MARKET PLACE INSIGHTS

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Good morning ladies and gentlemen.

This is my 15th year to speak and share my cotton thoughts at the Beltwide Conference, and I sincerely consider this my most important cotton comments of the year. I try to study every facet of the U.S. and world cotton situation, and develop a scenario that will, in time, reward the American cotton producer as he contemplates the marketing of his crop.

I know the entire U.S. cotton industry has problems, whether it's yield, price, consumption, or imports. Fortunately for the producing sector, the U.S. Congress has recognized the serious difficulties you have faced, and they have taken measures to improve the awful situation in which you are involved. The doubling of the AMTA has certainly reduced your burden. Now that we have a new congress and president, it remains to be seen if your problems remain serious, if we once again will be able to prevail on the congress. I truly believe we will be successful because the cotton producing sector is critical to the success of the U.S. cotton industry.

I have said over the last three years that the U.S. needs to play on a level playing field, and if we can't, our government needs to take measures that give the producing sector and the U.S. textile sector a level playing field. I think they strive to give the producing sector a level playing field, but they have not accomplished very much with our domestic textile industry. With the advent of China in the world trade organization in 2001, I see a continued potential deterioration of U.S. cotton consumption. Again, I urge the U.S. government to restrict illegal cotton and manmade textiles from coming into our country.

This year and in 2002 we must address new farm legislation that meets the needs of all the U.S. cotton industry, and that is not an easy task. I currently believe over the next three months of 2001 we will be developing a format within the industry for new cotton legislation. As I have said many times before, we must be united, not divided, to be successful.

I know we are currently experiencing some positives in world cotton consumption but the reverse is true in the U.S., as you will see when I share my numbers with you shortly. Polyester prices have certainly strengthened over the last year because of the rise in oil prices. Cotton has been a beneficiary of this strength more so in the world than in the U.S.

If there is any good news, it is that North American cotton consumption, that is Mexico, Canada and the U.S., has not suffered as much in total, because Mexico and Canada have picked up some of the decline in U.S. cotton consumption. The picture is not quite as dismal for North America as it is for the U.S.

As I review the production in the U.S. over the last three years, I am truly discouraged with the trend. There have been a few bright spots, such as this year's yield in the San Joaquin Valley of California, but overall the yield and the quality have been extremely disappointing, and in my opinion, must get better for producer survival. Over the last two years the U.S. textile industry has compromised its needs because of the quality of the U.S. crop. I believe that they are at a point that there can be no more compromises on quality. Yes, we have had major problems with drought and other facets of the weather, but I also must point a finger toward the seed breeders. I don't think they have focused on what is best for the cotton producer and the cotton industry. Certainly, Australia, a strong competitor, is experiencing much better yield and quality than the U.S. Their cottons have certainly out performed their U.S. counterparts. Again, I blame some of these problems on the U.S. cotton seed breeders. I also believe that one of the great assets for U.S. cotton versus foreign produced cotton is that we control bale contamination better than any other countries in the world. Please, as a producer and ginner, protect this valuable asset for the future.

Now let me look into my traditional U.S and world supply demand scenario, and try to find a bright spot for cotton prices. I think that possibility exists more today than during the last three years.

I will conclude my comments with some thoughts for our future.

The final U.S. production number will be about 17.2 million bales, versus last year's crop of 16,950,000 bales. Both years, as I have stated, were a disaster in quality and yield. The final production numbers in Texas have not lived up to the expectations of a month ago, and that is the reason for the decline from the last USDA number.

At this point, the U.S. will be fortunate to consume in our domestic industry 9.7 million bales versus USDA's projected number of 9.8 million bales.

U.S. exports, I currently project between 7.0 million and 7.3 million bales. Our current export registrations are 5,170,000 bales, compared to last year's at this time of 5.6 million bales. Currently, our shipments are not running at as strong of a rate as we need, and they definitely need to dramatically pick up, starting now, to meet the 7.3 million-bale number. If we export 7.3 million bales and consume 9.7 million bales domestically, then our U.S carryover will go up 200,000 bales from last season's carryover. Our ending carryover will be 4,125,000 bales, versus last season's 3,925,000 bales, which is nothing to get bearish over, but if our exports are only 7 million bales then our ending stocks will be 4,425,000 bales, which is surely an adequate U.S. carryover. In my mind, a 4.4 million bale carryover does not merit a futures market below 60 cents a pound, because of the continued strong world price of competing growths.

All indications from world prices are that we will have a substantial pick up in U.S. exports from February forward, and if this occurs, then we could have some excitement in the spring.

Now lets examine the world numbers because they are certainly different from last season.

Last season we ended up with a world carryover of 39,750,000 bales, and our numbers point to a world carryover this season of 35,450,000 bales. This is a drop of 4.3 million bales. This is the reason there are many people in the industry that are friendly to prices because the balance is improving.

To get to our carryover numbers we show world production this season of 85.1 million bales and world consumption of 89.4 million bales, versus current USDA numbers of production 88.4 million bales and consumption 92.2 million bales. Please let me caution, as I will discuss in a moment, my Chinese production numbers are less than the recently announced Chinese National Statistics Bureau number, by approximately 1.4 million bales.

Any time you take the world carryover down over 4.3 million bales and have it appear in balance, the volatility in prices has the opportunity to enhance and advance.

In all the years I have spoken at the Beltwide, I have talked about China. Again, they are the major player.

Our company is projecting the Chinese crop this season at 18.5 million bales. Last week the Chinese National Statistics Bureau announced the crop at 19,980,000 bales, and we believe this is an incorrect number. Both

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the Shandong and Henan provinces used five year average yields, and our Chinese sources, both government and private, have shared with us that these two provinces will produce this season 1,350,000 bales less cotton than the Chinese National Statistics Bureau's number. We believe in March the Chinese National Statistics Bureau will adjust their crop downward toward our number. We show China's carryover last season at 16,160,000 bales, and with a 18.5 million bale crop this season their carryover will drop to 12.9 million bales, and I believe that their carryover will be in balance at the end of 2001. We are projecting them to consume nearly 21.4 million bales this season. USDA's current Chinese carryover number announced today, even with a 20 million bale crop, ends up with 11,750,000 bale carryover, because they show Chinese consumption at 23 million bales.

I speculate that since the Chinese National Statistics Bureau is a big political structure in China, their number has political ramifications, and it seems they are trying to keep the domestic cotton prices low to benefit the Chinese textile industry. Recently, the new crop local Chinese prices have been quite high. At best, their information from cotton producing provinces is quiet primitive.

With the advent of their entry into the world trade organization they will be a greater importer of cotton in the 2001-2002 crop year. We think they will only import 450,000 bales this season, of which they have already bought 54,000 bales from the U.S. And China will export about 800,000 bales, primarily to far eastern markets. Currently there is a problem for international merchants getting Chinese cotton shipped out of the country for export. Our company is one of the international merchants experiencing difficulty getting our Chinese cotton shipped out of their country.

As I said last year, China has really been focused on reducing their vast carryover, and this season it is becoming closer to a reality. As I view the future, they will be a bigger player in importing cotton and exporting textiles.

Let me point out the major buyers of cotton in the world today, because they have changed dramatically. The Russian textile industry is becoming revitalized and they will import about 1.6 million bales this season, but the majority of their imports will come from C.I.S. countries. Turkey will import about 1.6 million bales, and the U.S. Will be the big supplier. India will import 1.5 million bales and their biggest volume of imports will be from West Africa. Mexico will import 2.1 million bales of which the U.S. Will be, by far, the major supplier.

Brazil will import 875,000 bales and the predominate volume will come from Paraguay and Argentina. Italy will import 1.4 million bales but very little of it will be supplied from the U.S.

Bangladesh will import 750,000 bales, and five years ago they only imported 450,000 bales. However, at this point in time the U.S. is not their major supplier, but I think we will be in the future.

Indonesia, a traditional importer, will import 2,075,000 bales, and Australia will be their major supplier because of quality and their proximity to Australia. Japan will be an importer of 1,150,000 bales and just a few years ago they imported 2 million bales. Korea will import 1.4 million bales, and a few years ago they imported 2 million bales. Taiwan will import 1,150,000 bales and 5 years ago they imported 1,250,000 bales.

Hong Kong will import 550,000 bales, and five years ago they imported 850,000 bales.

What we are all experiencing is the textile industry dramatically shifting from the developed countries to the developing countries.

What we see is Mexico, Brazil, China, Bangladesh, Vietnam, Russia and Turkey expanding their cotton consumption, and the major traditional consumers like Japan, Korea, Taiwan, and Hong Kong losing their textile industries.

We are fighting the exact same scenario in the U.S., As our textile business is moving to Mexico and Canada.

There are many people who say that in five years U.S. cotton consumption will be 8 million bales, but I personally believe it will continue to drop, but not that dramatically. I think the Caribbean basin initiative in time, will be a factor in stopping the demise of the U.S. textile industry.

I believe certain qualities of cotton in the world are going to be in tight supply in the spring of 2001, and I believe it will be the premium qualities of cotton.

If Australia were to have a quality problem in the spring of 2001, then we would have a crisis for high grade cotton in the world.

I don't think China will enter the picture as a major exporter this season, because they don't have an adequate supply for export of high quality cottons, because their domestic industry requires these cottons.

Now let's flip the calendar to new crop 2001-2002 crop year. In the U.S. w are projecting planted cotton acreage of 15.9 million acres and a crop of 19.2 million bales, and we are using average yields of 638 pounds to reach our number. Please understand these are only projections, because last year we were projecting a crop of 18.6 million bales in January of 2000 and produced only 17.2 million bales this season. I am beginning to believe that we don't know how to produce a crop of 19 million plus bales, but we must project that based on acreage to be planted and historic yield data.

I think that next season U.S. domestic consumption will rise by 200,000 bales to 9.9 million bales, as the Caribbean basin initiative kicks in, we will export at least 8.3 million bales for a total U.S. Off take of 18.2 million bales.

If we were to produce a crop of 19.2 million bales then our U.S. carryover would jump 1.0 million bales to approximately 5,125,000 bales, which is not a bullish U.S. number.

Remember also what my numbers would look like if we produce a crop like this season of 17.2 million bales not 19.2 million bales. Then our carryover is not 5,125,000 bales but 3,125,000 bales, which is an extremely bullish number.

Now let's look at my world projections, and remember at this stage they are only projections.

Our current projection for world cotton production is 91.2 million bales, and in my honest opinion, I think that will be a difficult number to attain, but that's what our numbers project. Remember we will produce this season only 85.1 million bales, and it is very difficult to believe that world production will increase by 6.1 million bales next season. We show world consumption escalating next season to 91.5 million bales, versus this years Dunavant number of 89.4 million bales, but the current USDA number is 92.2 million bales, and in my opinion they are definitely too high and they will reduce this years world production and consumption numbers in the months ahead.

If these projections are reached on both ends then the world carryover will drop approximately 200,000 bales to 35,250,000.

The world numbers, at this point, I think for next season are constructive because we don't have the first seed in the ground and there will be lots of room for big swings because of demand and weather.

We show China's cotton production next season to be 19.0 million bales and their consumption to be 21.5 million bales. I think they will import 1.5 million bales in 2001-2002 and China could import 2.0 million bales next season. Obviously, their imports could change if the Chinese National Statistics Bureau number proves to be accurate in the spring of 2001.

They will import a small amount of U.S. cotton in the late spring of 2001, but it will be California, Arizona, and Australian high grades.

In 2001-2002 they will import a much greater volume of these same growths' if the quality is good.

Before talking about price direction, I would like to discuss the 285,000 number of bales in the current certificated stock.

I strongly believe that the U.S. cotton industry needs to make some adjustments to the qualities of cotton that can be delivered on the New York cotton futures contract. I believe that the minimum strength should be raised from 22 to 25.5 minimum grams per tex, and that West Texas quotations should be inserted in the calculation for tender differences. I also believe that 47 - 49 micronaire should be deliverable at a discounted price, and the cotton that is two crop years old should have additional penalties because it has a different value to the market place.

I believe the contract should be made stronger because the largest volume of the current certificated stocks fall in the category of older age, lower strength, and higher premium micronaire average.

Yes, if differences between months correct themselves then you could have a rally in the futures, but if all these discounted cottons weren't on the contract it would certainly be easier for prices to move higher.

March cotton is currently trading at 60.75, and the commodity funds over the last four weeks have changed their position from 35% long to a short position of 12.9%. I like their being short because if demand follows then they will liquidate their short position and we can have a substantial rally.

Currently I do not believe that March has a big upside potential, but at 60 cents it is too cheap. I think it will trade from 59 to 65 cents prior to first notice period. It seems that the real potential for a higher market will come with the may contract. I believe we will see a fair volume of the certificated stock move off the contract by may, but not March. May cotton has the potential to trade over 68 cents at some point, if the export demand for U.S. cotton escalates, as we expect it will do in the spring.

I do not believe we will see a big volume of this year's crop go to the futures contract, because the quality of West Texas cotton is very poor this season. I do think we will see a small volume of low strength cotton from the Southeast move to the contract, and that is another reason we need to raise the strength requirements on the contract.

Now let's look at the new crop price of December. I would not sell the first bale of new crop cotton with December at 62.00 cents. It is just too early to hedge your new crop, and for the producer, the existing cotton program gives you some protection. I believe there are too many variables facing us to sell now. If December would climb to 68 cents then I would hedge 20% and every 2 cents up hedge additional 20% until I was fully hedged. Obviously, we must monitor month to month to see if new crop conditions change. Remember, I am very suspect about our projected world production number of 91.2 million bales.

All of us in the merchandising industry, both cooperatives and merchants, will become very excited if China enters the market aggressively for new crop. However, I think it will be in December of 2001, or January or February 2002, before they enter the market.

Before closing, let me talk a moment about new legislation. First, we must have a realistic safety net for the U.S. cotton producer. Second, we must have an effective marketing loan to make U.S. cotton competitive. And third, we must have a marketing certificate program to make U.S. cotton competitive in the export markets, and a certificate program for the U.S. textile industry to help them compete with textile imports. Fourth, maybe a potential answer for the producer is a slight raising of the loan level, as long as we continue the marketing loan concept. The problem I see with raising the loan is that it sends the wrong signal to other producing countries. Even though we have the marketing loan, raising the loan level can encourage additional foreign production, and that we don't need. In fact, in past history when the loan levels have been raised, it has encouraged increased production at home and abroad.

All of these points are extremely important because again, the playing field has not been level.

I hope the industry will study very closely the P.O.P. payment part of the farm program. Our company has run a marketing enhancement program for Memphis-Eastern cotton that is primarily irrigated, both this season and last season.

Now listen to these numbers; last season we returned our growers 74.50 with December and March trading around 56 cents.

This season we will probably return our growers between 65 and 68 cents. Both years we have tried to enhance the price by trading futures and options.

Last season we popped their cotton at 1850 points and this season we popped between 400 and 470 points. That is the reason that last year's price was considerably greater than this year's price.

There is something wrong with the farm program when a grower gets less for his cotton when the futures price is 5 to 8 cents higher than the previous year. Lower prices giving higher returns makes no economic sense to me, and this must be addressed in the future.

I know I will be criticized by the producing sector for my next comment, but I sincerely believe that the current crop insurance program for cotton must be restricted and more carefully managed. I cannot believe anyone who is an efficient and aggressive cotton producer can support such a program the way it is currently structured. We are, in my opinion, encouraging the overproduction of cotton because of the provisions of the insurance program. We cannot and will not obtain consistently higher prices for U.S. cotton with a faulty insurance program. I truly support an insurance program for the American cotton producers that will give protection when protection is needed.

The cotton industry has struggled the last three years, but I truly believe that our future today is brighter than it has been in a number of years.

We must have sound farm legislation in 2002 that rewards the efficient regardless of what segment of the industry is involved. If this is going to be achieved it can only happen through the united efforts of the National Cotton Council.

In closing, at my age of 68, I clearly see the vision for my company and your company. That is, we must continue to strive to be the most technologically efficient and we must be on the cutting edge of every new form of technology that will benefit and affect the seven segments of the industry.

I have said for many years at Dunavant Enterprises, Inc., to be successful, we must change ahead of the times rather than with the times, and that is true for the entire industry.

Thank you!