WILL AUSTRALIAN 21 CROP DEMAND BE IMPACTED BY CHINA?

VIETNAM COTTON DEMAND ROBUST : WILL VIRUS IMPACT SHIPPING?

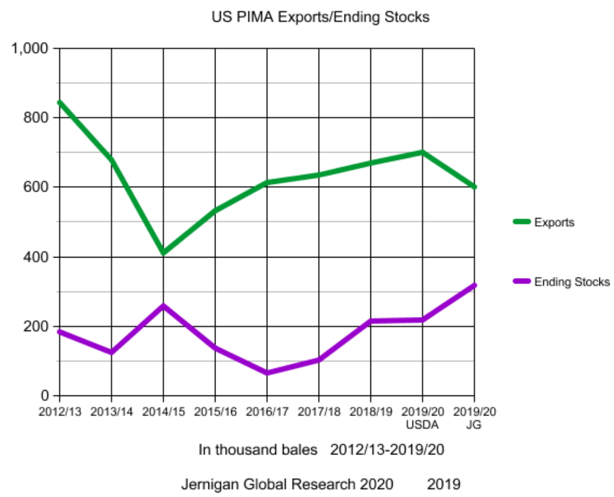
INDIAN COTTON PRICES HOLD STEADY

CORONAVIRUS REMAINS OUT OF CONTROL IN CHINA

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

ELS DEMAND FALLS! WHAT HAPPENED TO CHINESE DEMAND? WILL UPLAND HIGH GRADE DEMAND BE IMPACTED?

It appears the Chinese economy experienced limited damage in 2018 from the trade dispute with the US. Fung Business Intelligence estimated retail apparel sales at 2.077 trillion RMB or 297 billion USD, while luxury product sales that same year are estimated at 770 billion RMB or 115 billion USD by Mckinsey & Company, with apparel accounting for approximately 20% of those sales. ELS cotton use in China appeared to be booming, with consumption estimated at 643,230 bales or 140,000 tons, which represented more than a third of total estimated ELS cotton use that season. US Pima



played a crucial role in that usage, accounting for an estimated 36.5% of total usage. 60% of the consumption was estimated to be made up of domestic ELS, with the balance other imported ELS, such as Egyptian. For the US Pima industry, China was the most important market in 2018/2019, exporting 234,600 bales, which accounted for 35% of all US exports.

The data we collect from domestic textile production and prices suggests that the Chinese domestic textile and apparel market suffered a significant period of weakness after September 2018. That collapse didn't stabilize until June 2019, recovering just in time to peak a month later in July before falling into the current condition. The most interesting feature regarding the collapse was that the data point to the initial 2018 collapse was being driven by weakness in domestic apparel demand. The export data for 2018 indicates total textile and apparel exports reached 276. 73 billion USD, which means, if the Fung estimate is correct, that China's domestic apparel market that year became larger than exports for the first time. This puts the domestic market on lofty footing, and it also creates a lot of unknowns for those attempting to complete analysis on this market.

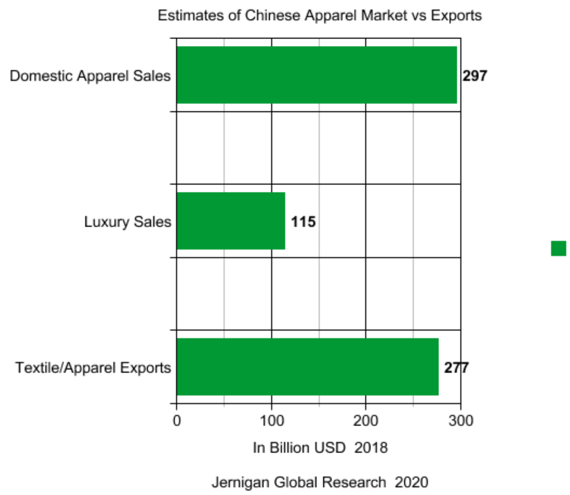
In the boom days of retail

Boom days

Stores closed as Virus spreads

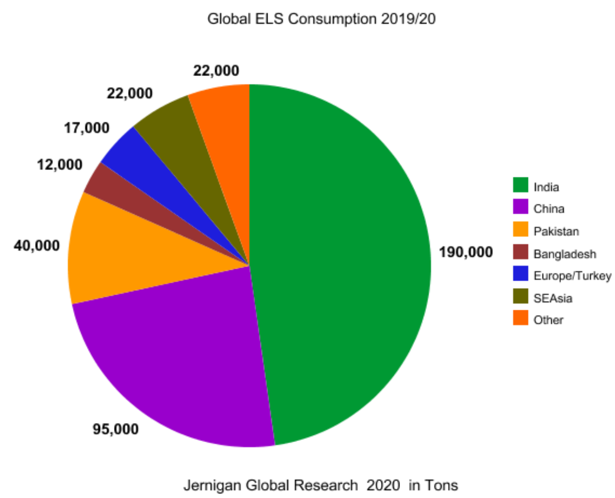
The trade war and its disruptions to sourcing, especially cotton apparel, played a major role in the second turndown. The US Pima export data follows a pattern somewhat linked to the downturn in the domestic apparel market. US Pima export sales in 2019/2020 to China have slowed to a trickle and have played a key role in the price weakness that continues to be evident. The average CFR Asia export offer for a GC 2-2-46 is now 124 cents, which is the lowest since 2013. The US has also issued its first Pima Competitive Payment of 600 cents in order to trigger sales. At the root of this weakness is the fact that as of the end of January 2020 US Pima sales to China have totaled only 46,000 running bales, a collapse from a year ago when sales already stood at 157,700 running bales. Egyptian export data for 2019/2020 indicates there has been no switch to Egyptian ELS styles due to the tariff. Total 2019/2020 Egyptian export sales to China have reached only 834 tons or 3,832 bales.

At first we tended to view the decline as being linked to the 25% tariff placed on US cotton imports. However, that argument did not hold. Chinese mills could still use processing import quota to get the Pima needed to fulfill export contracts. If the brands and retailers had simply switched the orders from China to other locations, the decline in China would likely show up in other locations due to the SUPIMA licensing program that requires verification of US Pima use. By the end of January, US Pima export sales were up 55,700 running bales from a year ago in the top nine non-Chinese export markets. This suggested that a significant portion of this increase was brands and retailers changing sourcing options. The increased sales were focused on Turkey, India, Bangladesh, Pakistan, and Indonesia. A closer examination also showed that Pima demand from the US and European customer was strong, accounting for a portion of the increased sales.



If it is assumed that 75% of the increased use outside of China was linked to a change in sourcing demand, then the remaining 25% was due to new demand. This would mean that a 115,915-bale drop in Chinese Pima demand is linked to the collapse in the domestic apparel market. This weakness could be tied to menswear, which accounts for 22.6% of the market, and sportswear, which is 12.7% of the market. The largest segment is womenswear. Ancillary data from the Australian Wool Innovation research indicates that the Chinese luxury customer has been showing a preference for natural fibers, and that several major top domestic brands in womenswear have launched successful lines focused on 100% wool or wool blends.

There is also evidence that Xinjiang ELS is popular in the domestic market, especially home textiles, where several domestic brands and retailers advertise the link to domestic ELS cotton. Alibaba features a host of these brands in its domestic offering. Suppliers to the domestic apparel market now face great uncertainly. Of the 297 billion USD in annual sales in 2018, an estimated 17%, over 50 billion USD, occurred in the important January-February time period. We know that 2020 sales during January-February have been a disaster, with most major retailers closing stores that have not yet reopened, and the normal e-commerce focused on the delivery of essentials. This fact suggests that a drop of 60%-75% could occur. The virus has not yet peaked, and there are no signs of any lifting of the quarantine of over 50 million people. People have begun to return to work, but the apparel retailers are not viewed as essential business. This suggested that March and May retail sales of apparel will certainly be affected, but past this point is unknown.



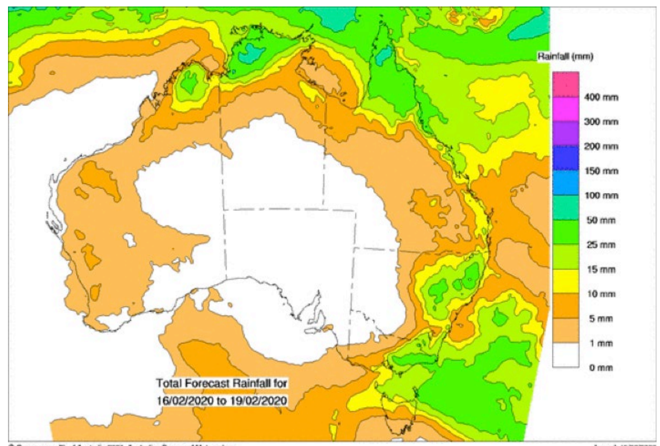
These conditions indicate the outlook for Chinese ELS consumption in 2019/2020 and 2020/2021 will be weaker. The USDA estimates that US Pima exports will reach 700,000 bales, which would exceed the 671,000 bales exported in 2018/2019. The weakness in Chinese demand will make that target difficult, but if the increased demand from the non-Chinese markets remains strong, exports may reach 600,000 bales. Total ELS consumption in China appears set to fall to 100,000-110,000 tons, or 459,450 to 505,400 running bales, or possibly even lower. The Domestic Apparel market has simply never faced an event like the Coronavirus or the government's bizarre attempt to contain it, which has created a humanitarian crisis. The bigger question is how will this weakness impact demand for the now expected larger 2021 Australian crop?

THE BIG WET CONTINUES RAISING HOPES OF A MUCH LARGER 2021 AUSTRALIAN COTTON CROP

On Farm Storage NSW

Only a few weeks ago it was as if the apocalypse had arrived in Australia, as record brush fires engulfed the entire country and the Bureau of Meteorology said no rain was in the forecast. As has often proven to be the case, the optimism of the bush overcame the pundits, and rains arrived. As the weeks have passed, the last fires are out and the rains have become the beginning of what could be the BIG WET. Paddocks have turned green, fields and rivers have flooded, water is again running into the dams, and some flooding has allowed the first building of on-farm storage in years. This is all occurring as millions of liters of water are wasted due to the lack of dams and collection reservoirs or a water management scheme in the north where very heavy rains have occurred and the floods are causing damage. No real political leadership has occurred on the water management scheme, and the Greens continue to be a destructive force for the country, as does radical labor. For the 2020 cotton crop, the rains have helped fill any gap in water supplies. The new challenge will be if they continue into harvest, planting of the 2021 crop is 5-7 months away, depending on the region, and there remains plenty of time for dams to fill and on-farm storage to build.

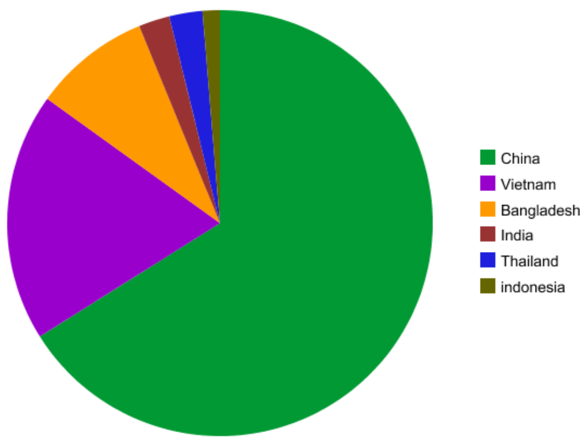
Last week, tropical cyclone Vesi moved off the eastern Australian shoreline, producing very heavy rains in the coastal towns and much less rains inland. In the 24 hours ending February 13th, Mullumbimby, which is in the Northern Rivers region on the coast, received 168 mm. It is located 530 km east of Moree. Wee Waa reported 24mm. Isolated pockets of light rain occurred across eastern Australia, and the region will have a chance of rain through Monday. By February 13th, weekly rainfall had reached some impressive amounts. In Gunnedah NSW the river was running after 75-100 mm, Tamworth received 124 mm, Narrabri 127 mm and higher, Wee Waa 116 mm, Condobolin 112 mm, and in the Riverina 50-75 mm was common. Out west, Collarenebri recorded 160 mm or more. In Queensland, 100 mm or more fell last week in Theodore, Dalby, Oakey, Toowoomba, and Roma while lesser amounts have fallen elsewhere.



The dam levels are not yet where irrigation allocations will be large in most areas, but the ground moisture is such that future rains will have rapid runoff into most reservoirs. The stage has been set to return to over a million bales production and could be much larger. Dryland acreage could add 500-750,000 bales alone if additional rains occur to maintain soil profiles. This raises the question of what demand will look like if the 2021 Australian crop reaches two million bales or more. The reason for that question is the heavy focus on China, which has dominated exports the last three seasons. In 2017, Australia shipped over 600,000 tons or 2.75 million bales to China, and in 2018 they shipped 620,000 tons to China. Over 70% of the crop moved to China. The same was true in the much smaller 2019 crop. The strong demand from Chinese mills has resulted in the shipments of large volumes of unsold Australian cotton into the Chinese bonded warehouses in order to meet the needs of spinners. That practice worked well until demand slowed in 2019 following large shipments into consignments from the 2018 crop, and again 2019 crop left unsold stocks. It has been clear that, just as with Pima, demand from Chinese mills has turned softer since September 2018, but it does not appear to be as significant a drop as has occurred in Pima.

Pima and Australian cotton have always been closely interlocked in China, with spinners using the 39/40 staple Australian high strength cotton to replace Pima or to blend with in the 60,70 and 80 count yarns. The strong demand from China has allowed the Australian CFR basis to Asia to enjoy record premiums to US Green Card offers of near the same quality. Currently, the rains have begun to restart interest in the forward crops. The Australian 2020 FOB basis has weakened slightly to 1500-1550 points on May futures, which has put cash prices at 625 Australian dollars or higher per bale. The 2021 crop FOB basis is 850-900 points on May 2021, or about 585-590 Australian dollars a bale. Up until now, CFR offers for the 2021 crop had been difficult to find, with merchants worried about the crop. Expectations are that the 2021 crop SM 1 5/32 + will be offered at 1600-1800 points on May 2021 futures, compared to the West African SM type 1 5/32 offers of 1400-1500 points on the cover month.

2018 Australian Exports in Tons

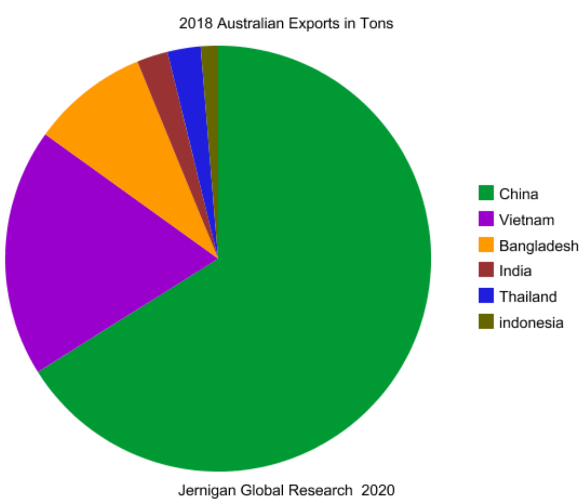


Jernigan Global Research 2020

It remains to be seen how such offers will be received in China where traders are holding expensive 2018 and 2019 unsold Australian stocks. The 2021 Australian crop faces a much-improved Brazilian crop, where Middling 1 3/16 offers will be available. This will pressure the Aussie basis in Indonesia, Turkey, Vietnam, and Thailand. The Australian cotton will be much higher color grades, lower leaf and higher strength, which suggests its basis premium will be supported. However, these features appear to be the most valued by the high-end Chinese spinners. The US will also have a large volume of Mid-South styles likely to be near the same quality as Australian, depending on harvest rainfall. The lack of a proper premium in the loan P/D sheets gives the US styles a competitive advantage.

VIETNAM COTTON INVENTORIES REMAIN TIGHT, MAINTAINING IMPORT DEMAND

Vietnam's cotton imports in January reached only 81,026 tons or 372,274 bales, which was the lowest volume since November 2017 and continued a recent pattern. Cotton use has been a bit softer over the last several months, and mills have attempted to limit forward coverage. The top suppliers in January were US at 40,600 tons, Brazil 23,063 tons, and India 7,219 tons. Total August-January cotton imports have reached only 591,651 tons or 2,718,341 bales, which is far below normal. Last year in the same period, 706,086 tons or 3,244,112 bales had been imported. This lack of inventory has kept Vietnamese mills active during the last 60 days taking up US, Brazilian, and other styles. Despite the overall lower import volume, imports from the US have increased, and the US is the top supplier at 307,209 tons. Brazil is the second largest supplier at 155,015 tons, which is also higher than a year ago. US and Brazilian styles have replaced Indian and Australian as imports from India have reached only 23,821 tons, and just 18,271 tons have been imported from Australia.



Vietnam was the top buyer of US cotton in the week ending February 6th, purchasing a net 152,000 running bales. Total 2019/2020 sales to Vietnam have reached 2,943,400 running bales. A portion of these sales has replaced sales to China as Chinese owned Vietnam spinners buy US cotton and then export the yarn to China. There is lots of concern over how the Coronavirus slowdown will impact that demand.

US textile and apparel imports from Vietnam surged 19.8% in volume in Dec and reached 1.077 billion USD, even with the overall volume weak. The greatest weakness in the Vietnamese supply chain remains a lack of fabric production and dyeing and finishing capacity. Vietnam imports near 11 billion square meters of fabric vs. domestic production of only 2.3 billion square meters. The lack of growth in fabric output is tied to the lack of investment in this sector by non-Chinese companies that would be compliant with environmental concerns.

The new concern is the Coronavirus, which remains out of control. The Chinese government is providing little confidence that conditions are improving. Vietnam has closed its land border with China. No comment has emerged on how shipping is being impacted. Some countries are forcing ships returning from China to be in quarantine for 14 days before loading or unloading. No action has been made public from Vietnam on any action, and there is a lot at risk for the cotton trade and US brands and retailers. In December alone, China imported 77,865 tons of cotton yarn from Vietnam. The booming Vietnamese textile and apparel sector depends on China/Vietnam trade. In 2018, Vietnam exported 1,479,000 tons of yarn, with 70% going to China, and it imported 1,035,000 tons of yarn, with 49% coming from China. China was the top supplier of 12.85 billion USD of fabric imports. Just imagine how a 14-day quarantine of ships arriving from China or port delays in China will disrupt this supply chain.

USDA RAISES WORLD ENDING STOCKS OUTSIDE CHINA; INDIAN STOCKS REMAIN OVERESTIMATED

The USDA raised world-ending stocks outside of China by 1.525 million bales, with stocks estimated at 48.375 million bales. This compares to 43.816 MB at the same point last season. You must ask yourself why, if this was an accurate number, is there not major selling pressure as exporters attempts to move these stocks amid very weak Chinese import demand. This selling pressure is not evident. Why? The reason is the USDA estimates Indian ending stocks at 13.01 million bales. The USDA is one of the best statistical bodies in the world. However, their Indian stock estimates have been disbelieved for several years. If Indian stocks are excluded, world stocks outside India and China stand at 35.36 MB, which is only marginally above last year's 34.81 MB. These stock levels seem reflective of the physical market activity, as very robust demand continues evident for all available cotton, and as import demand has increased from a year ago from two key markets, Pakistan and Turkey. Smaller crops and increased cotton use in both markets has created very robust demand in these two markets. This demand has maintained strong US export demand and helped to absorb the increased export flow from Brazil without adding price pressure.

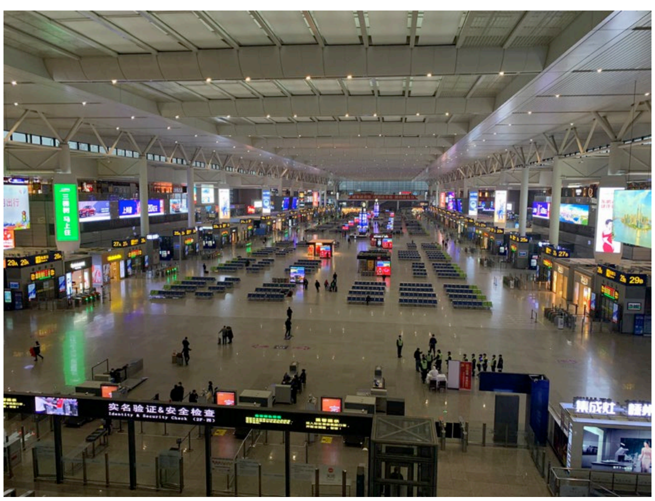
In its February WASDE, the USDA raised world production by 462,000 bales in 2018/2019, mainly Brazil, and 850,000 bales in 2019/2020, which came from Brazil, Pakistan, and East Africa. The increase in Pakistan production came from the belief that a block of cotton traded outside official channels to avoid tax issues. At the same time, consumption was reduced 1.205 million bales in 2019/2020, with one million bales of the reduction coming in China. The reduction in China brought USDA estimates closer to our own and other private estimates.

INDIAN DOMESTIC PRICES CONTINUE TO BE SUPPORTED BY CCI BUYING

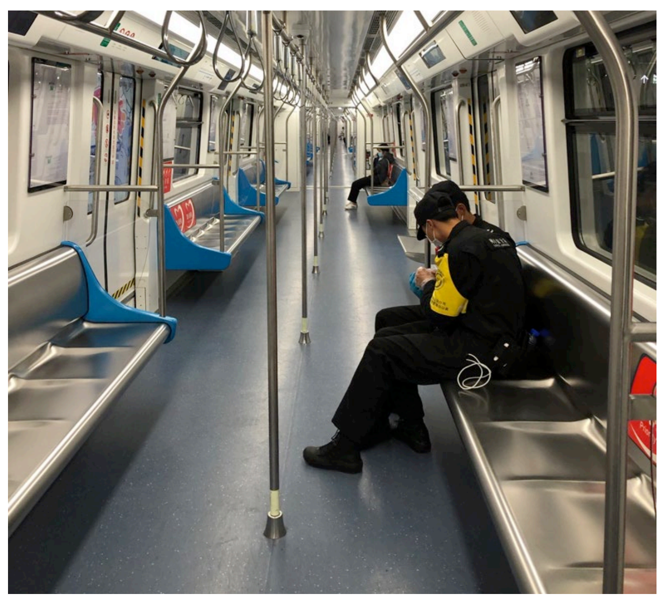
Indian domestic cotton prices have shown very limited movement despite the international conditions. Prices ended the week at near 70 cents ex gin for a S-6 1/8, and 68.85 for a Punjab J-34 1 3/32. Export offers have remained competitive, but offtake outside Bangladesh has been limited due the price spread between US and Brazilian styles that has kept spinners focused on these styles.

Indian textile apparel exports to the US in 2019 reached 8.051 billion USD, representing a 5% increase and giving Indian exporters a 7.24% market share. It was interesting to note that wool apparel exports to the US were grown by 18%.

CORONAVIRUS CONTINUES ACROSS CHINA WITH DRAMATIC QUARANTINE MEASURES EXPANDING



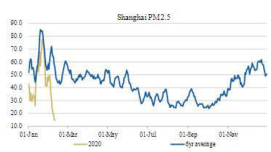
Shanghai Hongqiao station at 8am, February 12



Empty Trains

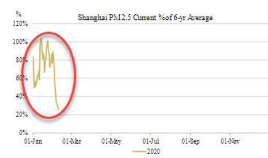
New uncertainly was introduced by the director of the US Center for Disease Control, which said that China has yet to approve the visa's for the USA team to assist in the research surrounding the Coronavirus, even though China continues to issue statements that the US team is welcome. This CCP doublespeak is shaking confidence that the Chinese government has anything under control. Changes to the infection and death totals have also undermined any confidence that the government has been telling the truth about the virus. Adding to this is the declaration of Wartime conditions in many areas, which allows martial law. Further anxiety is that in Singapore, which has a very respected medical system, the virus is spreading, even with people who have not been to China. While the number of people going back to work in China increased last week, US CEOs, brands and retailers all report lacking a clear picture of how much actual work was completed. The lack of accurate government data has given way to economists looking at alternative data. Morgan Stanley has used international collected data on air pollution to gauge factory activity and the amount of automobile traffic in certain cities.

Exhibit 1: PM 2.5 in Shanghai



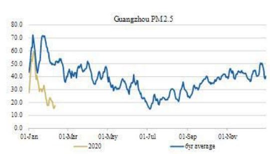
Source: Bloomberg, Morgan Stanley Research

Exhibit 2: PM 2.5 in Shanghai in 2020 versus its six-year average



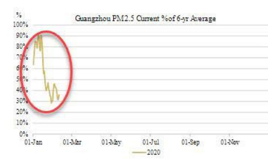
Source: Bloomberg, Morgan Stanley Research

Exhibit 3: PM 2.5 in Guangzhou



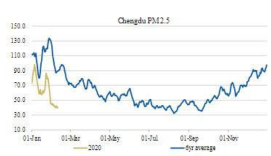
Source: Bloomberg, Morgan Stanley Research

Exhibit 4: PM 2.5 in Guangzhou in 2020 versus its six-year average



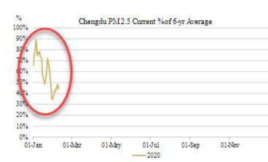
Source: Bloomberg, Morgan Stanley Research

Exhibit 5: PM 2.5 in Chengdu



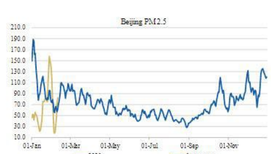
Source: Bloomberg, Morgan Stanley Research

Exhibit 6: PM 2.5 in Chengdu in 2020 versus its six-year average



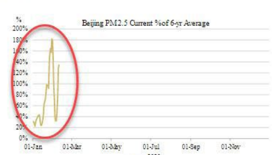
Source: Bloomberg, Morgan Stanley Research

Exhibit 7: PM 2.5 in Beijing



Source: Bloomberg, Morgan Stanley Research

Exhibit 8: PM 2.5 in Beijing in 2020 versus its six-year average



Source: Bloomberg, Morgan Stanley Research

A review of this data for the major cities indicated that economic activity and industrial production was running 50-80% below normal. Measurement of traffic patterns also shows traffic was 70% or more below normal. Social media was full of photos of empty streets and shops. Most cotton spinners and weavers remained closed last week, and cotton movement was at a standstill due to traffic control. In some factories the managers returned, but workers remain under strict travel restraints. Zhejiang, a major textile province, has been hit quite hard. The cities of Wenzhou, Hangzhou, Ningho and Taizhou, with a population of 30 million people, have issued domestic homeland passports to control the movement of the citizens. Guangzhou, a major manufacturing center, has delayed opening of businesses until March 1st. Several regions issued extremely draconian measures to fight the virus. Last Friday, Beijing announced that any person entering Beijing would be subject to quarantine, which triggered local shock.

All exporters and importers to China reported disruptions last week. Regarding wool, most of the demand at the Australian auctions went to European buyers for second week in a row. There are major concerns over nearby export shipments, and a sharp decline in Chinese exports to Australia has reduced the availability of empty containers. The one-sided container trade with China has given wool exporters a cheap freight alternative. Concerning cotton, China canceled a net 48,400 running bales of upland cotton during the week of February 2nd, while 52,200 bales were shipped. Soybean exporters report slow shipments, with the US only shipping 69,000 tons during the week ending February 6th, the slowest since April 2019. The ports are also not back to normal. Shanghai is the world's busiest port, and it reported only 50% of staff has returned. Truck drivers have also not shown up. Some regions are also placing ships returning from China under a 14-day quarantine, which is delaying movements. Some commodities have been hit very hard. For example, Vietnam is the top supplier of coffee to China, and it is reporting a major impact on shipments as Vietnam closed the border. It's unclear if yarn shipments from Vietnam are being affected. Sea Intelligence, which monitors ocean freight, reports that 21 major ships have been canceled since the virus outbreak, and 198,500 containers canceled. Three of the major oil traders were reported to be storing crude oil bound for China at sea.

The lack of Chinese buying of US products stimulated lots of discussion from critics that the virus outbreak has delayed the trade agreement. US pork exporters are being hit hard by the delays in pork purchases, with supplies building in storage. US pork in cold storage is now at record levels. US shipments of poultry have been diverted to other Asian ports because of delay concerns. US cotton exports to China since January 1st have been very minimal. A total of 275,000 running bales have been sold, 178,700 running bales have been canceled, and 3,800 bales have been switched to other destinations. Net sales are a meager 93,100 running bales. Export shipments have reached 308,000 running bales.

Conditions across China over the past week have not improved, and the chaos is greater than what was expected a week ago. The move by local cities to start requisitioning private hospitals, hotels, apartments, cars, shipment of face masks, etc., has undermined most confidence as it has raised fears of no compensation. This is occurring in Shenzhen, which had been considered a candidate for replacing Hong Kong as a financial center. Such moves as the government taking assets on a whim have ended all hope of this occurring. Reports on social media suggest a major humanitarian crisis has occurred, with non-virus patients being forced to leave the hospital. Social media reports over the weekend showed very inhumane measures being used In Huanggang, residential blocks and stores are being barricaded in. In Wuhan, water and food is in short supply, with residents being forced to lower buckets out of windows to get water from suppliers outside. Concern over cross infection of water and sewage pipes has caused fear of drinking tap water. The CCP has also assumed control of the local treatment, with local resident committee determining treatment.

The financial cost of the virus is surging, and S&P Global rating agency issued a warning to China on Friday not to try providing a stimulus to boost the economy or it would have to lower the country's credit rating. Local firms have already started requesting new loans or a delay in principal repayment due to the impact of the virus.

We continue to expect Chinese cotton use to be reduced by nearly 3.5 million bales in the first half of 2020. The domestic economy faces serious headwinds, which will cause major problems for domestic apparel sales. This raises concerns that 2020/2021 cotton consumption could remain depressed. It remains an unknown if China will ask for a postponement or extension in meeting the terms of the China/US trade agreement. Any delay will be very costly for segments of the US agriculture sector, such as pork. It should be remembered that Chinese groups have a long history of stepping in and making surprise procurements when least expected and when large price discounts appear. That happened last week in crude oil when the large Chinese refineries had postponed and canceled shipments as domestic demand collapsed. This caused oil to be stored at sea looking for buyers, and made some exporters, such as Iran, offer big discounts. It was reported that the non state-owned oil companies known as the Teapots might step in suddenly and purchase several cargos at steep discounts. US pork exporters could soon be ready to offer similar discounts to secure large sales, as well as other exporters. Thus, we must be alert to the sharp discounts in some prices possibly bringing Chinese buyers back. The only caveat may be that the Chinese companies remain in the dark about the facts regarding the virus outbreak, as do the Western countries. Last week we heard lots of confusion as to what was really happening. This comes after a week of Xi Jinping telling the nation to get back to work. Beijing, the nation's capital, announced a lockdown and told migrant workers to stay at home.

BRAZIL'S 2020 CROP HEADS TOWARD 13 MILLION BALES AS REAL/USD EXCHANGE RATE HITS NEW LOW

CONAB raised its 2020 crop estimate to 2,824,000 tons, which raised production by 68,700 MT. The estimate now stands at 12,974,868 bales. This followed a 41,700-hectare increase in planted acreage. So far, growers have showed limited reaction to the collapse in the Real/USD exchange rate to a new record low of 4.3817, but the Real recovered by Friday to 4.3109. Sales on the BBM of the 2020 crop stand at 674,018 tons, with sales of 136,368 tons for 2021. Local cash prices remain weak, with the ESALQ Index of a 41-4-35 landed Sao Paulo ending the week at 66.00 cents. The domestic industry remains on the defensive.

US COTTON CLASSINGS LAG USDA 2019/2020 CROP ESTIMATE

The USDA continues to forecast that the US will produce 20.10 million bales in 2019/2020, but the volume of cotton classed is running far behind that estimate. As of February 14th, only 19,447,605 480-lb. bales have been classed. Daily classing results are slowing, indicating ginning is slowing, which suggests that the USDA may have to revise down the production estimate at some point. The other variable is US export shipments. The US has shipped 6,237,270 480-lb. bales, and it must ship an average of 408,223 bales the remainder of the season to hit that target. For the past two weeks it has reached that target, shipping 400,900 running bales of upland and 7,400 of Pima last week. It remains an uphill battle to meet the 16.5 million-bale target, and any decline in weekly shipments below the needed average over the next few weeks will likely suggest a lower export estimate.

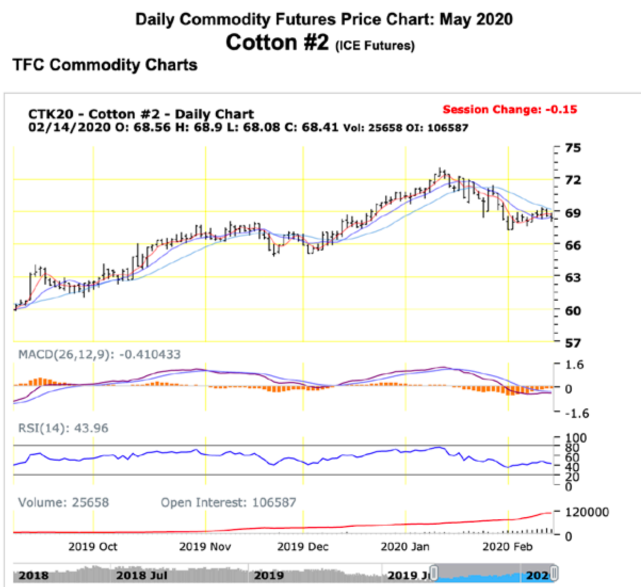
The National Cotton Council planting survey indicated US Growers plan to plant 13 million acres in 2020, which reflects a 5.5% decline. This suggests a 20 million-plus crop is possible.

CHINA'S ZCE FUTURES WEAKER WITH VERY UNCERTAIN OUTLOOK WHILE ICE FUTURES RALLY STALLS

It is hard to remember a time when the ZCE cotton contract was as lethargic as today, as it ended the week down 115 RMB a ton or about .75 cents a lb. lower at 12,990 RMB a ton. Volume has been about 25-50% of normal, and even China's massive Funds don't seem to have the confidence to press prices either way. The Xinjiang ginners remain hedged, and the certificated stocks remain near record levels. China's commercial cotton stocks at the end of January totaled 5,011,900 tons, and these are free unsold stocks outside of the Reserve and mill stocks. The lack of activity in the futures indicates the fact that the textile sector and the cotton Trade is not back at work. At this stage, the virus is not under control, and Beijing itself was locked down with workers returning to the city told to go home for a two-week quarantine. Wuhan further restricted people's movement to only their neighborhoods and started to lock residents in their apartment blocks. The impact of the continued restrictions is taking a huge economic toll on the Chinese economy and on the retail sector. It has also shaken consumer confidence to the core.

The new fear is the spread of the virus outside of China, as cases show up in other parts of the world. It has become a major concern in Singapore. The next question is if the effort to stop the spread will impact container trade. In northern Australia, ships returning from China are quarantined 14 days before they can load. Vietnam has closed its land border. As we discussed earlier, the largest cotton import market outside China is Vietnam. Its booming textile and apparel trade is linked to China, first in yarn exports and imports and then in fabric imports. Any attempt to quarantine returning ships would cause significant disruptions. More than 44% of the recent marketing year high in US exports went to Vietnam. The issue of incoming ship quarantine and Chinese port disruptions will be very important to cotton in the near term.

The Alibaba Chairman called the virus a "Black Swan" event for the Chinese economy. The Chinese CCP now is overwhelmed with the virus and an attempt to control the public discourse. The US/China trade agreement is not receiving much attention, and it remains to be seen if it will be implemented. A failure to comply would also mean an end to the agreement on the currency that has been holding the RMB in place despite the crisis. George Soros, the famous currency Hedge Fund manager, has launched a major short on the RMB and is calling for a target of 10. On Friday it closed just below 7. For the past two weeks of trade, the Chinese market has been held to an artificial high, with government buying and sizeable penalties against short selling or selling in volume. Thus, no clear picture has emerged of the degree of panic or stability that is really prevailing. The cost of the epidemic is now attracting the attention of the rating agencies, and S&P Global warned China it would reduce rating if a massive stimulus is introduced. The Chinese government's ability to act is now much more restricted than in 2008.



ICE futures appeared to spend much of the week focused on squaring up the March positions ahead of First Notice Day, which provides support to prices. The May contract experienced a technically important outside range day on February 12th of 68.31 to 69.41, and Friday's close in May was only marginally above that low. A firm close below that low would suggest a new downside leg in prices. The CFTC data confirmed that the market support in the week ending February 12th came from, first, the liquidation of a large SWAP position in March, which had the SWAP dealers as net buyers of 6,583 contracts, while Managed Funds again only purchased a net 448 contracts while the Other Reportable were net buyers of 1,749 contracts. Index Funds were net buyers of 1,156 contracts. The Trade was the largest seller of a net 9,244 contracts. This data mirrored the market receiving support early in the week from the squaring of the March position and then turned weaker as that influence ended.

The situation in China is undermining confidence. For the global equity markets, that confidence appeared shaken slightly by the end of the week when even the strongest supporters of China began to lose confidence in the CCP's ability to handle the crisis. We are clearly in uncharted waters in regard to the Virus and China's ability to bring it under control. The impact on the Chinese economy is devastating, and our fear is that it could impact global trade in ways that would undermine cotton use outside of China. The US/China trade agreement is in effect, and the doubts remain. The 25% import duty on US cotton remains in place, and internal cotton demand is weak. The US Justice Department has uncovered massive illegal activity by Huawei, and China's thousand talents program has now been linked to massive corruption at US colleges.

We continue to see nearby ICE prices as having posted a near term top. If a firm close below 68.31 occurs, then a move into the 64/65 area is likely in May.

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