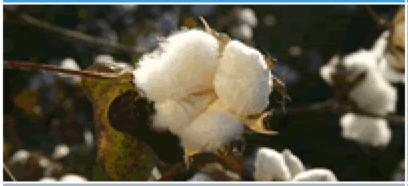

Plexus Cotton Limited Market Report

PLEXUS
COTTON LIMITED

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NY futures continued to slide, with July dropping 256 points to close at 144.30 cents, while December gave up 289 points to close at 119.19 cents.

The return of some mill buying for nearby shipment allowed the market to catch its breath for a few days, with July trading as high as 155.12 cents on Wednesday. But the recovery proved to be nothing more than a "dead cat bounce", as mills have since returned to the sidelines and the market has resumed its downtrend.

The US export sales report of this morning displayed a familiar picture, as for every current crop bale that was able to find a home there was another one that got cancelled. Last week 59'500 running bales were sold for the current marketing year, while 61'300 running bales got cancelled, resulting in yet another net reduction of 1'800 running bales. On the other hand commitments for the 2011/12 marketing year continued to grow by 76'000 running bales and now amount to nearly 5.8 million statistical bales.

On Wednesday the USDA provided us with their first detailed estimate for the 2011/12 season. For the first time in six years, the world is expected to produce more than it consumes, thereby reversing a trend of sharply declining stocks. Since the 2006/07 season global stocks have been reduced by nearly 20 million bales to just 42.5 million bales, which equal a little more than 4 months of global mills use. However, since the statistical snapshot is taken on July 31, most inventories will be nearly depleted by the time new crop comes off the field this fall.

The USDA forecasts world production at an all-time high of 124.7 million bales, which would surpass the record from 2006/07 by around 2.9 million bales. Since the US crop is expected to be more or less unchanged at 18.0 million bales, the rest of the world will have to produce a crop that is 10.2 million bales bigger than in the current season. The USDA believes that China will get to 33 million bales (7.185 million tons), while India will grow a record

27 million bales (34.6 million Indian bales). While this is certainly possible, a lot needs to go right in order to get there.

While production is expected to soar, the USDA counts on continued demand destruction to keep global mill use subdued at just 119.5 million bales. Although that amounts to 3 million bales more than in the current season, it is still 4.3 million shy of the record 123.8 million bales that were consumed during the 2006/07-season. You may recall that in its December 2007 report the USDA projected global mill use to reach as much as 128.27 million bales in the 2007/08 season. Then the financial crisis happened! But has demand really suffered such a blow that it is nearly 9 million bales below the potential of four seasons ago? We seriously doubt it! Although retail demand has remained stagnant in the US and Europe in recent years, it has been growing by leaps and bounds elsewhere around the globe, especially in China and India. World population alone has grown by 300 million people over the last four years and is expected to cross the 7 billion people mark by the end of this year. We therefore believe that the consumption number may harbor a positive surprise as we head into the coming season.

Global trade is expected to increase from 37.0 to 39.9 million bales, as many importers are trying to bolster their inventories, led by the Chinese Reserve who will want to refill its strategic stock. What caught our eye is that China is expected to import 16.0 million bales (2.5 million bales more than this season), while the US may export just 13.5 million bales (2 million less). The US has already sold 5.8 million bales for next marketing year, of which China has booked just 1.9 million bales. In other words, unless China becomes a lot more aggressive, it is on track to import only about 4.5 million bales from the US. China would then have to import the remaining 11.5 million bales from origins like India, Central Asia, Brazil and Africa, and thereby take up a large chunk of their exportable surplus, which in turn should keep prices fairly well supported.

Ending stocks are expected to grow by about 5.4 million bales to 47.9 million bales next season. The increase is nicely spread among various origins, with India stocking up 1.2 million bales, China 0.95 million, the US 0.75 million, Pakistan 0.53 million, while all the others add about 2.0 million bales combined.

The market seems to rate the USDA report as bearish, mainly because ending stocks are expected to climb by 13%. However, as explained above, an increase in ending stocks does not necessarily have to depress prices. The fact that imports are projected at nearly 40 million bales due to restocking should help to counterweigh bearish forces. Also, it won't be an easy task to produce a record crop given the weather pattern we have seen so far this spring, while demand may prove to be understated.

So where do we go from here? Two months ago mills were still chasing after a limited amount of offers, but now the tables are turned, as merchants are trying to find mills to sell their remaining inventory to. With current crop prices in decline, mills are only buying what is absolutely necessary right now, which has created an overhang of offers that is keeping the market under pressure. There will be a point at which mills will have to re-enter the market in greater numbers, be it to fix the remaining 2.25 million bales of on-call sales in July or to cover future needs. However, with July still trading at 25 cents above December, mills may choose to remain in hiding for now. While July may have to trade even lower in order to attract business, we feel that December has been punished enough and represents a decent value at current levels.

Best Regards