

FINAL REPORT – REGIONAL COTTON MARKET SEMINARS

July 25, 2012

Summary

Cotton Compass prepared a series of modules for planned cotton marketing seminars as requested by CRDC (see quotation attached Appendix 1). The seminars were designed to cover off on a full range of topics (see Appendix 2), so that grower associations could have a choice of modules for delivery at each location. Unfortunately, due to various seasonal and other issues, only two of the proposed seminars were completed prior to June 30, 2012.

Details of Seminars Completed

Location	Date	# Attended	Questions Raised (Note – hard to remember....was a long time ago)	Feedback
Goondiwindi Training Centre	29 th February, 2012	Approximately 15 attendees	International customer requirements; downstream supply chain; exposure to China & their ongoing import requirement.	Was a little disappointed in attendance. Of the 15 attendees, there were only 4 growing entities represented. However, the attendees were extremely well engaged throughout the presentations.
Mungindi Two Mile Hotel	1 st March, 2012	Approximately 30 attendees	Benchmarking re %age of Aussie crop sold in certain pricing bands.	Excellent attendance, and generally a less engaged audience.

Overall, the two seminars were a success, with a comprehensive presentation delivered, and good feedback from growers in attendance.

Suggested Changes If Required

Clarity/Communication: The requirements with regards contract administration etc were not understood by Cotton Compass prior to completion of the tasks and were not factored into pricing and/or service delivery considerations. Additionally, there may have been some misunderstanding with regards the overall scope of the project, which we had priced so that seminars could be “broken out” on an as needs basis, depending on which CGA required/requested the service (ie – the project was not necessarily priced as a whole).

Coordination: There were some challenges co-ordinating stakeholders to schedule the seminars (particularly given the original plan involved 2-3 presenters at each seminar to minimize the number of meetings growers were to attend). Perhaps it would be best in future to establish a process whereby:

- A calendar of pre-existing CGA meetings was obtained at (or close to) July 1;
- Service providers were asked to advise availability to present on the pre-existing dates specified;
- CGA’s were invited to engage the service providers for the identified meeting dates.

This would solve the challenge of growers attending multiple meetings (as individual seminars/presentations could be timed to coincide with CGA meetings).

Future Seminars

Cotton Compass has recently been approached to provide further seminars in the Macquarie and Lachlan Valleys under this project. Whilst we are comfortable performing the seminar service under the original CRDC project if required/available, we may need to review either the administration expectations or the quotation before engaging.

Thanks again for the opportunity – and notwithstanding the suggested changes above (and the fact only two of the planned seminars were complete – the programme was successful.

Best Regards

Pete Johnson & Rob Imray
Cotton Compass Pty Ltd

APPENDIX 1 – COPY OF ORIGINAL QUOUTATION

Helen Dugdale (helend@northnet.com.au)
CC: Sally Hunter (sally@fundbase.com.au)

October 17, 2011

- Re: Regional Cotton Market Seminar Program Proposal –

Dear Helen and Sally,

We are pleased to provide the following proposal for consideration for a potential Regional Cotton Market Seminar program for completion prior to the 2012 crop harvest.

Modules:

Cotton Compass will prepare a series of “modules” for presentation. Individual Cotton Growers Associations can select the most appropriate series of modules depending on requirements. Each seminar will run for approximately 4 hours, with length of presentations and discussion modified depending on the number of modules covered. Two presenters (Rob Imray and Pete Johnson) from Cotton Compass will be required for each seminar. Cotton Compass recommend no more than six modules to a seminar.

The following modules will be available:

- Cotton Marketing 101 – the market process
 - How cotton is merchandised
 - How Australian cotton is priced
 - What are the price drivers for cotton
- Contract Types and Contract Rules
- Cotton Quality / Classification / Premiums and Discounts
- Futures, Foreign Exchange and Basis Markets
 - Includes OTC markets like SWAPS
- Macro-economic and outside market influences
 - A look at the underlying economic fundamentals for cotton
- Export Markets and International Trade
 - A look at Australia’s key markets and their requirements
 - A look at Australia’s key competitors
 - Some of the variables in international trade
- Counterparty Risk
 - What is it?
 - How is Counterparty Risk managed
 - A brief outline of what to do if a counterparty defaults
 - What defines a default
- Market Analysis – Price History and Outlook
 - A look at some potential Benchmarks
 - An analysis of cash price and basis
 - A market outlook
- Price Risk Management
 - Some observations
 - A look at some approaches
 - Some of the key factors you need to address

Timing:

Depending on location and number of seminars required, Cotton Compass would aim to complete an initial block of seminars in second half November/first half December and then

the remainder in February/first half March. Specific dates would be scheduled once individual Cotton Grower Associations (CGAs) have confirmed their interest.

Geography/Regional Grouping:

In order to maximize efficiency, Cotton Compass proposes the following regional “groupings” – pending confirmation from individual CGAs - to be completed in designated road-trips:

<u>Central Queensland:</u>	Central Highlands; Dawson Valley; Biloela
<u>Darling Downs:</u>	
<u>Western Queensland:</u>	St George; Dirranbandi; Mungindi
<u>Central (North):</u>	Macintyre; Gwydir
<u>Central (South):</u>	Walgett; Lower Namoi; Upper Namoi
<u>South West:</u>	Macquarie; Lachlan; Darling River; Menindee

Schedule of Fees:

Preparation of seminar series (presentation and course notes): A\$6000 + GST

Presentation charges (per seminar): A\$1200 + GST

<u>Travel Costs (per region):</u>	Central Queensland:	A\$3900 + GST
	Darling Downs:	A\$300 + GST
	Western Queensland:	A\$2400 + GST
	Central (North):	A\$860 + GST
	Central (South):	A\$1200 + GST
	South West:	A\$5400 + GST

* Note: Travel costs includes estimated travel time (where applicable), accommodation and meals for 2 people, as well as direct expenditure on travel. Travel time has not been figured for the Darling Downs and Central Valleys, as presenters may be able to combine other business.

Additional Considerations

Venue Hire/Amenities: to be arranged and paid for by relevant CGA's / CRDC.

Advertising/Marketing: to be arranged and paid for by relevant CGA's / CRDC.

Printing: to be arranged and paid for by relevant CGA's / CRDC.
(Cotton Compass will provide electronic copies of full course notes and presentation materials.)

Thanks again for your interest in this seminar program. Please advise if you require clarification on any of the above points.

Best Regards

Pete Johnson
Cotton Compass Pty Limited

Rob Imray
Cotton Compass Pty Limited

APPENDIX 2 – SEMINAR SERIES PRESENTED

CONTRACT TYPES & CONTRACT RULES

Common Contract Types

CASH CONTRACT – Fixed price/fixed quantity

DEFERRED PAYMENT / DAILY "FOOL" – Fixed price/fixed quantity

SEASONAL POOL – Floating price/fixed quantity.

FORCE MAJEURE HECTARE CONTRACT – Fixed price/fixed area - quantity usually capped

HECTARE POOL – Floating price / fixed area – quantity may or may not be capped

BALANCE OF CROP – Fixed price / quantity usually confined to a range, or mini-max

Less Common Contract Types

ON CALL CONTRACT – Fixed quantity. Grower manages price risk by placing pricing orders for basis, foreign exchange and futures separately.

$\text{Futures in c/lb} \times \text{Basis} \times 5$

Cash price = AUD/USD

GMP CONTRACT – Fixed quantity. "Guaranteed Minimum Price" set with upside potential.

UNPRICED CONTRACT – Usually at end of season – for fixed bales or BOC, with time-limits for pricing.

Governed by rules – ACSA & ICA

ACSA – Australian Cotton Shippers Association – rules cover unique situations inherent in domestic Australian trade:

ICA – International Cotton Association – rules cover situations common throughout global trade

Why do we have rules?

- CONTRACT SANCTITY
- ARBITRATION GUIDELINES
- TO PROVIDE FORWARD MARKET CONFIDENCE

Why do we have rules?

- In 2011, the International Cotton Association (ICA) received 242 requests for technical arbitration - over five times its normal yearly average and more than double the Association's prior record high of 2008.
- With a record range in prices in the past year of approximately \$1.25/lb - from a low of around 70 cts/lb and a high of around \$2.25/lb - the industry is still seeing parties failing to honour their contractual obligations.
- In the first two weeks of 2012, the ICA has received eight requests for arbitration.

ACSA Trading Rules

RULE 3 MULTIPLE CONTRACTS FOR SEASON'S COTTON

3.1 NO PREVIOUS CONTRACT UNLESS DISCLOSED

The seller warrants that unless he has set out in the contract the details of the number of bales of cotton already sold for the same season as is specified in the contract the cotton sold in the first contract sold by him given in this section referred to as the contract.

3.2 ALLOCATION OF COTTON TO DIFFERENT CONTRACTS

The seller shall if he has already entered into another contract or contracts for the sale of bales of cotton as referred to in Rule 3.1 allocate cotton given by him to those contracts and the contract made afterwards to be made at the time of the loading of modules with the first contract provided to be allocated to fill the contract first contract sold or as thereafter, unless otherwise, in a specified rule agreement has been agreed which shall take precedence.

A seller who contracts for a contract unless otherwise stated in the following sections is deemed to be a contract for the season and which if a seller will be dealt with under this clause as if it were entered into on the date of the order.

ACSA Trading Rules

RULE 4 SPECIFIC ACREAGE PROVISIONS

4.1 COMPLIANCE

All cotton sold under the contract must conform to the following specifications in default of which it may be rejected by the buyer.

4.2 GRADES

The cotton must be of a color or hair leaf grade, minimum, single, straight or other proportion of cotton contemplated as acceptable by the President and Directors. Extra being part of the contract, lower size of the hair to grow.

4.3 AREA AND VARIETY OF GROWTH

10) The cotton must be raised from the property (and sub-leased lands if so described) specified in the contract and the seller shall if requested by the buyer provide to the buyer adequate proof that the cotton was so raised.

11) The cotton must be of the year of growth specified in the contract.

12) The cotton must be ginned at the gin specified in the contract.

ICA Rules – Default list

LIST OF RULES THAT APPLY TO ALL CONTRACTS UNLESS SPECIFICALLY STATED OTHERWISE

SECTION	SECTION TITLE	SECTION NUMBER	SECTION TITLE
1	DEFINITIONS	1.1	DEFINITIONS
2	GENERAL PROVISIONS	2.1	NO PREVIOUS CONTRACT UNLESS DISCLOSED
3	ALLOCATION OF COTTON TO DIFFERENT CONTRACTS	3.1	NO PREVIOUS CONTRACT UNLESS DISCLOSED
4	SPECIFIC ACREAGE PROVISIONS	4.1	COMPLIANCE
5	AREA AND VARIETY OF GROWTH	5.1	COMPLIANCE
6	GRADES	6.1	COMPLIANCE
7	FORCE MAJEURE	7.1	COMPLIANCE
8	FORCE MAJEURE HECTARE CONTRACTS	8.1	COMPLIANCE
9	HECTARE CONTRACTS	9.1	COMPLIANCE
10	DEFERRED PAYMENT CONTRACTS	10.1	COMPLIANCE
11	ON CALL CONTRACTS	11.1	COMPLIANCE
12	UNPRICED CONTRACTS	12.1	COMPLIANCE
13	FORCE MAJEURE HECTARE CONTRACTS	13.1	COMPLIANCE
14	HECTARE CONTRACTS	14.1	COMPLIANCE
15	DEFERRED PAYMENT CONTRACTS	15.1	COMPLIANCE
16	ON CALL CONTRACTS	16.1	COMPLIANCE
17	UNPRICED CONTRACTS	17.1	COMPLIANCE
18	FORCE MAJEURE HECTARE CONTRACTS	18.1	COMPLIANCE
19	HECTARE CONTRACTS	19.1	COMPLIANCE
20	DEFERRED PAYMENT CONTRACTS	20.1	COMPLIANCE
21	ON CALL CONTRACTS	21.1	COMPLIANCE
22	UNPRICED CONTRACTS	22.1	COMPLIANCE
23	FORCE MAJEURE HECTARE CONTRACTS	23.1	COMPLIANCE
24	HECTARE CONTRACTS	24.1	COMPLIANCE
25	DEFERRED PAYMENT CONTRACTS	25.1	COMPLIANCE
26	ON CALL CONTRACTS	26.1	COMPLIANCE
27	UNPRICED CONTRACTS	27.1	COMPLIANCE
28	FORCE MAJEURE HECTARE CONTRACTS	28.1	COMPLIANCE
29	HECTARE CONTRACTS	29.1	COMPLIANCE
30	DEFERRED PAYMENT CONTRACTS	30.1	COMPLIANCE
31	ON CALL CONTRACTS	31.1	COMPLIANCE
32	UNPRICED CONTRACTS	32.1	COMPLIANCE
33	FORCE MAJEURE HECTARE CONTRACTS	33.1	COMPLIANCE
34	HECTARE CONTRACTS	34.1	COMPLIANCE
35	DEFERRED PAYMENT CONTRACTS	35.1	COMPLIANCE
36	ON CALL CONTRACTS	36.1	COMPLIANCE
37	UNPRICED CONTRACTS	37.1	COMPLIANCE
38	FORCE MAJEURE HECTARE CONTRACTS	38.1	COMPLIANCE
39	HECTARE CONTRACTS	39.1	COMPLIANCE
40	DEFERRED PAYMENT CONTRACTS	40.1	COMPLIANCE
41	ON CALL CONTRACTS	41.1	COMPLIANCE
42	UNPRICED CONTRACTS	42.1	COMPLIANCE
43	FORCE MAJEURE HECTARE CONTRACTS	43.1	COMPLIANCE
44	HECTARE CONTRACTS	44.1	COMPLIANCE
45	DEFERRED PAYMENT CONTRACTS	45.1	COMPLIANCE
46	ON CALL CONTRACTS	46.1	COMPLIANCE
47	UNPRICED CONTRACTS	47.1	COMPLIANCE
48	FORCE MAJEURE HECTARE CONTRACTS	48.1	COMPLIANCE
49	HECTARE CONTRACTS	49.1	COMPLIANCE
50	DEFERRED PAYMENT CONTRACTS	50.1	COMPLIANCE
51	ON CALL CONTRACTS	51.1	COMPLIANCE
52	UNPRICED CONTRACTS	52.1	COMPLIANCE
53	FORCE MAJEURE HECTARE CONTRACTS	53.1	COMPLIANCE
54	HECTARE CONTRACTS	54.1	COMPLIANCE
55	DEFERRED PAYMENT CONTRACTS	55.1	COMPLIANCE
56	ON CALL CONTRACTS	56.1	COMPLIANCE
57	UNPRICED CONTRACTS	57.1	COMPLIANCE
58	FORCE MAJEURE HECTARE CONTRACTS	58.1	COMPLIANCE
59	HECTARE CONTRACTS	59.1	COMPLIANCE
60	DEFERRED PAYMENT CONTRACTS	60.1	COMPLIANCE
61	ON CALL CONTRACTS	61.1	COMPLIANCE
62	UNPRICED CONTRACTS	62.1	COMPLIANCE
63	FORCE MAJEURE HECTARE CONTRACTS	63.1	COMPLIANCE
64	HECTARE CONTRACTS	64.1	COMPLIANCE
65	DEFERRED PAYMENT CONTRACTS	65.1	COMPLIANCE
66	ON CALL CONTRACTS	66.1	COMPLIANCE
67	UNPRICED CONTRACTS	67.1	COMPLIANCE
68	FORCE MAJEURE HECTARE CONTRACTS	68.1	COMPLIANCE
69	HECTARE CONTRACTS	69.1	COMPLIANCE
70	DEFERRED PAYMENT CONTRACTS	70.1	COMPLIANCE
71	ON CALL CONTRACTS	71.1	COMPLIANCE
72	UNPRICED CONTRACTS	72.1	COMPLIANCE
73	FORCE MAJEURE HECTARE CONTRACTS	73.1	COMPLIANCE
74	HECTARE CONTRACTS	74.1	COMPLIANCE
75	DEFERRED PAYMENT CONTRACTS	75.1	COMPLIANCE
76	ON CALL CONTRACTS	76.1	COMPLIANCE
77	UNPRICED CONTRACTS	77.1	COMPLIANCE
78	FORCE MAJEURE HECTARE CONTRACTS	78.1	COMPLIANCE
79	HECTARE CONTRACTS	79.1	COMPLIANCE
80	DEFERRED PAYMENT CONTRACTS	80.1	COMPLIANCE
81	ON CALL CONTRACTS	81.1	COMPLIANCE
82	UNPRICED CONTRACTS	82.1	COMPLIANCE
83	FORCE MAJEURE HECTARE CONTRACTS	83.1	COMPLIANCE
84	HECTARE CONTRACTS	84.1	COMPLIANCE
85	DEFERRED PAYMENT CONTRACTS	85.1	COMPLIANCE
86	ON CALL CONTRACTS	86.1	COMPLIANCE
87	UNPRICED CONTRACTS	87.1	COMPLIANCE
88	FORCE MAJEURE HECTARE CONTRACTS	88.1	COMPLIANCE
89	HECTARE CONTRACTS	89.1	COMPLIANCE
90	DEFERRED PAYMENT CONTRACTS	90.1	COMPLIANCE
91	ON CALL CONTRACTS	91.1	COMPLIANCE
92	UNPRICED CONTRACTS	92.1	COMPLIANCE
93	FORCE MAJEURE HECTARE CONTRACTS	93.1	COMPLIANCE
94	HECTARE CONTRACTS	94.1	COMPLIANCE
95	DEFERRED PAYMENT CONTRACTS	95.1	COMPLIANCE
96	ON CALL CONTRACTS	96.1	COMPLIANCE
97	UNPRICED CONTRACTS	97.1	COMPLIANCE
98	FORCE MAJEURE HECTARE CONTRACTS	98.1	COMPLIANCE
99	HECTARE CONTRACTS	99.1	COMPLIANCE
100	DEFERRED PAYMENT CONTRACTS	100.1	COMPLIANCE

Contract Types & Rules Pitfalls

- Overselling – washouts
- Quality Risk – get a P&D attached
- Delivery order / particularly re hectare contracts

Contract Types & Marketing Strategy

Marketing strategy is about Risk v Return

In order to lock in prices you must take Risk

- Production risk
- Opportunity Loss (should market prices end up higher)

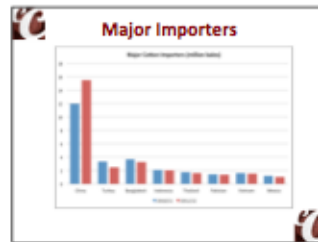
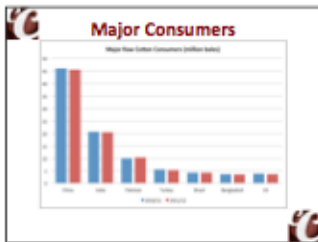
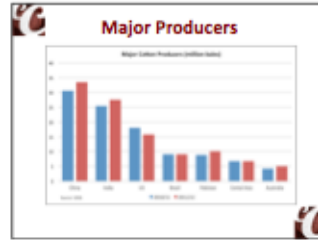
In return for

- Securing a profitable Price for your commodity
- Reducing risk that adverse price moves may have on your returns

"If I do, you grow... Who else can grow a fibre now complex, Carl?"

Export Markets & Trade

- ### Who are the major players
- Producers of cotton
 - Exporters of cotton
 - Users of cotton
 - Importers of cotton



Key Players

CHINA – the biggest producer, consumer & importer

INDIA – 2nd biggest producer, 2nd biggest consumer & 2nd biggest exporter

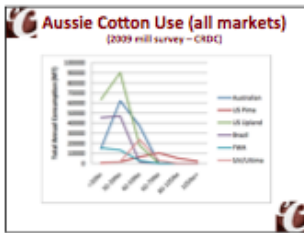
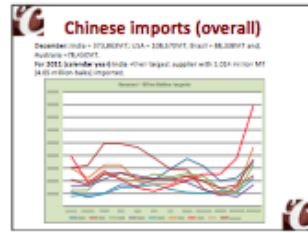
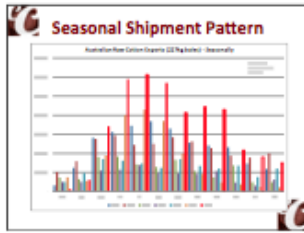
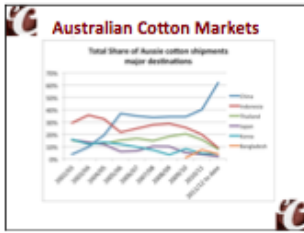
USA – 3rd biggest producer, biggest exporter

Significant for Australia

Aussie Competitors (exporters) – USA; India; Central Asia; Brazil; French West Africa

Aussie Customers (importers) – China; Indonesia; Thailand; Bangladesh (and Japan/ Korea)





International Trade

Some Key Distortive Trade variables

CHINESE IMPORT QUOTA – Can distort timing and volume of trade flow

GOVERNMENT STOCKS – Eg Chinese National Cotton Reserves Corporation

EXPORT EMBARGOES – Indian Government often will intervene to restrict raw cotton exports (in order to support local textile industry).

US FARM PROGRAMME

Futures, Foreign Exchange and Basis Markets

Futures, Foreign Exchange and Basis Markets

- Australian Cotton Prices highly volatile
- >95% exported – Price driven by international factors
- Key price driver – ICE No.2 Cotton Futures (New York)
- Key Price Driver – Australian Dollar
- Basis (both offshore and domestic)

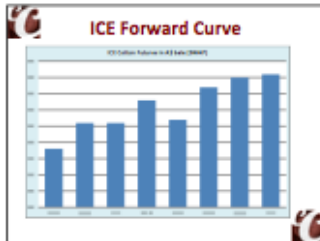
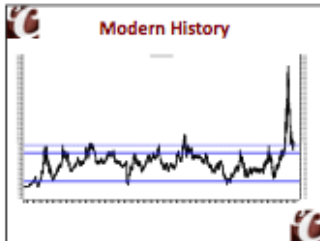
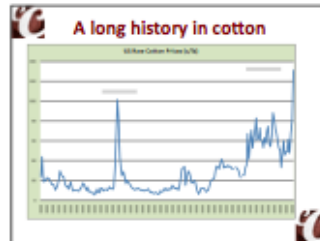
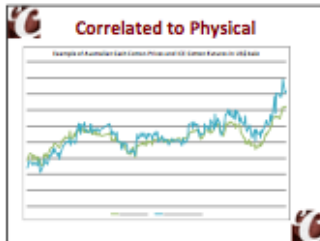
AS per bale = $\frac{\text{ICE Cotton Futures in US¢/lb} \times \text{Basis} \times 5}{\text{AUD/USD Exchange Rate}}$

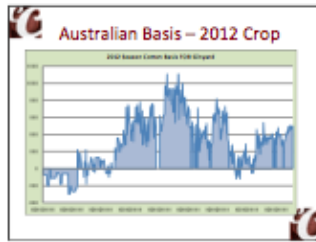
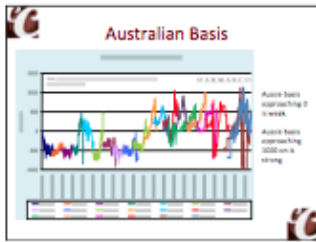
Futures Markets

- Standardised contract – only price to be determined
- Completed on Futures exchange floor or electronic market
- Futures provide a mechanism for price discovery and price determination
- There is a correlation between Futures markets and the physical market
- Key price driver – ICE No.2 Cotton Futures (New York)

US Cotton Futures

- Is US deliverable only (driven by not only US supply and demand issues but also world supply/demand factors)
- US is the world largest exporter and 3rd largest producer
- Key transparent market for world cotton to reference to
- Australian cotton historically sold based on ICE No.2
- Relatively liquid market
- Allows the use of added Price Risk Management Tools





- ### Basis – impacted by
- Value of Australian cotton into Asia
 - Value of competitive origins into Asia
 - Local supply and demand factors
 - Logistical costs
 - Futures market structure

Australian Basis

Competing Offers

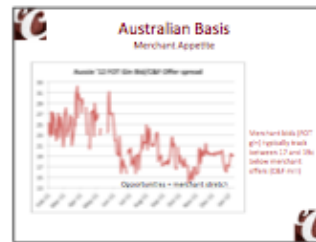
Up until last week, mills are buying physical cotton (C&F, 1-2/8) in either side of 100 US c/lb.

Price is now below 100.

Eg. Indian sold @ 96.50 last week, and US M/E at 99 US c/lb

Australian cotton is unable to compete.

Origin	Price	Quantity	Notes
India	96.50	10000	Sold last week
US M/E	99.00	10000	Current offer



Australian Basis

We will have a record crop to move in 2012

Origin	Price	Quantity	Notes
India	96.50	10000	Sold last week
US M/E	99.00	10000	Current offer



- ### Australian Basis
- We will have a record crop to move in 2012
- #### CROP SIZE IMPACTS:
- Supply is arguably short covering demand from domestic consumers
 - Position Limits – traders "fill their boots" – if they are unable to offload long positions
 - Financing Limits – including both payment for cotton & payment of margin calls on positions
 - Logistics Constraints & Timeliness of Shipment

Australian Basis

Logistical Costs

WHAT ARE THE COSTS TO A MERCHANT?

Example only Fixed Local Costs:

- Freight to Melbourne - \$100,000
- Packing 100,000 bales - \$100,000
- Insurance for 100,000 bales - \$100,000
- Marketing fees - \$100,000

Aussie Dollar Costs approx \$400,000

Example only Fixed International Costs:

- Ocean freight 100,000 bales to Asia - \$100,000
- Insurance 100,000 bales to Asia - \$100,000
- US Dollar Costs approx \$1,000,000

Example Variable Costs:

- Cotton 100,000 bales @ 100 US c/lb = \$10,000,000
- Freight 100,000 bales to Asia - \$100,000
- Insurance 100,000 bales to Asia - \$100,000
- US Dollar Costs approx \$10,200,000

TOTAL COSTS = \$10,600,000

Australian Basis

Logistical Costs

THESE COSTS CAN BE INFLUENCED BY:

- Underlying Commodity price
 - Stage costs – eg commissions etc
- Fuel Prices
 - Surcharges on domestic & ocean freight
- Foreign Exchange
 - Impact local A\$ costs (when converted to US \$)
- Volatility
 - extra financing provisions for margin calls
 - higher bank charges (confirmation of LC)
 - Risk premium (for default)

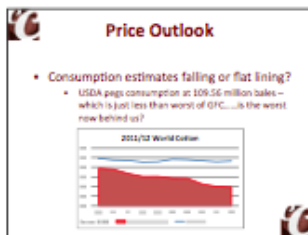
Market Analysis & Price Outlook

Disclaimer

The publication is prepared by Cotton Futures Pty. Ltd. (CFL) under 100% ownership of the property of the Australian Agricultural and Financial Services Group. The content of this publication is for general information only and does not constitute an offer of any financial product or service. The publication is not intended to be used as a basis for investment decisions. The information in this publication is provided for general information only and does not constitute an offer of any financial product or service. The publication is not intended to be used as a basis for investment decisions. The information in this publication is provided for general information only and does not constitute an offer of any financial product or service. The publication is not intended to be used as a basis for investment decisions.

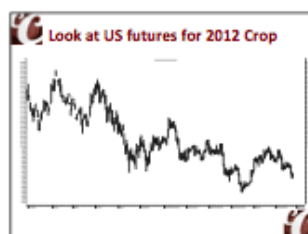
- ## Price Outlook
- Current price in c/lb is still historically high (circa 90-100 US c/lb)
 - Short term outlook
 - Longer term outlook
 - Will cotton prices trade a new paradigm?

- ## Price Outlook
- Raw Cotton Stocks are high (global S/U ratio 55%) but....
 - A large proportion of those stocks (circa 30%) are in China & a large proportion of the Chinese stocks are in State Reserves.
 - Pipeline stocks (yarn/fabric/textiles) are relatively tight due to inventory piling up in face of worsening macros.



- ## Price Outlook
- Production Reductions likely?
 - India: Concerns that the 2011 current crop is not as large as initially thought.... slow arrivals?
 - China: talk the Chinese crop could be as low as 30 million bales (USDA estimate 33.5) following a release of an estimate of 35.3 million bales from the National Bureau of Statistics. New crop plantings could be down by 1-10%.
 - USA: New crop planting intentions likely 5-10% lower than last year.... dry conditions persist in Texas and Georgia, however the crop should still be larger.
 - Brazil: Crop progressing well. USA expect an equal record crop of 9 million bales.

- ## Price Outlook
- Consumption Reductions likely?
 - India: lower domestic cotton prices providing an advantage.
 - China: Mills facing rising costs, an artificially high cotton price. Yarn and fabric imports rising where no duty attached. State Reserve buying is not the same as consumptive buying.
 - Thailand: Struggling with an overhang of expensive cotton – focused on cheap low grade cotton
 - Indonesia: more active in the market no overhang

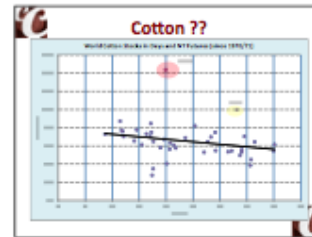
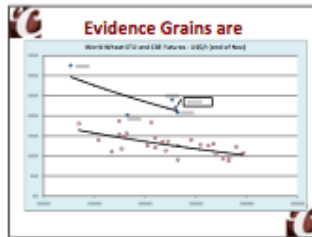
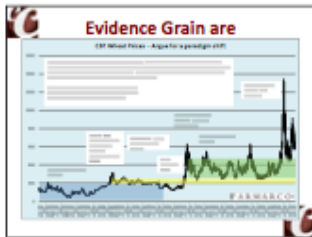




Matrix of Possibilities

COTTON CASH PRICE MATRIX - Current Price \$400
Assume Basis Fixed at 300 points on July

NY Cotton Futures @00	NY Cotton Futures @00					
	85	85	85	85	120	120
0.7800	310	304	305	302	300	302
0.8200	308	317	307	306	326	309
0.8600	303	310	317	310	306	317
0.9000	301	300	317	304	312	309
0.9400	301	305	305	301	300	301
0.9800	307	309	310	300	300	301
1.0200	307	304	308	300	300	304
1.0600	303	311	303	302	300	300
1.1000	307	300	303	300	300	304



- ### Keeping Perspective
- For marketing your cotton
 - Understand what is driving the market and why
 - Know your costs and profit levels
 - Assess your production risk
 - Assess your own risk profile
 - Set realistic targets & change strategy if need be
 - Keep focus on a profitable business (keep emotion away)
 - Keep perspective in the market

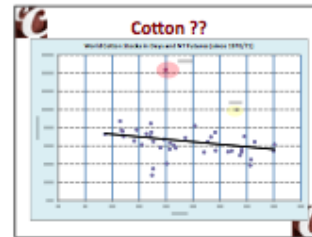
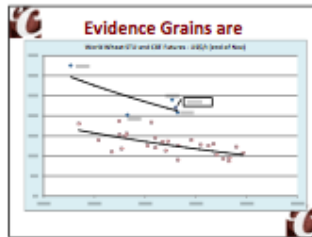
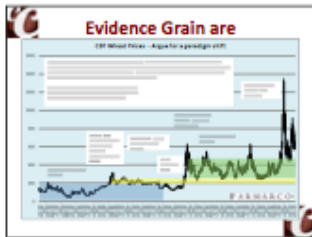




Matrix of Possibilities

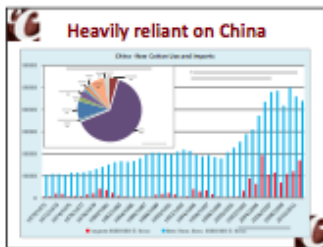
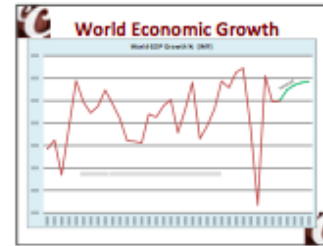
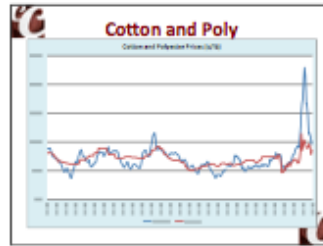
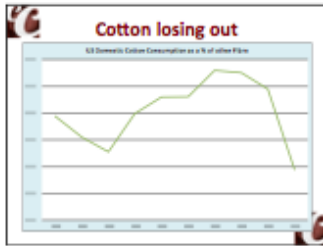
COTTON CASH PRICE MATRIX - Current Price \$400
Assume Basis Fixed at 300 points on July

NY Cotton Futures @lb	NY Cotton Futures @lb					
	85	85	85	85	120	120
0.7800	312	304	305	302	300	302
0.8200	308	317	307	306	326	309
0.8600	303	310	317	310	306	317
0.9000	307	300	307	304	312	309
0.9400	311	305	305	307	305	301
0.9800	307	309	310	308	308	317
1.0200	307	304	308	300	306	304
1.0600	303	311	303	302	300	300
1.1000	307	300	303	300	300	304



- ### Keeping Perspective
- For marketing your cotton
 - Understand what is driving the market and why
 - Know your costs and profit levels
 - Assess your production risk
 - Assess your own risk profile
 - Set realistic targets & change strategy if need be
 - Keep focus on a profitable business (keep emotion away)
 - Keep perspective in the market

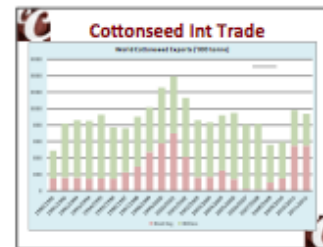




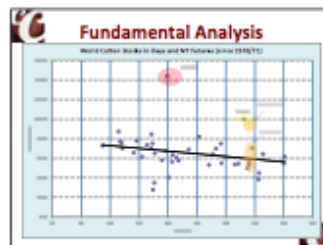
Australia

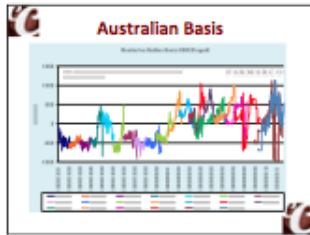
AUSTRALIAN BALANCE SHEET

Mar-Feb year	Cottons seed ('0000)	Lint ('000 bales)
2009/10	50	35
2010/11	91	60
2011/12	1300	4080
2012/13	1335	4600
2013/14	1150	4100
2014/15	1450	4500
2015/16	1300	4000
2016/17	1200	3800
2017/18	1100	3500
2018/19	1000	3200
2019/20	900	3000
2020/21	800	2800
2021/22	700	2500
2022/23	600	2200
2023/24	500	2000
2024/25	400	1800
2025/26	300	1500
2026/27	200	1200
2027/28	100	1000
2028/29	50	800
2029/30	25	400
2030/31	10	200



- ### Longer Term Outlook
- Using current USDA numbers stocks at 206 days for 2012/13 - rising.
 - What is the possibility of a new paradigm?
 - What will be the value of competing crops?
 - Basis levels - lets assume 400 points on
 - Where will the A\$ be?
 - What sort of values could we expect?





How Australian Cotton is Priced Australian Dollar

INFLUENCED BY:

- Commodity Prices
- Macro-economic sentiment & Fund Flows
- Interest Rate Differentials
- Technicals

Current Bank Forecasts Below:

Organization	Year	Domestic \$	International \$
Bank of America	2009	4.25	4.00
Bank of America	2010	4.25	4.00
Bank of America	2011	4.25	4.00
Bank of America	2012	4.25	4.00
Bank of America	2013	4.25	4.00
Bank of America	2014	4.25	4.00
Bank of America	2015	4.25	4.00
Bank of America	2016	4.25	4.00
Bank of America	2017	4.25	4.00
Bank of America	2018	4.25	4.00
Bank of America	2019	4.25	4.00
Bank of America	2020	4.25	4.00
Bank of America	2021	4.25	4.00
Bank of America	2022	4.25	4.00
Bank of America	2023	4.25	4.00
Bank of America	2024	4.25	4.00
Bank of America	2025	4.25	4.00
Bank of America	2026	4.25	4.00
Bank of America	2027	4.25	4.00
Bank of America	2028	4.25	4.00
Bank of America	2029	4.25	4.00
Bank of America	2030	4.25	4.00

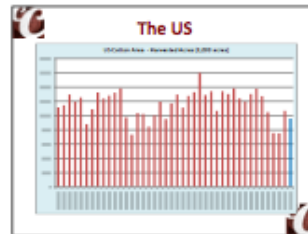
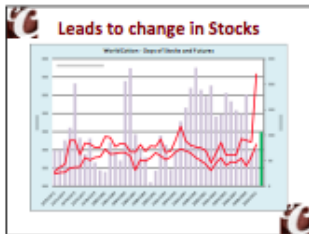
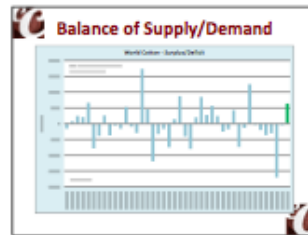
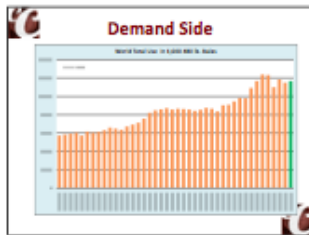
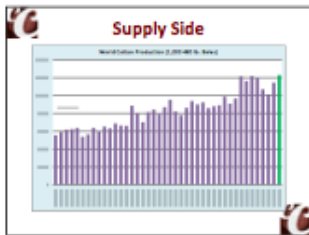
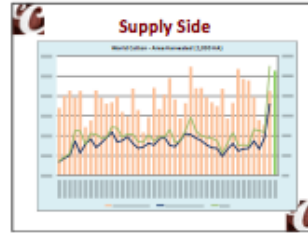


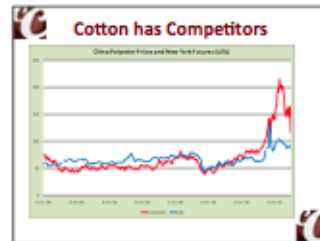
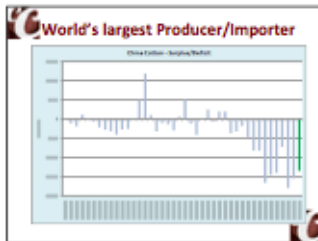
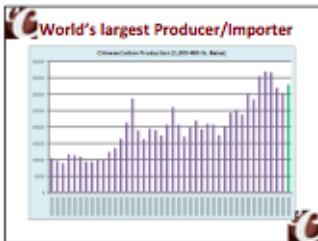
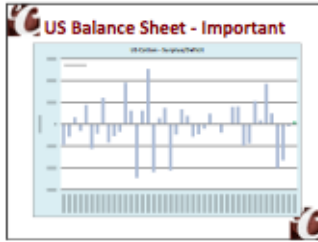
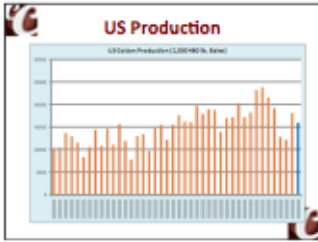
Price Drivers – A Taste

- Supply of cotton (World and the US)
- Demand for cotton (World and US)
- Export Availability
- Speculative and Investment Capital Flows

Price Drivers

- Supply of cotton (World and the US)
- Demand for cotton (World and US)
- Export Availability
- Speculative and Investment Capital Flows





Australian Dollar

- Spot and Forward Rates
- Large number of price drivers – hard to predict

COTTON (CASH PRICE) MAXIMUM – Current Cash price 6754 BHS
Assume Basis is Fixed at 122 cents on 7 Fibres

ACT COTTON FUTURE (BHS)	70	80	90	100	110	120	130
0.7500	485	521	555	585	611	630	645
0.8000	485	526	560	585	616	636	650
0.8500	472	510	544	572	602	621	635
0.9000	472	510	545	574	604	624	638
0.9500	387	423	458	488	518	538	552
1.0000	371	407	442	472	502	522	536
1.0500	365	401	436	466	496	516	530
1.1000	350	386	421	451	481	501	515
1.1500	335	371	406	436	466	486	500

Basis price (BHS) = 122 cents on 7 Fibres

Price Risk Management

Tools Available for Managing Price Risk

- Forward Cash Price (in either A\$ or US\$ bale)
- Spot Contract (delivery within 7 days)
- On Call Contracts (ability to separately price futures, basis and currency)
- ICE futures and Options
- Bank Swaps in A\$ or US\$ terms
- Pools

Marketing Strategy

Marketing strategy is about risk v returns

In order to lock in prices you must take Risk

- Producers vs
- Distributors (lock in their price but no risk)

In return for

- Securing a definite Price for your commodity
- Making sure that future price moves may favor your return



"Oh, you grub... Why did you come out in this hot weather, Cuz?"

Safe Anticipated Production

- Forward Pricing vs Production Risk is a trade off



Cost of Production and Return on Investment

- Know your costs
- Know where the market is in relation to our costs
- Look for sign posts in the market
 - Covering variable costs
 - Covering total farm operating costs (no principal repayment)
 - Farming Enterprise Profit Levels
 - Return on Equity

What does the Current Price Represent?

- Knowing your targets and having a market perspective



What is the trend in the Market – Market Outlook

- Is the medium and long term trend up or down
- What is the current market outlook
- Does my pricing strategy "fit" the current market trend and outlook



Psychology including Partners (attitude to risk)

- Determine your attitude to risk
 - Am I a risk taker or more risk averse
 - Do I feel comfortable forward pricing
 - How much should I forward price
- Determine your own behavior to pricing
 - Will be comfortable with what I have priced and where
 - What if I do not get top of the market?
 - Can I take a business like attitude?
- Make sure your partners attitudes are accounted for

Sunk Cost Trap

- We tend to make choices that justify past decisions even when those choices no longer appear valid
 - Unravelled but harder
 - Learning more money from a winner
- We know that the sunk costs are irrelevant to the present decision but they are at the forefront in our minds when we make the next decision and therefore due to that cost we may make the wrong one. What?
- Human nature is afraid to admit a mistake
- Public admission of your judgment is even harder
- Status quo – failure to act is often less punished than a wrong decision
- Make each decision on the day with information on the day

Risk – Prospect Theory

- How we make choices in situations where we have to decide between alternatives that involve risk (or financial decisions)
- Avoidance of Regret** is a primary human motive
- The emotion experienced for NOT having made the right decision – the pain of feeling responsible for a loss.
- If no action is taken the feeling responsible is less immediate – keeping the Status Quo.
- Avoidance of Regret is the driver in most non-decisions
- We are risk averse with respect to gains but risk seeking when it comes to losses.**

Framing the Problem (decision)

Includes

- When framed positively the majority of people chose a strategy which is the risk averse.
- When framed negatively the majority chose a strategy which is the Risky Strategy.
- The way the risk management decision is framed can influence the decision being taken.**

Probability of Events

- We usually fail to accurately assess the probability of events. We think more about the probability of an event if it has been recent.
- We have undue confidence in the accuracy of our estimates
- Over confidence usually leads to taking bigger risks than prudent
- The primary emotions of risk taking are Hope and Fear.

Probability of Events

- Imagine I have just given you \$100 and I am offering you
 - CHOICE A – Receiving another \$10
 - OR
 - CHOICE B – 10/50 chance at another \$100

Probability of Events

- Now consider that I have given you \$1,000 and am offering you
 - CHOICE C – giving me back \$100
 - OR
 - CHOICE D – 50/50 chance of giving me back \$500 or keeping the whole \$1,000

Concept of Anchoring

- Anchoring explains how people are influenced when making a decision based on numbers by asking them to think of a high or low number first.
- Past events or trends are common Anchors.
- Failure to seek information**
- People tend to overlook information that does not fit their view
- Seek information that supports their view and give that an out-of-weighting

Develop a more Formal Decision Making Process

- Outline a strategy for the season
- Better still build it from/into your business plan
- Build a marketing plan (formal or informal)
 - Make it flexible enough so that it will not need constant change – the cotton market is volatile
- Set out your objectives
 - Top of the market is not a realistic objective
 - Take a realistic and business like approach
 - When prices are profitable and you can reduce your exposure to adverse price movements then action has merit

Develop a more Formal Decision Making Process

- Assess the current market and market outlook
- Set your targets and review points
 - Targets on paper will help you focus on what you need to achieve and what is at stake
 - If your targets are not achievable then change your strategy
 - If market trends change significantly then change your strategy
 - But do both above on balance not reactive to little events
 - Some years the market will allow you to set profit targets with ease other years just breaking even will take a genius

Monitor the Market Outlook and Make Adjustments



- Follow the market using a suitable timeframe
- Adjust strategy according to market trends/events and how you think they will impact
- If prices reach your targets then do not run away – at least do something even if not all you planned
- Markets are volatile – watch for the unexpected

Risk Management

Price Risk Management is a structured approach to managing price uncertainty through understanding the resources available and implementing strategies to achieve objectives.

Remove the emotional components

A good decision for your business involves understanding your business irrespective of the markets – make good decisions for your business not anyone else's

And Sometimes Pricing just feels like this



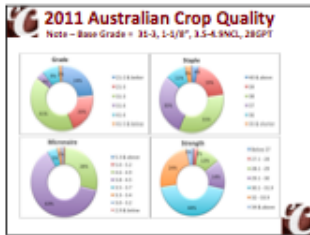
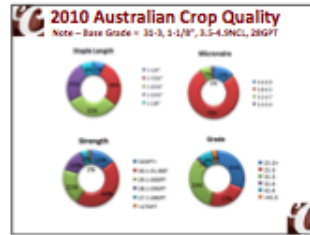
Quality, Classification and the P&D

Australian Crop Quality

Cotton sold according to base grade:

33-3, 1-1/8", 3.5-4.9NCL, 28GPT

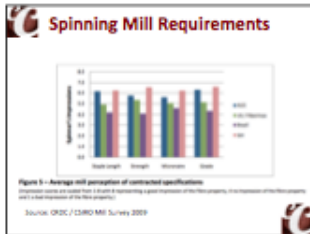
- 31 = colour
- 3 = leaf
- 1-1/8" = staple length
- 3.5-4.9NCL = micronaire
- 28GPT = strength



Spinning Mill Requirements

Operational Units	Ring Spinning	Water Spinning	Wet-Lap Spinning
Staple Length	1.50-1.75"	1.50-1.75"	1.50-1.75"
Micronaire	3.5-4.5	3.5-4.5	3.5-4.5
Strength	28-32 GPT	28-32 GPT	28-32 GPT
Grade	33-3	33-3	33-3

- Length, Strength & Fineness impact on yarn count
- Strength impacts on efficiency (ends down / breakage)
- Colour impacts on dyeability
- Leaf / Short Fibre Content impact on wastage
- Neps / Mc variability impact on yarn quality



Spinning Mill Requirements

Table 1 - Reasons for Premiums and Discounts for competing goods

Quality Attribute	Reason for Premium (%)	Reason for Discount (%)
Strength	10%	10%
Staple Length	15%	15%
Micronaire	10%	10%
Leaf Content	10%	10%
Grade	10%	10%
Colour	10%	10%
Short Fibre Content	10%	10%
Availability of Blended Cottons	10%	10%

Source: CRC / CSIRO Mill Survey 2009

Premiums & Discounts

Quality Attribute	Reason for Premium (%)	Reason for Discount (%)
Strength	10%	10%
Staple Length	15%	15%
Micronaire	10%	10%
Leaf Content	10%	10%
Grade	10%	10%
Colour	10%	10%
Short Fibre Content	10%	10%
Availability of Blended Cottons	10%	10%

Premiums & Discounts

Quality Attribute	Reason for Premium (%)	Reason for Discount (%)
Strength	10%	10%
Staple Length	15%	15%
Micronaire	10%	10%
Leaf Content	10%	10%
Grade	10%	10%
Colour	10%	10%
Short Fibre Content	10%	10%
Availability of Blended Cottons	10%	10%

Premiums & Discounts

WHAT YOU NEED TO KNOW

- Key Quality Areas: Grade / Staple / Micronaire
- 300pts = 1 US c/pt = 1000/grade
- Exchange rates - Date of contract / date of pricing / date of closing ???
- P&D sheet attached to forward contracts?

Classification

Used for physical inspection

Used for colour & leaf