



AgEcon SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

USDA Agricultural Outlook Forum 2007

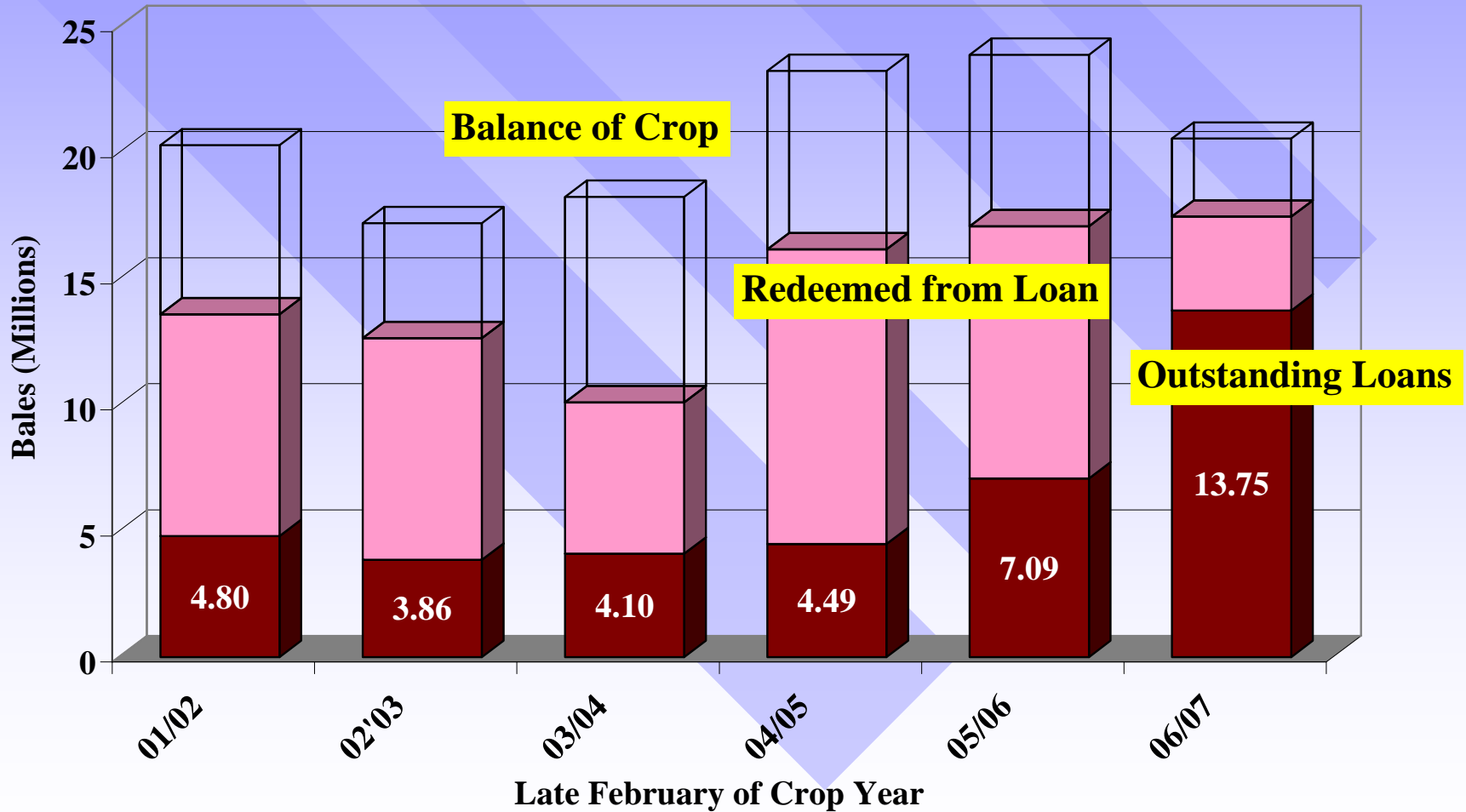
**Moving U.S. Cotton
from Loan to Market in the
Post Step 2 Era**

John D. Mitchell

**Vice President, Cargill Cotton
Cordova, Tennessee**

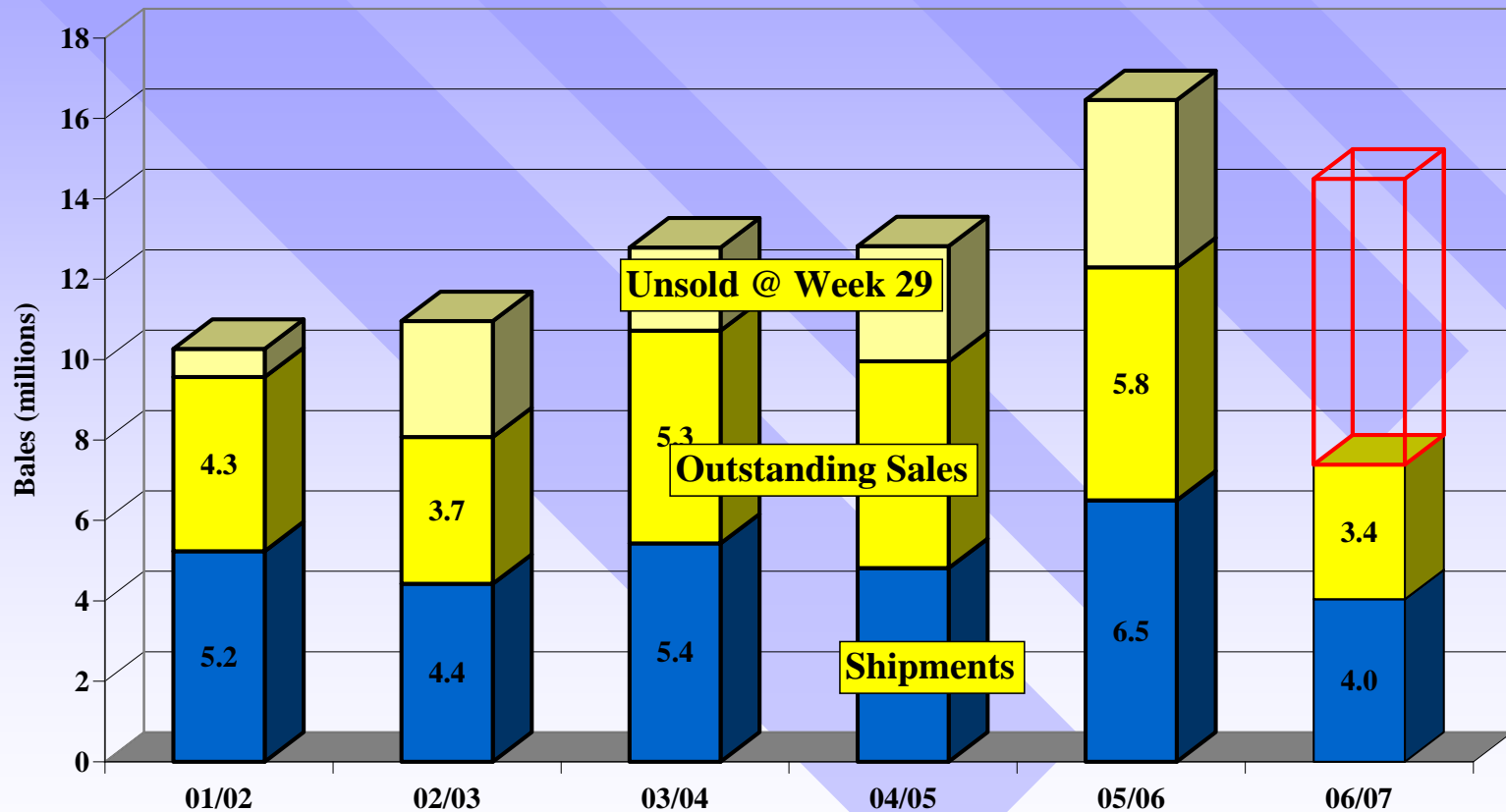
Friday - March 2, 2007

CCC Loan History

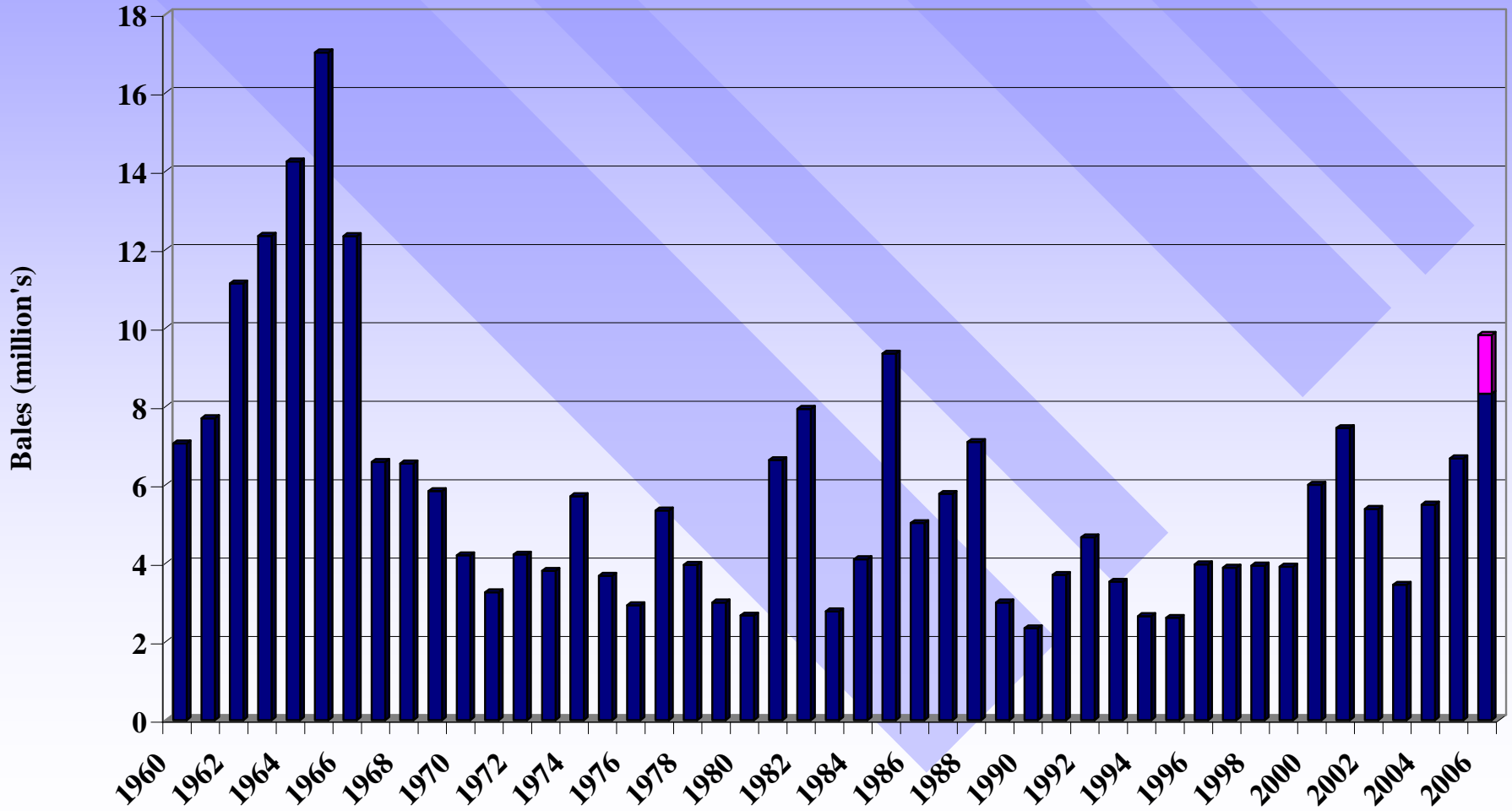


U.S. Upland Exports

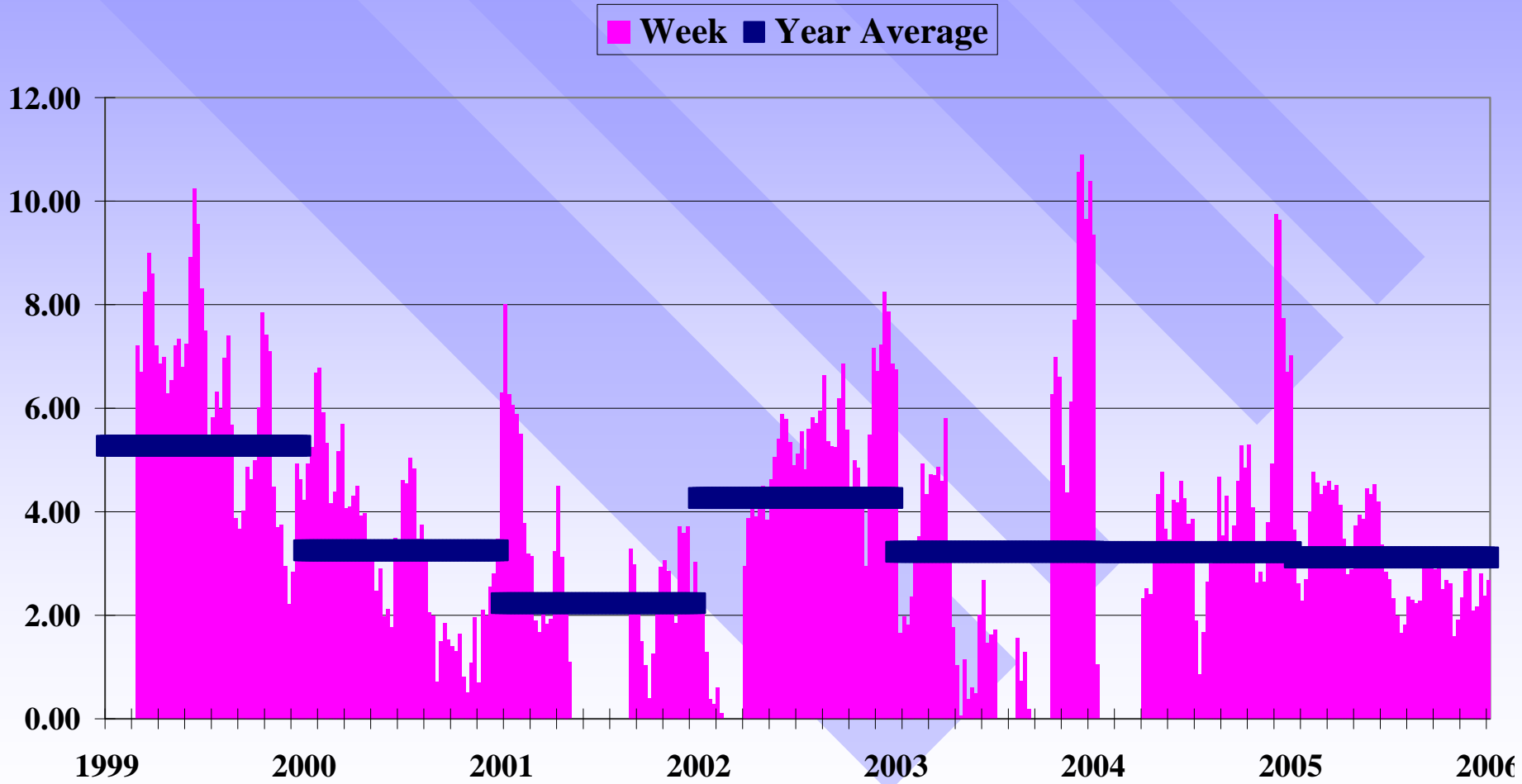
Through Feb 15 and Final



U.S. Ending Stocks



Loss of Step 2



Equity Price Calculation

MID-SOUTH GRADE 41 - 4 - 34

57.10 PRICE CIF CHINA

FOB truck to China	-6.61	
Loan Terms to FOB truck	-4.97	
Additional Storage		
	<hr/>	
	-11.58	TOTAL COSTS

Local Loan Base Price	-52.35	
Quality Premiums		
LDP	8.40	
	<hr/>	
	-43.95	LOAN REDEMPTION RATE

1.57 EQUITY

Cost Variation by Regions

	AZ	TX	AR	AL	NC
Receiving		3.10	3.35	2.75	4.00
Loading	8.00	5.00	10.25	5.75	4.00
Compression	7.25	9.25	8.00	6.00	
One Month's Storage	3.60	1.95	3.25	2.00	1.70
LOAN TERMS TO FOB TRUCK	\$18.85	\$19.30	\$24.85	\$16.50	\$9.70
Cents per pound	3.77	3.86	4.97	3.30	1.94

3.00

Equity Variation by Regions

GRADE 41 - 4 - 34

	AZ	TX	AR	AL	NC
PRICE CIF CHINA	57.10	57.10	57.10	57.10	57.10
		0.04			
FOB truck to China	-6.65	-7.46	-6.61	-6.36	-5.85
Loan Terms to FOB truck	-3.77	-3.86	-4.97	-3.30	-1.94
Additional Storage			-0.47		
TOTAL COSTS	-10.42	-11.32	-12.05	-9.66	-7.79
		-1.90			
Base Loan Amount	-50.45	-51.60	-52.35	-52.55	-53.30
Quality Premiums					
LDP	8.40	8.40	8.40	8.40	8.40
LOAN REDEMPTION RATE	-42.05	-43.20	-43.95	-44.15	-44.90
EQUITY	4.63	2.58	1.10	3.29	4.41

Equity Variation by Quality

MID-SOUTH

	41-4-34	31-3-34	31-3-35	21-3-36	21-3-36 low mic
PRICE CIF CHINA	57.10	58.60	60.60	62.10	45.90
		3.50			
FOB truck to China	-6.61	-6.61	-6.61	-6.61	-6.61
Loan Terms to FOB truck	-4.97	-4.97	-4.97	-4.97	-4.97
Additional Storage					
TOTAL COSTS	-11.58	-11.58	-11.58	-11.58	-11.58
Base Loan Amount	-52.35	-52.35	-52.35	-52.35	-52.35
Quality Premiums		2.35	4.65	6.15	-0.40
LDP	8.40	8.40	8.40	8.40	8.40
LOAN REDEMPTION RATE	-43.95	-46.30	-48.60	-50.10	-43.55
EQUITY	1.57	0.72	0.42	0.42	-9.23

Equity vs. NYF-AWP Spread

MID-SOUTH GRADE 41 - 4 - 34

53.10 NYBOT FUTURES MARKET

Base Loan Amount -52.00

LDP 8.40

-43.60 ADJUSTED WORLD PRICE (AWP)

9.50 NYF-AWP SPREAD

Local Basis - FOB Truck -2.50

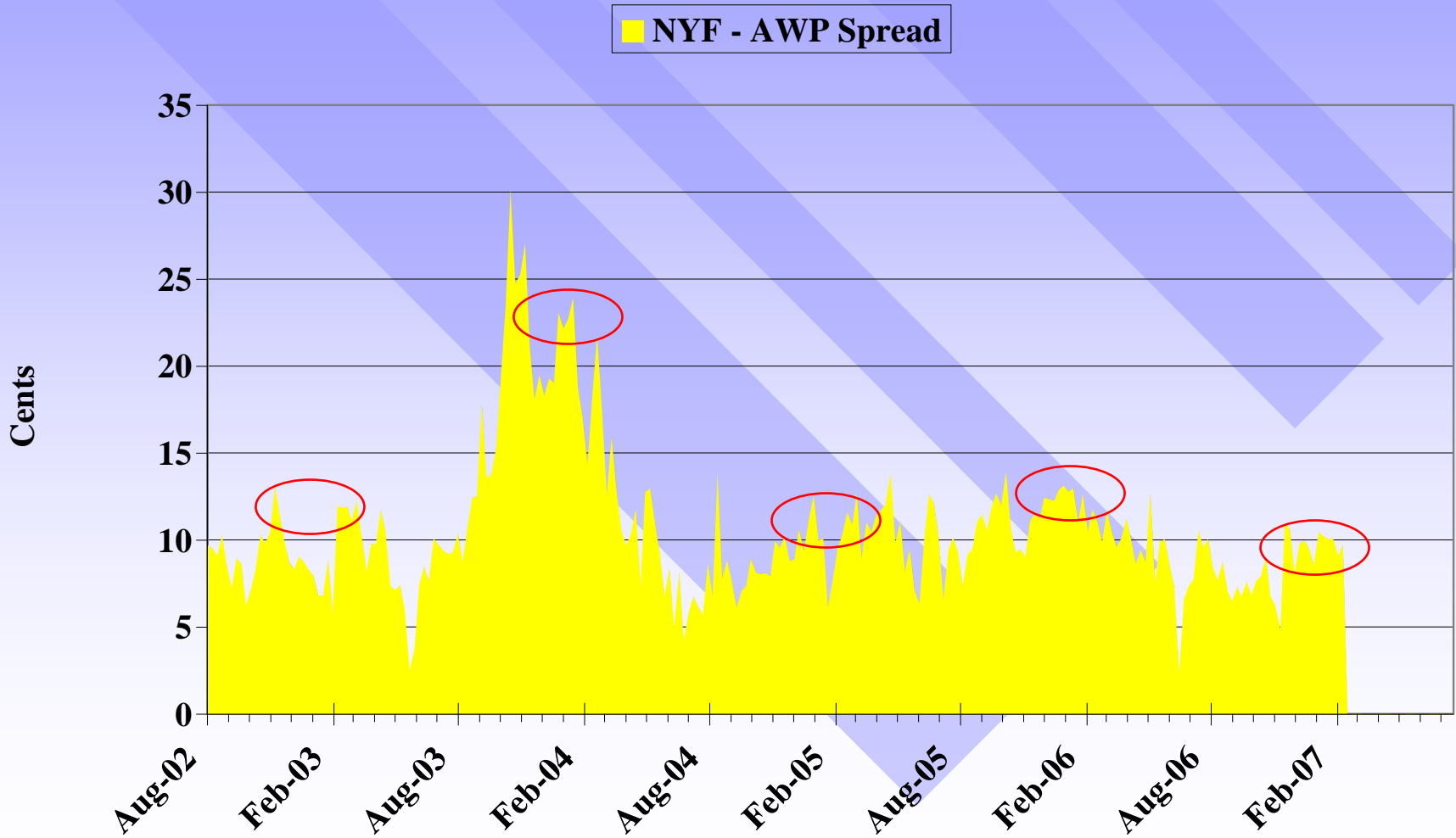
Loan Terms to FOB truck -5.00

Location Difference -0.35

-7.85 CONVERSION

1.65 ESTIMATED EQUITY

NY Futures – AWP Spread



Step 2 “Human” Factor

POSSIBILITY of a Step 2

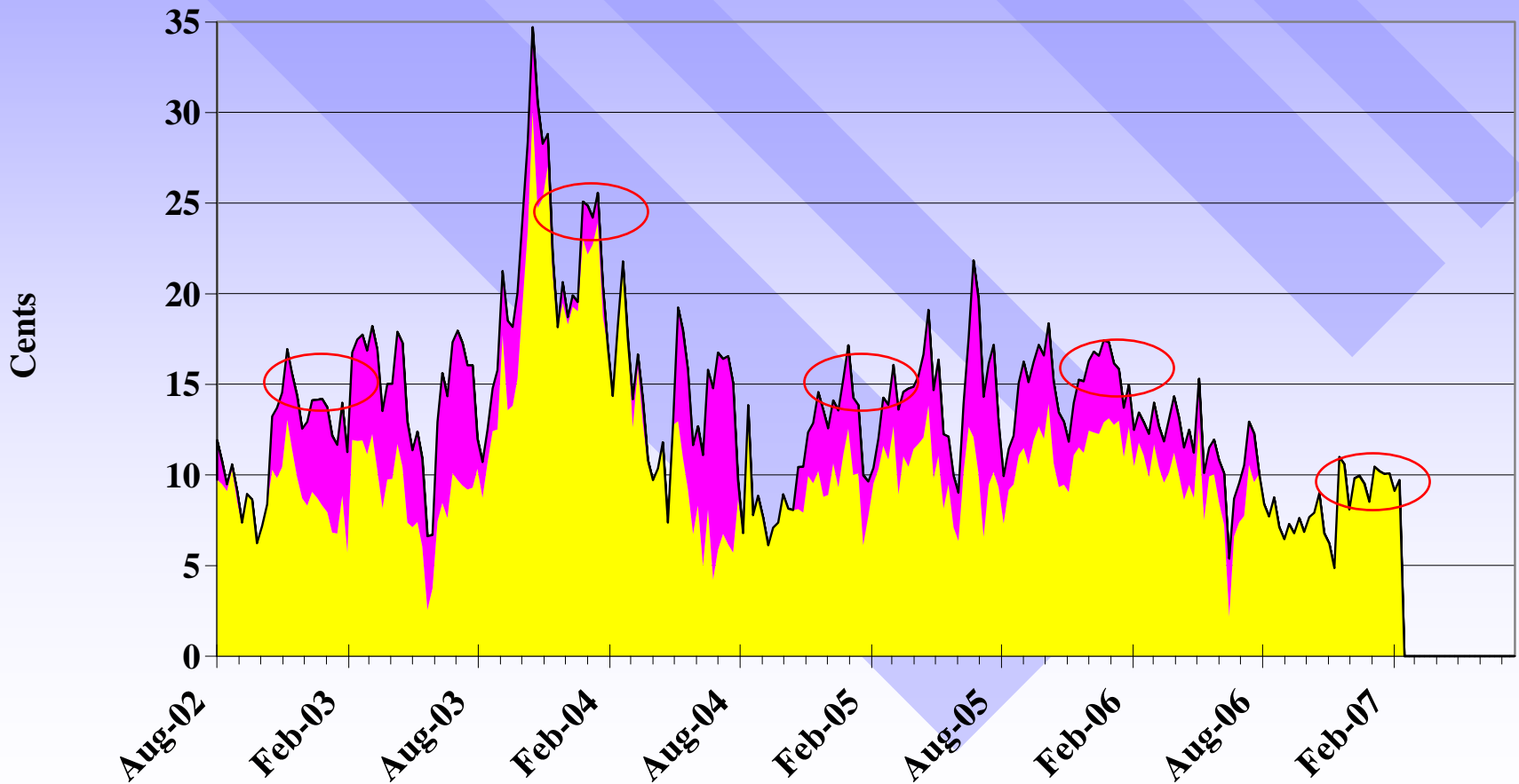
- Forced exporters to offer cheaper
- Pushed cotton into foreign markets

ACTUAL large Step 2

- Forced merchants to bid higher
- Pulled cotton out of loan

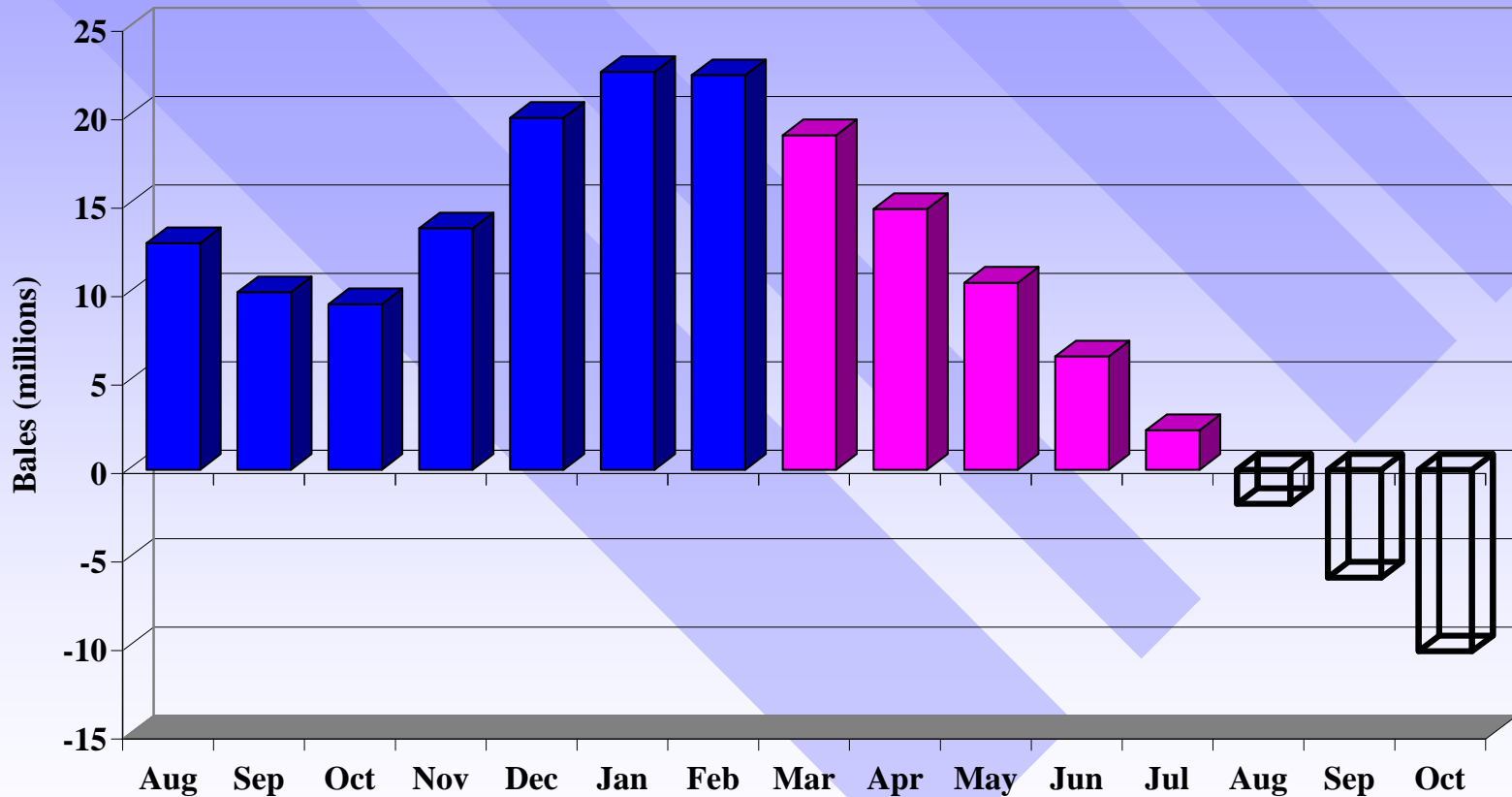
NY Futures – AWP Spread & Step 2 Rate

■ NYF - AWP Spread ■ Step 2



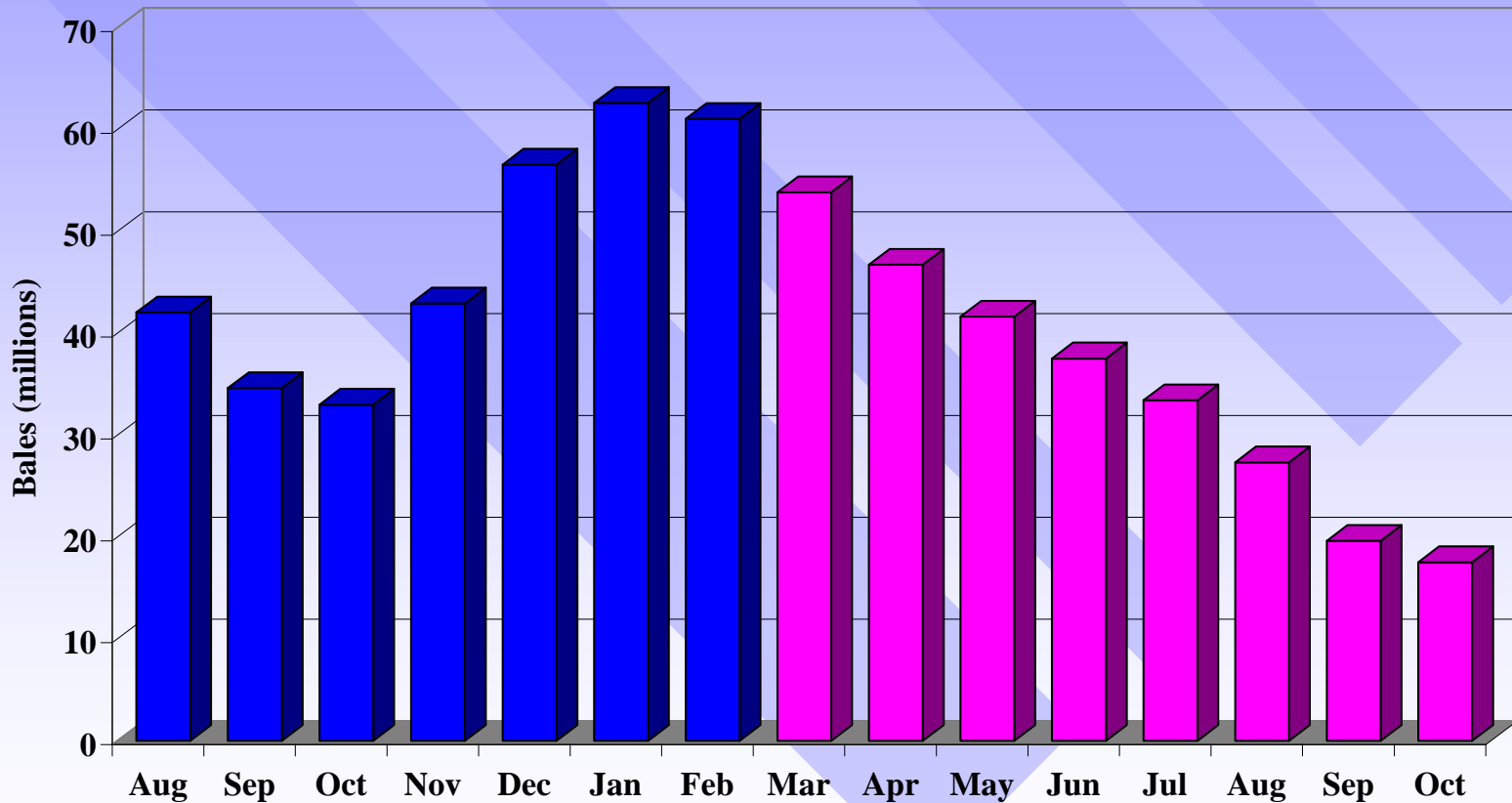
China Supply

Aug 2006 – Oct 2007



World Supply without U.S.

Aug 2006 – Oct 2007



Forfeitures Costs - Producer

	AZ	TX	AR	AL	NC
Receiving		3.10	3.35	2.75	4.00
One Month's Storage	3.60	1.95	3.25	2.00	1.70
Compression	7.25	9.25	8.00	6.00	
Additional Storage			5.90		
COST TO FORFEIT	\$10.85	\$14.30	\$20.50	\$10.75	\$5.70
Cents per pound	2.17	2.86	4.10	2.15	1.14
				-3.00	
Loan "forfeit floor"	48.28	48.74	48.25	50.40	52.16

Forfeitures Costs - CCC

	AZ	TX	AR	AL	NC
Loading	8.00	5.00	10.25	5.75	4.00
Storage	7.20	3.90	6.50	4.00	3.40
Costs Accruing to CCC	\$15.20	\$8.90	\$16.75	\$9.75	\$7.40
??? Market Loss ???	\$5.00	\$10.00	\$15.00	\$20.00	\$25.00
CCC Risk on Forfeitures	\$20.20	\$18.90	\$31.75	\$29.75	\$32.40
	\$20.00			\$30.00	

Obstacles

- U.S. surplus pushing NY futures down.
- World supplies holding AWP up.
- NYF-AWP spread narrow.
- Equity decreased.
- Loans not redeemable.
- U.S cotton priced out of market.

Outcome

- High U.S. prices.
- Foreign growers selling.
- U.S. losing market share.
- Some qualities and locations may never reach redemption level.
- Forfeitures likely.
- CCC stocks on market at harvest.