Southern Cotton Growers, Inc.
REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA
COTTON MARKETING NEWS

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SPECIAL ISSUE:
Marketing Loan, Sequestration Cut, and US Government Shutdown

Sequestration. Last week was not a good week for program crops including cotton. Effective October 1, all 2013 program crops placed in Marketing Loan on or after that date will have a 5.1% reduction in Loan proceeds. The Loan Rate (base rate of 52 cents per lb in the case of cotton) is not changed (because this is set by previous statute and cannot be changed) but the resulting Loan amount is to be reduced by 5.1%. The reduction is due to automatic spending cuts (Sequestration) required by the Budget Control Act of 2011 (delayed by the American Taxpayer Relief Act of 2012).

The following is an example of the reduction applied per bale:

Loan Rate*	Bale Weight	Gross Loan Amount	5.1% Reduction	Reduced Loan Amount
$0.5445	498 lbs	$271.16	$13.83	$257.33

**Base rate adjusted for quality premiums and discounts*

If cotton is placed (stored) under Loan, the grower then has two options: (1) redeem/pay the loan (plus interest and storage) and sell the cotton or (2) in addition to the loan amount receive an "equity payment" from a merchant/buyer and the merchant will continue to carry the cotton in storage and later repay the loan and charges. Prior to harvest, the grower may instead enter into an "equity option contract" with the merchant/buyer whereby the equity may already be determined and the grower receive the loan plus equity upon harvest and delivery of the cotton.

Unlike the Mid-South, most individual growers in the Southeast do not typically use the Loan as a marketing tool as just described. Marketing associations, however, are heavy users of the Loan and these associations handle a large amount of cotton in both the Southeast and Mid-South.

When prices are sufficiently above the Loan Rate, there will be no Loan Deficiency Payment (LDP) or Marketing Loan Gain (MLG). For most growers, the Loan is simply a cash-flow and marketing tool. It is a way to provide much needed cash-flow (the Loan amount) soon after harvest with the remainder (equity) to be determined later. The Sequester reduction in the Loan amount will reduce cash-flow but it is expected that merchant equities (unless already fixed) will be raised to reflect the decrease in the Loan amount. Thus, most growers including those in marketing association pools, are unlikely to see a reduction in total proceeds.

Government Shutdown. Also effective October 1, many government agencies have been closed until further notice due to the lack of an agreement by Congress to continue funding. USDA functions including local offices and including administration of programs such as the Loan have been discontinued until funding is restored.

During this time, commodities cannot be put in Loan nor Loans made. This disrupts cash-flow for growers who would otherwise place cotton in loan. Marketing associations may, however, still be able to make their pool advance payments until the government is up and running again. The longer the shutdown lasts, however, the bigger the problem will become and ripple effects felt. While loans cannot be made, some merchants/buyers have indicated a willingness to convert an equity contract to an equivalent cash sale to provide cash-flow for the grower and avoid storage charges.

In addition to the Loan process, Direct Payments (DP) are also on hold. Even once the government shutdown is over, the Loan process will continue to be disrupted for a period of 2 weeks while FSA software is updated. Many questions remain to help more fully clarify how all this will work and what the impacts will be. But those questions will remain unanswered until FSA is back in service.

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