CHINA COTTON YARN DEMAND REMAINS STEADY

INDIAN COTTON DOMINATES EXPORT TRADE

ALL ATTENTION ON CHINA/ US TRADE DEAL SIGNING

ICE/ZCE FUTURES CLOSE AT WEEKS HIGHS

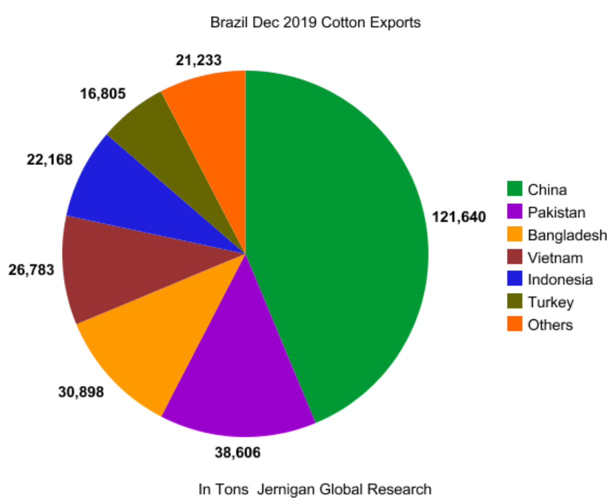
JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

BRAZIL FOB BASIS FIRM DESPITE US/CHINA TRADE DEAL AS RECORD VOLUMES MOVE TO CHINA

The pending signing of a trade deal between the US and China has not triggered panic in Brazilian cotton circles as indicated by the fact the FOB Santos basis and CFR Asia export offers have remained firm. This follows export shipments in 2019 of a record 1.5 MMT of cotton, which reflects a 69% increase over a year ago, with China the top export destination. Brazil also exported a record 45 MMT of corn, an 88% increase year over year. Brazil exported 278,183 tons (1,278,112 bales) of cotton in December, which was a very impressive total. China was the top market, accounting for 121,600 tons (558,691 bales) compared to US cotton shipments in December to China of 124,351 bales. Chinese spinners have become very familiar with Brazilian cotton and are pleased with the quality and the consistency of the Brazilian type grades.

There has also been a significant improvement in the quality of the Brazilian crop. Pakistan was the second largest destination in December at 38,606 tons (177,375 bales), followed by Bangladesh at 30,898 tons, Vietnam 26,783 tons, Indonesia 22,198 tons, and Turkey 16,805 tons.

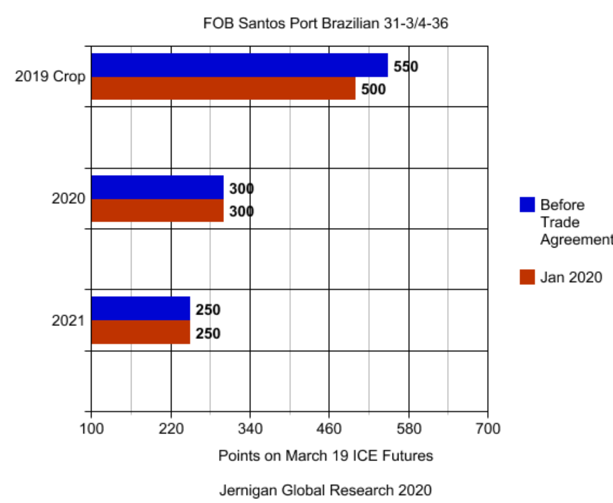
Brazil's relationship with China appears secure. Even as the date of the signing of the US trade agreement neared, Chinese buyers were purchasing more than 10 cargos of Brazilian 2020 soybean crop. Chinese trading firms have extensive investments in Brazilian grain and cotton infrastructure with a lot of staff on the ground. These operations so far have not been impacted by any agreement with the US. Chinese companies also continue to make commitments to new infrastructure projects, such as ports. While the current Brazilian government has made clear its alliance with the US, it is not able to turn down the Chinese investments in needed projects, as few US companies have offered any alternative. With the exception of Cargill and ADM, the US now has few national champion firms to counter the Chinese influence in these projects.

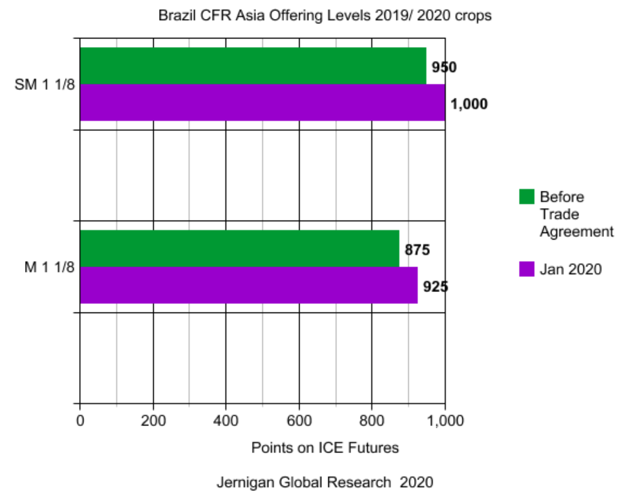


The volume of commodities exported in 2019 was impressive and illustrates the success the new government has had in rapidly improving the performance of infrastructure. Agribusiness in Brazil is a leading segment of the economy and gets the attention of the government, unlike in the US where the attention comes mainly when aid is discussed. However, Brazil's problem with poor governance and corruption remains a serious issue. For example, the paving of the important BR-163 highway is complete, but the widening of it to a four-lane road in Mato Grosso has hit a significant hurdle. Despite tollbooths, which were installed by the company managing the roads, collecting money, it is saying it doesn't have the funds to complete the project. (??) The project, which was awarded by the previous administration, is presently tied up in court. The obstacles faced by the Bolsonaro government are simply shocking.

Growers are rapidly selling forward the 2021 crop to be planted in the December 2020-January 2021 time period. Sales on the BBM doubled a few months ago at 112,275 tons. The forward contracting basis is 250 points on Dec 2021, with growers netting over 72 cents on early sales. Sales of the 2020 crop now being planted are progressing slower at 643,254 tons, which suggests total sales of 840,000 tons out of a 2.6 MMT crop. Additional barter for inputs sales has also been made. The 2020 FOB Santos basis is firm at 300 points on Dec 2020. The 2019 crop FOB basis is very firm at 500 points on March 2020 futures.

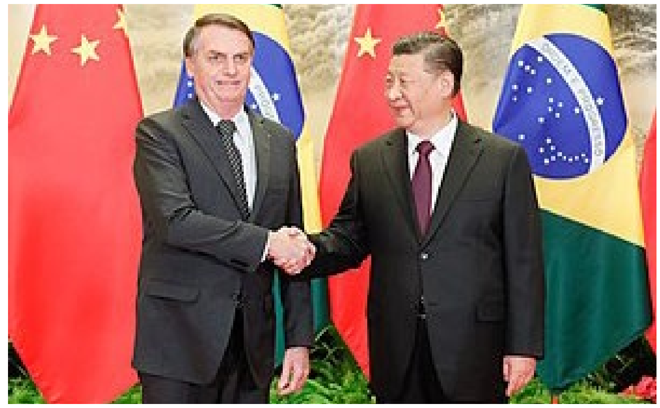
The CFR Asia export basis for Brazilian styles has firmed since the announcement of the US/China Phase I trade deal. Gone are the most aggressive offers that appeared tied to liquidation of cotton obtained through the repayment of barter financing agreements. The cheapest CFR basis offers are now near 900 points on March for the standard Middling 1 1/8 style and can range up to 1100 points on March. SM 1 1/8 and 1 5/32 offers remain in circulation. At the start of December 2019, the spread between the cheapest CFR Asia offer for a Middling 1 1 /8 and the FOB Santos basis reached one of the narrowest spreads on record. That spread has now adjusted itself.

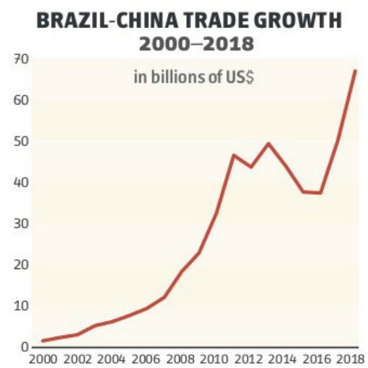


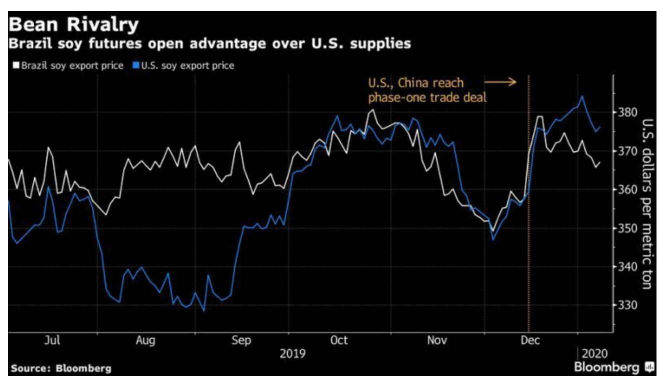


It appears the 2019 Brazilian crop is well sold, and there is no indication of concern from the trade groups that the US/China trade deal should cause any problem for the liquidation of the remaining inventories. As the import data from various destinations becomes available, Brazilian styles have filled the gap left by the smaller Australian crop. The smaller Australian crop has moved to China, with Brazil filling many of the remaining gaps. In Turkey, the Australian that made a splash in 2017 with aggressive cheap basis levels has been replaced by Brazilian in 2019. Turkey's August-November imports from Brazil are 44,470 tons, making it the third largest destination, larger than even Central Asia, while Australian imports are only 295 tons. The ability to fill much of the Australian gap in production and the increased sales to China have prevented additional pressure from occurring on the basis.

The 2020 and 2021 Brazilian CFR Asia basis is unchanged and unaffected by the US/China trade agreement. Both crops are offered at 875-1100 points on Dec 2020 for SM 1 1/8 offers and 800-1000 points on for the Middling 1 1/8 styles. Planting of the 2020 crop continues to expand. Western Bahia is now receiving daily thunderstorms that are welcome, but Mato Grosso and Goais have experienced dry areas.



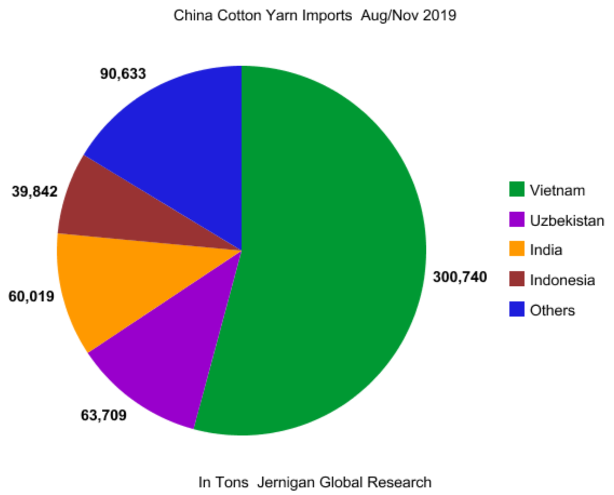




Brazilian soybeans move to discount to US

CONAB raised the 2019/20 crop forecast to 2,755,300 tons (12,659 million bales), which is an increase of 28,400 ton. Planted acreage was raised by 17,000 hectares to 1,661,500 hectares.

CHINA COTTON YARN IMPORT DEMAND EXCEEDS EXPECTATIONS

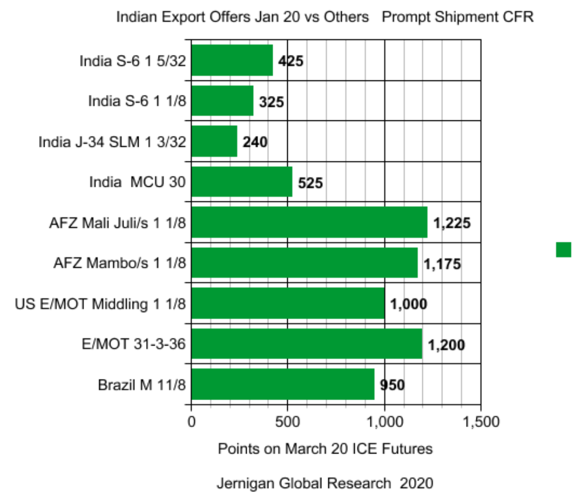


China's cotton yarn import demand has exceeded expectations, as buyers increase purchases from Vietnam. August-November cotton yarn imports reached 554,943 tons, far exceeding the level we had expected. The driver is increasing demand for Vietnamese yarns. Imports during the period reached 300,740 tons, or more than 54% of all demand, and the import level was up sharply from 232,348 MT a year ago. Many of Vietnam's spinners are Chinese owned, which makes the duty-free yarn imports attractive and avoids the extra duty on US cotton imports. Mainland Chinese companies are estimated to now hold 3.0 million spindles of capacity in Vietnam, which is over 30% of the country's total capacity. Imports from Uzbekistan continue to expand, reaching 63,709 tons, which is up sharply from 44,017 tons in the same period in 2018. Uzbekistan yarns are reported to be very popular in the home textile sector. Imports from India have declined as expected, falling to only a third of that experienced a year ago at 60.019 tons during the four-month period. Pakistan yarns are now mostly unreported in customs data under the new trade agreement. Demand from Pakistan is reported to be steady from Chinese buyers.

The better than expected cotton yarn import demand has been a supportive feature to global trade, helping to underpin demand in other markets such as Vietnam and to maintain Uzbekistan cotton use.

CHINESE MILLS BELIEVED TO HAVE PURCHASED BLOCK OF INDIAN COTTON AS DISCOUNT EXPANDED

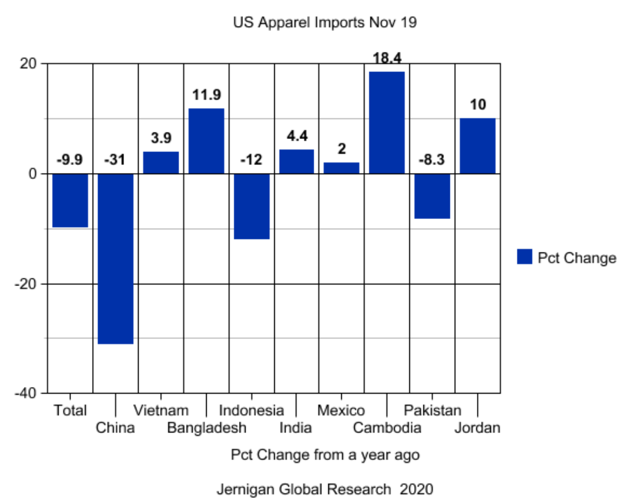
The recent widening of the Indian export offering basis for a Shankar-6 1 1/8 to a discount to the domestic cotton price in China triggered spinners holding unused 2019 import quotas, which require cotton to arrive at Chinese ports by February, to enter the market and take up a block of Indian styles that might have been as large as 30,000 tons. This marks the first major Indian purchase in some time. Indian cotton has always been popular with Chinese spinners for its likeness to domestic cotton, especially the Eastern belt cotton. Indian cotton is now the cheapest in the world and has been enjoying increased demand during the past couple of weeks. Bangladesh has been an active buyer of Indian cotton, and we expect them to replace Central Asian in volume. Bangladesh mills also have been taking up African Franz Zone styles, which are popular with spinners. Chinese spinners have also been taking up Indian stocks held at bonded warehouses.



Indian cotton continues to be the cheapest in the world. Shankar-6 1 5/32 offers are in circulation from Indian shippers at 425 points on March CFR Asian ports, which is at least a 700 point discount to Brazilian SM 1 1 5/32 offers when available. It is a 900-950-point discount to US E/MOT Green Card 31-3-37 offers, and a 750-800-point discount to US SM 1 5/32 offers. Indian J-34 SLM 1 3/32 is offered at 225 points on March CFR, reflecting a stiff discount to US and Brazilian qualities of the same grade. Such discounts will continue to attract offtake from a host of destinations. Indian exports will exceed estimates if this discount continues for an extended period. The discount of Indian styles to African Franc Zone offers has reached a record, with the Shankar-6 1 5/32 offers at a 1000 point discount to the Cameroon Plebe 1 5/32 offers.

It is clear the greatest selling pressure is on Shankar styles out of Gujarat, where new crop arrivals have already reached 2,568,149 bales as of the first of the year. Total arrivals as of January 2nd are 11,695,839 bales.

US APPAREL IMPORT DEMAND PLUNGES 9.9% IN NOVEMBER



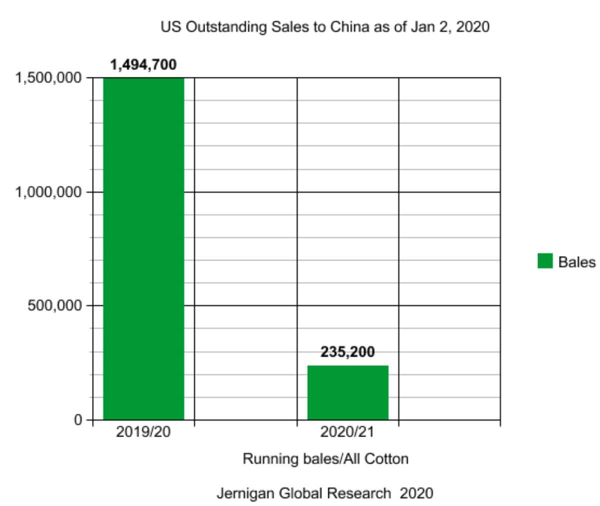
US textile and apparel import demand in November was extremely weak, as importers, influenced by weaker retail demand, pre-ordered ahead of possible trade disruptions. Total imports fell 4.79% in volume, lead by a 9.4% drop in the volume of apparel imports. Cotton apparel imports fell 9.3%, while man-made fiber apparel imports declined 9.4%. Focusing on apparel, imports fell 9.9% in value to 5.540 billion USD, and the largest supplier remained China, which saw imports decline 31% in value to 1.383 billion USD while the volume fell 20%. Chinese companies also continued to move Chinese fabric to other cut and sew centers to avoid the trade drama. Imports from Cambodia soared 18.4% to 200.228 million USD, making it the eighth largest supplier. Cambodia is only a cut and sew center, with no cotton spinning or yarn production facilities. Cambodia is a loophole for Chinese apparel. Every year to date they have exported more cotton apparel to the US than key CAFTA supplier Honduras.

Jordan is also becoming a major supplier to the US, and once again it's Chinese fabric being cut and sewn in Jordan and then shipped duty-free to the US market. Imports in November reached 102.98 million USD, which was up over 10%. Vietnam was the second largest supplier in November, with imports increasing by 3.9% to 881 million USD. Despite Bangladesh's weakness in exports to the EU, it expanded exports to the US by 11.9% to 420 million USD. India also expanded exports by 4.4% to 254 million USD. Pakistan saw its apparel exports to the US decline 8.3% in November to only 105 million USD, about half the level of Cambodia. On a year-to-date basis, the US has imported more textiles and apparel products from Cambodia than from either Pakistan or Turkey, which are large buyers of US cotton.

Ethiopia is on track to be a major supplier to the USA, with November imports reaching 23.208 million USD for a 129% year-on-year increase. Year-to-date imports through November suggest 2019 imports will be near 210 million USD, which is making it a serious player in the US market. Ethiopia has duty-free access to the US, EU, and most major markets. It has drawn record Chinese investment and some sizeable investments by Indian groups. In the US, cotton apparel makes up more than half the imports. The large influx of duty-free apparel imports from African destinations is being made from Chinese fabric. Cotton consumption across the region has not experienced any real expansion.

US/CHINA TRADE DEAL TO BE SIGNED JANUARY 15TH – WILL OUTSTANDING US COTTON SHIPMENTS FINALLY OCCUR?

For Cotton, the US/China trade deal is about future sales and outstanding sales. As of January 2nd, the US had 1.4947 million running bales of cotton sales to China for 2019/2020 shipment outstanding. This represents nearly 620 million USD in sales and is likely over a third the value of any specific cotton allocation in the trade arrangement. Thus, this is a significant volume which, if canceled or if shipping continues to be delayed, means losses to merchants, coops, and marketing pools. Indications are that under the signed and executed trade agreement much of this cotton will be shipped. It also means that China will face less immediate pressure for additional purchases. The remaining purchases could be executed at any time during the next year, and it could well be into the 2020/2021 season for purchases to occur. This, of course, would reduce the impact of the agreement on demand.



As we finish this week's report, the signing of the trade agreement is on track for January 15th, and the Chinese have confirmed the date as well. A host of outside forces and events do not appear to be influencing the agreement, as both sides have shown restraint. In the US, the Congressional-Executive China Commission called on President Trump to push for human rights and democracy in China. It also called for the President to make human rights part of any trade negotiations with China. This push came in the commission's 2019 annual report, delivered last week. The report said that China may have committed "crimes against humanity" in Xingang. Such charges are serious and would bring China before the International Criminal Court in Rome. The release of the report attracted press coverage where Uyghur families with missing members presented their photos at the release press conference.

Hong Kong issues also appeared pushed to the back burner. However, China announced a new liaison officer for Hong Kong, Luo Huining, who is known as a hard liner. This has raised fears of a greater crackdown. Meanwhile, the police abuse and disappearance of citizens continues to raise fears that a Xinjiang style mission is underway, but without the fanfare. China appears to be taking the trade truce as an opportunity to make its move. Videos have appeared indicating an increase in random attacks on citizens and random arrests by police. So far, the US executive authority granted through the Hong Kong act has not been used.

Another trouble spot opened in the ongoing confrontation with Iran when it was revealed the terrorists were using a China-backed bank for transferring funds. In addition, China's aggression in the

South China Sea has resulted in a confrontation with Indonesia.

Capital market disputes are going to continue and will not be impacted by the trade agreement. The Chinese government has now made clear that all state-owned or partially state-owned companies are vessels of the Chinese Communist Party. New regulation puts Communist Party committees in state-owned or partially state-owned companies ahead of the board of Directors. The CCP Party Secretary of a state firm must be its chairman and execute the will of the party. The legislation says the party unit must be three or more persons and cannot be held accountable to any court or regulator. It goes on to say that all major business decisions must be presented to the CCP before going to the Board of Directors. The Chairman of the Board and the Party Secretary should be the same person. These have major ramifications for cotton and agriculture in general. They apply to companies with partial western ownership or shareholders through an offering on a stock exchange. This means the large agriculture companies who own extensive assets in the US, as well as in Australia, Brazil, and other places, are now under the CCP. This has raised questions of how the US can allow these companies to operate, due to national security risk.

This is likely to draw the interest of the US Congress. The CCP role in these companies will result in greater oversight in any asset purchase or in the sale of products to any public entity. The purchase of global agriculture products company, Syngenta, has allowed Chinese state ownership to penetrate deep into US crop technology. It is clear that regulators had no idea what they were doing in approving the purchase. The owner of Syngenta, ChemChina, which provided a host of assurances, is now being merged with Sinochem. The merger is occurring without any outside shareholder approval and was launched without notice or fanfare at the will of the CCP. In complete disregard for any outside shareholder investors or even the commitments made to global regulators who approved the merger, it was announced in an email that Sinochem Chairman Frank Ning Faoning would suddenly serve simultaneously as Chairman of both Sinochem and ChemChina, two of the largest companies in the world. Making this even more surreal was that Ren Jianxin, the Chairman of ChemChina, was the one who negotiated the purchase of Syngenta and of the Italian tire maker, Pirelli. According to the *Financial Times,* he made personal commitments to Italian and Swiss regulators, investors, employees, and politicians that he would make sure both crown jewel companies would be handled with care. However, without notice, Ren was gone.

Chinese state companies now vessels of CCP

Syngenta sales to ChemChina

Ren Jianxin led Syngenta purchase and 100 other mergers & acquisitions, and lifetime CCP member

Sinochem trades on the Shanghai exchange and is reported by Reuters as having a debt to equity ratio of 76.92. Its major shareholders are all other state-owned companies. The US Senate already has a bill moving through its chamber that would require the CCP officials in any company listed in the US to be disclosed. It would also require that public pension funds be prohibited from investing. This is going to be a hot spot.

Back to the trade agreement, if the outstanding 1.5 million-plus bales are shipped to China, then the undisclosed cotton purchase requirement for 2020 should drop to a billion USD or less. This would still allow for purchases of nearly an additional 2.1-2.2 million bales during the next 12 months. The expectation is that the individual commodity targets will not be announced, but be flexible and tied to demand, which raises a lot of questions for cotton. Last Thursday the futures markets acted very bizarrely when the agreement is considered. To begin with, the gains were led by cotton, which posted strong gains, while pork futures were weaker, falling 1.22%, and the futures actually are well off the highs and appear in a bearish chart outlook. Strange, given China's demand expectations for pork and the fact that beef closed near contract highs in contrast. Soybeans were also lower and stalled in their gains all week. Maybe this is all just the influence of the Managed Funds, but it is bizarre from a trade agreement perspective.

As last week ended, all attention began to turn to the symbolic moves of China as the signing week arrives. Commentary from the top and most accurate market analysis suggested China will need to make a large splash this week near the signing of the agreement with very large purchases of US products. They suggested soybeans would be one commodity where a large purchase was needed. There are worries regarding this occurring, since Chinese buyers last week purchased several large cargos of Brazilian soybeans. The price was at a discount to US soybeans by a small margin. Regarding cotton, net sales during the week ending January 2nd totaled only 700 bales, and shipments of 34,000 bales. If China simply signs the agreement at the White House and offers no sizeable goodwill purchase, then many appear ready to take this as a very negative sign for the future of the agreement. *Bloomberg* reported that executives from private companies would signal approval at the signing ceremony. China has given approval for American Express to move forward to operate in China and announced it was opening its oil and gas sector. It is expected that some new deals will be announced at the signing besides the agriculture purchases. Lots of attention will be centered on any deals of real substance.

US EXPORT SHIPMENTS CONTINUE TO LAG AS SEASON ADVANCES

In the US, 2018 was a successful year for the cotton export industry, with US cotton export shipments reaching 16.279 million bales for 2017/2018. This was the second largest export shipment on record, exceeded only by the 17.673 million bales shipped in 2005/2006 when the Step 2 payment boosted shipments. Adding to the impressive record was the fact that in 15 weeks, January–July, weekly export shipments exceeded 400,000 running bales of upland. In three of those weeks shipments exceeded 500,000 bales. This record compares to 2019 when exports only exceeded 400,000 running bales of upland in two weeks early in the year. In the 2019/2020 season, the marketing year high for upland shipments is only 343,900 running bales. US export shipments for the week ending January 2nd reached only 211,400 running bales of upland and 5,400 of Pima. While it was a holiday week, the export pace was far short of what is needed to meet the USDA's export targets.

The US faces a crisis in export shipments. With 30 weeks in the season, the US faces the burden of needing to ship an average of 400,772 480-lb. bales a week the remainder of the season to meet the USDA's target of 16.5 million bales. Such a steady level of export shipments has never happened before. As we discussed, in the successful 2017/2018 season the

export shipment pace still only exceeded 400,000 bales in 15 weeks of the second half of the season, and not 30 weeks. The reasons for the slow export pace are not just logistical issues, but as we have discussed several times, approximately two million bales of sales that were carried forward from 2018/2019 are likely to be canceled. Merchants have been attempting to work these sales out either by switching to forward shipment or adjusting prices. However, any of these sales could still be canceled. In the week ending January 2nd, 66,400 running bales were canceled, India canceled

19,400 bales, Pakistan 44,000, and Vietnam 1,500 bales. Destination changes were also noted from India, Hong Kong, and Nicaragua.

The second issue, which we have discussed many times, is the 1.5 million bales of upland sales still outstanding to China. The real issue with these sales is the price at which they were sold, 10-20 cents a lb. above today's prices. Once we move past these issues there are the logistical hurdles, which suggests the US faces a real barrier under the current structure shipping over 350,000 bales a week on a continuous basis. Despite the challenge, no major initiatives appear to be underway to address the issue.

For the past five weeks, US upland export shipments have averaged only 207,512 running bales. If the US ships only an average of 225,000 480-lb. bales the remainder of the season, US exports will reach a mere 11.2 million bales, which would add 5.3 million bales to US carry over. If shipments the remainder of the season increased to a moderate average of 300,000 480-lb. bales, this would be over a 30% increase from the recent level. Exports would reach just 13,462,725 bales, again leaving the carryover with a large increase. In the WASDE estimate, the USDA left the export estimate unchanged at 16.50 million bales, despite the lowering of world trade. Currently, 13.50 million bales is a more reasonable US export estimate given the requirements that volume must increase a third in each of the remaining weeks of the season to even meet that target. This would raise the US carryover to 8.4 million bales and mean that in 2020/2021 the export requirement will increase by a very wide margin. It will take some extraordinary shipment volume soon to alter this outlook.

The US will need to export 18 million bales annually in the years ahead if US cotton acreage is going to be maintained unless domestic consumption experiences a massive turnaround. The question is how this can be achieved without new investments and a more modern warehouse system.

USDA LOWERS HARVESTED ACREAGE AS WEST TEXAS YIELDS COLLAPSE

The 2019 harvest in West Texas was a disappointment, and we have been shocked at the number of growers who have indicated that crop insurance adjusters, when they entered their fields, soon indicated that it would be uneconomical to harvest the cotton. It occurred on dryland, but also on what normally would have been partially irrigated acreage, but received little water. The crop was also subject to an extended period of extremely hot temperatures. The USDA lowered the US harvested acreage by 710,000 acres, but production by only 104,000 bales to 20.10 million bales. The average US yield was raised to 817 lbs. per acre from 777. The losses in 2019 in West Texas have taken a toll on growers' balance sheets, and it remains to be seen how some growers will be able to obtain crop finance. The very volatile weather is always a problem for growers, but crop alternatives are very limited. Industrial hemp has been approved for the 2020 seasons in Texas, and the crop would likely grow well in the West Texas region and handle the volatile weather much better than cotton. However, there are no processing plants. One has been announced located just north of Lubbock, and forward selling of the crop is very risky and depends on the financial balance sheet of mostly untested buyers. In other states, the failure of buyers to honor contracts has been an issue. Moreover, the absence of large scale processing plants for industrial hemp able to handle the necessary volume is a major drawback to the crop.

As for 2020, growers will face very limited crop options across the West Texas region, with cotton remaining the main crop and water again being the issue. The consensus is that planting intentions will fall by approximately a million acres, but that will change with the movement of the Dec 2020 futures.

AUSTRALIA UPDATE: BRUSH FIRES CONTINUE BUT A FEW SHOWERS OCCUR

The tropical system in the North brought rains to the North areas of Queensland, and another system brought isolated showers to New South Wales. The rains were heavy in Northern Queensland but very light and isolated in NSW. An isolated 25 MM fell in Parkes and 18MM in Dubbo. Elsewhere, 1-5 MM occurred in the cotton belt. To the East, the Hunter Valley received from 2-36 MM. Fires continue, with a major breakout in the beautiful Snowy Mountain range.

Our thoughts and prayers continue for all of Australia and for the arrival of a major rain event.

ICE FUTURES MOVE SHARPLY HIGHER AS SPECS BUILD A NEW NET LONG POSITION

Both ICE and ZCE futures moved higher last week, with ZCE May futures closing at 14,300 RMB a ton, or 93.74 cents, which reflected a gain for the week of 265 RMB or 1.73 cents. March ICE closed at 71.31 cents, for a gain of 2.11 cents for the week. Our targets of 70.00 to 72.50 in March ICE are now occurring. The move higher in both futures markets has been driven by a lot of speculative buying. In the period up until January 7th, the buying was led by Swap Dealers, Index Funds, Other Reportable Funds, and the Small Speculative Funds. New 2020 allocations to Index Funds and some rebalancing have pushed the Index Fund's net long position higher. As the week advanced, the Managed Funds appeared to enter as buyers. The gains have meant spinners have had to adjust cotton yarn prices, and growers have been steadily selling from origins around the world, forcing spinners to cover nearby needs in the cheapest priced cotton available, which is mainly Indian and US/Brazilian recaps. Indian cotton has moved in some volume into several markets due to its discount to US and Brazilian as well as African Franc Zone styles. Chinese mills with unused 2019 import quota have been buyers. Indian cotton can be landed in the mills under the general quota at a discount to domestic cotton. As of Friday, January 10, China's cash cotton Index closed at 13,823 RMB a ton or 90.63 cents a lb. This was a discount to the May ZCE close of 14,300 RMB a ton or 93.74 US cents a lb. The Cotlook A Index after VAT and import tax was 90.35. Indian Shankar-6 1 5/32 was offered at 85.15 cents after VAT and import tax. The attraction is clear. Bangladesh was an active market with Indian featured with US, African Franz Zone, and Brazilian. Pakistan and Turkey were also active. There is no evidence of improved cotton demand in China. However, the large gains in the ZCE and ICE are triggering activity. At the end of last week, large cotton spinners raised their yarn prices sharply, while smaller spinners continued to offer more moderate increases. These discounts attracted some business. Weavers generally appeared willing to accept only a small increase in yarn prices, which limited trade. Weavers appear to be continuing to focus on maintaining low inventories. The willingness to accept only a small increase in yarn prices has meant yarn margins on new cotton purchases are negative at the moment. Polyester prices have shown a small increase but remain ready to take business from cotton. Poly prices have increased only a tiny fraction of the cotton rally, with prices offered at 45/46 cents. Massive new capacity is sitting idle until after the Chinese New Year and then will come online, which has limited any attempt to move prices higher.

A large amount of African Franc Zone cotton moved from local marketing organizations into merchant positions last week. CFR Asia offering basis appear to currently fall into a range of 1125-1300 points on March and May ICE futures for a SM 1 1/8 type. These levels put these styles near par with US Green Card E/MOT offers, at a premium to E/MOT type offers, and a premium to Brazilian offers. They are also at record premiums to Indian offers. Now the Indian discount has made that origin the center of buyer's attention in China, Bangladesh, and Vietnam, where African Fran Zone styles normally experience strong demand. It remains to be seen if merchants are willing to hold the basis with futures above 70 cents.

US crop movement was very active, with heavy trade and fixations daily. The fact that much of the buying through Tuesday was Index and other smaller funds means that the Managed Funds that remained only 20,879 contracts net long coming into Wednesday still have room to buy aggressively before reaching the 50,000 contract level. The New Year has also brought new allocations, and it appears that the record performance of the stock market may have brought some new allocations to the long only Commodity index funds. Such allocations can have a very positive effect, since these funds go long and do not change positions except over the long term. The buying in cotton remained tied to index or speculative fund buying. The bizarre nature of futures behavior ahead of the signing of the trade deal continued Thursday and Friday, with cotton (least and weakest demand expected) leading the advances, while hogs were weaker to mixed, and Soybeans had a marginal gain.

From a technical standpoint, cotton ended the week over extended but in a positive position. The CFTC data reveals the managed funds have additional room to extend longs before reaching 50,000 contract net long, which is considered a moderate long position. China's ZCE futures appeared to face resistance, as demand also failed to follow the recent gains. 1,177,800 tons, or 5.411 million bales, have been certified for delivery. So far, this has not halted the speculative buying. Overall, the market is now in the area where it can move toward 73.50-74.00 before encountering major chart resistance.

Next week will bring the signing of the US/Chinese trade agreement, and with it new dramas.

JERNIGAN GLOBAL

KNOWLEDGE IS THE NEW CAPITAL

@Globalej @JerniganGlobal Eddie Jernigan Register for Research info@JerniganGlobal.com ed.j@jernigancg.com JerniganGlobal.com