

The Cooperative

In The Spotlight... Emerging Export Markets Keith Lucas, VP of Marketing

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Cotton Growers Cooperative has earned a reputation domestically for delivering as promised — quality cotton on time. The Cooperative is now establishing this same reputation in the export market. We have targeted export markets requiring high grade cotton, and thus far we have been able to meet these demands, receiving significant premiums for the cotton delivered and thereby enhancing the return to our members.

This summer I participated in a seminar held in Osaka, Japan for a group of agents representing the Far Eastern market. This seminar was developed to help educate these agents concerning the U.S. cotton market, and in particular the Southeastern cotton market. During the seminar, I was able to become more familiar with buying habits and particular quality concerns associated with the Far Eastern markets while cultivating relationships and further developing the Cooperative's reputation in these markets. In September, I attended the International Cotton Association Annual

Meeting held in Liverpool, England. This trade conference brings together nations from around the globe, this year totaling 66 countries, to discuss trade aspects for each nation, renew business contacts and develop new relationships for future business. The trip provided excellent exposure for the Cooperative.

The Cooperative currently sells cotton directly into eight to ten different foreign countries primarily located in the Far East. Countries like Japan, Taiwan, China, Indonesia, Thailand and Vietnam provide strong direct sales markets for our cotton. These particular countries consistently use 31 grade, 3 leaf, 35 and 36 staple cotton and pay a solid premium to obtain these styles. Over the past few years Cooperative members have produced a consistent quantity of these grades allowing us to expand our sales in these markets. We also sell 41 grades into Turkey, China, Taiwan and Pakistan.

For the Cooperative to continue to grow, we must increase our export market sales and increase the cotton available for sale to these emerging markets. It is critical to note however, that while expanding these mar-

kets, we will remain focused on our domestic customers as well, continuing to provide them the quality service they deserve and have come to expect from the Cooperative.

We will continue to search for new markets and develop new relationships abroad in



Keith Lucas, Left top row, visits with employees of Sumitomo Corporation.

order to grow the Cooperative and place your cotton in areas which will bring better prices. We live in a global marketplace where more and more the world situation determines price and availability. The Cooperative is actively positioning itself to represent the Southeast U.S. cotton supply to the world. Together we can continue to grow the Cooperative's world market share and provide quality fiber for an ever changing customer base.

Special points of interest:

- Final Settlement of 2004/2005 Crop Seasonal Pool
- 1999 Crop Equity Redemption

2004/2005 Seasonal Pool Settlement

The Board of Directors of Cotton Growers Cooperative approved a patronage refund for the 2004/2005 Crop Seasonal Pool. The patronage refund was distributed to participants of the Seasonal Pool, of which 75% was paid in cash and 25% was distributed in the form of qualified written notices of allocation. This

payment represented final settlement of the 2004/2005 Crop Seasonal Pool. This distribution brought the rule 5 cash return for base grade cotton on the 2004/2005 Seasonal Pool to 63.02 cents per pound and the total rule 5 return including equity to 63.52 cents per pound. The premium grade return (31-35-

3 w/30 gpt & 4.2 mic) including equity was 67.62 cents per pound. The board of directors, management and staff of the Cooperative sincerely appreciate your patronage, trust, and confidence. We look forward to continually serving your marketing needs and achieving the mission of the Cooperative.

"Fall Harvest"



Final Results—2004 Crop Seasonal Pool (Rule 5)

	Base Grade	Premium Grade
Advance		
Feb. progress payment	55.50 c/lb.	55.50 c/lb.
May progress payment	03.00	03.00
Final Settlement	03.00	03.00
Premium	02.02	02.02
	<u>n/a</u>	<u>04.10</u>
Total	63.52 c/lb.	67.62 c/lb.

1999 Crop Equity Redemption

This October, the Cooperative redeemed the remaining 50% of the equity allocated to members of the 1999 crop Seasonal Pool. This payment represented approximately 95 points per pound. We are extremely pleased to have retired the balance of the 1999 crop equity which 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 ownership 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 es-

sential 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, 2005 (in thousands)

Crop Year	
1999/00	\$ 605
2000/01	1,075
2001/02	2,450
2003/04	1,120
2004/05	<u>1,280</u>
	\$ <u>6,530</u>

Notice of 83rd Annual Meeting

The 83rd Annual Meeting of Cotton Growers Cooperative was suspended this past September due to the impact of hurricane Katrina on gas supplies in our area. It has now been rescheduled for Friday, December 2, 2005 at 12:00 Noon. The meeting will be held at the corporate offices at 101 Sigma Dr., Garner, NC immediately following the quarterly Board of Directors meeting. All information regarding the previous year's operations have been distributed to members through mailings, therefore no new information will be presented. This meeting will be held to confirm the election of Board Members previously nominated from their respective district meetings earlier this year as required by the Cooperative Bylaws. This meeting will be for members only and any member who wishes to attend should call 800-662-7082.

2005/2006 Marketing Outlook

One rule of thumb in marketing an agricultural commodity is that “no two years are exactly alike” and this year is no exception. Another way to view this saying is “things are constantly changing.” In order to attain a competitive advantage in the marketplace, we must correctly identify the factors that influence the future supply and demand outcome and anticipate the change in those factors. Following are several factors that may have a significant impact on this year’s supply and demand outlook.

Inflation - More precisely, commodity price inflation pressure from increased US money supply. Increasing the money supply and the expansion of credit (monetary inflation) brings about a systematic devaluation of the dollar. When the dollar is devalued it brings about price inflation of commodities priced in the devalued currency. These inflationary forces have already been felt in many commodities.

Energy - The recent volatility in the energy complex affects every process in the supply

chain from field to fabric. Nothing can escape this cost inflation that threatens to squeeze profits. Recently, gasoline and oil have retraced back to pre-hurricane prices and given some relief, however, this may only be temporary in nature.

Interest Rates - The US economy has evolved into a highly leveraged, finance-based economy; therefore, it stands to reason that it is more sensitive to changes in interest rates than in years past. There is a point where the additional burden of increased interest cost on US consumer debt will negatively impact the consumption of cotton.

Speculators - It is without question that the large speculators increased interest in commodities has had a dynamic change in the psychology of the market. For years we have been tracking the increasing amount of money flowing into managed fund accounts and its impact on the futures market. The flow of money chasing returns by this segment can create strong resistant points to price

movement or freight trains that run over everyone in their path.

Low Probability, High Cost Dangers - This category includes bird flu, terrorist activity, natural disaster, corporate calamities (Refco), and other rouge events that create massive uncertainty. Our international trading world is simply too interconnected to think we are isolated from the dangers of such events whether they occur on the other side of the world or in our backyard.

These are just a few of the factors influencing the future supply and demand outlook for cotton in 2005/06. As I have stated before, it is a *futures market* not a *current market*. Managing the futures market and anticipating change is a dynamic process that requires constant attention and focus. The management at Cotton Growers Cooperative is committed to this task and will work diligently to continue providing its members above average returns. Thank you for your trust and confidence.

J. Michael Quinn, President

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Market Summary as of November 2005

The cotton market experienced a good rally in September and early October mainly due to multiple hurricane threats in the mid south and southeast. The hurricanes did some damage in these areas but not enough to offset the increased yields in Texas. Once the storms passed, the market began working lower as it became evident the US crop was bigger than anticipated. According to the latest Supply and Demand report released November 10th, the US crop is as big as last year, estimated at

23.25 million bales. The world crop is also in good shape, resulting in world ending stocks projected at over 51 million bales.

From a technical perspective, the cotton market has looked weak since the end of October. We broke through some major price support on October 27th and have steadily worked lower since. About the time we broke through this support level, the specs were long on December with high open interest. Once we fell below the 20, 40 and 50

day moving averages the specs went to liquidation mode, liquidating or rolling to March the majority of their positions. At the time of this printing, the specs were 13% net long, down from 26% a month earlier. As December nears first notice day and prices dip below 5000 Dec, we are seeing demand pick up and mills are pricing and buying cotton once again. This should be supportive to March once December is out of the way.

December Futures





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along with other great information on
our website!*

www.carolinascotton.com

The mission of Cotton Growers Cooperative is to maximize our member's 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.

Cooperative Calendar of Events

December

1st Executive Board Meeting
2nd Full Board Meeting
83rd Annual Meeting
26th Christmas Holiday—Office Closed

January

2nd News Years Holiday—Office Closed