at 1.5 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. As a result, Uzbekistan remains a primary supplier of cotton to Asia, with Bangladesh, China, and Russia remaining the major markets for Uzbek cotton. With those markets, Uzbekistan will remain a net exporter of cotton for the foreseeable future exporting an estimated 2.4 million bales of cotton in the 2015 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 cottonseed oil crushers and refiners.

In 2014, cotton production was estimated at 10.2 million bales. A slight decline in production is expected for the upcoming marketing year resulting from lower yields and fewer harvested acres. Assuming normal weather conditions and low pest infestation, production is projected to be 9.8 million bales in 2015 (Figure 92).

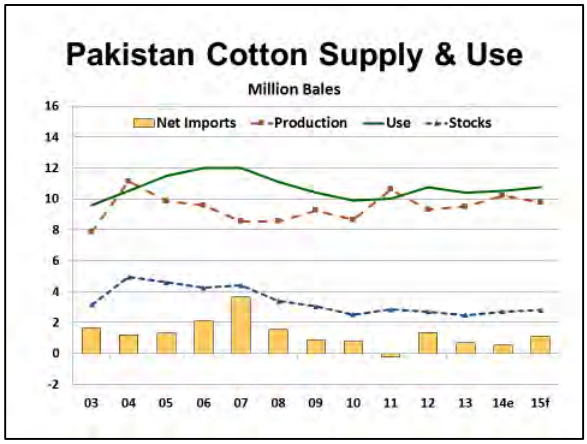

Figure 92 - Pakistan Cotton Supply & Use

The grant of Generalized System of Preferences (GSP Plus) status to Pakistan by the EU, effective January 2014 through 2017 is expected to have a major impact on Pakistan's cotton consumption and export of Pakistani products, especially textile and garments to European markets. This agreement allows 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 10.8 million bales for the 2015 marketing year.

Pakistan is a net importer of cotton due to strong domestic demand for better grades of cotton. 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 2015. Net cotton imports for the 2015 marketing year are expected to be 1.1 million bales.

Turkey

Production declined to 2.3 million bales in 2013, due in part to a decline in acreage (Figure 93). For 2014, production increases with an estimated 3.2 million bales, and increased acres, an estimated 1.1 million harvested acres, up 248,000 acres.

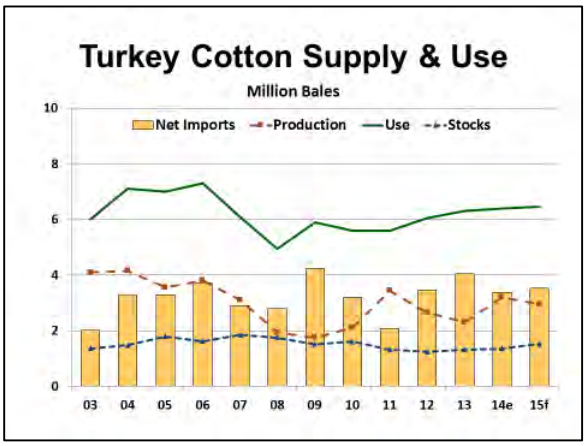

Figure 93 - Turkey Cotton Supply & Use

Turkey, the second largest export market for U.S. cotton is also being impacted by government actions. In this case, the action is a self-initiated antidumping (AD) investigation of imports of U.S. cotton launched by Turkey in October 2014. A review of publicly available price data indicates no evidence of dumping, and public statements by Turkey's Minister of Economy suggest that the investigation is conducted in retaliation of U.S. investigations of imported steel products from Turkey.

Regardless of the motivations, the investigation is ongoing and already having a detrimental impact on sales to Turkey due to the uncertainty of not knowing when or if a duty will be imposed. Assuming the investigation follows a conventional timeline, it should be concluded at some point during the 2015 marketing year. For this economic outlook, NCC assumes that the investigation results in no duty applied to imports of U.S. cotton. Whether this is a valid assumption will depend on the

outcome of the investigation, but this assumption is appropriate for two reasons. First, this assumption is supported by the economic analysis of available data. Second, this assumption allows the outlook to serve as a baseline projection against which alternative duties could be evaluated.

Under these assumptions, Turkey's mill use is projected to show a modest expansion in 2015. Weaker cotton prices relative to grains are expected to reduce cotton production, and Turkey is projected to import 3.8 million bales, up from 3.6 million bales in 2014.

Australia

Current estimates put Australia's cotton production at 2.2 million bales for the 2014 marketing year (Figure 94). A return to a more normal weather pattern puts Australia's cotton production at roughly 2.8 million bales in 2015.

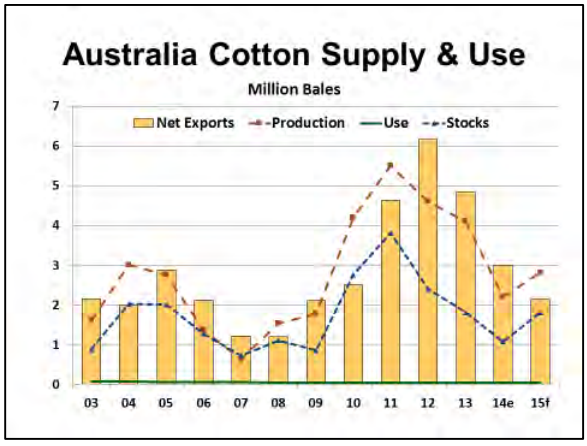

Figure 94- Australia Cotton Supply & Use

Australia is one of the world's largest exporters of raw cotton with over 90% of the domestic crop exported, mainly to China, Indonesia and Thailand. For the 2014 marketing year, exports are estimated to reach 3.0 million bales. With production hovering around the 2.8 million bale mark during the 2015 marketing year, exports are expected to drop to 2.1 million bales.

Brazil

The adoption of biotechnology reached 57% in the 2013 crop year, a 15% increase from 2012. Several varieties from modern agricultural biotechnology offer both herbicide resistance (glyphosate, glufosinate, etc.) and insect resistance. While these varieties are not entirely effective in protecting the plants against Helicoverpa, the plant technology did repress the infestation of this pest to a significant degree. It was precisely for this reason that farmers invested in newer biotech seed varieties, with insect resistance. Despite the continued adoption of new biotech cottonseed varieties, the 2014 crop saw decreased cotton acreage. Current estimates place production for the 2014 marketing year at 7.0 million bales (Figure 95). For the 2015 marketing year, harvested area is estimated at 2.4 million acres, down slightly from the previous year, resulting in a production estimate of 6.7 million bales in 2015.

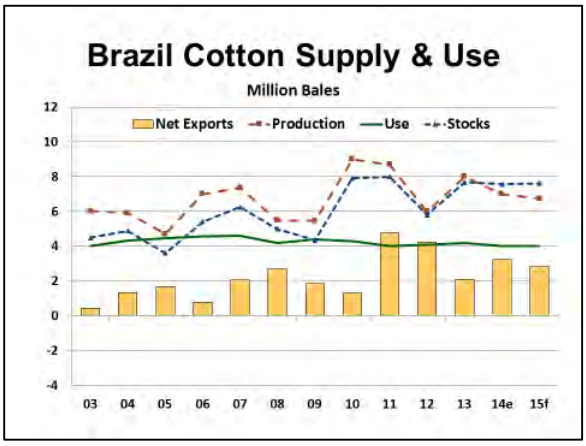

Figure 95 - Brazil Cotton Supply & Use

Brazilian mill use for the 2014 marketing year was down 200,000 bales to 4.0 million bales. Brazilian cotton consumption will remain stable in the 2015 marketing year with mill use estimated at 4.0 million bales.

In terms of trade, Brazil is expected to export 3.4 million bales of cotton in the 2014 marketing year. For the 2015

marketing year, exports are expected to fall 420,000 bales to roughly 3.0 million bales.

West Africa

In the West African cotton-producing countries, cotton production continues to play an important role in the economy. As a result, cotton production in 2014 was an estimated 4.7 million bales.

Burkina Faso remains the top producer in the region. Observers expect about 70% of the area harvested in 2014 will be Bt cotton. Improved seed and farmers adopting better agronomic practices have contributed to fairly consistent yields the past few years. The Government of Burkina Faso continued to subsidize input prices during the 2014 crop year. Fertilizers and urea prices for marketing year 2014 were reduced 5% compared to the previous year. With continued support from the government, Burkina Faso should remain the largest cotton producer in the region.

Malian farmers are interested in growing Bt cotton. This interest along with continued support from the local government actually increased the number of cotton farmers between the 2013 and 2014 crop years from 162,755 to over 179,000. With continued government support, Mali will continue to be a factor in West African cotton production.

Following the reform of all agricultural sectors in Cote d'Ivoire, the cotton sector has been reorganized with a new association which includes producers, ginners, seed cotton crushers, and the textile sector. The name will still be the same as the former one (Intercoton-Association Interprofessionnelle de la Filiere Coton). Cotton producers formed their federation which regroups unions of cooperatives (Yebewogon, UFACOCI, and URECOS-CI).

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 4.5 million bales in 2015 (Figure 96), down slightly from 2014.

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 2014 marketing year, it is estimated that the region will export roughly 4.1 million bales. For 2015, West African exports are expected to climb to 4.2 million bales.

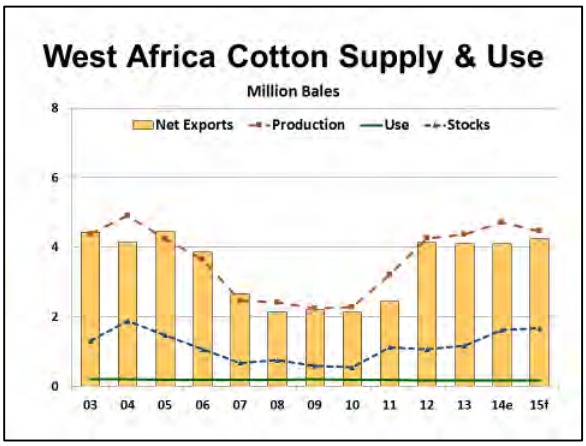

Figure 96 - West Africa Cotton Supply & Use

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 2014 grew 296,000 bales, to 1.2 million bales. Increased planted acres account for a portion of growth in production. Harvested area has gone from 294,000 acres in the 2013 marketing year to 445,000 acres in 2014.

With a slight decline in acres estimated for 2015, production remains virtually unchanged with an estimated crop of 1.2 million bales in the 2015 marketing year (Figure 97).

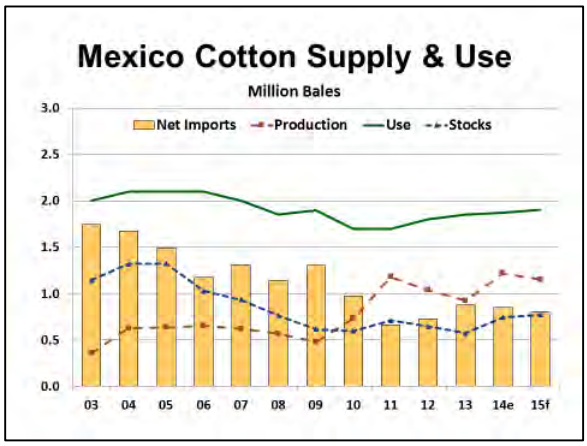

Figure 97 - Mexico Cotton Supply & Use

In terms of consumption, Mexico's outlook remains basically unchanged. Marketing year 2014 mill use is estimated at 1.9 million bales. For the 2015 marketing year, Mexican mill consumption is projected to remain stable at 1.9 million bales.

Cotton imports remained unchanged at 1.0 million bales during the 2014 marketing year. The U.S. should continue to be the main supplier, accounting for practically 100% of Mexico's cotton imports. Mexico's imports are expected to fall slightly to just under 1.0 million bales for the 2015 marketing year.

Indonesia

Indonesian cotton production was estimated to reach 25,000 bales in the 2014 marketing year (Figure 98). Current projections show this number unchanged for 2015.

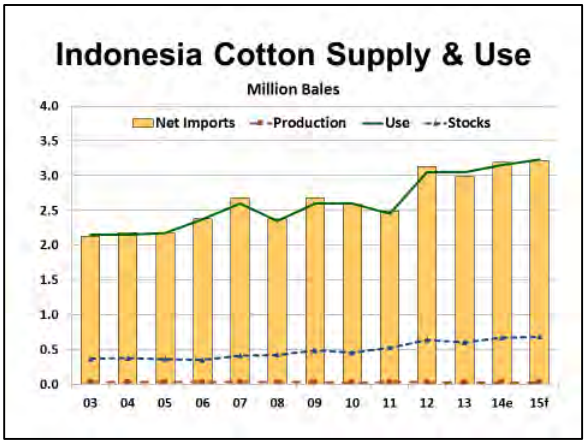

Figure 98 - Indonesia Cotton Supply & Use

The Indonesian textile industry plays a significant and strategic role in Indonesia's macro-economy. According to industry sources, the Indonesian textile and textile products sectors employ approximately 1.5 million workers (which equated to just over 10% of the total Indonesian manufacturing workforce in 2012).

Indonesia's Ministry of Industry reports that the spinning industry's fiber consumption is comprised of cotton (45%), synthetic fiber (45%), and rayon (10%). Indonesia exports approximately 30% of its yarn production. A gradual increase in electricity tariffs since May 2014 has increased synthetic fiber production costs, pushing up synthetic yarn and thread prices. Simultaneously, Chinese cotton production policy changes and higher international cotton supplies have driven cotton prices down, while cotton yarn prices remain high relative to synthetic yarn. As a result of these factors, Indonesian spinners have switched from synthetic fibers to cotton.

Indonesian cotton consumption in marketing year 2015 is estimated to improve modestly to 3.2 million bales. The same holds true for imports, estimated at just over 3.2 million bales for the 2015 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 2014 marketing year, production stands at 17,000 bales with no change expected for the 2015 crop (Figure 99).

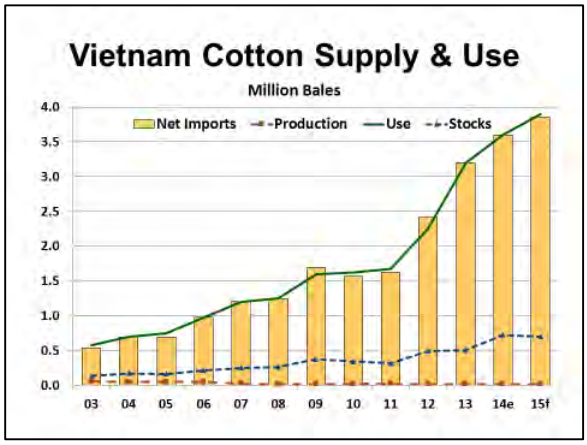

Figure 99 - Vietnam Cotton Supply & Use

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 one of a very few countries in Asia that have expanded their yarn spinning sector in recent years. Vietnam is currently home to over 100 spinning mills with 6 million spindles (equivalent) for a total capacity of 720,000 tons of cotton-based yarns.

Estimates place 2014 marketing year mill use at 3.6 million bales. Growth continues into the 2015 marketing year with consumption climbing to 3.9 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 2014 marketing year, Vietnam will import 3.6 million bales and estimates are higher for the 2015 marketing year at 3.9 million bales.

Bangladesh

Marketing year 2014 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 2015 marketing year is expected to remain unchanged at 120,000 bales.

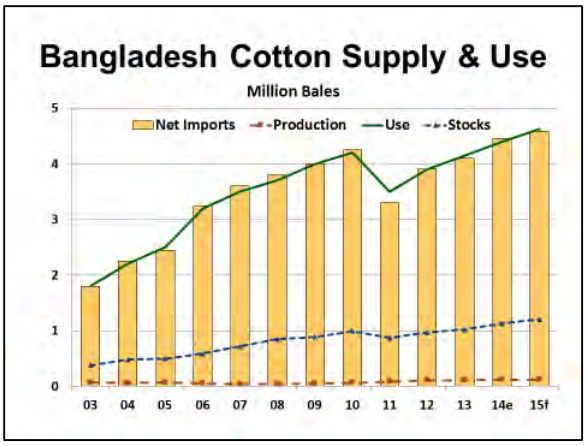

Figure 100 - Bangladesh Cotton Supply & Use

Bangladesh currently has 392 spinning mills, 782 textile weaving mills, 240 dyeing and finishing mills, and around 4,500 garment factories. Approximately 4,000 garment factories employ 3.6 million workers, of which 80% are women. According to the Bangladesh Textile Mills Association (BTMA), because of high export demand for value-added textile products, over the last ten years fabric demand from the ready-made garment (RMG) sector has exceeded domestic supplies, which are 50% cotton based and 25% non-cotton based. Based on strong export demand for value-added products and higher domestic textile demand due to

population growth, marketing year 2014 mill use was estimated at 4.4 million bales and an increase is expected in the 2015 marketing year with estimates approaching 4.6 million bales.

As a result of increasing demand, raw cotton imports have steadily grown. Imports have increased to an estimated 4.5 million for the 2014 marketing year and are projected to increase slightly in 2015 to roughly 4.6 million.

United States Trade

For the 2014 marketing year, U.S. exports of raw cotton are estimated at 10.2 million bales (Figure 101), down 330,000 bales from 2013. Exports climb in the 2015 marketing year with projections of 10.6 million bales. The reliance of the U.S. cotton market on exports has increased dramatically over the past 15 years as the domestic textile industry has contracted. It is estimated that exports will constitute roughly 75% of total use for the 2014 marketing year.

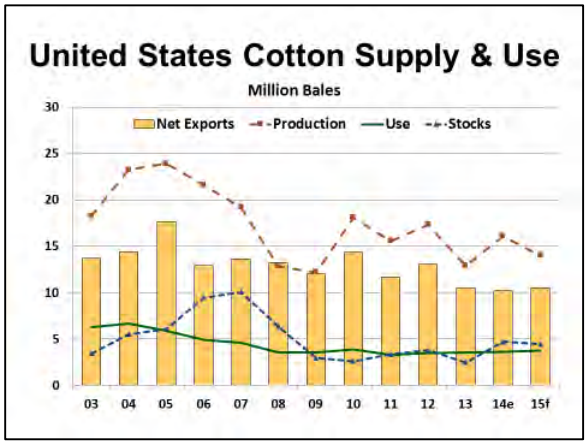

Figure 101 - United States Cotton Supply & Use

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

Top U.S. Raw Cotton Export Destinations

2000		2014YTD	
Country	(000 480-Lb. Bales)	Country	(000 480-Lb. Bales)
Mexico	1,819	China	2,079
Turkey	613	Turkey	1,427
Indonesia	541	Vietnam	988
Taiwan	407	Mexico	856
Japan	383	Indonesia	746
Hong Kong	297	Korean Republic	516

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

World Trade

In the 2014 marketing year, world cotton trade declined over 6.4 million bales to 34.1 million bales (Figure 103). Current estimates put 2015 marketing year world cotton trade at 34.6 million bales. As previously discussed, U.S. exports are projected to climb to 10.6 million bales in the 2015 marketing year. India is also expected to see an increase in exports going from an export estimate of 4.7 million bales in 2014 to 5.9 million bales in the 2015 marketing year.

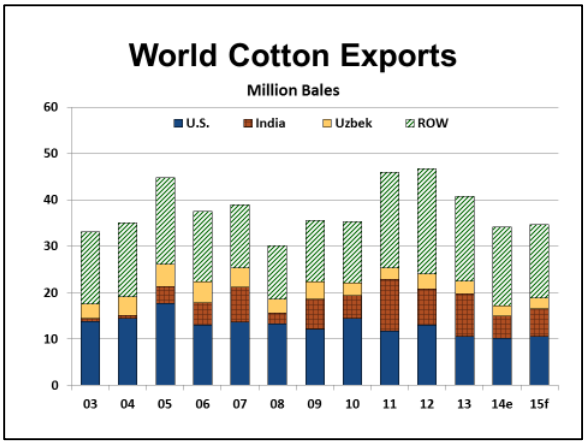

Figure 103 - World Cotton Exports

China has the greatest drop in imports with an estimated 6.2 million bales, 900,000 bales fewer than the previous year (Figure 104).

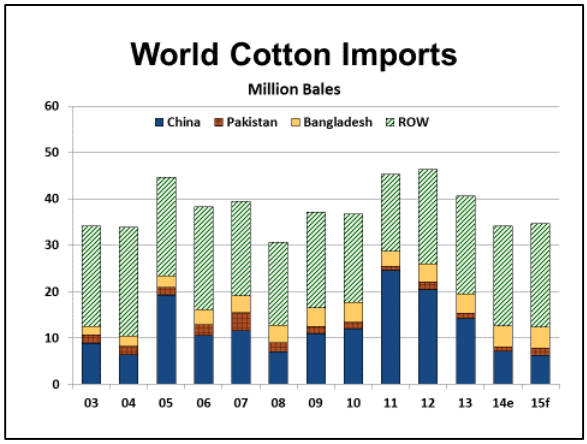

Figure 104 - World Cotton Imports

Examining the world trade-to-mill use ratio for the 2014 marketing year shows a drop to 31% from 37% in 2013 (Figure 105). For 2015 the ratio is expected to continue to fall to 30%.

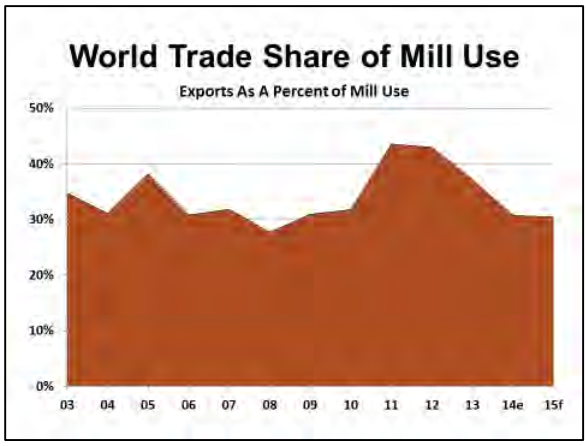

Figure 105 - World Trade Share of Mill Use

World Ending Stocks

For the 2015 marketing year, ending stocks are estimated to show only a marginal decline to 109.4 million bales while the stocks-to-use ratio is estimated at 96% (Figure 106). Stocks outside of China are projected to increase by 900 thousand bales. The 2 largest producers – China and India – will continue to significant holders of cotton stocks due in part to various government programs.

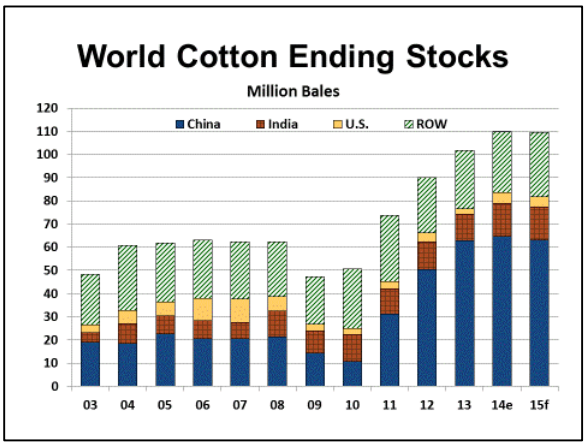

Figure 106 - World Cotton Ending Stocks

The overall balance sheet would indicate continued pressure on prices as the projected world stocks-to-use ratio climbs to 99% for the 2014 marketing year (Figure 107).

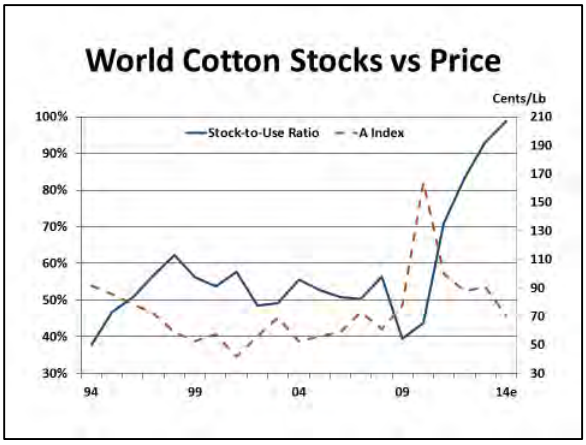

Figure 107 - World Cotton Stocks vs Price