MARKETPLACE INSIGHTS

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Good morning, ladies and gentlemen .

As always, it is indeed a pleasure and an honor to have the opportunity to address the annual beltwide conference. Because of current conditions that exist this year, it is not a very enjoyable time for U.S. cotton producers or for your speaker, but as always I will try to give you my personal insight into what I see for the next eighteen months for U.S. cotton.

As I will discuss with you this morning, there are certainly new factors to present that can impact production, demand, and price which we have not faced in many years – one potentially bearish and one potentially bullish – those two factors being the Asian economic and currency crisis and the potential el nino effect in the spring of this year.

I will address four areas of interest to all of us.

First, the current supply-demand and carryover projections for the U.S.

Second, the current world supply-demand and carryover prospects as I see them today.

Third, my projections for the 1998-99 acreage, production and consumption prospects as they exist today for the U.S. and the world with new crop December cotton trading at 73.15.

Fourth, and last, my feelings for price movements for the balance of this season and price projections and potentials for the 1998-99 crop year.

As I look at the USDA December production number of 18,819,000 bales, I think the final number to be released in April will be closer to 18,850,000 bales. Who would have ever believed on July 15 this past year we would make a crop of 18,850,000 bales, particularly as we looked at the status of the Memphis and southeastern territory crops. Yes, we had an incredible August and September for most of the U.S. crop. We had a wonderful harvest period for all the U.S. with the exception of the southeast.

Today I believe the domestic consumption number for the U.S. will be 11.5 million bales, which is slightly higher than the USDA number and tells us that the U.S. textile business is excellent, as other consuming countries around the world are suffering, and some severely.

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As I view U.S. exports, I think the government numbers are too low, but am cautious in my projections, because of asia's potential letter of credit problems, created by the currency crisis. However, we have already registered 6,650,000 bales for export, and this is the first of January. Very few overseas mills have covered their March forward commitments because of financial uncertainties. If they continue to buy U.S. cotton at the current pace, we will register slightly in excess of 8 million bales, which means shipments will be as high as 7.5 million bales. Obviously, all of us in the merchandising business have to be cautious of the world economic situation. Remember, average registration of 60,000 bales a week for the balance of the season will bring us to a number slightly in excess of 8.1 million bales without major cancellations.

I feel today that U.S. export shipments will be approximately 7.5 million bales if the shipment rates continue to improve. If we consume 11.5 million bales in the U.S. and export 7.5 million, our offtake will be 19 million bales versus a final crop of 18,850,000 bales, which will decrease our U.S. carryover from last season's carryover of nearly 4 million to approximately 3.9 million bales. This is certainly not a bullish carryover for U.S. prices, but I feel very strongly that March cotton is cheap enough at 67.50.

Remember, we had a 4 million bale carryover last season and the cheapest March futures traded was 71.65 on February 18, 1997. The USDA is currently saying that the U.S. carryover will be 4.3 million bales, and I think their number is too high. I think today the biggest component in the U.S. carryover will be Texas and southeast cottons -- Texas, because China is not going to be as aggressive a buyer of Texas cotton this season, and the southeast, because of the off-grade cottons produced from excessive rains.

Now let's examine the world situation as I view it today for production, consumption, and world carryover. We think final world production will be 90 million bales when all the smoke clears on northern and southern hemisphere crops. USDA has forecast world production at 90.1 million bales, but will probably adjust their number higher in their January world production number because of China's state statistical bureau's increased production number for China.

In their December report USDA forecast that world consumption would be 89,630,000 bales, and I think final world consumption will be 88 million bales, because of the Asian economic problems.

USDA's final world carryover number in December was 37 million bales and I project the final Dunavant number to be 36 million bales.

Historically our Dunavant numbers for world carryover are not in balance with USDA, because we always have a different starting point with our set of numbers.

One of the biggest impacts on U.S. exports and world exports this season is attributable to China, who last season bought 3.6 million bales in the world. Last season China bought 1,670,000 bales from the U.S. we think China will have total imports this season of 2.1 million bales and will import from the U.S. 900,000 bales, of which they have already registered 665,000 bales through January 1st. If we had China's demand as we have had the last two seasons, prices today would be pushing at least eighty cents a pound.

China started the new season with a carryover of 14.9 million bales, and the central government has made the decision to quit building their carryover stocks and allowing big imports. They have started marketing their own cotton at a much more competitive price and have in essence slowed imports.

China lost millions of dollars on their own stocks, because they advanced to growers 90 cents for the last three years and are now selling their cottons to chinese mills at world prices.

Australia has the potential today of their largest crop in history – 3 million bales. When they harvest their cotton in the spring, and if we have normal weather, then there will definitely be pressure on prices and the basis because of Australian high grades.

The same could be true for Argentina, another southern hemisphere producer who will produce this season 2.1 million bales versus last season's number of 1.5 million bales.

Uzbekistan did not produce their target this season, but they still have forty percent of their production to market during the next seven months.

I think it is interesting to note that, even though we have lost China as a major buyer this season, and many Asian countries have suffered losses in consumption, we have seen a major shift in demand for U.S. cotton to Turkey, Mexico and, to some extent, Brazil. The U.S. has been very aggressive in taking market share, particularly in Mexico and Turkey. Mexico will consume 1.8 million bales this season versus 795,000 bales five years ago; Turkey will consume 4,750,000 bales versus 2,875,000bales five years ago; and Brazil, will import 2,165,000 bales with the largest volume of imports coming from Paraguay.

All in all, as we face the world situation in the spring, there are going to be pressures from central Asian cottons, West African cottons, Australian cottons and Argentine cottons in the spring and summer. All of us are continuing to be cautious until there is a comfort level that the world jitters are going to subside on the Asian economic and currency crisis.

Now let's take a stab at the 1998-99 U.S. and world cotton projections as I view them today. Maybe there will be some brighter spots on the horizon.

Based on 73.15 December futures and prices of competing crops, I think U.S. planted acreage will drop to 13.3 million acres, versus 13.9 million acres last season. Using historical averages, we should produce a crop of around 17.7 million bales.

I think, based on the current U.S. textile situation, we can predict 11.5 million bales domestic consumption next season, and U.S. exports I would project at 6.9 million bales for total offtake of 18.4 million bales. I think this is a reasonable offtake number. Please remember, we must be cautious as we work through the Asian economic problems.

If these are the numbers, then the U.S. carryover next season will drop 700,000 bales from 3.9 million bales to 3.2 million bales.

Obviously, what happens in world production and consumption for 1998-99 will also have a major impact on U.S. and world prices.

I mentioned in the beginning the el nino effect and our meteorologist is projecting normal weather patterns for Texas and the far west, but is projecting very damp and cool conditions for the mid-south and southeast for March, April and April, which could have major impact on plantings in these areas.

Ladies and gentlemen, for prices to substantially rally, it is going to take a drop in U.S. or world cotton acreage this coming season.

Looking in the crystal ball for 1998-99 in the world, I see a world production potential of 88.7 million bales and world consumption of 89.7 million bales, which leaves us a world carryover of 35 million bales, again a step in the right direction. Remember, these are our Dunavant numbers, not USDA's.

I do not believe that China next season will import as much U.S. and foreign cottons as the 1996-97 season, because they will still be in the process of reducing their own stocks, but I project they will import 2.2 million bales next season, which is a slight increase from this season's number.

I firmly believe in 1998-99 there will be light at the end of the tunnel for U.S. cotton producers. Obviously, one of the keys to better prices will be reduced U.S. production for 1998-99.

Now let me talk about U.S. cotton prices for the balance of this season as I view them today. The price projections I am making are based on no major letter of credit problems for U.S. exporters. Up until this point our company has not experienced any major problems, but we are constantly monitoring sales in the weeks ahead.

This morning March cotton is trading 67.50, and I believe March cotton futures will trade in a range of 66 to 69 cents. I think may futures will be in a trading range of 67 to 70 cents until planting time or until exports escalate above the 7.4 million bale registration level, which is not far away. March cotton is currently trading about 550 points under new December, which is a considerable discount for this time of year. However, if I werea producer, I would certainly be selling or fixing my price for the current crop on any one to two cent rallies from today's price level.

As we move into the spring, I believe the new crop months, if acreage intentions are sharply lower, will pull the current crop months higher, but not substantially. If the el nino effect takes place in the spring, then good volatility could come into cotton prices, both old and new.

My final comment on this year's crop is: I am not bullish on prices for a major move up. I do recognize that the speculative community is twenty- five percent short, and if they can be triggered to cover their short positions, or even go long, then we can have a two cent plus rally, but then the market will run into heavy producer selling – and it should.

The U.S. and world carryovers need to decline for a major move in prices to occur. I think a 3.9 to 4 million bale U.S. carryover and a world carryover of 36 million bales are levels of world stocks that will not generate a major price move for this season. I would consider a major price move to be four cents or better.

Now let's look at new crop. As I said earlier, December is trading at 73.15, and to me this price will ration plantings, but I know that if cotton rallies to 76 cents, that acreage for next season will approach 13.7 million. I would be fixing my new crop on a scale up, starting at 75.50 to 76 cents, and I think the potential is good for 76 cent new December. We all must be cognizant about what's going on in the world in the months ahead.

I have been through the years, as most of you know, a big advocate of growers fixing prices on a scale.

Again you will notice that our Dunavant world carryover numbers are less than USDA's numbers, but we are working from a different set of beginning numbers. What is truly important is the year to year relationship of U.S. and world carryovers.

I do believe that U.S. cotton producers will have an opportunity to fix prices at 76 cents for December cotton, but it will probably be later, not sooner.

The certificates that have been available to exporters have had a positive effect on exports, even though they are not paid until the bill of lading date. However, they would have a major positive effect on exports if exporters could register at the time of sale.

There is much uncertainty ahead for all of us, but I believe the worst is over for U.S. prices and I am very cautious when I make that statement.

Again, I would like to thank the national cotton council for all their work with all seven segments of our industry. They continue to have a positive impact for cotton and have always stood ready when a problem arises for the industry. Thank you.