US TEXTILE INDUSTRY STILL UNDER ASSAULT

WILL BRAZIL UTILIZE ITS INDUSTRIAL BASE?

INDIAN LOW GRADE EXPORT OFFERS INCREASE

CHINA/US TRADE AGREEMENT MAY DISAPPOINT

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

CHINA XINJIANG CASH COTTON PRICES RALLY AS QUALITY AND CROP CONCERNS INCREASE

Xinjiang Cotton Harvest

Xinjiang Cotton Harvest

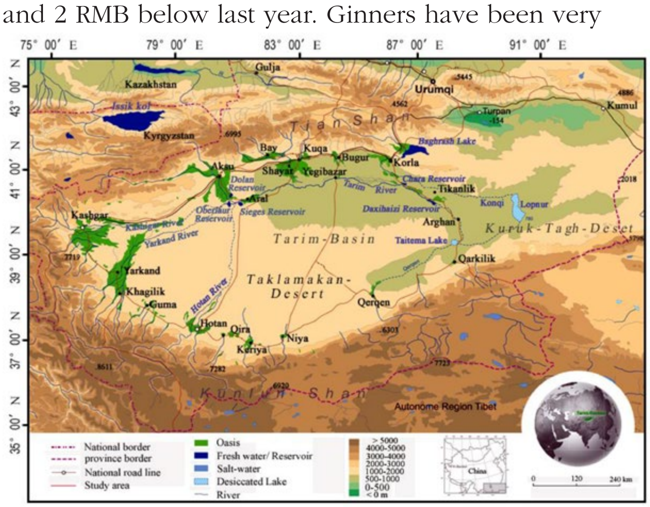
Machine Picked Xinjiang Cotton Harvest

The 2019/2020 season in Xinjiang began with ginners holding large inventories of unsold crop at large losses and very reluctant buyers of new crop seed cotton. A lot has changed since that time. Seed cotton prices have been steadily improving, led by demand for high-quality seed and lint cotton. Handpicked cotton's premium has increased to .80-1.0 Yuan a kilogram of seed cotton. There is increasing concern that yields in Xinjiang would be down much more than expected. Yield estimates for Xinjiang were unchanged from 2019 for much of the growing season, but then forecast down 3-4%. Now, fears are growing for a much larger loss. In southern Xinjiang, where much of the cotton is still handpicked, in Luntan County, in southeast Xinjiang, the Bayingol Prefecture is a major cotton producing area along the Tarim River. Yield per Mu are reported to be down 80-100 kilogram per MU, which equates to 1200 to 1500 kg a hectare (about 4.40 bales per hectare) loss of seed cotton from last year's record yield.

The irrigated yield in Xinjiang is the third or fourth highest in the world behind Israel, Brazil, and Australia. This appears to be quite dramatic, but it is likely a rather isolated occurrence. Xinjiang cotton is 100% irrigated and grown in desert conditions. Southern Xinjiang has reported shortages of irrigation supplies this season. It is also unclear how the sweep of Uyghurs into concentration camps has impacted the Uyghur farmers who have been a part of the cotton growing community. Uyghur farmers have been forced, unpaid workers on government projects, but now are forced to go to education classes. The exact number of farmers who have been arrested and taken away from their land is unknown. We did find some comments from farmers discussing the fact that their cotton crops are falling in yield because of their inability to attend their fields. This, of course, will not be put in any commentary on the crop. Instead, other reasons will be given. Between 1-2 million people have been arrested from the main cotton belts. The Uyghur farmers arrested will likely lose their farms, because they will be unable to repay bank loans. There may be a program for Han farmers to take over the Uyghur farms, as there are confirmed reports of Han farmers moving on to Uyghur farms.

In Awati County, ELS yields are also being reported lower from much smaller acreage; growers in the region switched to upland cotton. Water shortages, increased cost of handpicking, and ineffective land transfers are reasons impacting cotton use. ELS seed cotton prices have also been depressed, opening at only 7 RMB a kilogram, compared to 6.0 for upland and 2 RMB below last year. Ginners have been very skeptical about seed cotton purchases, so most are holding large inventories of the 2018 crop. They will experience large losses with their cotton purchased at 26,500 RMB a ton (170 cents a lb.), compared to the current cash price of 139.20 cents a lb. The rally in upland seed cotton prices has not yet spread into ELS.

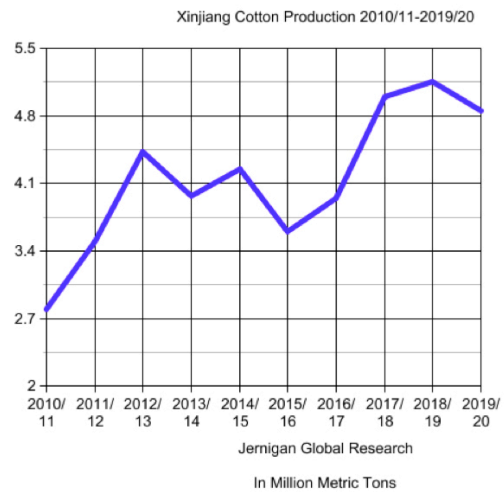
Aksu center of cotton belt, center of Uyghur culture



Xinjiang map

Xinjiang seed cotton prices influenced global prices this week, as the rise in seed cotton prices has pushed ZCE cotton futures higher. ZCE cotton futures are an excellent barometer of Xinjiang prices, the contract allows for delivery of certified stocks in Xinjiang warehouse, machine-picked cotton can be delivered, and, thus, the contract has become a de-facto price for Xinjiang machine-picked. The top seed cotton prices we are aware of last week were 6.2-6.5 RMB a kg for top quality seed cotton, with a high ginning outturn of 42%. This equals 13,600 to 13,800 RMB a ton, or 86.88 to 88.16 US cents a lb., for lint. Most handpicked seed cotton with 40% gin outturn is selling for 5.90 to 6.2 RMB a kg. Machine-picked seed cotton has been in a range of 5.2 to 5.6 RMB a kg, and, at 5.2 RMB, ginners can sell at 13,200-13,300 RMB a ton, or 84.33 to 86.18 US cents a lb., and lock in a profit.

Amid this price strength, ZCE cotton futures moved steadily higher last week. By Thursday, the January contact had reached 13,130 RMB a ton, or 83.88 cents a lb., after closing the previous Friday at 12,745 RMB a ton, or 81.42 US cents a lb. Xinjiang ginners are buying seed cotton and hedging on the ZCE, which is limiting the ZCE rally for now. The discount of Xinjiang new crop to international vales has been very supportive. As of Thursday, the value of a Brazilian Middling 1 1/8 landed China was about 84.71 US cents a lb., which left ZCE prices still at a small discount.



It remains very uncertain how much Xinjiang production has fallen from last year. The weather has experienced its normal volatility, and there hasn't been a single one event that stands out. The water shortages never were discussed enough to suggest that would cause a crop disaster. What is unknown is what the impact of the arrest of Uyghur farmers will have on production, which will likely never be officially discussed. The Cotton Association of China has lowered its 2019/2020 production estimate to 5,905,700 tons (27.133 million bales and Xinjiang production was lowered to 5,039,500 tons or 23.154 million bales). Xinjiang production in 2018/2019 hit a record 5.150 million tons (23.662 million bales). At this stage, we place the crop at 4.8 to 4.9 million tons (22 million bales), worse case. Because Xinjiang is a 100% irrigated crop, there has traditionally been little variation in yields but large disparities in quality due to weather. The greatest reduction in yields in the past ten years was a 460,000-ton reduction (2.11 million bales) in 2013/2014. The record production of 5.150 MMT in 2018/2019 could represent the maximum production level. Between 2010/2011 and 2018/2019, production increased 85%, a remarkable accomplishment. Water suppliers were limited in 2010, and the cotton industry has greatly improved efficiency. However, increases driven by efficiencies have likely peaked, and demand for water has increased as Xinjiang's textile and apparel industry, as well as other industries, has grown. Most of the land that can be reclaimed has been reclaimed. Moreover, in 2018/2019, the local Xinjiang government began to implement environmental policies that will discourage any further cotton expansion.

Xinjiang concentration camps near Kashgar

The decline in 2019 cotton prices will also test the Target Price scheme, with payments expected to be a record. The payments will also be very important and reflect a more important part of grower income. The price of seed cotton in Xinjiang, when fully reflected, has narrowed and eliminated the price discount and brought prices to par with international values. This should slow the ZCE rally as it reaches the 13.500 RMB a ton. Heavy stocks remain at the port warehouses to meet nearby demand. Chinese trading groups were reported to have made large inquires for Brazilian cotton, but purchases could not be confirmed.

US TEXTILE INDUSTRY COLLAPSE CONTINUES WHILE EVERYONE STANDS BY

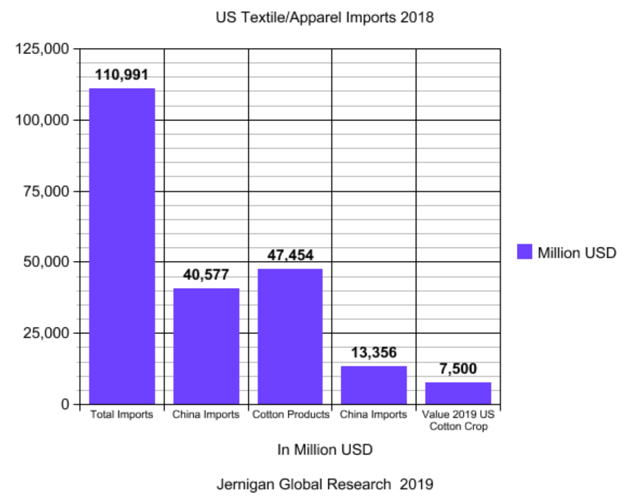
Frontier Spinning Alabama plant

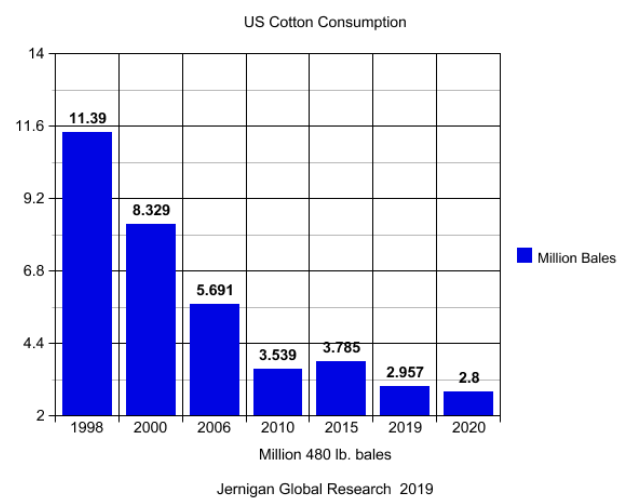
Even as the global textile and apparel supply chain enters its most unsettled period in over 20 years, the domestic US textile supply continues to suffer. The cotton industry was delivered another blow when Frontier, America's second largest cotton spinner, announced it would close its Wetumpka, Alabama plant at the end of the year. The closure of this plant is very important to the US textile and apparel industry, the future of the CAFTA-DR free trade agreement, the US cotton farmer, and the future of manufacturing. It also reflects a failure of the US government to execute an effective strategy to bring industry back to the US. The US will import 115 billion USD worth of textiles and apparel in 2019. Of that volume, more than 50 billion USD will be cotton-based products. The total value of the 2019/2020 US cotton crop is between 7 and 8 billion USD. We wish someone would explain the logic of this. The US is spending millions of dollars providing cotton farmers support, then providing millions more to promote the export of this cotton. At times, the marketing loan provides additional subsides for export, and then growers chip in funds from each bale for the promotion effort. Trips are made around the world to promote the benefits of US cotton, while the US consumer will consume the entire equivalent of the crop with a value added of over five times the value of the crop. Let that sink in for a minute. The US farmer then receives the net value of cotton after the freight cost of sending the lint, then yarn, fabric around the world, only to return the finished product back to a retail shelf or website in the US.

This global scheme has caused the loss of millions of US manufacturing jobs, skills workers, declining farmers' income, millions of dollars in lost value added, and billions in agriculture product support. What is amazing is that almost no one has launched a viable alternative plan since the destruction of the industry began in 2000. Well, today it is time for reflection and a new view. The great PLAN was that the US would supply China with what was perceived to be an almost unlimited amount of cotton. However, what was unknown at the time was that China would launch the largest cotton subsidy scheme in the world that would maintain its cotton production in spite of very high production cos, or that it would limit cotton imports at times and apply special import taxes on cotton. It was also, somewhat foolishly, thought that China would follow South Korea and Japan and develop a path toward a democracy. Meanwhile, the China price eventually proved to be a model that could not be replicated and allowed China to capture up to 80% or more in many products.

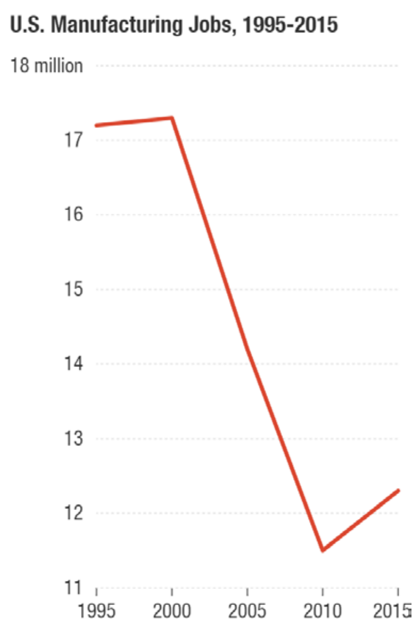
The US textile business that survived focused heavily on the CAFTA region for survival, and this has meant commodity type business driven heavily by price, which has pressured margins. Products included open end and lower count yarns and simple cotton fabrics. Even that business has remained under pressure, as highlighted by the closing of the Frontier spinning plant.

The China Price began as a result of a significant labor advantage. At the time of their WTO entry, China was estimated to have labor cost, adjusted for productivity, of only 18% of that of the US. This was the first and overwhelming advantage that made it simply impossible for any US textile and apparel company to compete. It is estimated that wages accounted for 39.41% of the China price advantage, wage benefits were followed by network clusters, and health and environmental advantages costs. Today, China has lost much of its labor component, which resulted in its price advantage. However, the network cluster advantage remains strong. Regarding fabric production and dying and finishing, China has the largest capacity in the world, and these investments were driven by the cluster concept and the lack of environmental regulation. The latter advantage has now turned to a huge liability that has destroyed China's environment. China presently has a serious water shortage that is projected to put the entire fabric, dyeing, and finishing industry at risk over the next ten years. The US has a major advantage over China in electricity cost. Enodo Economics estimates the US has a 38% cheaper industrial electricity cost.





The US has several possible advantages, but the largest hurdle appears to be the cut and sew operations that have much higher cost. However, those cost can be reduced with investments in sew bots and other automation. Saving would also be realized by a reduction in freight cost and reduced import duties. Despite the advantages, there has been no effort by the administration to bring a supply chain back. So, as we enter 2020, the US will import nearly 50 million USD of cotton products while facing a major battle to export 7-8 million USD of cotton at discounted prices. This will prevent growth in farmers' income and continue to send the entire value-added process off shore. The recent trade dispute with China has put agriculture trade in the spotlight and ignited a debate on how expensive it is for the US to continue to focus on exporting raw commodities instead of value-added products. Cotton is one of those commodities in which the argument not to move toward value add exports is extremely weak.



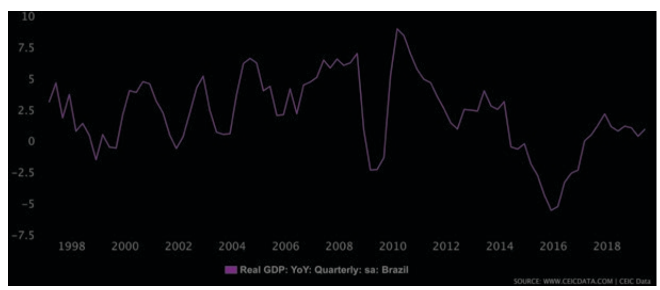
US manufacturing job loss

WILL BRAZIL BECOME JUST A RESOURCE COLONY FOR CHINA OR WILL IT REVITALIZE ITS INDUSTRIAL BASE?

Brazil fashion

Anyone who has spent any time in Brazil can testify to the agriculture powerhouse that has evolved. However, Brazil can claim a host of other assets, including their people, food, and climate. What is often missed is the potential for the country to become an industrial powerhouse. First, Brazil has a population of 210 million, and it is the second largest country in the billion plus population Americas region. Second, the country under the socialist and other regimes attempted to be self-reliant in industry and sought to develop domestic champions of industry. The plan was somewhat derailed by corruption, poor political leadership, and massive socialist labor and tax policies, but it laid the foundation for skills to be developed. No government has developed these skills or attempted to integrate them into the supply chain of the Americas. The country has a huge number of poor, unemployed people crowded into urban centers that are a magnet for crime and problems. These people need jobs. Thus, industry has millions of people that can be trained and put to work in an industrial base. The US and Canada are guilty of not focusing on an Americas First policy, and this has led to massive drug corruption and turmoil in Mexico, growing unrest in Central America, and reduced involvement in the development of strong democracies in South America. Due to this lack of leadership, corrupt dictators unfortunately will fill the void. The US pays for its inattention with an unsecure southern border, which is being overrun by people attempting to seek a better life.

This policy has clearly failed, as the concentration of American and Canadian supply chains, almost exclusively in China at one point, proved to be an extremely poor risk management strategy. The world has changed dramatically since June 2018, and globalization as we knew it is dead. It appears to be replaced with regional supply chains. It is early, but the US administration has clearly failed to devote the needed attention to the Americas. Even the adjustments to NAFTA have stalled in Congress due to the Democratic Party's melt down over anti-Trump sentiment. A need to end the near open border with Mexico and halt the caravans of Central American illegals, which developed under the previous administrations, has preoccupied what little attention the region has received.

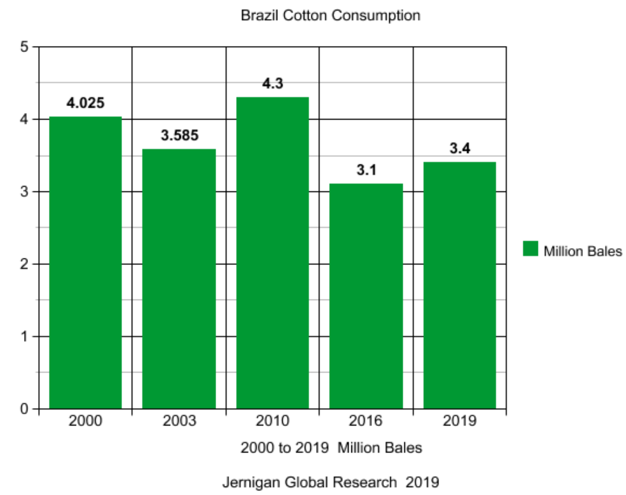


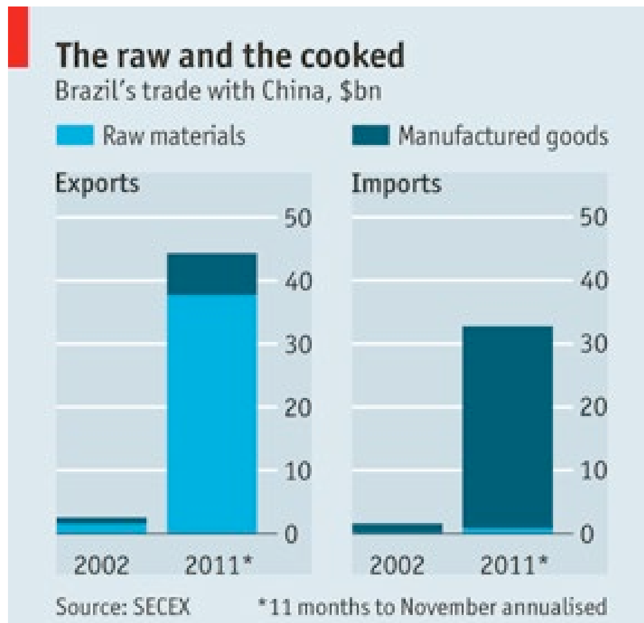
Brazil GDP growth

The previous Socialist administration of Brazil took a confrontational posture with the US and attempted to forge a Socialist future with Cuba, Venezuela, Ecuador, and Bolivia, all considered rogue nations whose economies were eventually destroyed. The election of Jair Bolsonaro ended decades of socialism and represented the first uncorrupt, pro-market, pro-business and law & order administration in decades. He is aggressively attempting to roll back years of harmful regulations, taxes, and a pension system that was rapidly bankrupting the nation. He was recently successful in reforming the country's complex pension system, a task many thought impossible given Brazil's bizarre congressional system, which also needs reform.

Brazil was discovered by Portugal and soon became an important colony for raw material extraction. Portugal's role on the world stage was brief, but in that short period of time they took far more from Brazil than they gave. It also left Brazil with a very convoluted legal system with a host of challenges, including land grants that continue to create havoc in settling disputes regarding land and property titles. It also provided the roots for the socialism that haunted the market and limited outside investment.

The reign of former Brazilian President Lula draws lots of emotion due to the economic growth enjoyed by Brazil during his administration, making him the poster child of the Socialist and global left. Then came the revelation of the massive corruption that his government was involved in, costing the country billions, destroying state championship companies, and resulting in Lula going to jail. The "Car Wash" scandal has since revealed that the Lula and Rousseff administrations were focused on stealing billions, not on helping the poor, as was the party's declared mission. One thing that is clear is that the Lula and Rousseff Administrations appear to have had few if any truly held Socialist beliefs. They failed to protect the nation's workers and the economy from the impact of China's entry into the WTO.

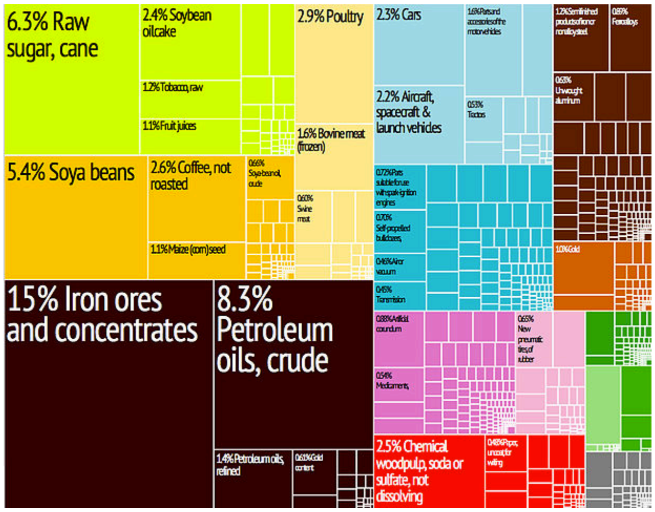




Brazil China trade

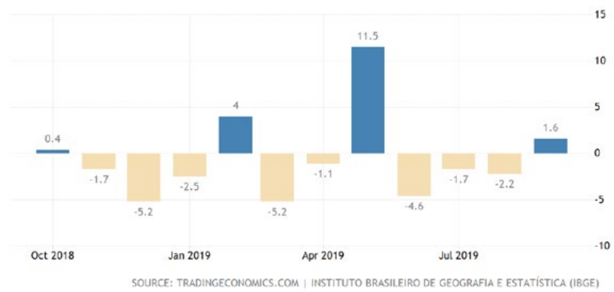
2000 TO 2019 TEXTILE AND APPAREL IMPORTS OVERWHELM BRAZILIAN MARKETS

The Brazilian economy experienced rapid growth from 2000 to 2011, with the country's GDP increasing by nearly 400%, from just over 655 billion USD to 2.67 trillion in 2011. After a couple years of stalled growth, the economy collapsed after the outbreak of the "Car Wash" scandal that is now being called the greatest corruption scandal in history. The investigation revealed a corruption among the business elite and politicians that is difficult to even comprehend. Billions of USD were paid out in brides to corrupt government officials including Senators, Federal Deputies, the President, and others. The largest construction company in Brazil gave 100-million Reis, (about 25 million USD) to the Presidential campaign of Dilma Rousseff, who followed Lula. The interim President of Temer was caught on a tape receiving a cash bribe from the Brazil's largest meat company. Several billionaires went to jail, along with former president Lula. This corruption scandal destroyed consumer confidence and caused a massive collapse in the construction industry and other industrial groups that in turn caused a serious unemployment crisis.



Brazil raw material exporter

The GDP of Brazil shrank by a record 700 billion USD from 2011 to 2017. The corruption involved many of the state-owned champion companies, including Petrobras, the national petroleum corporation, which lost billions and had a significant impact on the country's economy. As expected, the Brazilian Development Bank, like many in the banking and financial sector, was heavily involved in the scandal. Overall, Brazil had developed its version of China's socialist state-owned company model. Even the socialist administration of Lula proved unable to develop a model to protect the Brazilian industrial complex from China's surge in exports once China joined the WTO. Lula became President in 2003, and by 2005 Brazil imported 1.518 billion USD of textile and apparel, with nearly 360,000 USD worth from China. By 2008, the import takeover had begun, with imports more than doubling to 3.832 billion USD and imports from China reaching 1.405 billion USD. By 2017, textile and apparel imports reached 5.974 billion USD, with 2.643 billion USD worth coming from China. When Lula entered office, Brazil consumed 3.585 million bales of cotton, but, despite the economic growth over the next 13 years, as his socialist successor left office the country consumed only 3.10 million bales. Brazil's most socialist government on record still failed to protect its industrial base.

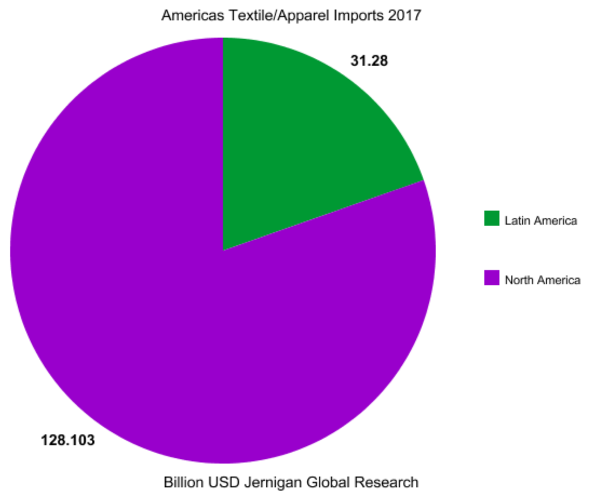


Brazil manufacturing output

A study by Baylor showed that, despite increases in import tariffs, China's penetration in Brazilian textiles and apparel between 2000 and 2012 became the largest suppler of imports, forced much of the domestic industry into the informal sector, and caused domestic wages in the industry to fall sharply from 2000 to 2018.

OPPORTUNITIES MISSED AS REGIONAL TEXTILE AND APPAREL IMPORTS SOAR

In 2000, the Latin America region imported 17.5 billion USD of textiles and apparel, with a bit less than 922,000 USD worth coming from China. By 2005, imports had increased to 21.7 billion, with imports from China jumping to 3.135 billion USD. By 2017, imports reached 31.250 billion. With over a third coming from China, reaching 12.6 billion USD, Brazil met hardly any of that demand. Collectively, the Americas imported more than 159 billion USD of textiles and apparel in 2017, and Brazil continued to miss the opportunity to be a large supplier. The power of the Americas offers a real opportunity for the development of a regional supply chain. Paraguay has been attempting to build a regional supply chain primarily aimed at the Brazil market. Paraguay has a flat income tax of 10%. They own half of the energy generated by the Yacyreta Dam, a joint hydroelectric project with Argentina, and the Itaipu Dam, shared with Brazil. The country can produce between 3,200 and 14,000 megawatts of electricity, which has an average industrial rate of less than $95 per megawatt-hour, while Brazil's industrial rate exceeds $250 per megawatt-hour. It is easy to see why many leading Brazilian companies are setting up shop in Paraguay. After an initial strong start, new investment has slowed, with exports to Brazil slowing. In 2018, Paraguay exported 157 million USD worth of textile and apparel to Brazil from imports of the same from Brazil of 106.7 million USD. Thus, the industry has not really allowed Paraguayan product to replace imported Chinese apparel.

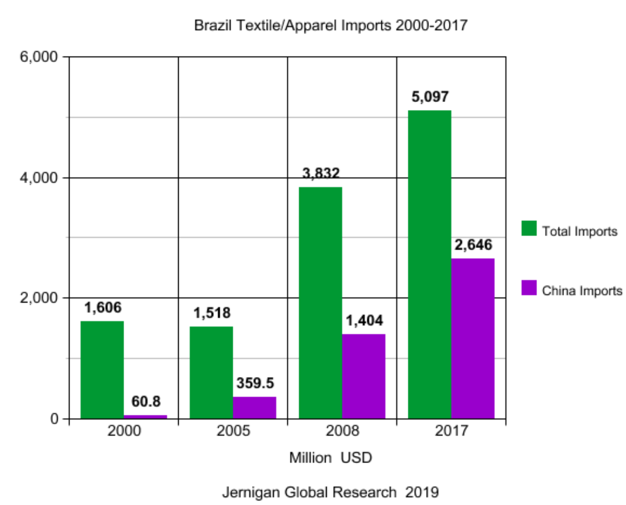


Cotton is a very important part of the Brazilian fashion and apparel market. According to data from ABIT, cotton's market share of the domestic industry was 47.02% in 2018, compared to 59.48 % in 2000. ABIT reported that total fiber use in 2018 was 1,531,000 tons, which equaled 7,034.179 bales of fiber, making the Brazilian industry larger than the US. Brazil has a full supply chain capacity, and it can provide many of the advance fabrics that are lacking in the US. However, the supply chain is very much underutilized. The industry has one of the top-five fashion shows in the world and has an active group of designers. The largest gap in the industry is a formal cut and sew operation. Brazil's overly complicated labor laws and taxes have pushed the cut and sew operations into the hands of subcontractors and then to the informal sector. This has been a major weakness for a brand or retailer seeking to build a completely transparent supply chain in Brazil.

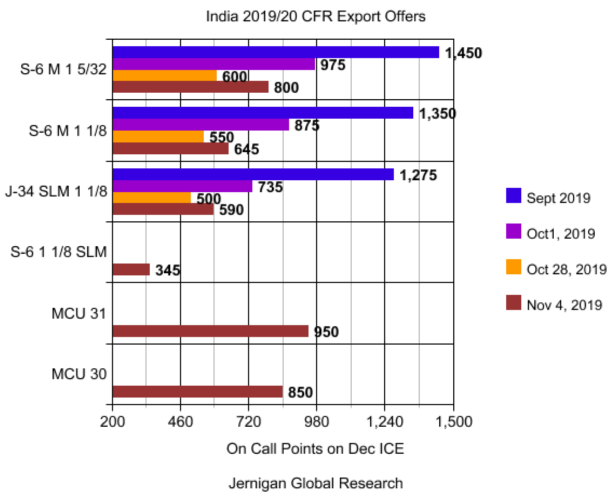
Brazil needs significant reform in its tax and labor laws. This is more complicated than in a lot of countries, since many of the laws are written into Brazil's constitution. Instead of being a broad reference document, their constitution contains very detailed laws, with tax and labor regulations under the control of agencies or departments. For example, taxes on electricity have their roots in the constitution, which makes changing them almost impossible. The complicated tax and legal laws add to the cost of doing business, add layers of time consuming bureaucracy, and ultimately provide the breeding ground for corruption. So far, no political group or leader has been strong enough to reform the system, which will require a massive disruption to the special interest.

The size of the Brazilian market alone makes it a very important market. However, when it is combined with the rest of the Americas, it forms one of the largest markets in the world. The collective consumption of all fibers from the region is near 55 million bales, which means for cotton this is the most valuable market in the world. The potential is huge considering that the development of a complete supply chain across the region could drive cotton consumption to 27-30 million bales.

Up until now, Brazil has focused on increasing commodity exports that are highly dependent on China. The strategy has benefited the country's trade balance while boosting the rural economy. This, however, provides little benefit to the manufacturing regions. Nor does it offer a solution for Brazil's unemployment problem. Brazil has for years underinvested in education, Thus, it will require dynamic leadership, a large investment, and a focus on technical skills if the situation is to be turned around. It remains to be seen if the country will switch focus or remain a sourcing arm for raw materials, including cotton.



INDIAN EXPORT OFFERS TURN AGGRESSIVE



The 2019 Indian crop is beginning to move as harvest expands. The late monsoon has delayed movement and increased moisture content in the seed cotton, which has reduced the quality. CFR export offering basis levels have declined, and the catalog of export offers has expanded to include Strict Low Middling color grades.

MCU 31 mm export offers are at 950 points on Dec, and 30mm are at 850 points on. S-6 1 5/32 offers are at 800 points on Dec, and S-6 1 1/8 are at 650 points on Dec. S-6 SLM 1 5/32 offers are at 345 points on Dec, making it very competitive in many markets. J-34 SLM 1 1/8 are at 590 points on Dec. The basis for the higher grades firmed last week relative to the SLM offers.

Domestic prices are trading below the MSP at most locations. The late rains have driven moisture content higher in many locations, resulting in sharply lower seed cotton prices. The Cotton Corporation of India has not yet started buying in most markets, which has allowed seed cotton prices to fall below the MSP. The behavior of the CCI is very confusing in its lack of early support for seed cotton prices. For example, in parts of Telangana, the seed cotton price has fallen 2000 Rupee per quintal below the MSP, as private ginners were the only buyers for high moisture seed cotton.

The drop in prices below the MSP has allowed export offers to become competitive.

US/CHINA TRADE TALKS ADVANCE BUT AGRICULTURE PURCHASE DETAILS APPEAR WEAK

CCP Party Conclave 2019

The US/China talks appear to continue on track, but a *Bloomberg* planted story last week appeared to cast some doubt from the Chinese side. It was not at all clear what the motivation was behind the story. Another problem was a cancellation of the Chilean Summit due to the unrest, which means another special location will have to be chosen for a Trump/Xi signing. Then came a comment late Friday from China that a consensus had been reached on a Phase 1 agreement. The most worrisome part of the details emerging is that China may agree to lift the extra 25% import duty that was placed on US agriculture imports, and Chinese companies will be free to buy based on needs and prices. The targets announced in the press conference would be just targets, and if that is the case it will likely mean mainly pork, beef, and soybean purchases, with a limited impact on cotton. Under this type of agreement, it would likely mean that the large open import purchase of cotton on the books since before the June 2018 trade war began will be shipped, and US cotton could then compete with Brazil for the limited additional demand. Such terms will not, however, change trading patterns nor assure US cotton offtake. The agreement is also reported to include intellectual property, currency, other purchases, and dispute resolution. The US is reported to be considering delaying any additional tariffs.

The outside factors remain extremely volatile. The CCP held its 41st Conclave last week and issued a stern warning to Hong Kong in which the Chinese leaders called for greater integration into China. It was clear the leadership ignored the Handover Agreement, basically indicating the terms mean nothing to them. The leadership called for a retooling of the city's education system to push the CCP version of events, a revamp of how the Hong Kong leader is appointed and removed, and more Chinese involvement in management of all details. There was clearly no attempt to adhere to the two systems, one country program. Meanwhile, the protest in Hong Kong continues, with the city officially plunging into a recession. Despite the unrest, Chinese companies continue to use Hong Kong to obtain USD. More than 98% of all RMB trading occurs in Hong Kong.

Senator Marco Rubio also has gained additional support to pass legislation that will force US pension funds to pull out of investments in Chinese companies. He also continues his attempt to force Morgan Stanley to reverse its decision to increase Chinese share percentages in its indexes. Then, on Friday, the World Trade Organization awarded China permission to impose $3.6 billion in sanctions against the U.S, a case that predates the trade dispute. The case was dealing with US Anti-Dumping

China attacks on Hong Kong acclerate

Duties on 13 products. The trade disputes are all over. Vietnam announced it seized 4.3 billion USD of aluminum from China that had been falsely labeled, "Made in Vietnam."

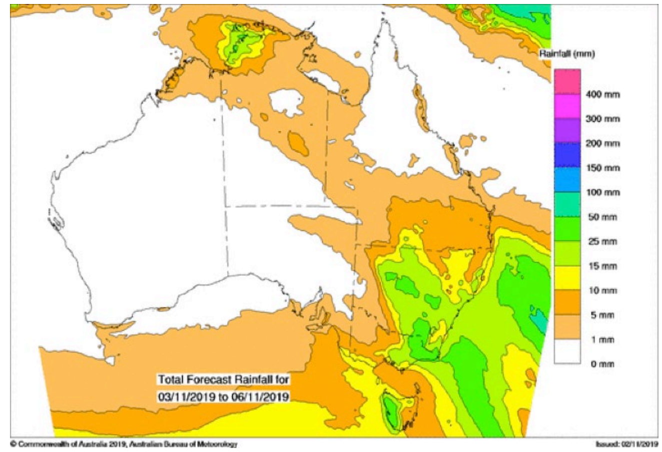
US HARVEST ADVANCES; YIELDS AND QUALITY FALL IN WEST TEXAS

The US classed 1,432,608 running bales last week, pushing total classing volume to 5,588,176 bales. The quality has turned mixed, with a greater percentage of color grades falling to 41. The quality of cotton coming into the Lubbock and Lamesa classing offices has been very short staple, with the averages staple length at Lamesa 34.36 and 34 for the season, with a sizeable volume of 33 and 32 staple. At Lubbock, the office average staple length for the season has been 34.89. West Texas dryland quality and yields have been generally below expectations. The US harvest is advancing rapidly.

LIGHT RAINS FALL IN PARTS OF AUSTRALIAN COTTON BELT

A system brought light rain to parts of the Queensland cotton belt late last week, but rainfall amounts were disappointing, with no more than 10 mm recorded in any one location. The system is now over New South

Wales, where hopes are that rainfall will be substantial enough to provide some relief. The NSW belt will be dry by Monday and then become hot again. At this stage, the rainfall does not look to be of enough volume to improve acreage.



ICE FUTURES STALL AS BOOST FROM POSSIBLE TRADE DEAL FADES

Last week, ICE futures experienced active volume, as Funds rolled out of Dec and the market attempted to move higher, reaching the 67-cent level in March. This is quickly becoming the lead contract, before running into very heavy Trade selling. One feature that stalled the rally was the failure of the Managed Funds to complete their transaction to net long. They instead have stayed short by a small margin. Without their move to a net long position, the rally will stall. The Trade support from export offtake is not chasing the market higher. Thus, the market quickly becomes void of buyers on the strength. Indian export offers are now competitive, giving spinners additional options. The most competitive position of the Indian offers will be in the lower grades SLM and below. The quality appears to have been impacted by the prolonged monsoon. Overall, demand remains subdued, but early indications suggest that some divergence between the lower grades and higher grades may increase as supplies of the top grade SM 1 1/8 and better become a bit tighter. The pressure may come on the SLM offers and below grades. Indian exporters have started offering Shankar-6 1 1/8 SLM at rather aggressive levels and will likely become aggressive if the supply builds further. Pakistan has remained a buyer of many of the SLM offers but not Indian, leaving these offers to find another open-end market. Chinese import demand is likely to remain light due to the port stocks and the fact that Xinjiang machine-picked is still near the same as imported cotton.

We continue to view cotton prices as having discounted much of the negative news. Several of the most negative influences do continue to have influence. These are the hedging of the large 2019/2020 crops as they are ginned. Up to now, India's MSP has proven ineffective in supporting Indian prices, and, at least in low grades, volume can be purchased from that origin at aggressive basis levels. The unsold volume of the US and Brazilian crop will be more pronounced after January, and the African Franc Zone crops will move. Overall, global prices face tough resistance in the near term moving through the 65/70 cent range in ICE futures.

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