

The Cooperative

In The Spotlight...

Multi Commodity Exchange Program Tours Cotton Growers Cooperative

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2007

Crop Sign-Up Periods

- Sign-Up Jan 2–
March 30, 2007
- Exclusion update
due Jan 2–March
30, 2007
- Pool
Designations
Jan 2– March 30,
2007
- Sign-Out Jan 2–
Jan 31, 2007

The *Multi Commodity Exchange Program* was launched in October of this year with Midwestern and Far Western growers coming to North Carolina to observe cotton production and processing as well as other agricultural operations. This program, initiated by the National Cotton Council, is supported by The Cotton Foundation with grants from Deere & Company and Monsanto. The exchange between commodity producers in the Southeast and the Midwest / Far West is designed to educate leaders in the areas of production issues, agronomic practices, technological innovation, cropping patterns and marketing plans unique to each geographical area.

Cotton Growers Cooperative hosted a presentation of Cooperative Marketing presented by Mike Quinn,



President, followed by a question and answer session with the management group. The exchange group included growers from Iowa, Illinois, Kansas, Oklahoma, Minnesota, Wyoming and North Dakota. These growers represented a crop mix of wheat, soybeans, barley, alfalfa, ca-

nola, sorghum and field peas. The meetings throughout the week helped the exchange group gain an appreciation for some of the challenges facing the Southeastern growers. We appreciate the efforts of the Council for initiating this program and look forward to participating again.



The Alpha and Beta of Cotton Equities.....

A Message from the President



J. Michael Quinn
President & CEO

In the financial portfolio investing world, Beta has become a synonym for market movement or exposure. Thus, getting return from Beta within a portfolio context means getting return from simply being exposed to the market. Alpha, on the other hand, is the earning of returns in excess of Beta relative to the risk taken.

The equity of a bale of cotton on any particular day is defined as the amount of its value that exceeds the CCC loan value. The inputs needed to determine the "additional value" include basis, AWP, futures price, carrying charges, transportation and of course the loan value. All of these inputs, with the exception of loan value, has associated risk factors which fluctuate from year to year depending on the supply and demand of particular qualities within the crop as well as the entire crop itself. The risk factors associated with the equity inputs are in a constant state of change. When marketing equities the concern is not with the actual price level of the inputs, but rather the input price relationship or spread between the

inputs. Think Beta. When the input spread values reach a return that is acceptable then the equity is sold and all risk factors are locked in at one time. Achieving Alpha involves beating the market average equity by leveraging the inputs against each other. The amount of Alpha achieved is relative to the risk taken. To be sure, risk is a two edged sword and leveraging up too much or at the wrong time can wipe out not only the Alpha but also the Beta. We have observed this phenomenon recently in other marketing pools.

Achieving positive Beta over the past few years within the structure of the current farm bill has not been too difficult to achieve. We at Cotton Growers Cooperative have always concentrated on achieving additional Alpha returns within a Beta risk profile. This is not an easy task and requires diligent analysis of the marketing environment, but indeed our track record speaks for itself.

This year the Beta world is different as the main component of equity, i.e., the AWP futures spread, has collapsed

and threatens Beta itself. Why this has happened has been written about in the main stream cotton media and some or all of the blame has been attributed to the loss of Step 2. Maybe, maybe not, we will debate that later. The simple facts are that currently cotton equities are at or slightly above loan value and therefore market exposure risk only returns loan value. Pool managers focused only on Beta are not having fun. Likewise, pool managers experimenting with too much risk trying to substitute positive Beta with Alpha may not be sleeping very well either.

We believe our marketing model of achieving additional Alpha within the Beta risk profile will still serve our members well and if indeed we are successful, then you will be rewarded. In this particular marketing environment, rewards may require more patience than in previous years.

I wish you and your family a wonderful Holiday Season filled with Blessing from above.

J. Michael Quinn, President



*Merry Christmas
and
Happy New Year*

*Management
and
Staff*



Congratulations to Cooperative member, Randy Everett, who was recently honored for service to Virginia's agricultural cooperatives with the Virginia Council of Farmer Cooperative's Leadership Award. Pictured at left is Randy in the cotton field with daughters Regan, Bryce, and Natalie. Congratulations Randy.

2005/2006 Seasonal Pool Settlement

The Board of Directors of Cotton Growers Cooperative approved a patronage refund for the 2005/2006 Crop Seasonal Pool. The patronage refund was distributed to participants of the Seasonal Pool, of which 57% was paid in cash and 43% was distributed in the form of qualified written notices of allocation. This payment represented final settlement of the 2005/2006 Crop Seasonal Pool. This distribution brought the rule 5

cash return for base grade cotton on the 2005/2006 Seasonal Pool to 59.67 cents per pound and the total rule 5 return including equity to 60.17 cents per pound. The premium grade return (31-3-35 w/30 gpt & 4.2 mic) including equity was 64.97 cents per pound. The board of directors, management and staff of the Cooperative sincerely appreciate your patron-

age, trust, and confidence. We look forward to continually serving your marketing needs and achieving the mission of the Cooperative.

Final Results—2005 Crop Seasonal Pool (Rule 5)

	Base Grade	Premium Grade
Advance	55.50 c/lb.	55.50 c/lb.
Feb. progress payment	02.50	02.50
May progress payment	01.00	01.00
Final Settlement	01.17	01.17
Premium	<u>n/a</u>	<u>04.80</u>
	60.17 c/lb.	64.97 c/lb.

2000 Crop Equity Redemption

This October, the Cooperative redeemed the 2000 crop Seasonal Pool allocated equity. This payment represented approximately 76 points per pound. Retirement of the 2000 crop equity solidifies the Cooperative's commitment to its mission of maximizing members' profitability.

The Cooperative issues qualified patronage refunds to its Seasonal Pool membership based on final pool results

consisting of cash and qualified notices of allocation. The Cooperative issues non-qualified per-unit retains to its Call Pool members at the time of initial advance. Qualified patronage refunds are fully taxed in the year of issuance and non-qualified per-unit retains are fully taxed in the year of redemption. Allocated equity is redeemed at the Board's discretion with a timely revolvment targeted at four to six years from issuance. This ensures that own-

ership and control of the Cooperative remains in the hands of current members and that your investment is returned to you in a timely manner. Maintaining a healthy balance sheet is essential to the long-term viability of your Cooperative.

An equity statement and financial brochure was mailed to each member reflecting your investment in the Cooperative. Thank you for your continued support.

Allocated Equity June 30, 2006 (in thousands)

Crop Year	
2000/01	\$ 1,075
2001/02	2,445
2003/04	1,110
2004/05	1,265
2005/06	<u>1,405</u>
	\$ 7,300

Market Summary as of December 2006

Though the grain markets saw significant rallies this fall, cotton was not a participant. After spending much of the last three months in a 3 cent trading range, the cotton market has finally started to show some signs of life. Sparked by spec buying, the market has moved higher and broken out of a trading range (above 5450) that we have been in since late September. Trade selling has also moved to higher levels as the Loan Deficiency Payment (LDP) has fallen. Technically, the chart is looking friendly to specs and index funds are expected

to buy in the New Year as funds rebalance. Fundamentally, we are heavily dependent on exports to keep ending stocks from building in the US. However, export sales have been slow. We expect exports to pick up in January and February as China starts to work through its own crop and determines what its needs will be. In general, market conditions are improving and there are reasons for optimism, but whether a significant rally will materialize remains to be seen.





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The mission of Cotton Growers Cooperative is to maximize our members' profitability by adding value to the cotton they produce through effective and efficient marketing, warehousing, shipping, and other services in a manner that encourages integrity, trust, and quality service.

2007 Marketing Meeting Schedule

<u>Date</u>	<u>Time</u>	<u>District & Director</u>	<u>Place</u>
1/9/07	6 pm	8 Dale Player	Mr. B's, Lydia, SC
1/10/07	noon	11 Jack Horton	Lonestar, Santee, SC
1/24/07	noon	6 Edgar Edens	Hoke/Robeson gin
1/30/07	noon	5 Fenton Eure	Leon Nixon's, Edenton, NC
2/7/07	noon	1 Norman Perry	Catherine's, Ahoskie, NC
2/9/07	noon	2 David Grant	Lion's Club, Seaboard, NC
2/12/07	noon	9 Larry Chesson	Fillin' Station, Robersonville, NC
2/13/07	6 pm	7 Ken Page	Triangle South, Dunn, NC
2/15/07	noon	4 Kent Smith	Rocky Mount, NC
2/19/07	noon	12 Jay Brinn	Belhaven, NC
2/20/07	noon	3 Lance Everett	Ruritan Club, Windsor, VA
2/20/07	6 pm	3 Lance Everett	Old Hickory Fire Dept, VA
2/22/07	noon	10 Glen Sperling	Jackson's Cafeteria, Shelby, NC

Cooperative Calendar of Events

December

**25th Christmas Day
Office Closed**

January

**1st New Years Day
Office Closed**