Current Cotton Market Factors

- Current situation in the cotton market (using USDA forecasts)

- Since May, nearby cotton futures have been trading in a range between 73 cents and 84 cents a pound.

- The new 2010-11 cotton crop (season started August 1) could be a very large crop. Producers planted more acreage, and the crop is developing under almost ideal conditions. The USDA estimates the new crop at 18.3 million bales, 50% larger than the 2009-10 crop (12.2 million bales).

Current Cotton Market Factors Continued

- Usage of the crop is expected to improve from 2009-10. Domestic mill consumption is expected to remain the same as a year ago at 3.4 million bales while exports are expected to increase to 14.3 million bales from 12.3 million in 2009-10. Season ending stocks are projected to be 3.5 million bales compared to 2.9 million on July 31, 2010

- In the current market, the October contract is trading at a premium to the December contract. This is unusual. The October contract is very thinly traded. While it is a new crop contract, it represents early harvested cotton from south Texas. Part of the reason for the inversion is that certificated cotton stocks have declined sharply. On June 2 they were about 1,080,000 bales. Now there are about 44,000 bales. The decline is due to the fact that there has been strong demand for U.S. cotton. China has been a very active buyer of U.S. cotton, with very strong demand for textile products. The trade opinion seems to be that most of the remaining cotton stocks in the U.S. are sold.

Current Cotton Market Factors Concluded

- The December cotton contract is a true new crop contract and very liquid. It has traded recently at a premium of over two cents to the March. December represents the new crop, which should be big. It appears that the market right now views available cotton stocks as tight.

March 2008 Cotton Situation

- Extreme price volatility
- Very large margin calls to cotton merchants (and others)
- A time of extreme volatility in many commodity markets, including crops that compete with cotton for acreage.
- End of floor trading of cotton futures
- Futures price movements were restricted by price limits; margins were determined based on synthetic prices derived from options.

March 2008 Cotton Situation Continued

CFTC staff investigated the volatility and published a staff report. Several theories of possible manipulation were examined; no evidence of manipulation was found.

Recommendations from the Staff Report on Cotton Trading Activity During the Week of March 3, 2008

- That ICE U.S. analyze, in light of historic price volatility, the expected frequency with which the current price limits will restrict trading.

March 2008 Cotton Situation Concluded

- That ICE U.S. evaluate whether, in conditions of rapidly rising prices and extreme price volatility, the newly expanded price limits will allow the cotton market to operate efficiently and facilitate the price discovery and risk management functions.

- That ICE U.S. notify the Commission of whether it intends to implement the dormant Rule 10.09(b) and subject cotton options to price limits. If so, ICE U.S. should provide the Commission with an update on the status of the technology upgrades needed to implement the dormant rule.

- ICE Futures submitted a proposal for Commission approval for a price limit on cotton options on May 21, 2010. This proposal is being reviewed.

Current Cotton Delivery Points

- Note: Delivery points for the cotton futures contract were not part of the Staff Report.

<u>Current Delivery Points</u>

- There are currently five delivery points for the cotton contract. These delivery points have remained the same for decades.

- They are Galveston, Texas, Houston, Texas, New Orleans, Louisiana, Memphis, Tennessee, and Greenville/Spartanburg, South Carolina.

- Cotton geographic production patterns have changed over time.

Proposal For New Delivery Point

- ICE commissioned consulting firm Informa Economics to "analyze the adequacy of the five existing cotton futures delivery points and to determined whether there are other locations that would serve as commercially relevant delivery points."

- On July 16, 2010, ICE announced the recommendations of the subcommittee of the Cotton Committee studying delivery points on the Cotton No. 2 contract. The subcommittee unanimously recommended that the Cotton Committee recommend to the ICE Board of Directors to add a new delivery point for the cotton contract, Dallas/Fort Worth, Texas. They also recommended the deletion of New Orleans.