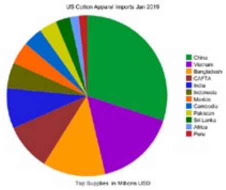
INDIAN COTTON IMPORT DEMAND EXPANDING AS PRICES RALLY



COTTON'S MARKET SHARE IN US IN JANUARY REMAINS WEAK

CHINESE RUMORS OF COTTON IMPORT REFORM CONTINUE

US 2019 PLANTING INTENTIONS LOWER THAN EXPECTED

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

SELVEDGE DENIM REFLECTS THE LAST 100% COTTON PRODUCT IN DENIM; USA LEFT AT MAJOR DISADVANTAGE

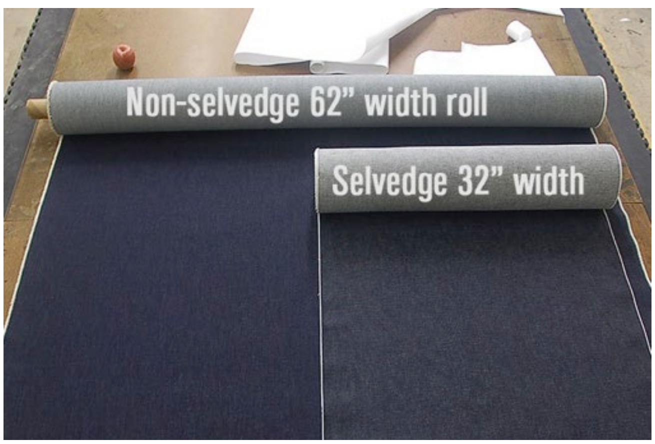
White Oak Denim plant

The US has outsourced just about every major skill in most every manufacturing industry. In the US cotton textile sector, it seems new insult is being levied, as the market enters the second year since the closing of the oldest and largest selvedge denim producer in the US. Cone Mills White Oak denim plant closed in December 2017 after operating 115 years as the largest and oldest denim operation in the US. Several smaller selvedge denim plants continue to operate and are filling the void, but the closure of the large White Oak plant has caused considerable anxiety for the US brands that had attempted to rebuild a US supply chain. We warned at the time that the closure of White Oak would be damaging to the US cotton industry, as it further opens the door for non-US cotton to take market share in the 100% cotton product group. It would also quicken the advance of non-cotton fabrics in denim. It provides a major victory for the man-made fiber industry.

Just as the White Oak plant closed, what was left of Cone under ownership of a private equity group began to focus on the promotion of a 100% denim product made from recycled plastic bottles. This alone should have been a call to action. It marked the change from denim being branded as a product made of cotton, to a product that is called denim based on fabric construction alone, and not fabric content. The inaction by the cotton industry worldwide was similar to that of the dairy industry, when plant-based drinks, such as soy and almond, were allowed to be labeled as "milk."

Plant-based beverages have now penetrated 33% of all US households, and the global market is projected to soon be worth 34 billion USD. As this massive growth has occurred, dairy farms in the US, Australia, and New Zealand have closed and gone out of business, which understandably has caused a great deal of angst in the farming communities impacted.

Differences in selvedge vs standard denim: the stitch



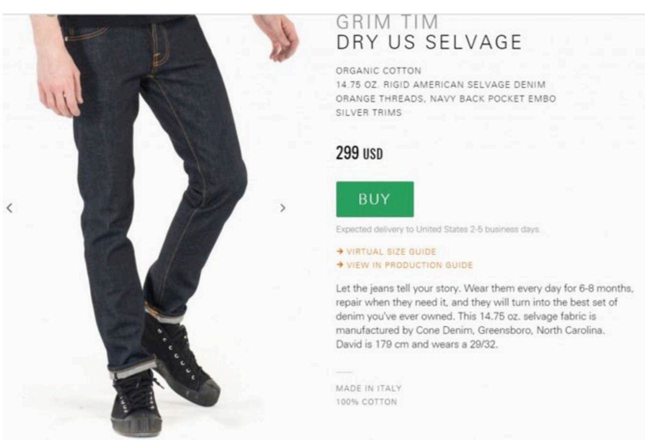
The challenge is real. The dairy industry failed to fight back when the products were introduced, so today these products dominate the dairy aisle around the world. When the trend toward a non-cotton denim jean began, we asked companies introducing the product how they could call a non-cotton fabric denim. The answer was that, with no legal constraints, the fashion industry was redefining denim as "fabric construction" that could be applied to any fiber. They were not challenged legally or in any public relations campaign, so the acceleration of non-cotton denim is underway. We discussed last week the penetration of non-cotton fabric in women's denim jeans. Selvedge denim appears to be the last bastion for a 100% denim product, even though a few "stretch" versions have emerged with 1-2% elastane.

The closure of the White Oak denim plant marked a further turning point for the US industry, and the lack of a significant effort to revitalize the US industry and rebuild cotton consumption was once again highlighted. It was not until the outbreak of the China/US trade war in mid 2018 that brands and retailers began to realize that moving almost their entire supply chains to China might have been ill-advised. White Oak opened in 1905, and at one point it was the largest denim mill in the world. In 1915, Cone was the exclusive supplier of denim fabric for the Levi 501 jeans. By 1995, the glory days of Cone began to wane, as the US-passed NAFTA followed over the next six years, with China joining the WTO. Cone went bankrupt and was purchased in 2004 by a firm owned by US Commerce Secretary Wilbur Ross. The end of White Oak began in October 2016 when Ross sold Cone to a private equity group that had no loyalty to US manufacturing or cotton. The plant was one million square feet, with only about 10% of its output in selvedge denim and the rest in denim, which competed with imported fabric. White Oak was the last industrial selvedge denim mill in the US, and one of only two large-scale denim producers. Its closure left only small selvedge mills, one other large industrial size denim mill, and a few smaller operations.

White Oak vintage American Draper X3 Shuttle looms

Selvedge denim was very popular in the mid to late 1990s. It is denim that is woven using old-fashioned denim-weaving techniques, usually on old looms. Selvedge denim mills focus on quality, and are considered similar to artists, with each having their own styles. These mills have unique dyeing techniques, and focus on quality control, design, and innovation. Selvedge denim is gaining popularity today because of the high commitment to quality of selvedge denim mills. Each pair of jeans is unique in the denim weave, and it's a tighter denim weave with a sturdier hand.

With the closure of White Oak, the US has left the selvedge denim market to Japan and Italy, except for a few small US producers. It seems ironic that the US has not attempted to develop a major presence in this market segment, considering the fact there are many US brands which consume selvedge denim. Both Japan and Italy have experienced the loss of much of their large-scale textile and apparel operations, but they have proven it is possible for advanced economies to maintain a vibrant business at the high end of the quality spectrum. Italy has actually succeeded in maintaining a rather robust textile and apparel industry by maintaining strong exports to the US and the rest of the EU, in spite of the disadvantage of the Euro exchange rate. Italy is the largest textile and apparel manufacturer and exporter in the EU. It was the tenth largest supplier to the US in textiles and apparel in 2018, with shipments of 1.96 billion USD. Presently the volume producers of selvedge denim are found in Japan and Italy, with one mill in China. Japan has the largest production with eight major mill groups involved in the production of selvedge denim.



The past: Cone 100% Cotton selvage denim jean, made in Italy

Cone today: Cone denim with Repreve made from 100% recycled plastic bottles

While the size of the selvedge denim market within the entire denim market is small, it dominates the higher-end, most expensive brands of jeans. We reviewed the selvedge denim men's Jean offers of the largest denim jeans brand and found that 98 to 100% cotton was found in every product. No polyester or Viscose fiber was found. The weight of each jean was near 14-15 ounces or more, with some as heavy as 21.5, meaning that a lot of cotton was used in each pair. One brand actually produced a 31.5-oz. denim in small volume.

Heaviest selvedge denim in the world

For US cotton growers, the closure of Cone's White Oak plant has opened the door for much larger selvedge denim fabric imports, with an increase in overall denim fabric imports into the US. It has also further reduced US cotton consumption. Many brands had an inventory of White Oak denim which they worked through during the first half of 2018. Nonetheless, US denim fabric imports increased by 15% in 2018, to 69.275 million USD. Imports from Italy were up 68.5%, while imports from Japan increased 68% in January 2019. The absence of White Oak denim and the lack of a vibrant selvedge denim industry have allowed selvedge denim fabric to be imported into the US from China's only mill, located in Xinjiang. A US brand has begun to promote its brand of selvedge denim Jeans made from Xinjiang extra long staple cotton. The fabric is from 13.5 to 17 oz. and is cut and sewn in the US. They also have a line from Japanese denim. Again, it's quite unbelievable that the US, the largest cotton exporting country in the world, is unable to maintain a major presence in an iconic 100% cotton product. The brand has praised the quality of the Xinjiang ELS denim. The ELS cotton used in these jeans come from Awati County in Xinjiang and is handpicked, but it continues to battle some issues with contamination and shorter staple than US Pima and Egyptian. China is the fourth largest ELS cotton producer.

Overall, the cotton industry needs to actively protect the selvedge denim market and maintain its 98-100% cotton content. It also needs to launch a major effort to stabilize market share in denim and to begin expanding it again.

Japanese selvedge denim looms

Japanese selvedge denim jeans

INDIAN COTTON PRICES CONTINUE TO MOVE HIGHER, WITH IMPORT INQUIRY CONTINUING

Last week cotton prices in northern India reached a new high for the 2018/2019 season, as supplies tighten. The price of the J-34 is 4,750 Rupees per maund (83.25 cents a lb.), which reflects a sharp up move from around 4,400 the first of March. Shankar-6 ex-gin in Gujarat is quoted at 82.80 US cents per lb. When freight is added, these prices are more expensive than imports for the southern Indian mills. The southern mills have been taking up the most competitive lots of African Fran Zone and US lower grades. The price strength in the northern market comes after it has absorbed a larger crop in the region. Arrivals of the 2019 crop have reached 5,169,079 170 kg bales, which is up 413,379 bales from last year due to a much larger crop from Rajasthan. Overall, 2018/2019 crop arrivals remain 1,074,767 170 kg bales below the volume on the same date last year. The sharp decline in the crop is centered in four states; Maharashtra declined by 648,984 bales, Andhra Pradesh down 524,528, Telangana down 517,137, and Karnataka fell 410,765 bales. The CCI held auctions last week of near half of its 2017/2018 crop stocks.

Indian cotton and yarn exports remained brisk in January, with exports reaching 117,275 tons. Bangladesh was the largest buyer at 44,330 tons, followed by China at 38,942 tons, and Vietnam taking 20,718 tons. Total August-January exports have reached 469,496 tons (2,761,742 170 kg bales), as compared to the CAB estimate of 5 million for the season. Heavy export shipments to China are expected to show up in the February and March shipment data. Cotton yarn exports in January reached 90,595 tons, with season to date shipments of 579,880 tons.

TURKISH ELECTIONS ADDING NEW LIRA VOLATILITY THAT MAY HURT IMPORTS

Turkish Mills had returned to the import market, and the Erdogan government's push to keep the credit flowing to companies appeared to be working. The country will hold nationwide municipal elections on March 31st, and that has created new volatility. The Lira/USD exchange rate began to weaken in the week ending March 22nd, closing at 5.7593. This, plus a major report by the US banking group JP Morgan that called for a decline in the Lira, set the stage for a new crisis last week. Adding to the fears that the Lira exchange rate was about to draw new selling was Turkey's condemnation of the US's move to recognize Israeli control over the Golan heights. This move triggered fears of a new clash with the US.

The Lira recovered after the government launched a major effort to keep short sellers from shorting the Lira, and also stopping funds from pulling equity from the Turkish market. The Lira did recover much of the previous week's losses, but at great expense to the market. On March 27th, the government made it very expensive to borrow Lira overnight, pushing the overnight interest rate up by 1000%, the highest rate since 2001. Turkish bond yields also moved higher, and Turkey was again in the headlines. On March 24th, President Erdogan said that bankers who were found speculating against the Lira would be punished. Then came the announcement the government was investigating JP Morgan, following their research on the Lira and a bearish call. Moreover, the government instructed the banks to restrict lending to overseas banks to keep Funds from impacting the Lira. All these moves made the Lira difficult to trade and caused some funds to consider withdrawing from Turkey all together. It appears the government plans to keep the restrictions in place until after the elections to reduce the influence of a weaker Lira.

The local stock market fell by 5.7%, and new anxiety again was felt in Turkey. The Lira/USD rate was steady, which hopefully will keep Turkish mills in the market for additional cotton requirements. Mills have been much less active following the sharp gains in ICE futures. Greece exported 34,000 tons of cotton in January, and Turkey took 14,787 tons of it.

Turkey has a large current account deficit that needs foreign capital to be financed, and it is unclear if this will keep some Funds from the Turkish market, or trigger a mass exodus by others. A stable and prosperous Turkey is very important to the cotton market. The US continues in its failure to launch a trade finance package for Turkey regarding cotton and agriculture products, and there doesn't seem to be any serious discussion, as all attention is on China.

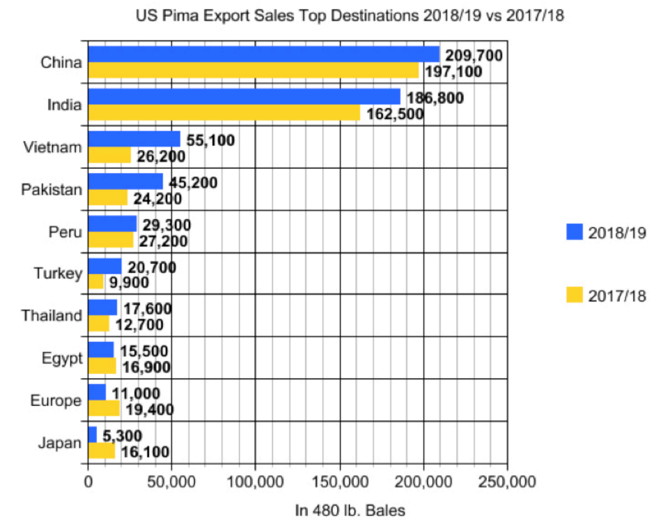
Turkey in 2018/2019 has purchased 20,700 running bales of Pima and 1,171,000 running bales of upland, which is below year-ago sales levels. By Friday, the Lira/USD exchange rate was again under pressure, with the Lira ending the week at 5.67. The performance of the exchange rate following Sunday's elections will be important. Last week's effort to support the Lira is estimated to have reduced their foreign exchange reserves by 10 billion USD.

HEAVY RAINS HIT AUSTRALIA'S QUEENSLAND REGION, RAISING CONCERNS FOR 2019 CROP BUT BOOSTING WATER SUPPLIES FOR 2020

Ex-tropical storm Trevor moved over western Queensland and then moved into southern Queensland, and it is expected to reach NSW. Some regions in western Queensland, which is cattle country with no cotton or crops, received the heaviest rains in 25-75 years. Isisford reported 146 mm, which was the heaviest rain in 69 years. 100 mm or more were common in the region. By the time we complete this week's market letter, Clement, in the Emerald area, had received 151 mm, and Emerald 41 mm. Harvest is mostly finished in this region, and the water will boost 2020 supplies. The southern cotton areas of Darling Downs and Border region received mostly near 10 mm as of this report, with the heaviest, 63 mm, occurring at Toowoomba. The forecast suggests up to 50 mm or more may occur. The Theodore area is finished with harvest, but picking is underway in the Darling Downs and southeastern areas, which mean the rains could impact quality of the 2019 crop. Harvest has also started in the Border region, and the rain will also negatively affect the quality here if it is heavy enough. This region has already experienced a super cell that produced isolated rains over two weeks ago. That boosted on-farm storage, but damaged open cotton.

Rainfall so far in New South Wales has ranged from 1-20 mm, and more rain is expected during the next week. The crop is opening, and some early fields have been picked. The system is expected to clear out by April 1, and then be dry in some forecasts, while others have the rain lingering over Eastern NSW for another week. So far, the rains have boosted 2020 water supplies slightly, and also caused a bit more mixture in color grades. Dryland fields are reporting a host of issues, with some fields not having enough moisture for bolls to open fully. The outcome of the 2019 harvest is crucial to the global supply of upland longer staple high grades. Any major shortfall in Good and Strict Middling color grades simply cannot be made up from any other origin. If a shortfall occurs US, Pima sales may increase to China, where the GM 1 1/4 and 1 3/16 have been used to blend with Pima in the 60 yarn counts. Any fall in color grades below Middling would cost growers millions. The general FOB basis is for a Middling 1 5/32, with steep discounts that vary by merchant for SLM. The Current 2019 crop FOB basis remains near 1300 on May futures, while the 2020 crop is at 950 on May 2020 futures.

US PIMA WEEKLY EXPORT SALES REACH HIGHEST LEVEL IN FIVE YEARS

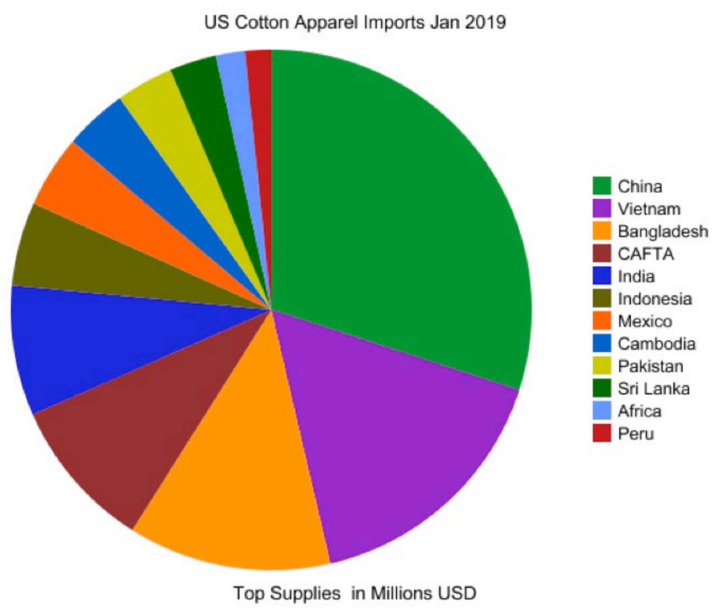


Despite the woes in the top-end Luxury market, the premium apparel market is strong, and so is demand for US Pima and Egyptian ELS. Pima CFR Asia prices are also aggressive at near 134 cents for a 2-2-46. US Pima export sales in the week ending March 21st reached 31,300 running bales, the highest weekly sales in over 5 years. Pima export demand is being driven by Turkey, India, Pakistan, Thailand, and Vietnam, and a maintenance of demand from China. Despite the tariffs, China has purchased 209,700 running bales of Pima, which compares to 197,100 bales a year ago at the same time. Spinners are paying the duty or importing into the free trade zones or under processing quota, as downstream customers demand licensed SUPIMA. The arrival of traceability for Pima has reduced any attempts to counterfeit. The second largest market is India, which could overtake China with purchases of 186,000 running bales, up from 162,500 bales last year on the same date. India has also been the largest buyers of Egyptian, with total 2018/19 purchases reaching 39,461 tons (approx. 174,339 running bales). India produces about 70-90,000 tons of ELS cotton. 2018/2019 ELS consumption in India is much stronger than expected, driven by good export demand for the traceable SUPIMA, US Pima, and Egyptian cotton products.

Pakistan has nearly doubled its US Pima purchases at 45,200 running bales, as compared to 24,300 a year earlier. Pakistan has also been the second largest buyer of Egyptian, purchasing 15,336 tons (about 67,754 running bales). Pakistan ELS consumption will also be stronger in 2018/2019, after expectations of weakness. It is not clear the number of the longer staple spindles in Vietnam, but new capacity appears to have been installed, with US Pima purchases more than doubling, at 55,100 running bales, as compared to 26,200 a year ago. Some South Korean capacity may have been relocated, since South Korean imports of Pima have fallen to only 1,300 bales vs. 9,400 a year earlier. South Korea has increased its investments in Vietnam during the past 12 months. Turkish imports of Pima have also doubled, at 20,700 running bales.

Total US Pima sales have reached 615,200 running bales, which is up from year-ago sales of 551,700 bales.

US APPAREL IMPORTS IN JANUARY 2019 STRONG WHILE COTTON'S MARKET SHARE REMAINS WEAK



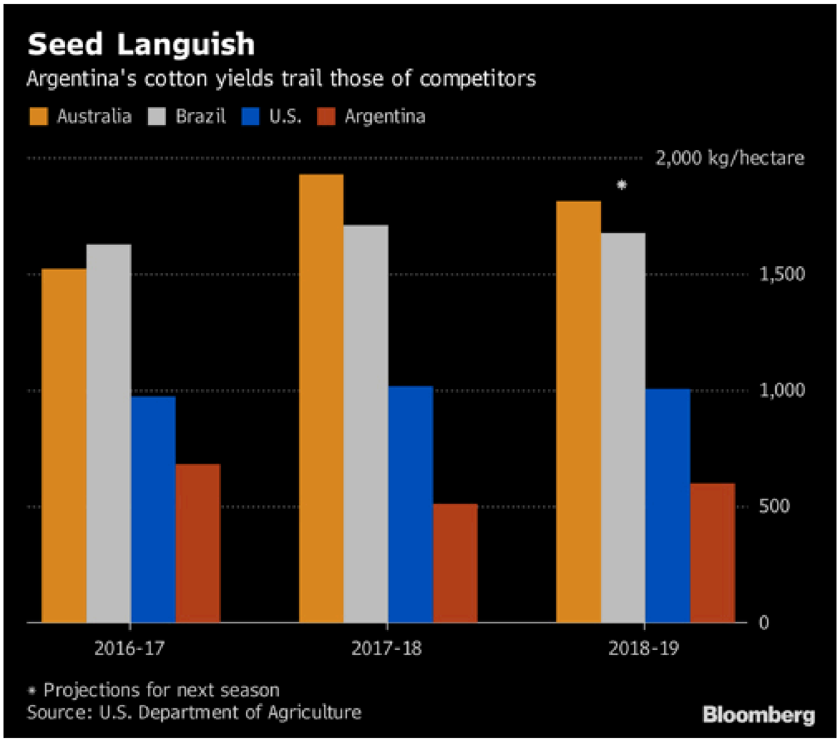
US textile and apparel imports in January increased by 12.4% in volume terms, with apparel imports up 8.7%. The growth was led by made-ups, which increased 17.8%. MMF made-ups imports were up 20.2%, and other fiber imports were up 36.8%, while cotton's made-ups increased by 9.5%. Cotton apparel imports expanded 4.3% in volume and 6.93% in value. Cotton's market share in apparel showed no improvement, at 41.26% as compared to 41.48% for 2018. Imports of man-made fiber hosiery, men's non-knit shirts, women's non-knit shirts, skirts, women and girl's suits, sweaters, men's trousers, women and girl's slacks, and underwear experienced very strong growth in January.

Imports from China expanded 9.4% in volume terms. However, imports from Vietnam grew 27.3%, 16% from India, and 15% from Pakistan. In value terms, Chinese imports increased 7% to 3.618 billion USD. The growth in Chinese imports is occurring in man-made fiber products, which accounted for over 60% of Chinese imports. MMF apparel imports increased 13.5%. China has more than a 43% market share of all MMF imports into the USA, and Vietnam is the second largest supplier. Collectively, since Chinese fabric and raw material account are used for the Vietnam exports, China has over 50% of the US market. As we have discussed, this is a major challenge for the US cotton industry. Chinese MMF has massive overcapacity and is continuing to undercut cotton. Vietnam now has a 15% market share of the US apparel market, but only 40.7% of imports are cotton.

China is losing market share in cotton apparel, as orders are switching to Vietnam, Bangladesh, India, CAFTA, and a host of other destinations. US imports of cotton apparel from the FTZ in Egypt and Jordan were up sharply, along with imports from Africa. In January, China had a 26.3% market share in cotton apparel, which was lower than the combined market share of Vietnam, Bangladesh, and India, which reached 30.8%.

ARGENTINA COTTON HARVEST ADVANCES AS PESO PLUNGES TO NEW LOW

The Argentina cotton harvest is advancing steadily, with ginning now underway and new export offers now in circulation. The harvest period has been marked with periods of heavy rain. At this stage, production estimates have been scaled back to 1.150 million bales. The Argentine Peso declined to a new record low last week of 43.89 to the USD, which reflects a more than 115% loss in value from a year ago. At this rate export offers could even be offered cheaper. The Peso did not appear to find much support from the trade surplus posted in February of 460 million USD. Early export offers cover a wide quality range, with Strict Middling Shy 1 3/32 offered at 470 points on May. CFR Asia, SM Shy 1 1/16 is offered at 270 points on May, Middling 1 1/32 is offered at 45 points on May, and a SLM 1 1/8-1 5/32 is offered at 520 points on May.



Cotton is competing with a large soybean and corn crop for movement to export. The corn crop is expected to be a record 50 MMT. 36 ships are reported to be waiting loading at Rosario ports, and the backlog of trucks is allowing only 5-6 vessels a day to load. Roads to the ports are also backed up with heavy traffic.

Argentina's average yield in 2018/2019 is projected at only 600 kilograms, which is only about a third of that of Brazil. This equals 2.755 bales a hectare, or 1.113 bales an acre. The issue is Argentina's lack of protection for seed technology. The Ministry of Agriculture has announced the release of new seed varieties for 2019/2020 with some added traits. Argentine cotton is popular in Indonesia and Vietnam, and this crop is being offered in China as well.

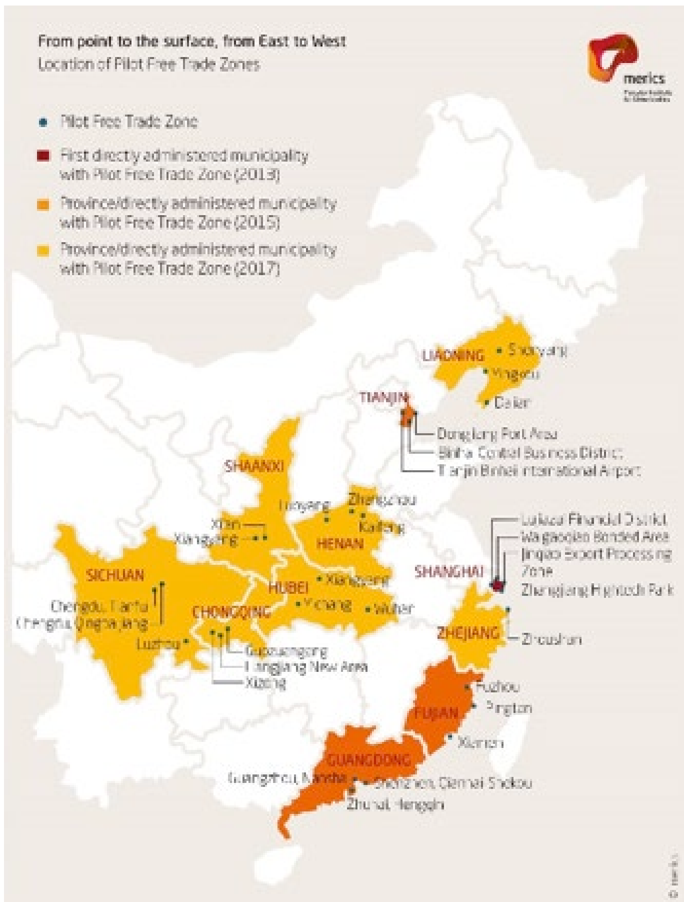
CHINA COTTON FIBER AND YARN IMPORTS STEADY IN FEBRUARY

China's cotton imports in February reached 230,000 tons (1,056,735 bales), up sharply from a year ago, and Brazilian and Indian cotton dominated. February cotton yarn imports remained brisk at 120,000 tons, which was up 30% YOY. Sales of cotton from port warehouses were reported as active, but new additional purchases appeared to turn moderate, as the rumors were active that the government was going to launch a reform of the cotton import laws to allow unlimited imports, and end the sliding scale import quota. In addition, rumors are that the Reserve will shortly begin regular auctions of its stocks.

A survey in China by CN Cotton indicated sales of the domestic 2018/2019 crop has been very slow at 3,056,000 tons. Sales of Xinjiang crop have been only 2,409,000 tons, less than half the 5,141,700 tons classed. One major reason for the slow sales is the quality problems with the southern Xinjiang crop that we discussed last week in detail, especially the machine picked cotton. This may also explain the sharp increase in imported cotton so far this season. If the Xinjiang stocks prove very difficult for private mills to take up, the Reserve may be required to take this cotton up, to maintain the financial stability of ginners and buyers in Xinjiang. These buyers of lint have not been able to hold large inventories for an extended period. The smaller 2019 Australian crop and the lack of high grades from the US at any price have resulted in Chinese mills taking up most of the Brazilian longer staple high grades. They are now seeking West African longer staple high grades.

US/CHINA TRADE DEAL CONTINUES UNDER DEBATE AS AG EXPORTS SUFFER

The US agriculture sector continues to suffer as trade talks continue in Beijing. China simply ignored the request from President Trump that it lift sanctions on US agriculture imports. The Trump administration also has not responded to this inaction, instead staying focused on the completion of the trade agreement. Regarding soybeans, China was rumored to have made a token purchase last week. However, in the October-February period, China imported only 1.18 MMT of soybeans from the US, which was less than imports from Canada, Argentina, and Brazil. China imported 22.906 MMT from Brazil. Ship monitoring maps show massive shipments now underway from Brazil to China. US cotton sales remain small, with no large-state purchases as in soybeans. China apparently feels no obligation to show good will toward the cotton sector, as it continues to ship more and more textiles and apparels to the US. Imports in January were higher. This reflects a flood of MMF products that is undercutting US cotton. Despite this, no discussion is underway to address the issue or imbalance.



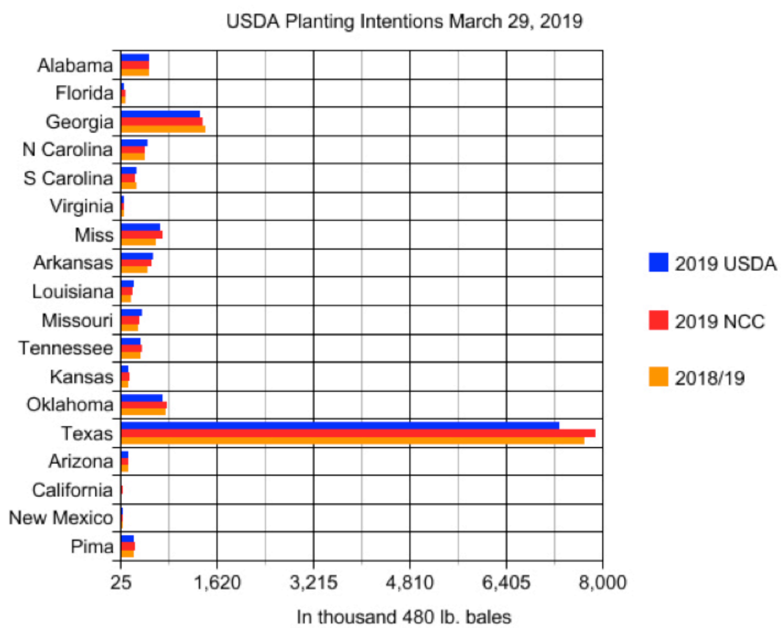
Recent negotiations appear heavily focused on issues concerning opening up the Chinese market and with technology issues. China appears to have made some concessions, according to press reports. Some of the concessions are rumored to be focused on a trial in one or more of the country's free trade zones. These FTZ have advanced in importance and are estimated to employ 40 million people. There are eleven FTZs; Guangdong, Tianjin, Fujian, Liaoning, Henan, Shanghai, Zhejiang, Shaanxi, Hubei, Chongqing, and Sichuan. Companies operating in these trade zones are able to import and export products and materials free of import duties and Chinese customs. When China placed a 25% duty on US cotton, it became evident that any textile operations in these zones would be able to continue importing US cotton duty free. The exact number of cotton spinners located in the zones is unknown. Each zone has several designed districts that focus on specific industries.

The Chinese team will be back in Washington this week for additional negotiations, and some comment emerged this week that these talks may continue for another 60-90 days. If this happens it will be very painful for the US agriculture sector, as it remains out of the Chinese market for any volume. For cotton, the ability to export to mills in the FTZs and under the processing trade quota has allowed a small volume of sales to continue. The US has sold 1.5 million bales of upland cotton to China for 2018/2019, but 811,200 bales remain unshipped. Additional outstanding sales are being canceled weekly, with some rolled into 2019/2020. China has also purchased 209,700 running bales of Pima, with 126,400 running bales having been shipped. Late Friday, China granted permission to JP Morgan and Nomura to own the majority of their brokerage operations in China, which was viewed as a breakthrough following a long approval process.

USDA FORECASTS THE US WILL REDUCE COTTON ACREAGE IN 2019

As we enter April, the question is, "Will the record flooding in low lying areas near the major rivers and the Mississippi River backwater flooding reduce US cotton production prospects?" Growers had hoped the US/China trade dispute would be settled by the time planting had begun, but it has not, and this is casting a giant shadows over corn and soybean production. At the same time, flooding in Nebraska, Iowa, Missouri, and other regions has resulted in the loss of corn and soybeans stored on farms, so a large block of acreage will likely not be planted. However, for cotton, time remains for the crop to be planted, except in the flooded backwater areas. The rally of Dec ICE futures to over 75 cents has improved acreage prospects, but the drop from the Dec 2018 price levels has caused some Mid-South growers to cancel plans to purchase round bale pickers needed for expansion. These pickers are priced at 750,000 USD or more, and require a long-term commitment. A net of 70-72 cents is much different than 80 cents plus. For growers, the China/US trade dispute has added new risk for the major crops they plant. Cotton does have alternative markets that soybeans do not have. Without a crop disaster in Brazil or Argentina changing the supply and demand picture, soybeans carry major trade risk.

The USDA released its second planting intentions estimate for 2019. The National Cotton Council Survey forecast US acreage at 14.450 million acres. The March 29th USDA survey forecast acreage at only 13.780 million acres, which was a shock, with Texas providing the surprise. Texas acreage was forecast at 7.3 million acres, which was below 7.7 million planted in 2018/2019, and the NCC survey of 7.874 million. Oklahoma was also below expectations at 720,000 vs. 780,000 last year, and NCC of 788,000. The NCC survey was very close to the Mid-South estimate, as was the Southeastern belt estimate.



This estimate, if realized, caps the US crop near 24 million bales, assuming minor abandonment and new record yields. A reduction in planted acreage because of failure to plant in the Mid-South and average yields places 21.8 million bales at the lower end, with Texas abandonment the wild card, as it always is.

Much of the trade last week in ICE appeared to be the remaining speculative short covering in ICE. The rally attracted light Trade selling, with several selling tenders from African Franz Zone marketing groups. Once the short covering ended, prices retreated, as the market lacked news to stimulate the Managed Funds to go back long. The CFTC data confirmed this, as the net Fund's position by the end of Tuesday's session had moved back to a 573 contract net short position. The 200-point plus retreat from the highs did find support. Then, on Friday, the USDA released its planting intentions for the US, and planted acreage intentions fell by 670,000 acres below the NCC survey to 13,780 million acres. This triggered a sharp rally back to the highs, as Managed Funds began to go back long. As we discussed last week, demand appears to have moved up to near the 75-cent level in May and July ICE, with mill offtake noted last week from spinners needing nearby requirements and completing second quarter needs. African Franz Zone, Brazilian, US low grades, and East African were the feature. Spinners, including those in China, are concerned about longer staple, high grades, which is stimulating brisk demand for the West African high grades. The quality of the larger 2018/2019 African Franz Zone crop has been good, and normal buyers of US high grades are having to turn to this style amid the sold-out 2018 Australian crop. Many merchants sell this crop, giving the merchant the option to ship any of the origins, while others offer by country, with a premium for the origins that do the best job with ginning and quality. This crop is 100% handpicked and has all the issues that handpicked have, but some merchants own their own gins and can focus on quality control. Much of the volume sold from this origin is BCI and CMIA certificated, which adds to some buyer's demand. The CMIA's Cotton Made in Africa program has been successful in boosting demand from European brands and retailers that are requiring this certification.

Southern Indian mills are showing interest in the East African crops, which are offered at basis levels discounted to African Zone styles and also enjoy a freight advantage. US export sales last week for the period ending March 21st were very brisk, and illustrated the demand we have been discussing near a 75 cents futures level. Sales for 2018/2019 were a net 219,000 running bales of upland, and 31,300 of Pima, and 175,600 running bales of upland for 2019/2020. Export shipments were near the level needed to meet the USDA export target at 380,000 running bales of upland and 8,300 of Pima.

The missing ingredient for the bulls remains a US/China trade agreement that assures cotton access to the Chinese market and has an annual purchase requirement of a million tons or more. The delay in the completion likely means that any agreement would have better long term longevity. However, for US agriculture exporters, the delay has cost most of the 2018/2019 season. If an agreement does not occur until May, then only 1-2 months of shipments are possible. For cotton, the 2019/2020 season is by far the most important because of expected crop size and also the fact the US will probably have the quality needed by Chinese Mills.

The level of nearby demand near 75 cents in May and July ICE in the physical market is providing underlying strength to the market. This demand has kept the Managed Funds from exerting a net short position. The level of Indian prices is also supportive and provides further import demand. These developments alone have given the market upside potential, as the Managed Funds move back net long. Friday's planting intentions for the US also reduced the Trade's aggressive selling. However, late planting decisions can always be made after the survey, which is taken at the first of March. Thus, any move in new crop toward 80 cents would pull some acreage back. The big surprise came in Texas, where growers reduced acreage by 400,000 acres from last years, and over 574,000 below the NCC survey. The report also made any unplanted acreage in the Mid-South, due to flooding in the backwater areas, even more important. The Texas acreage loss was low yielding, while the Mid South acreage that could be lost is the highest dryland yielding acreage in the US.

Overall, a move toward 80/82 nearby remains a possibility in May and July, even without a US/China trade deal. With a trade deal, the entire board can move higher. The lack of a resolution of the trade agreement has already caused growers to reduce acreage in the most sensitive crops. Soybean acreage fell 5%, with double digit losses in much of the cotton belt. Cotton acreage felll 2%, while corn acreage expanded 4%. While the acreage report has removed some of the highest acreage estimates for the US, it still will face a challenge to export a record volume in 2019/2020, or face higher carryover. Brazil faces the challenge of exporting a record 2018/2019 crop in 2019/2020, just as the US new crop movement begins. This makes any sustained rally in 2019 crop futures tied to the outcome of the China/US trade agreement. We cannot overstress the importance of the cotton industry addressing the weakness in cotton's market share, and the direct assault on denim and other products by other fibers.