

WHAT'S DRIVING PRICE DISCOVERY IN THE COTTON MARKETS

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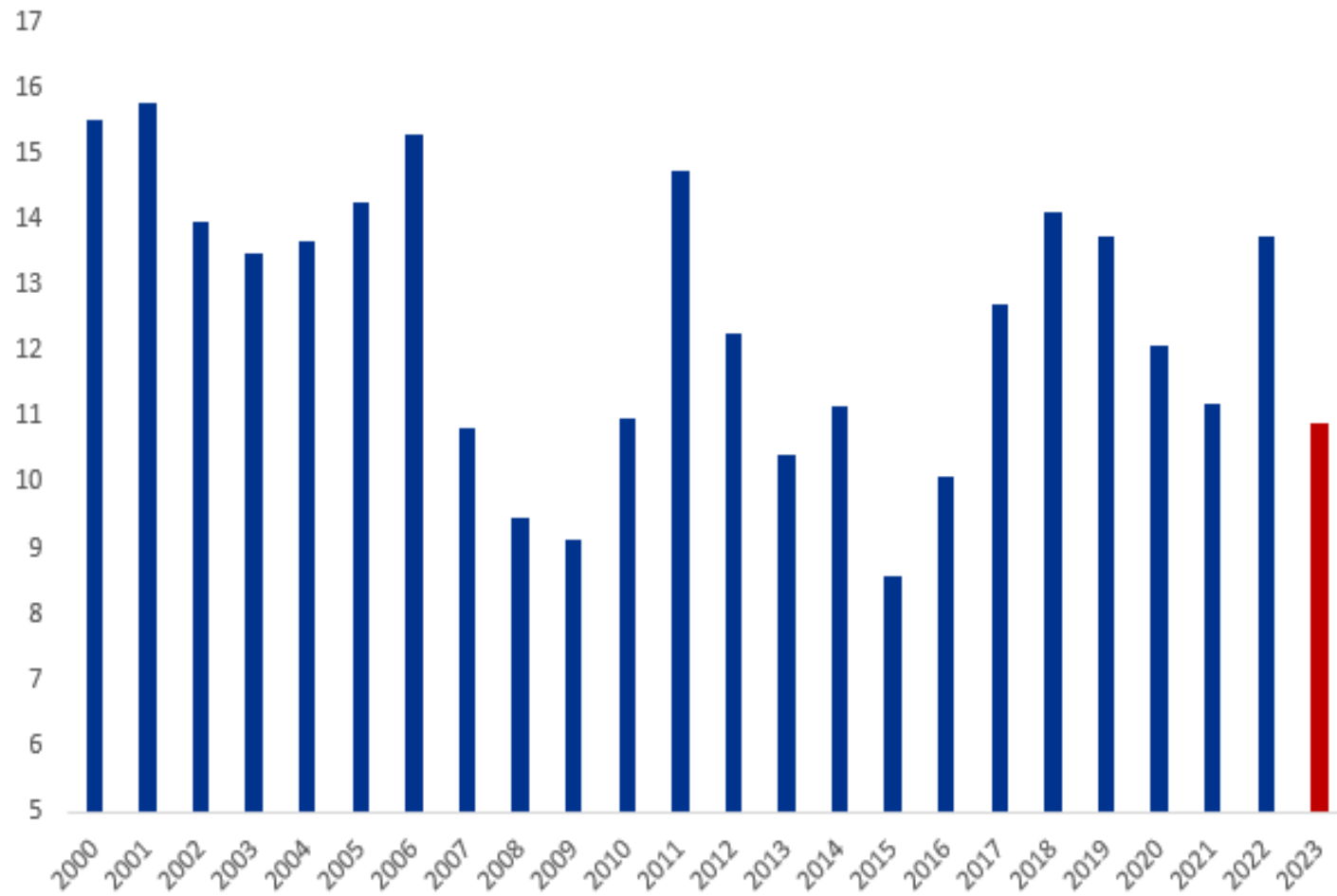
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HTS's Top Cotton Outlook Points

1. **US Planted Acres**. Estimated US total cotton acres are forecast to decline from market year (MY) 22/23 to a 7 year low of 10.9 ma as planting corn and soybeans makes greater financial sense.
2. **Relative global economic can support cotton demand**. Unemployment in the US is at a historic low. China is emerging from strict COVID lockdowns. EU is estimated to miss a recession. These can help support apparel and textile demand.
3. **US Climate**. Transitioning from La Nina to an ENSO neutral or to a mild El Nino can help enhance US cotton yield objectives.
4. **Blacklisted Chinese cotton**. Strict traceability standards by G-7 governments and moratoriums on cotton produced in Xinjiang increases the demand for US cotton.
5. **Global production challenges can be supportive**. The compression in global “clean cotton” production, ex-China, combined with the discount the Cotlook A Index can reinforce US cotton’s demand structure.
6. **Crude oil futures prices are to be respected**. The strong historical relationship between cotton and crude futures is to be respected.

US Planted Cotton Acres (million acres)

Domestic planted cotton acres are compressing as corn/soy is more profitable.

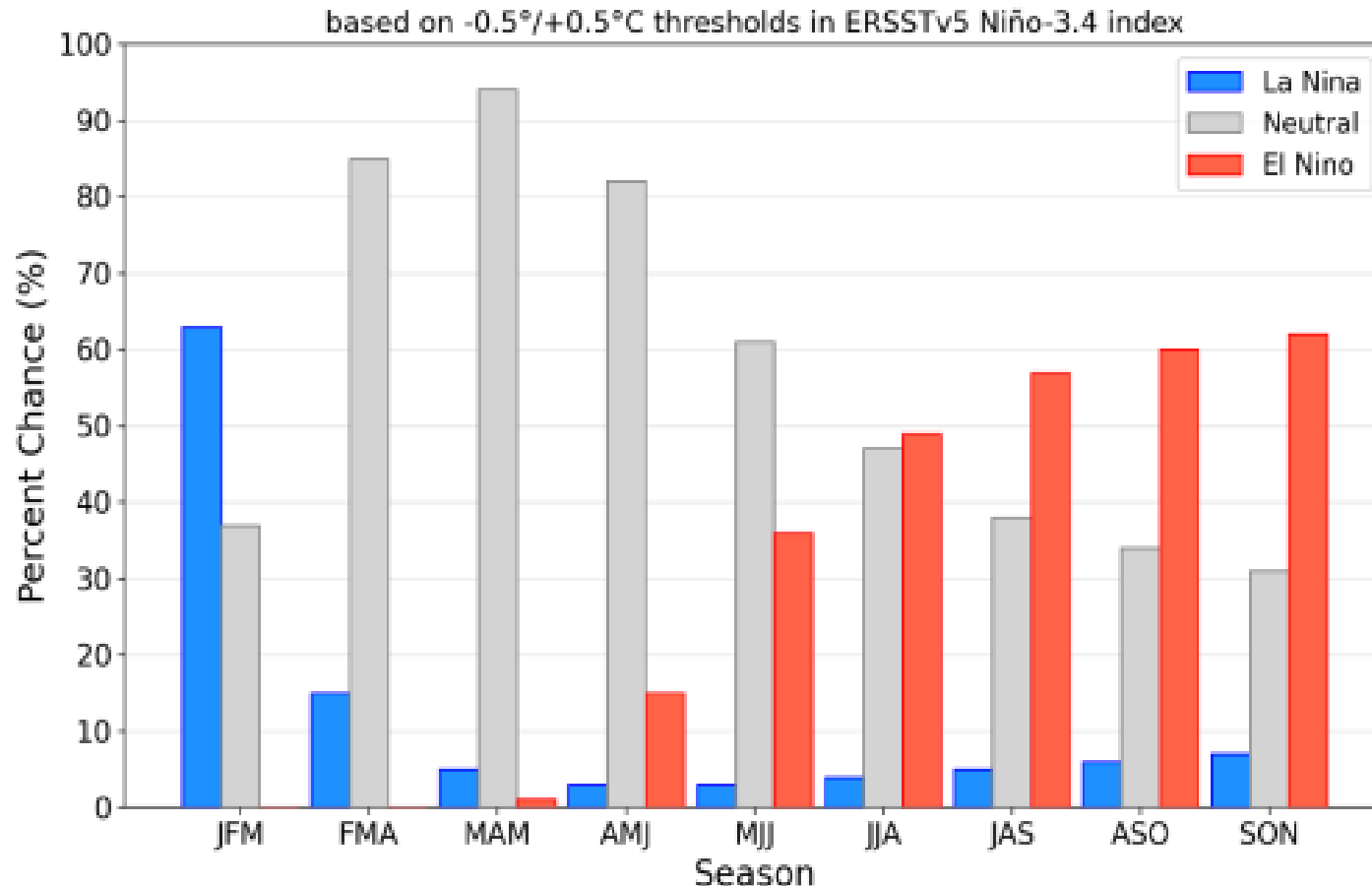


Source: USDA, Hilltop Securities

US El Nino – Southern Oscillation (ENSO) Forecast

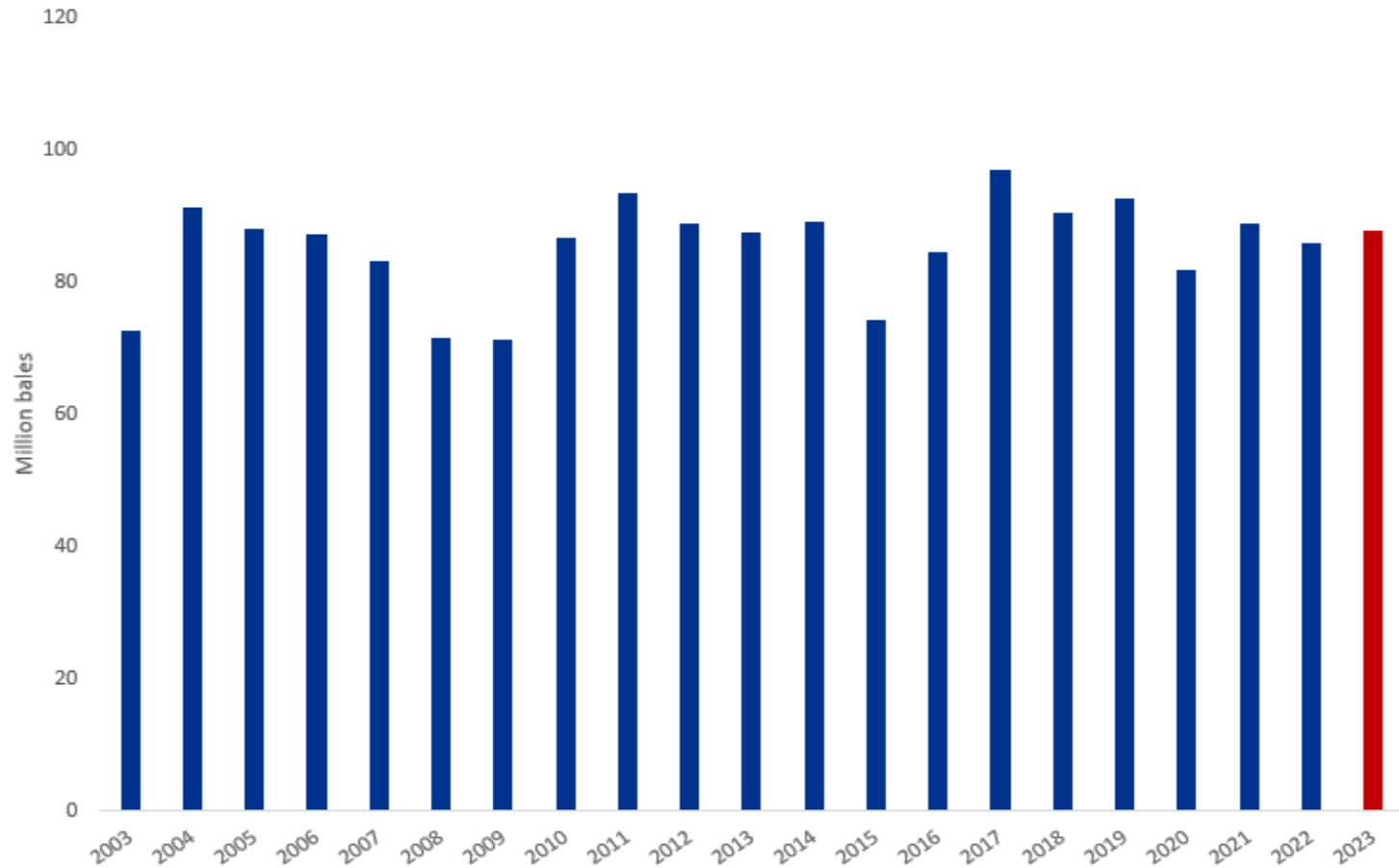
Neutral to mild El Nino ENSO cycle can help support US cotton yields.

Official NOAA CPC ENSO Probabilities (issued Feb. 2023)



Global Cotton Production (Ex-China)

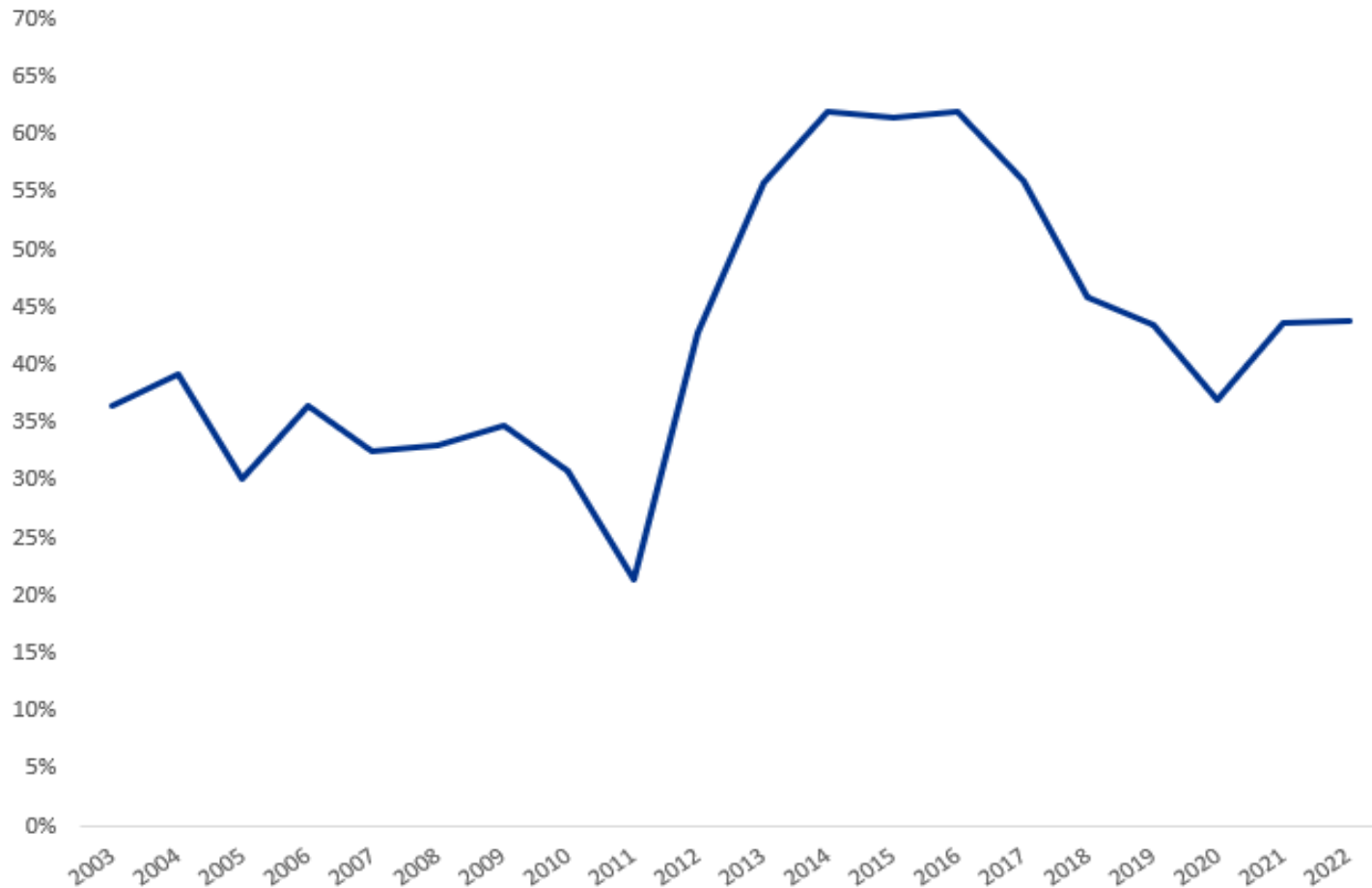
Production of “clean cotton” continues to decline which reinforces demand for US cotton exports.



Source: USDA, Hilltop Securities

China As Percentage of Global Stocks

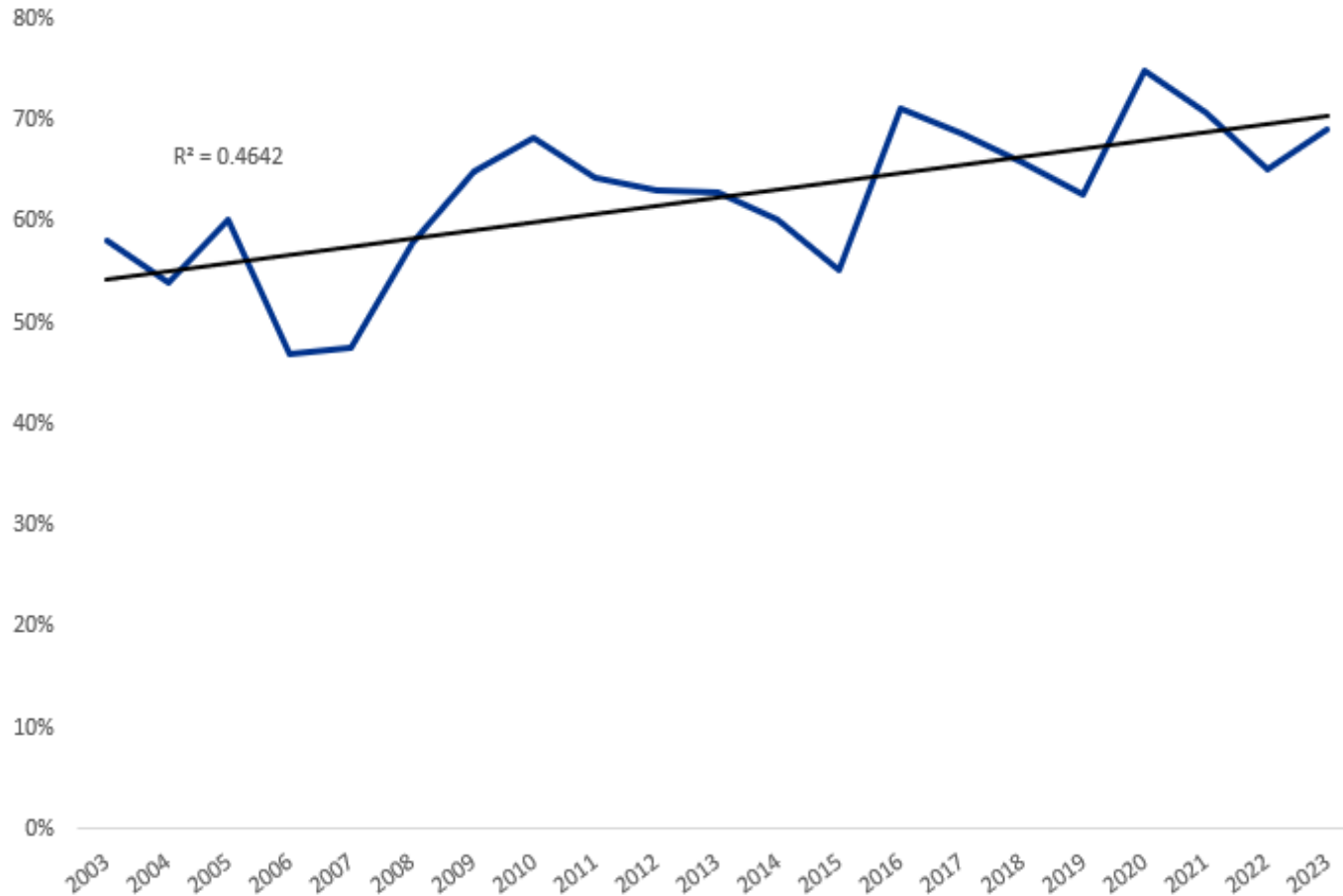
The demand for “clean cotton”, non-Xinjiang produced cotton, increases the country’s reliance on imports.



Source: USDA, Hilltop Securities

US Exports As Percentage Of Supply

US cotton has been dependent on global exports and price competitiveness to stimulate disappearance. Blacklisted Chinese cotton hastens the demand.



Source: USDA, Hilltop Securities

US Cotton Basis (Prompt Ice Futures – A-Index)

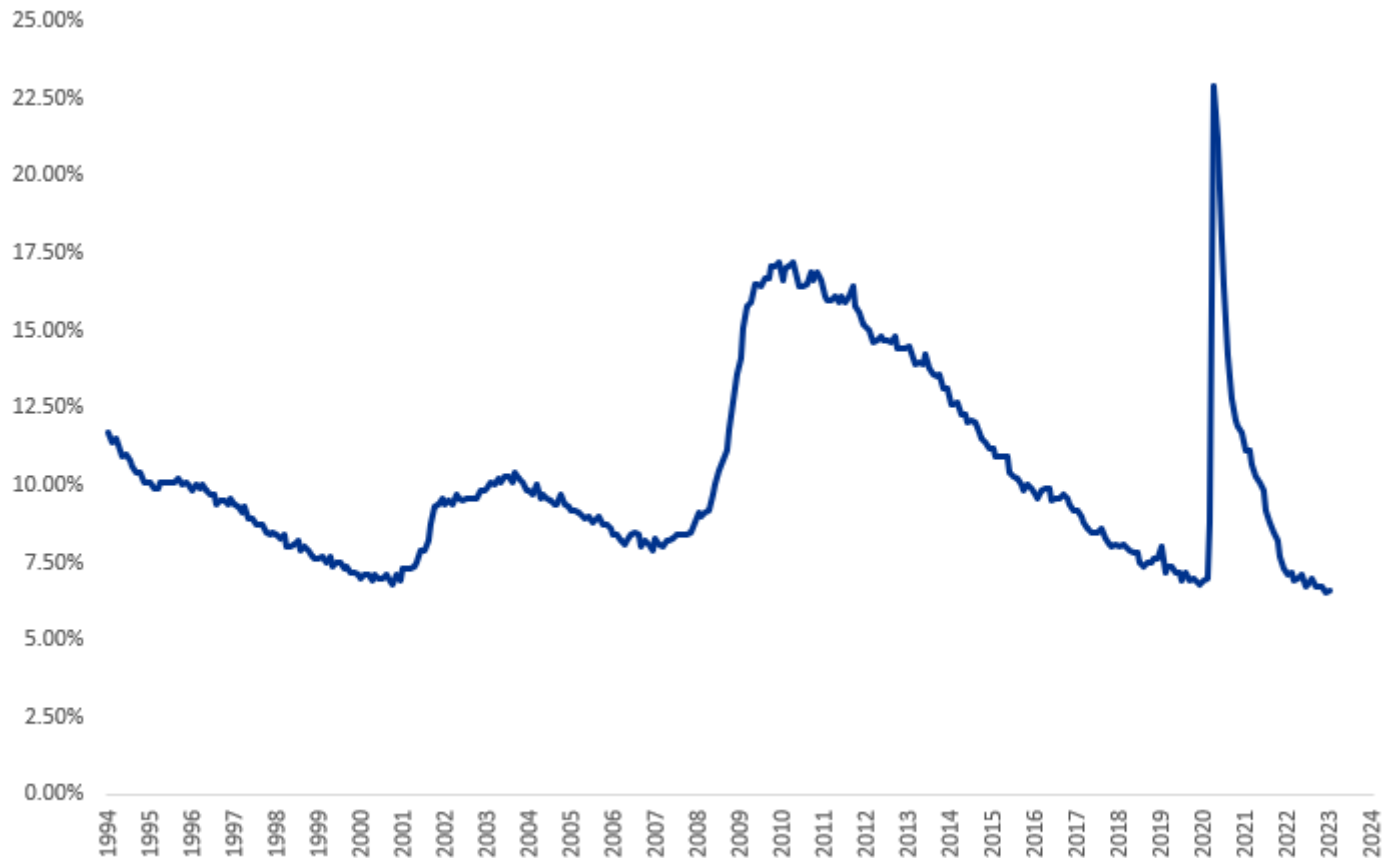
At the current basis US cotton is buying export demand.



Source: Bloomberg, Hilltop Securities

U6 Unemployment Is Historically Low

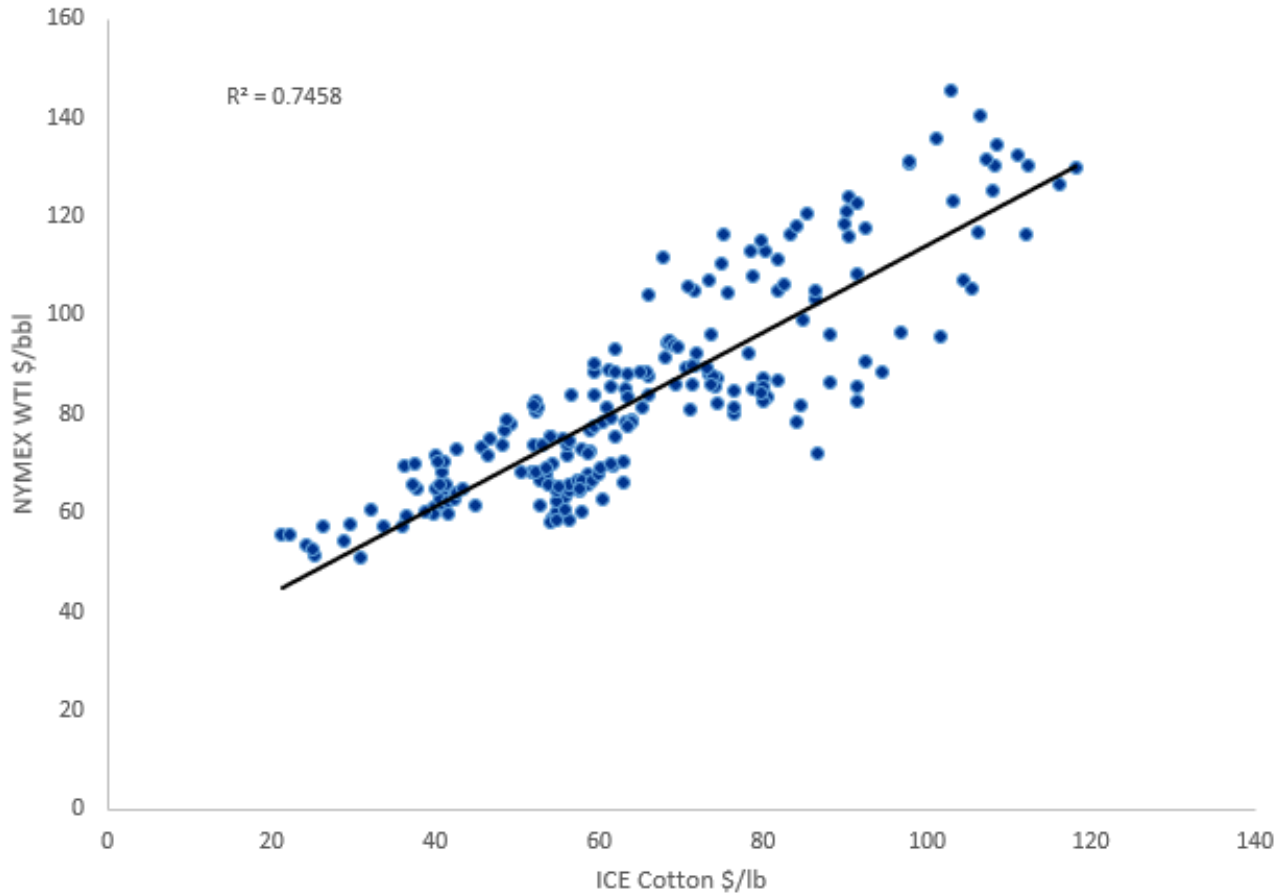
Strength of the US labor market is a positive for apparel and textile demand which can support cotton values.



Source: Bureau Of Labor Statistics

Cotton Futures & WTI Futures

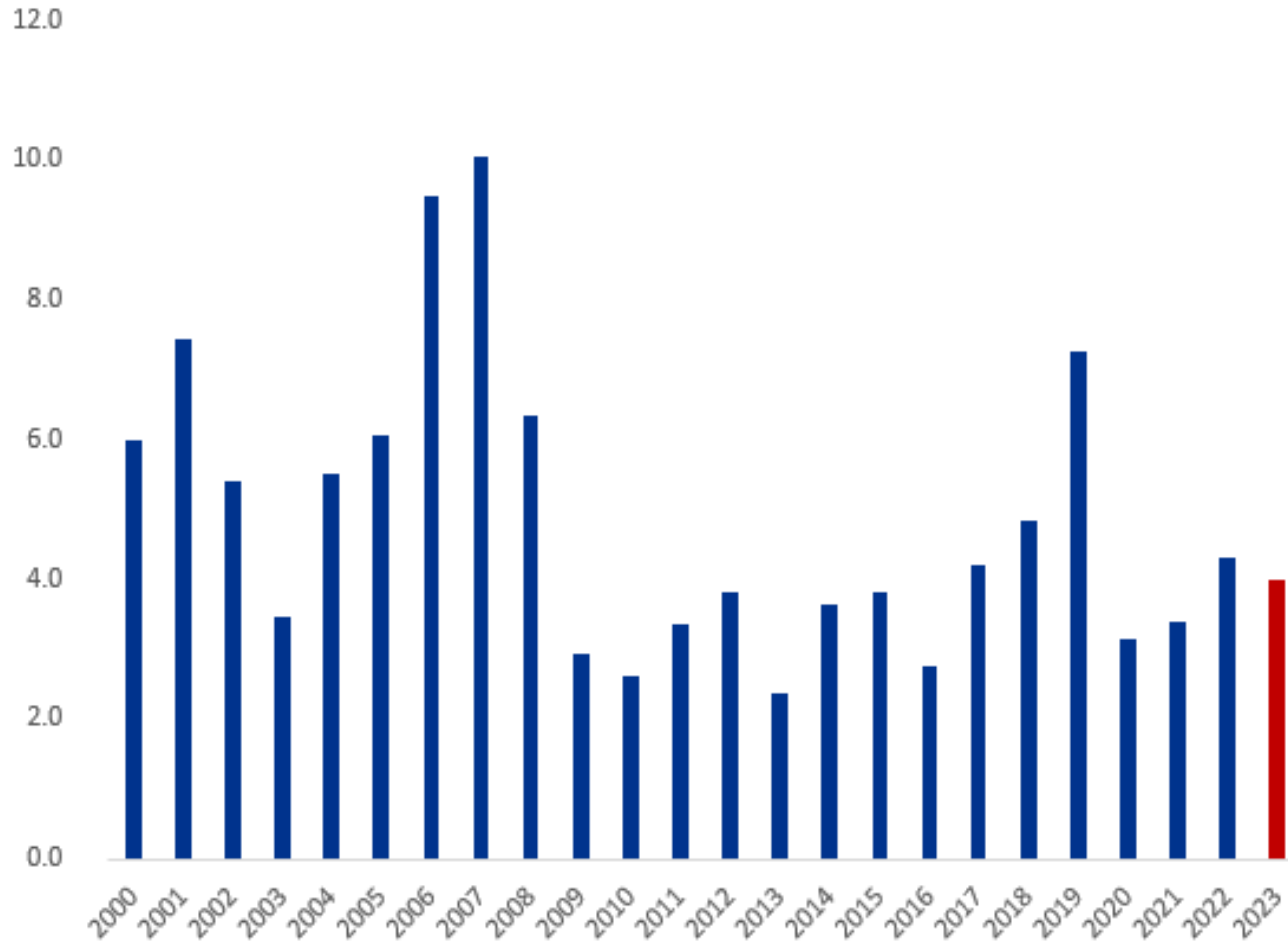
Synthetic fiber values and broad macro economic sentiment helps with causality between crude oil futures and cotton futures.



Source: Bloomberg, Hilltop Securities

US Cotton (million bales)

Low ending stocks helps support local cash and US futures prices.



Source: USDA, Hilltop Securities

Key Cotton Takeaways

1. MY 23/24 will see smaller planted US cotton acres as corn and soybeans assume a larger portion of the US acreage pie.
2. Strength of the domestic economy can help with apparel and textile demand which can stimulate cotton export demand and futures prices.
3. Strict traceability standards combined with Xinjiang cotton bans is a positive for US cotton demand by Asian textile mills.
4. The causality between NYMEX WTI futures and ICE Cotton futures should be respected and monitored.
5. July'23 fair value: \$82.65 - 84.20/ba. December'23 fair value: \$83.50-84.25/ba.

We believe that the fundamental construct for MY 23/24 calls for an active and rigorous approach to hedging.

At HTS Commodities we use the prevailing fundamentals to help clients identify proper risk mitigation strategies for their business.

Why Choose HTS Commodities? Our Data Driven Approach.

How We Can Help

**Familiarization
and overview
of hedging
objectives**

Communicate goals, objectives and vision

**Collaborative
assessment**

Identify the greatest risk exposure to price volatility

**Qualitative &
quantitative
assessment of
key exposure
points**

360-degree assessment of active markets

**Applied
machine
learning to
help analyze
and model
prices**

Mathematical to create price projections

**Data
Visualization**

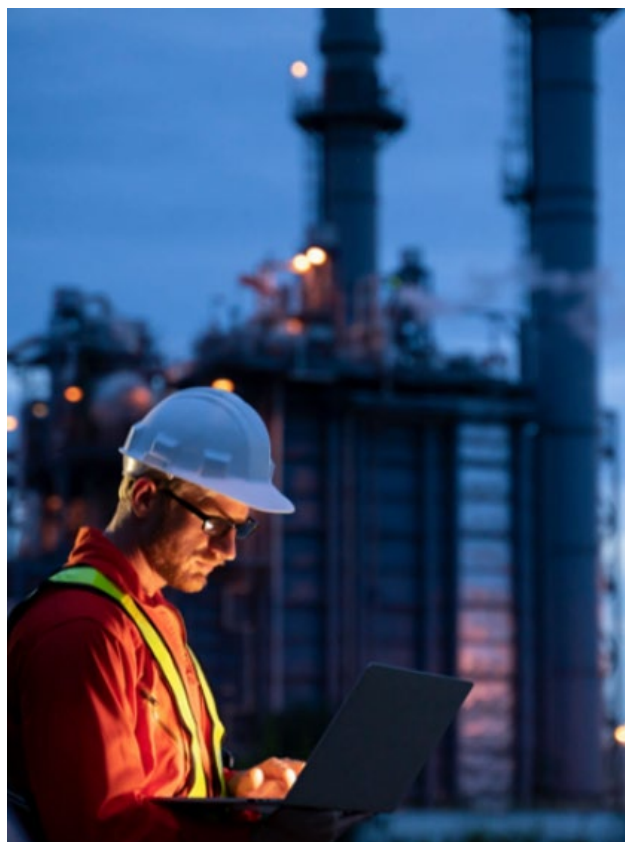
Easy-to-understand graphics to complement the analytical process

**Strategy
delivery and
execution**

HTSCommodities



HTSCommodities brings together commodities specialists with decades-long experience, superior industry knowledge and strong local roots across 6 offices in Texas (Amarillo, Plano, Dallas), Minnesota (St. Paul), Tennessee (Memphis) and New York (NYC). The team is comprised of seasoned commodities brokers, traders and investment bankers and has a wealth of expertise in risk management, trading execution and advisory. The team specializes in agricultural and energy commodities along with rates and foreign exchange.



HTS Commodities trades futures, options & OTC contracts across multiple sectors:



Agriculture

Corn, soft red and hard red wheats, rough rice, feeder and live cattle, lean hogs, soybeans, soybean oil, and soybean meal



Energy

Oil and oil products, natural gas and electricity



Metals

Gold, silver, platinum, palladium, copper, and aluminum



Softs

Sugar, coffee, sugar, orange juice, cocoa, cotton, and lumber



Interest Rates

Treasury bonds, treasury notes, and Eurodollar, fed funds, and SOFR



Equities

S&P 500, Dow Jones, Russell 2000 and Nasdaq-100

HTSCommodities – Execution & Advisory



Our team brings hands-on experience to developing hedging and trading strategies for investors, consumers and producers of all sizes across all commodities. We provide a full suite of services to help all clients minimize risk, maximize results, and gain a competitive advantage in their marketing. With equal understanding and access to listed and OTC markets, the team is uniquely positioned to provide clients with complete and unbiased advice.



Full-Service Commodities Consulting

We follow a customized approach in delivering consulting services to producers and consumers seeking to improve their marketing strategies, minimize their price risk exposure, and position themselves to hedge as well as capture market opportunities.

Our consulting model provides full-service marketing management, with our team building and managing hedging strategies and actively working with producers and consumers to execute from start to finish.

Hedging Advisory

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