

The logo features a stylized globe with horizontal lines on the left, partially enclosed by a white oval that transitions into a brown oval on the right.

Cotton Outlook

ACSA
98TH ANNUAL CONVENTION

A close-up photograph of a cotton plant with numerous white, fluffy cotton bolls and some brown, dried leaves. The background is a clear, light blue sky.

This brochure includes
complimentary access to
Cotlook's E-weekly
See inside
for details



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Welcome to Lake Tahoe!



It is hard to believe that it has been three years since we all were together. In that time, a lot has changed, and the pace of change continues to accelerate, not only within our industry but in the broader agricultural sector too. Themes that we had only briefly discussed or could not even have envisioned a few short years ago are now front and center as major factors within our industry. Geo-political shifts, the economy, sustainability, supply chain challenges are just a few themes that are combining to create a very interesting outlook for the future.

The good news is that we are well positioned to tackle these challenges head on, generating opportunities for our industry. In the past two years, we have established a strong foundation for the future, and I am looking forward to sharing this with you during our time here.

My hope is that we can find the time for some much-needed relaxation, as well as have a healthy discussion on the unique challenges facing us. I am looking forward to personally connecting with all of you.

Thank you for joining us.

*William Barksdale,
ACSA 2020-2022 Chairman*



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A message from ACSA President Buddy Allen



We are thankful to have all of you together for the 98th Annual ACSA Convention. When we left Raymond Faus' ACSA convention in 2019 at Dana Point, CA, we had no idea what would lie ahead. Looking back, it has been something to behold, a litany of macroeconomic disruptions, from the then-present trade war with China immediately followed by global

pandemic, culminating in a bull cotton market for the record book as signals of stagflation abound.

I commend our leaders, who in many cases were called to serve extended terms. From ACSA, SCA, TCA, ACA, and WCSA respectively, William Barksdale, Tommy Hayden, Sam Clay, Jamie Loeb and Ricky Clarke led our

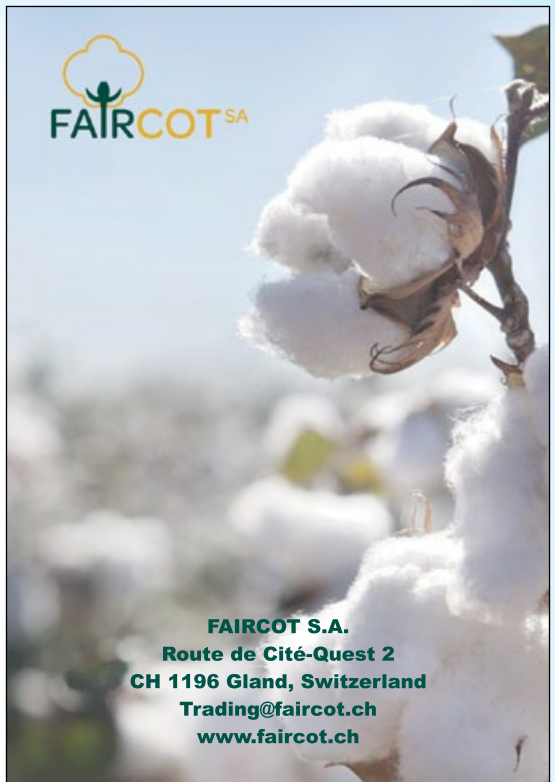
A promotional graphic for TransGlobal Inspections. The background is a close-up of stacked white cotton bales. In the top left, there is a logo consisting of a stylized cotton flower with green leaves. To the right of the logo, the text "TransGlobal" is written in a large, bold font, with "Trans" in black and "Global" in green. Below "TransGlobal", the word "Inspections" is written in a smaller, black, sans-serif font. In the center, there is a circular seal with a black border. Inside the seal, the word "COTTON" is at the top, "100%" is in the middle, and "CONTROLLER" is at the bottom, with two stars on either side of the "100%". At the bottom of the graphic, the text "Experience on your side" is written in a large, bold, green font. Below that, the website address "www.transglobalcotton.com" is written in a smaller, black, sans-serif font.

organizations virtually while normal procedures were disrupted. Our association thrived during these challenging times under Chairman Barksdale's leadership. We grew our PAC to new levels, vastly broadened our reach in Washington, D.C., elevated and implemented much of our policy, and asserted ourselves into a stronger global leadership position. We focused on our strategy and enhanced our communication to increase our service to members. For two years, William has responded to every ask for ACSA and has been an excellent source of direction for me personally. I also recognize the strong leadership from our committee chairpersons. Each of our standing committees has an active agenda that is innovating the status quo.

We now find ourselves in one of the most volatile market conditions of all time. With cotton futures soaring, record backwardation, and the most disrupted supply chain logistics ever, our role as risk managers has never been more important or challenging. We will remain true to our strategy, which is to support cotton merchants through leadership focused on enhancing their efficiency and security.

Looking forward, we have a lot of work to do as an association. We are committed to supporting our members in any way we can, to seize opportunities in this unique era of our industry and prepare to manage the challenges that this type of volatility can bring about.

Current farm policy, the Agriculture Improvement Act of 2018, also known as the Farm Bill, is set to expire in 2023, and the debate has now begun in earnest. We are also marching into mid-term elections with expectations of significant turnover in Congress. This is an opportunity for ACSA to



engage these new members early and often, establishing ourselves as a resource to them, worthy of reciprocal support. Additionally, we have four new commissioners at the Commodity Futures Trading Commission and a new Chairman that need to be engaged. There will be a concerted effort among our leadership to best manage these and other critical matters approaching.

I sincerely want to thank the membership of ACSA for the opportunity to represent each of you in this capacity. I am proud of what we are collectively accomplishing and recognize the work we must do moving forward. I hope as procedures begin to normalize, I can further my personal relationships with our member firms and increase ACSA's value to members.

***William H. "Buddy" Allen,
President and CEO, ACSA***

How the digital supply chain is revolutionizing U.S. agriculture



Say the words “supply chain” these days, and the lexical association is likely to include instability and challenges. Crunches across the economic chain are biting into the agricultural sector, ranging from shipping bottlenecks to higher transportation costs and labor market woes. Compounding these issues are growing shortages of farm equipment parts, less raw materials like fertilizer or crop protectants, and inflation that is driving up the costs of available stock to new heights.

Surveying the landscape last year, U.S. ag leaders sent a [sobering letter](#) to the Biden administration, acknowledging that their goal was mainly to “do less worse” than previous hard years. Expectations have been adjusted downward, given the continued challenges faced by the industry, and there are few promising signs of relief on the horizon. But if there is a bright spot, it is the activities advancing in the digital spaces of the agricultural supply chain.

The ag supply chain has significantly evolved over the last several years, many of those changes having accelerated during the COVID-19 pandemic. Thanks to new technologies, supply chain management has reached considerable efficiency levels, transforming the sector into a digitized industry that can lean more on advanced data management and online trading channels. Regardless of external buffers, this has increased the physical and digital traffic of global agricultural commodities.

To name one example of many, businesses are increasingly able to use digital platforms to link customers to products through provenance tools and distributed ledger technologies. This means that each stage of a product’s production operation can be transparent to the consumer. A new standard of “instant access,” for customers and suppliers alike, creates a higher overall caliber of information and more stringent standards for

quality, accuracy and even delivery status of a product.

The digital supply chain in agriculture is made up of tools and platforms that collate and streamline crop and commodity data, which has an equalizing factor across the sector. In other words, different entities can work with common materials, but use them differently, and still be able to share and access information about the same product. This is a boon in times of shortage, and to boot, is supported by industry studies.

This past April, researchers at [McKinsey](#) released a study recommending several steps for the agricultural sector to weather supply chain shocks and draw on digital

tools to do so. Their advice included integrating and monitoring real-time data while making it available across the supply chain from both public and private sources, automating response decisions like commodity distribution plans based on analysis of that data, and modeling as many scenarios as possible that stem from harvesting, pricing, storage and logistics challenges to boost preparedness.

Examples like the [U.S. Cotton Trust Protocol](#) prove to be particularly strong digitization models. In the Trust Protocol's case, quantifiable and verifiable goals are set, managed and tracked in a common platform for U.S. cotton producers that is also open to other participants throughout the value chain. These include land use,



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soil carbon and soil loss, greenhouse gas emissions and water management. Bale production is digitally linked using a unique Permanent Bale Identification number, with verification of authenticity against the USDA's National Database.

The growth of digital solutions has produced a significant evolution in data standards, making technology available to producers, agribusinesses and supply chain partners today that has boosted the way data is gathered, stored, communicated and harnessed. Given the recent hiccups throughout the ag supply chain, this is an ideal place to start introducing more efficiencies and automation into systems and processes.

Digital solutions will continue to help make the sector more vibrant, efficient and sustainable in the long-term, while relieving many of today's disruption-related pressures.

Mark Pryor,
Chairman and CEO,
The Seam



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Quality, quotations and technical standards



Actively working with the NCC, USDA-AMS and others, ACSA members continue to recognize several issues regarding quality, quotations and technical standards during the past year.

Plastic contamination in the U.S. continues to be a major concern. Due to the negative impact of plastic contamination, we urge USDA-AMS to retain designation of any U.S. bale with a 71 or 72 remark code to stay with that bale. We fully support the process to eliminate contamination at all levels from field to mill.

Given the importance of daily spot quotations in determining CCC loan premiums and discounts, including tenderable differences, ACSA continues efforts to support USDA-AMS with price discovery data and information. This industry cooperation by participants is encouraged by mandated assurances of confidentiality and non-disclosure of all privately held, commercial information provided. Going forward, the market news division of USDA-AMS can continue to gather more value in spot cotton trades across the cotton belt.

ACSA would like to acknowledge and express appreciation to the USDA-AMS for the many hours spent evaluating all spot market regions with the importance of price data and how it impacts the industry.

We continue efforts to ensure the integrity of Pima spot quotes while working with the USDA-AMS to develop a mechanism to include spot cash trades and forward contracted ELS.

***Bobby Walton,
President,
Walcot Trading Company***





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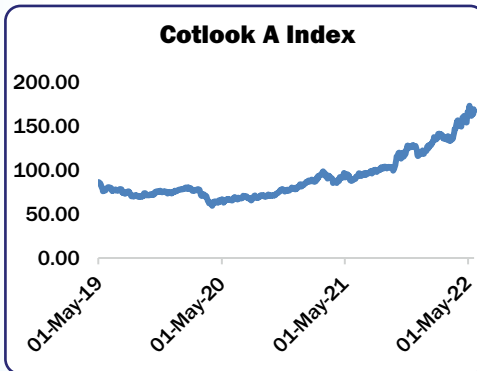
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An eventful three years



This year marks the 100th anniversary of the weekly publication known today as Cotton Outlook. We would like to thank all those in the industry who support our endeavors, whether by sharing market information, exchanging opinions or providing price quotations to ensure the accuracy of the Cotlook A Index and its constituents.



While much has happened in the century since the first issue of our publication rolled off the press,

the same could be said of the three-year period since ACSA held its last Convention in a physical setting.

As delegates gathered at the last in-person meeting in Dana Point, California on May 9, 2019, the A Index stood at 81.90 cents/lb, having declined from just under 94.00 cents/lb a year earlier, as the impact of the Sino-US trade war was felt in the cotton market. Prices continued to weaken, dipping below the 70.00-cent mark in September, before staging a recovery that reflected the more positive tenor of US-China trade relations. The rapprochement culminated in the signing of the Phase One trade agreement on January 15, 2020. The same day, the Index once again crossed the threshold of 80.00 cents per lb.

Optimism was short-lived, however. Covid 19 took the cotton industry by storm, affecting prices and supply chains across the world. The paralysis of demand extended from the retail end of the market via garment manufacturers to weavers

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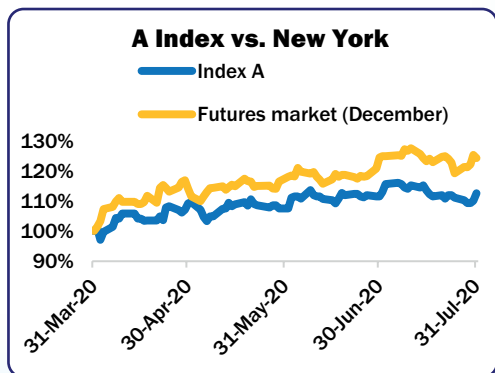
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and spinners and ultimately to shippers and producers. By the end of March 2020, the A Index had moved below 60.00 cents per lb, a fall of 26 percent in just two and a half months. Global consumption of raw cotton suffered a huge blow, while production was barely affected: the Northern Hemisphere harvests were long concluded and crops in the Southern Hemisphere were already in the ground.

The next phase in the market's development was dictated by the actions of the Federal Reserve and other central banks. The huge injection of liquidity into the global economy acted as a tide that lifted all boats. Financial markets, including commodity futures such as New York cotton, were amongst the beneficiaries, though for a time the impact of Covid meant that physical cotton prices lagged

well behind the recovery of futures. Between April and the end of the 2019/20 season, the ICE Cotton No. 2 contract rose by 24 percent, while the A Index managed an increase of less than 13 percent.

Thereafter, the rise of physical prices was consolidated as cotton



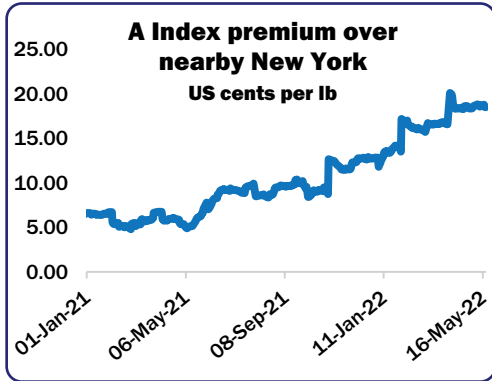
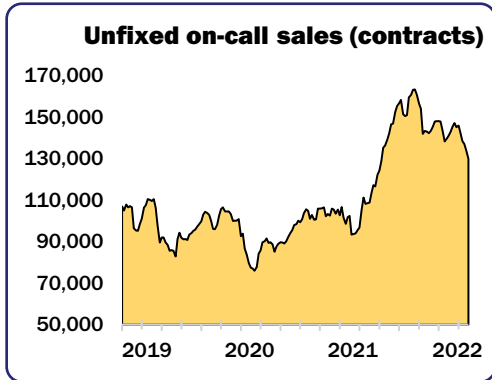
fundamentals also began to fall into place. After the signing of the Phase One agreement (almost forgotten amid the turmoil of Covid), China started aggressively buying US cotton. US 2020/21 crop estimates were revised downward progressively owing to various weather-related difficulties. By July 31 2021, ending stocks were 3.15 million bales, compared to the daunting figure of 7.25 million bales a year earlier.

The positive influences continued as supply chains recovered. In addition to the impact of monetary policy on financial markets, stimulus payments reached the US textile consumer. Online sales boomed and pent-up demand was unleashed as lockdown measures were relaxed. Retail sales were revitalized, spinners around the world were reporting good margins, and cotton futures continued to rise.

The unforeseen shipping crisis accentuated the strength of nearby demand. Whereas raw cotton demand had seemed uniquely vulnerable in the early stages of Covid, now supply – or at least availability – was in question. One contributor to the ICA Trade Event in October 2021 remarked that ‘Just in Time’ had been replaced by ‘Just in Case’.

Many spinners reacted by recourse to on-call purchasing, their priority being to secure coverage, with price a secondary consideration. By early November 2021, the overall unfixed on-call sales position had risen to the equivalent of more than 16.3 million bales, only modestly below the all-time record attained in May 2018. The sheer magnitude of spinners’ unfixed on-call purchases has itself become a significant element of support for the futures market.

Inflationary pressures (especially in energy and grain markets) have been exacerbated by the war between Russia and Ukraine, which started on February 24, 2022. ICE cotton futures witnessed increased volatility over the next few months but followed an upward trajectory overall. The No. 2 contract has risen to levels not seen since the



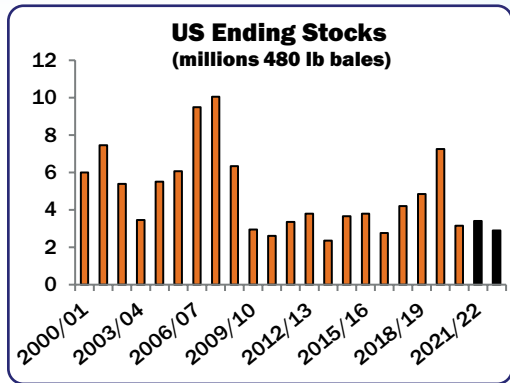
bull market of 2010/11. Basis has also strengthened progressively, both on supply and demand considerations and to take account of increasing freight costs. The premium of the A Index over New York has risen relentlessly, to stand at over 1,800 cent points at the time of writing, versus less than 700 points at the start of 2021.

In consequence, upland offering rates have been propelled to a level

at which spinners' previously lucrative margins have turned negative, one of several elements contributing to an exceptionally uncertain outlook for the 2022/23 season. At this stage, US cotton fundamentals seem supportive. As of mid-May 2022, the production outlook in West Texas is unfavorable unless copious amounts of rain are received soon.

In recognition of the situation, USDA's May forecast of 2022/23 production was pitched at 16.5 million bales of 480 lbs, and next season's ending stocks at 2.9 million bales, the fourth lowest since the turn of the century.

The potentially bullish outlook for supply and demand (as well as the support derived from the aforementioned on-call position) are difficult to reconcile with the deteriorating macro-economic outlook. The fear is that the same inflationary pressures that encourage investors to own commodity futures might at some stage squeeze household budgets



to the point at which spending on discretionary items such as textiles is substantially reduced. Interest rates in the US have increased for the first time since 2018 and the Federal Reserve Chairman has indicated that more hikes are in store. How the market will resolve the tension between bullish cotton fundamentals and the threat of slowing global raw cotton consumption remains to be seen.

*Kelly Nelson,
US Business Manager,
Cotton Outlook*



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