



**COUNTER-CYCLICAL PAYMENTS UNDER THE 2008 FARM BILL
DECEMBER 2011**

Background

The 2008 farm bill reauthorized counter-cyclical payments (CCP) which are designed to move opposite of market prices. In determining the CCP, the legislation continued target prices (TP) for eligible crops. A CCP will be paid to eligible producers when the effective price, as determined by USDA, falls below the target price. The effective price is the sum of the direct payment and the higher of the loan rate and the marketing year average (MYA) farm price.

If the effective price falls below the target price, then the CCP is calculated using the formula:

CCP = Target Price – Effective Price,
where the Effective Price = Direct Payment + maximum (Loan Rate, Farm Price)

If the effective price equals or exceeds the target price, then the CCP is zero.

For upland cotton, the target price is set at 71.25 cents per pound, the direct payment is 6.67 cents and the loan rate is 52 cents. Using the formula from above, the CCP would equal the maximum level of 12.58 cents when the farm price is at or below the loan rate level of 52 cents. If the MYA farm price reaches 64.58 cents per pound, then the CCP would be zero.

Determination of the Marketing Year Average Farm Price

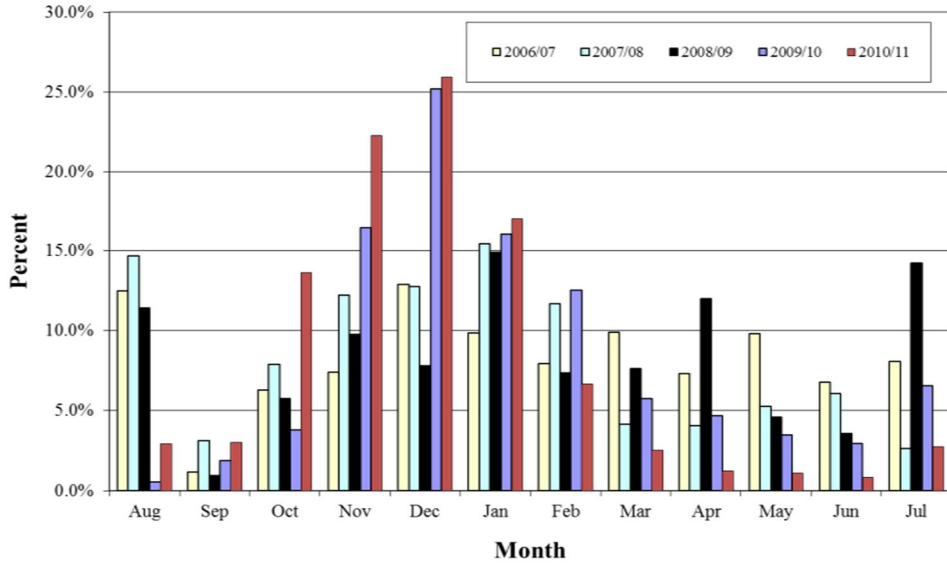
The MYA farm price used to determine CCPs is a national average price for the August-July marketing year. It is calculated by USDA’s National Agricultural Statistics Service (NASS) using monthly data for prices paid to farmers. The final price for each month is made available at the end of the subsequent month (e.g.: July price is available August 31st). However, a preliminary monthly price is available at the end of each month (Exhibit 1). All price and marketing data are subject to revision at the end of the marketing year.

Exhibit 1

Monthly Average Farm Prices												
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
02/03	34.50	35.80	39.40	43.00	44.30	45.50	46.50	48.60	45.40	45.90	45.50	46.30
03/04	46.30	55.70	67.80	63.00	63.30	62.20	61.90	61.60	60.30	59.70	59.90	53.80
04/05	48.60	50.60	50.60	43.20	39.30	38.50	38.30	40.30	41.40	39.60	41.90	41.10
05/06	42.10	44.10	48.50	48.50	48.00	48.60	48.90	50.00	48.50	46.40	47.40	46.80
06/07	44.20	47.30	45.90	47.40	49.00	49.40	47.40	46.40	46.30	44.00	45.40	45.20
07/08	51.00	52.00	55.50	57.40	59.60	61.50	63.00	63.00	65.50	64.60	64.00	66.20
08/09	53.70	61.10	58.80	54.80	53.30	46.00	41.20	40.40	44.70	44.90	45.00	43.60
09/10	49.50	53.20	58.50	59.50	63.40	60.80	65.00	65.00	66.70	66.60	68.50	68.50
10/11	75.60	74.80	77.30	81.50	81.20	82.10	92.90	84.40	86.70	83.20	83.30	82.50
11/12	94.00	93.50	92.30	92.50	93.70							

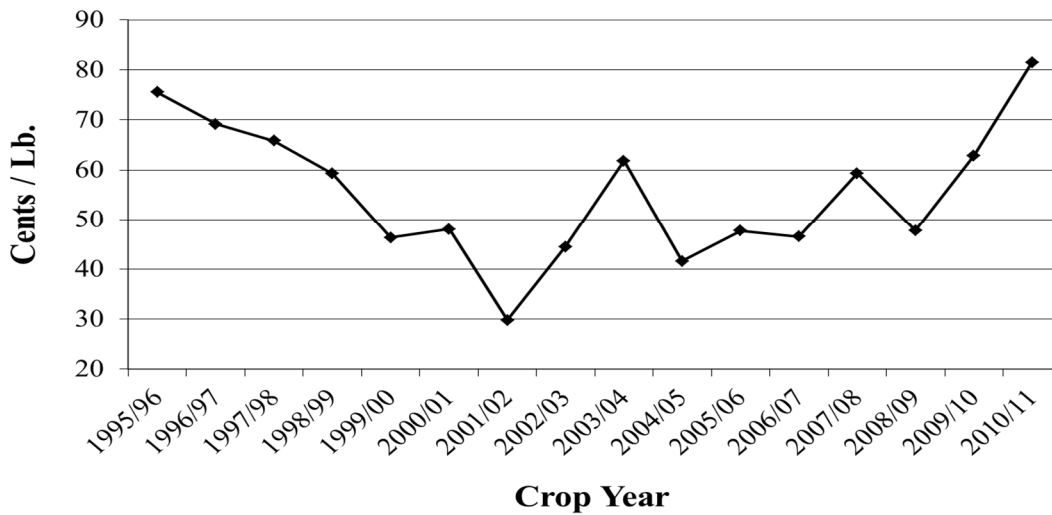
The monthly prices are weighted by marketings to determine a weighted MYA farm price. The months October through February carry the largest weights in the annual average. In fact, by the end of February, we typically have accounted for almost 75% of marketings (Exhibit 2).

Exhibit 2
Percent Marketed By Month



In recent years, we have seen the MYA farm price move from a high of 75.60 cents per pound for the 1995/96 marketing year to 81.50 cents for the 2010/11 marketing year (Exhibit 3).

Exhibit 3
Season-Average Farm Price



For the 2011 marketing year, data for the month of December gives a preliminary weighted-average of 92.75 cents per pound (Exhibit 4). While the final CCP will not be determined until the final MYA farm price is known, the preliminary MYA farm price based on data through December would give a CCP of 0.00 cents.

Exhibit 4

FARM PRICES FOR UPLAND COTTON					
CROP YEAR 2011-12					
(Weighted by Marketings)					
	Marketings (000's of Running Bales)		Prices (Cents/Lb.)		Implied CCP **
	Monthly	Cumulative	Monthly	Weighted	
August	506	506	94.00	94.00	0.00
September	432	938	93.50	93.77	0.00
October	1,152	2,090	92.30	92.96	0.00
November	1,699	3,789	92.50	92.75*	0.00
December	NA	NA	93.70	NA	
January					
February					
March					
April					
May					
June					
July					
August					

USDA-NASS

*Weighted price is a preliminary estimate

** Unofficial estimate based on price to date

Relationship Between NASS Farm Price and NY Nearby Futures

While there is no exact relationship between NASS's MYA farm price and NY futures, the futures market can be used as a guide for anticipating the farm price. Historically, the average farm price runs 5-9 cents below the nearby NY futures contract (Exhibit 5).

Exhibit 5

Nearby Futures-MYA Price												
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
00/01	12.90	13.82	7.95	8.54	7.76	8.44	8.80	9.60	3.95	3.32	3.30	3.04
01/02	3.21	0.45	0.69	7.12	5.87	9.58	7.86	9.71	8.98	9.08	7.24	10.75
02/03	10.14	6.59	5.11	4.81	5.73	5.54	5.38	9.59	11.87	7.36	8.38	12.94
03/04	9.83	6.74	6.98	9.69	8.10	11.93	6.24	4.81	1.40	3.23	-6.70	-6.85
04/05	-1.52	0.29	-4.10	2.72	3.97	7.46	7.37	11.66	12.96	12.98	6.44	9.92
05/06	5.98	5.81	5.90	1.77	5.13	7.09	7.59	3.77	3.32	4.36	3.51	5.29
06/07	9.46	3.32	3.48	1.17	5.73	4.95	6.14	7.31	4.14	5.21	8.54	17.91
07/08	7.31	9.00	8.51	4.36	5.91	7.70	8.52	14.99	5.82	5.08	5.87	4.56
08/09	13.45	-0.22	-8.23	-12.63	-8.02	3.04	4.44	2.56	4.92	18.30	9.11	15.68
09/10	9.10	7.12	2.56	12.99	11.26	11.09	9.46	16.28	14.70	14.89	12.93	10.55
10/11	11.06	21.82	35.03	51.43	59.85	69.62	92.49	116.29	106.16	68.99	72.43	24.17
11/12	9.85	11.71	8.75	3.83	-4.49							
AVG 02-10	8.31	6.72	6.14	8.48	10.85	14.27	16.40	20.81	18.37	15.60	13.39	10.46