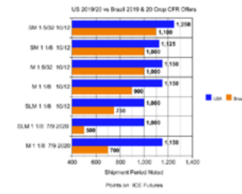
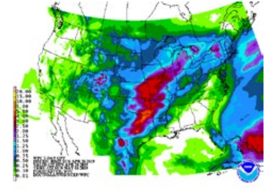
US SLM & LOWER GRADES DOMINATE NEARBY DEMAND



BRAZIL UNDERCUTTING US EXPORT SALES FOR 2019 & 2020 CROPS

CHINA ANNOUNCES SMALLEST ANNUAL RESERVE SALES SINCE REFORM

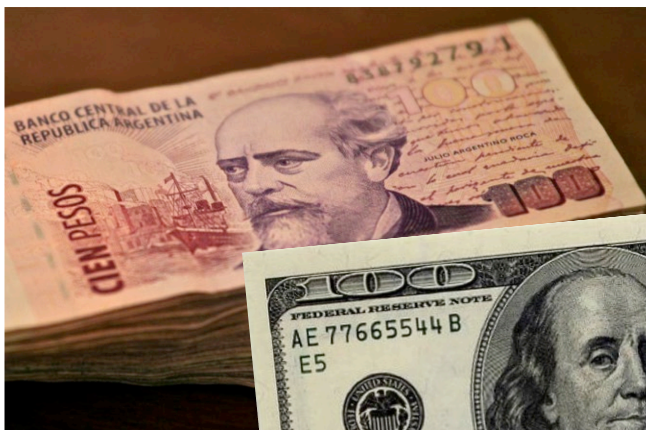


CONCERNS BUILD OVER EXCESSIVE PATTERN ACROSS CENTRAL US AS PLANTING PERIOD ARRIVES

JERNIGAN GLOBAL

KNOWLEDGE IS THE NEW CAPITAL

US DOLLAR SHORTAGE TRIGGERS NEW SELLLING IN BRAZIL/ARGENTINE COTTON AS CURRENCIES WEAKEN

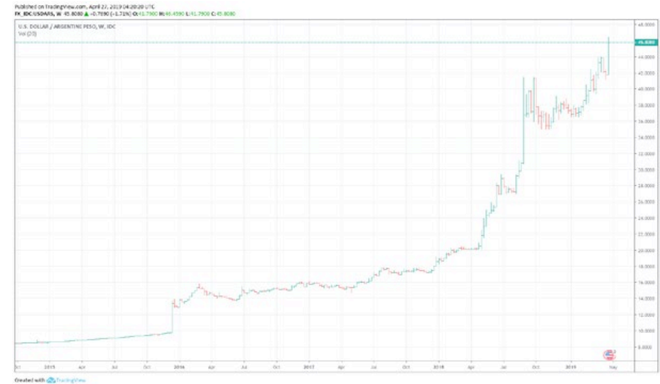


For months we have been discussing the pressure facing Brazilian exporters moving the large volume of the remaining 2018 crop before August, when an even larger record 2019 crop starts to move. Yet there is still greater pressure to continue selling into the 2020 crop. Last week, all the motivations to sell continued but with two additional developments. First, the crop is developing quite well, and some private surveys suggest yields may again be increased from CONAB's last estimate. The second and more influential pressure came from an overall shortage of US Dollars across global currency markets created by a shortage of USD in China and a new panic in Argentina, which sent the Argentine Peso down sharply to new lows against the USD. Chinese banks are in dire need of US Dollars and are rationing outflow, which is creating a high degree of liquidity risk. For some time now China has been tightly controlling the outflow of USD, which halted deals, delayed the dispersion of prior commitments, etc. The serious ramifications of the shortage were highlighted when China's USD shortage nearly caused the collapse of the South African economy. China has been extending influence throughout Africa, including South Africa, under the Belt & Road project, making

huge commitments and rapidly appearing to over commit its much discussed FX reserves. China's four major commercial banks are reported to now have 75 billion USD more in commercial USD liabilities than assets for the first time. In 2013, they had a 125 billion USD surplus.

The state-owned bank, State China Development Bank, had agreed to provide a 2.5 billion USD loan to South Africa's state-owned power utility, ESKOM, which has been plagued by debt and problems with blackouts and power shortages. ESKOM has 30 billion USD in debt, which is guaranteed by the South African government. The terms of the Chinese loan called for ESKOM to be able to draw down the first disbursement of 500 million USD in late March. ESKOM began to run out of cash but expected the Chinese loan disbursement to come through in the March 26th-29th period. However, the March due date came and went, and the utility ran out of funds when the Chinese bank failed to live up to the terms of the deal, stating they were unable to fulfill their commitments to the company in a timely manner due to restrictions on foreign exchange outflows of USD by Beijing. ESKOM was on the verge of a default that would have triggered a run on South African debt, but the South African government stepped in and provided the needed funds to prevent the default.

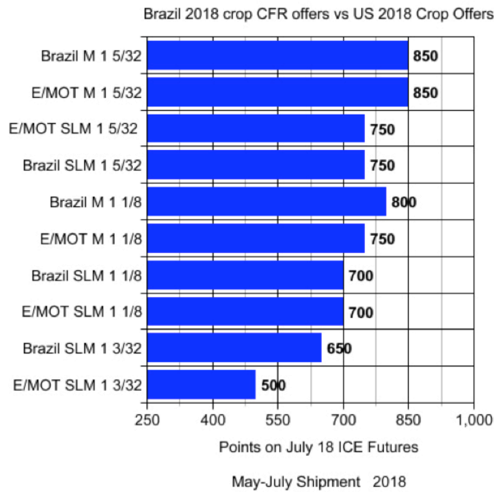
This has since exposed a serious problem getting USD payments out of China, and has caused the USD to strengthen across all currencies except the Yuan, which has been virtually fixed by Beijing. The shortage spread around the world, with the Turkish Lira and Argentina Peso the hardest hit. At the same time, the perfect storm has again hit Argentina, as a new panic emerged as the Macri government heads into an election it could actually lose. Over the past several weeks, the Macri administration has faced significant pressure from rapidly growing inflation and an IMF deal. This has restricted the country from spending its reserves on defending the Peso, and has meant that the peso exchange rate could be easily moved by small flows. Amid the overall USD shortage, the Macri government has disappointed investors by placing price controls on several key products, providing new subsidies on travel, tourism, and construction, and backtracking on the removal of export taxes in some agriculture products. Domestic credit costs have soared to 60%. These developments caused Argentina assets to collapse. The Argentina Peso fell on Wednesday and Thursday, losing more than 6% of its value against the USD in those two days alone, as the Peso/USD hit a new record low of 46.5323 and closed at 45.0335, reflecting a nearly 20% loss in 2019. Two years ago, Argentina sold a 100 year bond to strong international demand and last week that bond traded 66 cents on the dollar.

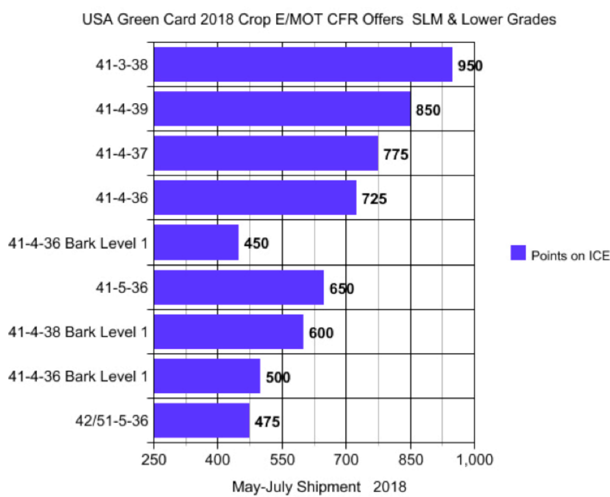


This panic spread to all the South American currencies to some degree. The Brazilian Real declined to a low of 4.0053 per USD before recovering to 3.9516. The weakness in the Real/USD rate occurred as the Pension Reform Bill advanced in Congress. Collectively, these developments increased selling from both Argentine and Brazilian farmers and exporters. The spot 4.0 Real to USD exchange rate in Brazil was the weakest rate since before the election.

Brazilian growers appear to have sold forward nearly 400,000 bales or more during the past week of the 2018, 2019 and 2020 crops as a result of the Real weakness. At least half the volume came from 2020 crop sales. Some merchants have been buying and selling off of the July 2020 ICE contract for August-September shipments. For growers, the July 2020 contract offers a 300-350-point premium over Dec, and at a local basis and F/X considerations they can lock in a great start to 2020 sales for the early moving crops. Merchants in turn also turned aggressive selling 2018, 2019, 2020 crops across several markets, which dominated trade in some of those markets. Overall, the price of Strict Low Middling 1 1/8 and lower color grades is a battle between the US and Brazil. The US is dominating the trade in 2018 crop, while Brazil is

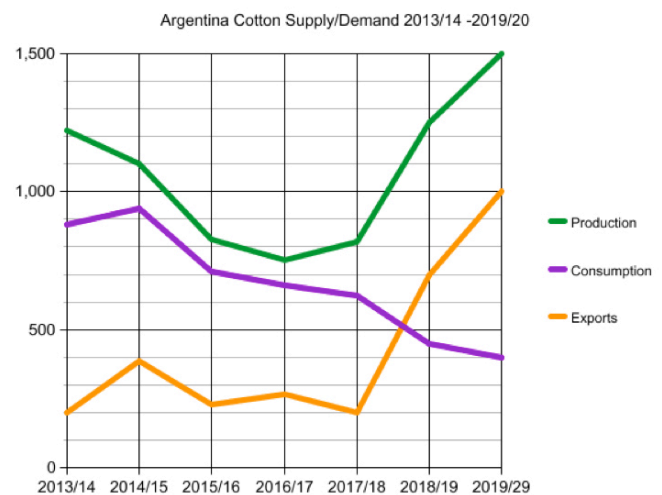
dominating 2019 and 2020 crops, as exporters appear ready to come close to matching the US 2018 crop price to obtain volume offtake. In contrast, a firmer market exists for Green Card 31-3-36 and above US styles and Brazilian 2019 SM 1 5/32 styles.





The US has set the tone for prices in the Strict Low Middling and lower color grade 1 1/8 and longer staple lots. The US has a record volume of 41 and below color grades in a staple length of 36 to 39 staple, but most Brazilian SLM offers are for 1 1/8. With the record volume of these lots, combined with the additional discounts applied to the Green Card, precise classing vs. a type has resulted in major additional discounts for 5-6 leaf, and a deep discount for bark level 1. An illustration of this is found in Memphis/Eastern offers of a Green Card 52 Low Middling Light Spotted, 5 leaf and 36+ staple, premium mike selling an even July for May-June shipment. A Brazilian 2019 crop SLM Middling Light Spotted 1 1/8 was offered at 600 points on Dec for October–December 2019 shipment. Thus, as the pressure builds to sell the remaining 2018 Brazilian crop and the 2019 and 2020 crops, the pressure is on exporters to reflect the 2018 crop basis weakness for US lower color grades in their lower grade offers to stimulate forward sales in volume.

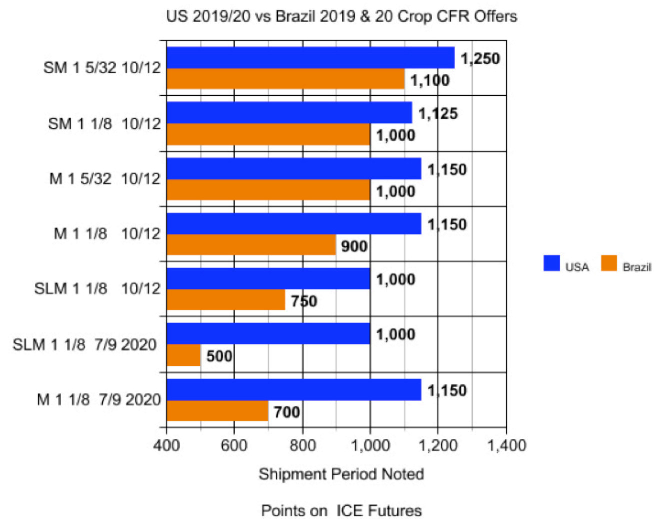
Argentina continues to face weather issues, with the 2019 crop now attempting to be harvested, and with another round of unwelcome rain reported from April 20 through last weekend. Local respected crop observers continue to place the crop at a new record of 300,000 tons (nearly 1.378 million bales). Such an estimate appears suspect to us, considering they have experienced one of the wettest growing and harvesting periods on record. The current F/X and financial crisis has damaged local mills, so a record volume of cotton will move for export. A crop of 1.3 million bales, for example, could produce 700,000-800,000 bales of export shipments. At a 45-46 exchange rate, USD exports of all agriculture commodities will be the feature. The local and FOB basis is cheap and appears ready to come under even more pressure. While the quality and features of the Argentine crop have improved, it still is stripper-picked, and it has other issues that force it to heavy discounts as it moves, even in the better qualities. In the battle for the cheapest SLM 1 1/8 style, Argentina is winning, with the current CFR basis into Asia at 100 points on July. This reflects a 500-600 point discount to US/Brazilian of the same type. At this discount, and even greater discounts for the coming lower color grades, this cotton will find buyers in Vietnam, Bangladesh, Indonesia, and other locations.



US EXPORT DEMAND FOCUSED ON 2018/2019 AS BRAZIL DOMINATES 2019 AND 2020 CROPS

US export sales for the rest of the 2018/2019 season remain brisk, as the lower color grade discounts are simply underpricing all other growths. The competence of US styles is illustrated by a comparison of Indian S-6 offers of near 1100 points on July, which compares to an E/MOT 31-4/5-36 offered at 750-850 on July, and a 41-4-36 E/MOT offered at 600 points on. The discount also extended to West African styles. This was further illustrated in US 2018/2019 sales of a net 239,000 running bales of upland and 10,600 of Pima during the latest week. Turkish mills took advantage of the discounts despite the Lira/USD exchange weakness and credit uncertainty, as they still have volume to cover for nearby shipment. The Lira was sharply lower against the USD last week, and fears are that the 6.0 level could be breached. Pressure continues to come from a conflict with the US over the purchase of a Russian missile system, and a dispute over honoring the US ban on new Iranian oil purchases. Brazilian 2019 also sold to Turkish mills, which are becoming comfortable with the popular SLM 1 1/8 types. India was also very active, taking 78,600 running bales, but sales slowed last week when the Indian Rupee turned weaker, returning to 70 per USD by week's end. Total US export sales for 2018/2019 have now reached 14,689,313 480-lb. bales, with 14.86 weeks left in the season. This suggests the sales pressure on US styles should begin to ease. However, the issue is still the pace of shipments. Merchants do not want to carry large low-grade inventories into the next season. US infrastructure has many problems that have proven to be a significant challenge to consistently export 400,000 running bales a week. That is exactly the challenge that the US faces, as it will need to export 415,558 480-lb. bales a week for the nearly 15 weeks left.

In contrast to the brisk demand for 2018/2019, the demand for the 2019 and 2020 crops is weak, due to Brazilian exporters turning extremely aggressive on sales as compared to all other exporters. The standard Brazilian 2019 Middling 1 1/8 offer for October-December shipment, CFR Asia, is near 200 points or below US MOT offers of the same type, and 250-300 below Memphis/Eastern. The 2020 crop offered for August-September 2019 shipment on the July contract is undercutting US 2019/2020 crop late season sales. A large block of over 90,000 bales of Brazilian 2020 SLM 1 1/8 sold at 450-500 points on July. This would compare to a sales basis of 750-800 points on Dec, which would be considered a competitive basis itself. For the Pakistan Mills, this represented real value, since a US 2019/2020 MOT SLM for the same period would have to sell at 850-900 points on July. Brazil only has a limited volume that can be sold for August-September shipment from new crop, but 2019 crop stocks are expected to be at record levels as the 2020 season begins. This gives exporters confidence in having volume available. As long as the July 2020 vs. Dec 2020 futures invert exists, Brazilian exporters have a huge incentive to aggressively sell on July.



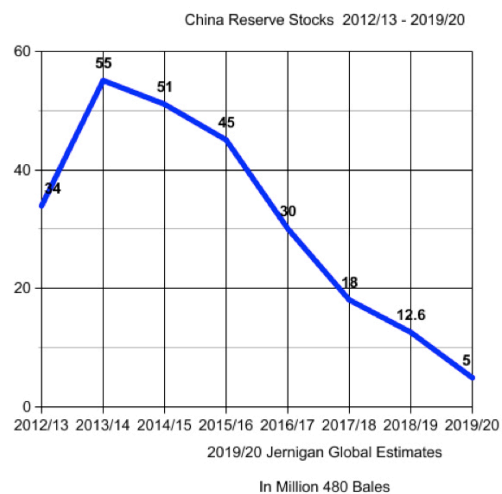
CHINA ANNOUNCES THE SMALLEST ANNUAL RESERVE SALES IN MORE THAN FOUR YEARS

At first, the market appeared to misinterpret China's announcement that it would offer 1 MMT of Reserve stocks starting May 5th through September 30th. This is the smallest volume of Reserve stocks to be offered since China began a reform of their support program in 2015. The Reserve's annual sales in 2019 are beginning about 60 days later than normal, and the annual volume sold has typically ranged from 2.5 to 3.7 MMT from 2016 through 2018. Coming into 2019, the Reserve was estimated to be holding from 2.4 to 2.8

MMT of stocks, based on total stocks of over 11 MMT at the end of 2014/2015, and the annual sales since that time. However, a lot has changed since 2014/2015, with the CNCRC merging with the SINOGRAIN. The new group is believed to have conducted an audit going back to the beginning of the 2011 procurement to account for what was more than 60% of the world stocks being held in warehouses from Xinjiang to Shandong. We have no reliable estimate of China's warehouse capacity for storing cotton in 2011 or the end of the 2013, after the Reserve procured the bulk of nearly all the 2012 and 2013 crops. It is logical to assume the Reserve, in its rush to continue to expand the cotton held in storage, was forced to store cotton in warehouses not designed for cotton and in other questionable locations. It was clear that, when the Reserve intervened to buy the second half of the 2011 domestic crop, it did not expect world prices to continue to fall, leading to the political pressure that forced it to procure almost every bale of cotton produced in both 2012 and 2013. This resulted in the largest government-supported cotton procurement in history.

The lack of a transparent system means we will never know the facts, but the entire event was unplanned and cost the treasury dearly. They are continuing to incur huge cost. It might be remembered that, at the same time, the Reserve was an active buyer of imported cotton, which it used as an incentive to lower the average Reserve purchase price and increase auction sales. China's cotton imports in the same period as the record Reserve procurement were also a record, at 24.533 million bales in 2011/2012, 20.337 million bales in 2012/2013, and 14.122 million bales in 2013/2014. A large block of this cotton was imported by the Reserve and then resold. No one organization in the world has ever handled such a volume of purchases and sales, nor has any organization managed the logistics of receiving, storing, and shipping such volumes. While we admire the accomplishments of the Reserve in this effort, waste and losses are normal for any such trading and procurement company, even if it was an efficient private company, much less a government organization. We have heard that the audit of current Reserve stocks found that a notable volume of cotton could not be accounted for, which has reduced the volume of Reserve stocks left to auction to domestic mills. Losses and waste of as little as 5% would mean a reduction of 575,000 tons, while a 10% loss would reach 1.150 MMT. Both would be reasonable losses, but we will likely never know for sure.

This makes it possible that actual Reserve stocks are down to nearly 2 MMT or below, and thus a 1 MMT of sales for 2019 is a very reasonable offering volume. During the cotton crisis of 2010-2011, in a panic to meet demand, the Reserve reduced its stocks to a few hundred thousand tons, virtually selling out of its inventory. This contributed to the ultimate market blow off. Since that time, the Reserve has made a new commitment to price stability, which includes holding adequate stocks. In its statement announcing the Reserve sales, the Reserve stated it could begin to rebuild stocks by purchasing if it needed the cotton to supply local demand. The CCA estimates that 2018/2019 ending stocks will be 7,942,000 tons of cotton, and if it is using 2.5-3.0 MMT or more for Reserve stocks, as many Chinese estimates are, then the commercial sector, which includes private mills, traders, the PCC, and others, will be holding more than 4-5 MMT of stocks. Thus, the Reserve may take up 1 - 2 MMT of these stocks to reduce the financial burden, since the cotton was procured at a premium to the world market and has storage cost. Most of these non-Reserve stocks are Xinjiang cotton from the past two seasons. Spinners have been using imported cotton at a greater pace than the domestic Xinjiang stocks, because of the premium of local supplies to prices imported under either the TRQ or Sliding Scale Quotas. First-quarter cotton imports reached 660,000 tons (3.0329 million bales). The Reserve's need to rebuild inventories has been expected. In October 2018, the Reserve is believed to have purchased 150,000 tons of 2019 Brazilian crop for shipment from August 2019 forward, and this cotton would be available for 2020 Reserve sales. Additional purchases are likely, with 2019 Brazilian basis levels with purchases of US styles depending on a US/China trade agreement and the procurement requirements.



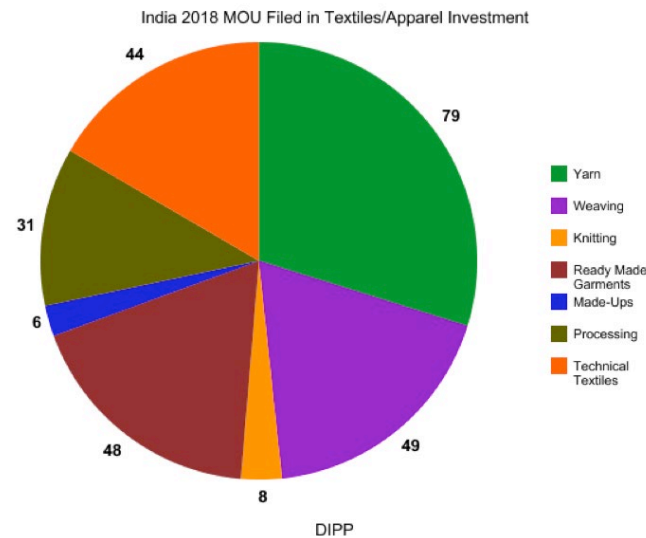
The Reserve stocks are now up to seven years old and of poor quality. Low grades in China are in short supply, as the Eastern China crop has collapsed in size.

Thus, demand for the Reserve auctions is expected to be strong because of the discounts. The need for lower-grade cotton for the open end mills would normally make Reserve purchases of the current US low grades at todays discount popular for resale to domestic spinners. The shortage of low-quality cotton in China has been illustrated by the aggressive imports of cotton yarns during the first quarter of 2019. March cotton yarn imports reached one of the highest levels in some time at 190,000 tons, and first quarter imports expanded to 470,000 tons. This equals about 2.6 million bales of cotton, and the main import sources of the yarns were Vietnam, India, Pakistan, and Central Asia.

The Reserve will likely need to add 1-2 MMT of imported and domestic cotton to its stocks over the remainder of 2019. The outcome of the US/China trade agreement will play a major role in the procurement and its impact on prices.

INDIA TEXTILE AND APPAREL PRODUCTION CAPACITY EXPANDING AS COTTON CRISIS GROWS

India has been the cradle of the global cotton textile market for centuries. Even as China took the lead as the largest sourcing center, India was still known as the go-to market for cotton products. This has always helped maintain cotton's market share in India, and limited man-made fiber use and output. During the past 12 months we have begun to see some change, as more and more mill groups increasingly venture in to synthetic fibers, and some companies have increased investment in MMF production. Growth is being reported in planned investment across the textile and apparel industry. When an investment is planned, the company completes an industrial entrepreneur's MOU with DIPP. For 2018, 269 MOUs were filed in textiles and 79 yarn units were registered, which would expand capacity by 1.36 MMT, with 80% cotton and 20% cotton blends. 49 weaving units were registered, which will increase fabric capacity by 566.9 million square meters. The expansion extended to 48 ready-made garments units, 8 knitting, and six made-up investments. 44 Technical textile investments were registered, along with 31 processing units. In total, the investments, if all were completed, would provide 700 million meters of new capacity in processing, dyeing, finishing, and printing.



Gujarat is at the center of the activity with 98 of the planned investments, followed by 30 in Maharashtra, 23 in Madhya Pradesh, 19 in Tamil Nadu, 17 in Karnataka, and 16 in Rajasthan. Telangana opened a new textile park and has started allocating plots. The recycling of plastic bottles into polyester staple fiber is also drawing new investment, with new expansion coming on line. Overall, man-made fiber use in India is increasing, and it is costing cotton market share in the domestic market. Two major drivers appear behind the expansion, with the first being innovation. Companies such as Reliance and others have devoted significant resources to R & D, and are launching of new products made from polyester. Second is the condition of the domestic cotton industry and current government policies. The cornerstone of the Modi price support for farmers has been to continue to increase the minimum support price for cotton. This has raised the price of domestic cotton and erased a price advantage of the Indian spinners. Also, the attempt to deny royalties on seed technology has contributed to a decline in yields and reduction in cotton quality. These conditions have given rise to increased pesticide use that has hurt the ability to use Indian cotton in sustainability programs demanded by some retailers and brands. This is in contrast to polyester producers like Reliance that control their complete supply chain and can mange and audit sustainability or recycling claims.

At the moment, Indian domestic prices remain at a premium to international values. This has halted new export sales, increased imports, and caused stress

for the continued flow of Indian cotton yarn exports to China. Indian cotton fiber export data for March highlights Indian cotton's fast disappearance from international trade, following China's aggressive entry into the market earlier in 2019. Cotton export shipments to China totaled an estimated 255,080 170-kg bales, far overshadowing all other markets, while shipments to Bangladesh fell to only 122,840 bales compared to 408,430 bales a year earlier. Export shipments to Pakistan collapsed, along with shipments to Vietnam, Thailand, and Malaysia. Total exports through March totaled 4,420,000 bales, which may be close to the total for the season. China took 50% of all cotton yarn exports in March.

India's domestic price ended last week near 84.50-85.00 cents for a Shankar-6 1 1/8 ex-gin, and 85.50-86.00 for a J-34, as a weaker Rupee/USD exchange rate influenced trade. The movement of the average Indian price of a Middling 1 1/8 price to current levels has caused Chinese yarn importers in Qingdao, Guangzhou, and Ningbo to sharply raise their prices on new shipments, which placed Indian yarns at a premium to Central Asian, Pakistan, and Vietnam yarns. Pakistan can also export its cotton yarns to China with a zero-import duty. The increased use of cheaper imported cotton by some Indian spinners is helping them on pricing of yarn as the imports are processed. Total new crop arrivals remain slow at only 32,000-33,000 bales on Friday.

The debate over the size of the 2019/2020 cotton acreage has already begun, despite the ongoing election. Some cotton acreage is now likely to be diverted to soybeans and maize. India raised the import duty on vegetable oil imports to 60%, which has caused the domestic price to soar, providing a much higher income for soybeans than for cotton. Soybeans are the main competitor to cotton in Maharashtra. The domestic price of Maize has also rallied sharply, with the average price at the farm level now a 26% premium to the MSP.

Import demand has continued to center on US recaps, Brazilian, and West African. The weaker Rupee had slowed interest from the southern mills by the end of the week. The southern mills in Coimbatore, Salem, and Tirupur normally use the Kochi port to bring in Gujarat cotton via the coastal route. The move to replace Gujarat cotton with imports has caused mills to also now seek to use the port for imports from West Africa.

Generally speaking, Indian cotton is out of the export trade until the arrival of new crop. This is leaving the opportunity for US recaps, Brazilian, West African, and East African cotton to take market share in the markets that normally use Indian. There is a lot of debate regarding what will be the final size of the 2018/2019 Indian crop. The size of the crop ranges from 1-3 million bales, which will play a significant role in the final import volume. The sharp drop in arrivals and the reduced number of completed pickings by growers this season suggests the debate will end with the crop falling to below 32 million bales. The estimated size of the projected 2018/2019 ending stocks (Indian calendar) is at one of its widest ranges in years. The generally accepted benchmark has been the regularly released CAI report, which places ending stocks at a record low of 1.3 million 170-kg bales. The CAB has not met and released an estimate since November, when it forecast ending stocks at 4.1 million 170-kg bales. CITI, which represents the view of the textile sector, has estimated ending stocks at 4.0 million 170-kg bales, while the ICF has estimated the ending stocks at 4.6 MMT. The USDA has added to the difficulty with its overestimation of stocks based on calculation formulas that have persisted for years, and an ever-changing estimate almost monthly. Amid these conditions, the bulls and bears on Indian prices are in a major debate, which may cause cotton prices to experience more volatility and cause imports and exports to ebb and flow with prices and basis. The 2019/2020 season will remain difficult for supply because of the issue of poor seed technology, a serious problem. A good monsoon will only revive potential yield prospects so far, and an expected further increase in the MSP will only add to the burden of the domestic industry.

AUSTRALIA'S HARVEST EXPANDS, WITH RAINS INCREASING IN QUEENSLAND

The 2019 Australian harvest continues to expand, with yields great in the early harvested irrigated areas of Queensland, but have turned more mixed in New South Wales, where some growers ran short of water. Meanwhile, rains returned to Queensland, which boosted soil moisture levels and water allocation. Harvest is finished in Emerald, where heavy rains fell last week. Emerald reported 44 mm, with more rain possible into this week. Yields in the Dawson Valley have been excellent in the Theodore, Biloela, and

Moura areas, near 14 bales per hectare. Growers who draw irrigation from the Callide Dam have received a full allocation for the 2020 crops. Last week's rains at St George reached 30 mm, Roma 64 mm, and Biloela 10 mm. Areas to the north of St George recorded more than 100 mm of rainfall. Moderate rains also fell over the Easter weekend in the western areas of New South Wales, where little cotton was planted this season due to lack of water. Bourke recorded 27 mm, and Cobar 53 mm. Western Queensland, which has no cotton, also reported its first rains in several years. The very important cotton belt, where the crop is open and harvest underway, also experienced a rain event.

Rainfall totals for Griffith were 48 mm, Hillston 44 mm, Darlington Point 40, mm, Narrandra 36 mm. Wagga Wagga was at 25 mm, Hay 10 mm, and Coleambally 27 mm. Another rain event will interrupt the southern harvest from April 30th to May 3rd, when approximately 10-25 mm is possible. These rain events will cause a greater mix of color grades. The weather in the Southern Valley was also affected last week by a system that brought very cold weather to parts of Victoria.

The FOB basis levels for both the 2019 and 2020 crops firmed to new highs for the respective seasons last week. The 2019 FOB gin basis reached 1340 points on May and 1215 on July, with a cash price of 640 Australian Dollars a bale or more. The 2020 FOB basis reached 1020 on May 2020 futures. Merchant CFR basis levels remain firm, but the record premium to Brazilian appears to have slowed demand in China for cotton outside consignment stock sales.

The election in May will have major consequences concerning water policy. A major debate and scandal has broken out in both parties over the water buybacks that have continued to have a major impact on cotton acreage. Both sides have pushed water allocations and have authorized water buybacks, which were controversial and caused great harm. The Labor government started the scheme by paying 300 million AD for the water rights of Colly Farms, once the largest cotton producer in Australia, thus ending the reign of cotton in the western side of the northern NSW region. Then, the Nationals created a stir when it authorized a 79 million AD buyback of Eastern Ag, without an open tender. Taken together, it was a record cost to taxpayer, and it also cost the state millions in potential crop revenues and jobs, destroying rural communities forever. The impact to the Murray Darling river system appears to have been near zero. Such polices need to be addressed, but they certainly will not be with a Labor victory. In addition, a Labor victory has raised the possibility of a carbon tax, with the Labor promising a 45% reduction in emissions. This will greatly affect agriculture and lead to higher taxes on fuel. In Queensland, additional new tariffs are being considered that could force irrigation farmers off the national grid – all of this because no administration, regardless of party, has attempted to design and establish a water infrastructure system for the eastern half of the country during the past 50 years.

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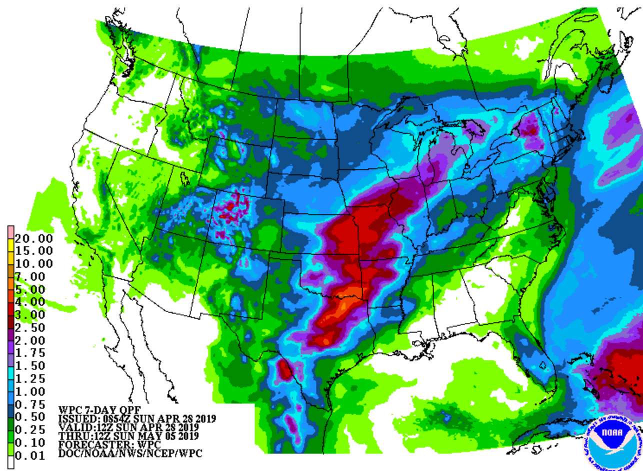
US PLANTING REMAINS DELAYED IN MID-SOUTH; MOISTURE LEVELS IMPROVE IN WEST TEXAS



The US cotton belt remains rather wet, but planting is progressing slowly. Southern Texas and East Texas has gotten off to one of their wettest starts on record, with the Coastal Bend and East Texas areas receiving record rainfall. Earlier this month, the Upper Coastal Bend experienced flash floods, and growers in both the RGV and Coastal Bend have already had to replant. West Texas received another round of beneficial rain last week, with good moisture over much of the area. The forecast remains very wet during the next seven days, with almost all the High and Rolling Plains of Texas, Oklahoma, and the Kansas belt expected to receive major rains. These conditions have basically ended the near-term drought concerns and improved soil moisture and water tables. These conditions also suggest that planted cotton acreage will increase from the 7.3 million acres forecast, and could again approach 7.8-8.0 million acres or more. Then there is the issue of abandonment. With the exception of isolated areas, it appears now that most all of the dryland crop planted in the next 30 days has the moisture to emerge to a stand. If failed acreage turns into an issue, it could be the rare event of excessive rains given the extended forecast for May, which has Texas wet.

The forecast for the Mid-South has improved, with Louisiana, Mississippi, and West Tennessee looking dry, which should allow planting to move forward. However, by May 2 another major front will bring very heavy rains back to all of the Mid-South. Arkansas and the Missouri Bootheel may remain wet from the same system moving through Texas, which would delay planting. Arkansas is beginning to be a major concern. Rice and Cotton planting is being delayed, and the state looks wet well into May. Arkansas is expected to plant 550,000 acres of very high yielding cotton, with the potential to produce nearly 1.5 MB of high quality long staple cotton. The Southeast appears set to experience a dry week ahead, which will also allow planting to move forward. Planting has already started in SE Georgia.

Current conditions indicate 2019 US production has the potential to reach 22-23 million bales, given the improved quality of the seed being planted and the soil moisture profiles. The next 30 days will be important. First, the planting window arrives across the entire belt. Secondly, some of the extended forecasts predict excessive rains for East Texas, Texas Rolling Plains, Oklahoma, Arkansas, and the Missouri Bootheel, which may create problems, and could trim production prospects.

US/CHINA TRADE TALKS CONTINUE AS US EXPORTS SUFFER

As the China/US trade dispute continues to drag on after close to a year, US agriculture exports have suffered. For cotton, it has meant the loss of a large volume of export sales, as China's cotton imports have surged during the past year, with Brazil, Indian, and Australian, as well as other growths, taking the place of US styles. For those in the Trade and for farmers, a year is a lifetime, and it certainly makes one worried that the talks could end up being all talk and no action or an agreement that is doomed to fail. The only real news of note this last week was a headline in Friday's *South China Morning Post* stating that Xi Jinping could visit the US to sign a trade agreement in June. This suggests the talks may be coming to a close, since Xi would not travel to the US unless an agreement has been 100% arranged by the negotiating teams, with i's dotted, t's crossed, and all back-channel deals completed. So far, Xi and Trump have both managed to keep all the conflicts out of their relationship and out of the trade talks. This seems to be a joint effort on the part of both leaders, and is encouraging. A new potential problem emerged last week when the US ended all waivers for the purchase of Iranian oil. China, the largest buyer of Iranian oil, has objected to the oil embargo and has indicated it would flaunt the US ban. How this is handled could be important to the outcome of the trade agreement.

ICE FUTURES CONSOLIDATE AS NEW FUND BUYING WANES

As we expected, ICE futures experienced further consolidation last week, as demand remains strong for US low grades offered from the 2018/2019 crop at extremely cheap basis, and selling interest in the July contract becomes limited. The July contract is now the lead and the only barometer for 2018/2019 prices. Interest is switching to Dec, as is the Fund's paper. It is a difficult period to motivate the Managed Funds to go long agriculture commodities in volume, with hogs the exception. The Managed Funds' bearishness regarding agriculture products has continued, despite the extreme size of speculative short positions and record wet weather in the key crop areas. Crude oil rallied sharply earlier in the week, only to give back the gains on Friday. Coming into last week, the Managed Funds held a record short position in corn of 307,529 contracts, and a record Kansas City wheat position of 54,295 contracts, with a combined grain/oilseed record short of 572,210 contracts. In contrast, cotton was a standout for the small net long, which increased last week by 2,630 contracts to a net long of 14,097 contracts. It remains a bit of mystery why this group has been able to keep the bearish grain position locked in and increasing. One reason has been the missing export demand from China, which has simply left supplies in abundance. The headline of *Bloomberg Business Week* last week – "Is Inflation Dead?"– appears to be the sentiment, with the Bullish Consensus measurement for the grains down in the single digits. Coffee is below 100 cents per lb. All these events indicate the world believes the prices of the key commodities simply cannot rally.

At the same time, for commodities measured in USD, the global shortage in USD is real and is impacting everything. Commodity exporters from all countries, with the exception of the US, have an incentive to export and obtain dollars, even if the USD price is weaker. Experience, however, suggests caution during such times of gloom. It seems clear these markets have not put any faith in a US/China trade deal, with its talk of China increasing purchases more than double from 2017 levels. If such a deal is real and is followed through with, the Algos have proven themselves unable to detect such trends and events. This was illustrated by the length of time the Algos kept their longs in cotton, as prices fell and only got short near the lows. We continue to believe these systems do not work in cotton and many of the other agriculture markets.

Currency movements are clearly influencing cotton purchases and playing a much larger role than normal. We continue to expect more consolidation in July, with demand resting near 75 cents. Demand does not seem able to chase prices above 80 cents without a China influence. New crop also faces major hurdles. First, Brazil has priced US 2019/2020 crops out of the market for October 2019 shipment, and all the way through next year. It will take a Chinese dynamic or a major crop issue to change that. Amid these conditions, we remain of the opinion that prices could have more consolidation ahead, until either a China deal is clarified or a weather event changes the production prospects. Chinese polyester prices remain weak, despite crude oil movements. However, the Chinese market has too much capacity, and the increasing capacity in recycled polyester, which is trading at a discount, is adding to supply and the price cap. This is providing a major alternative for spinners in markets when local cotton prices get ahead of international prices. The Indian yield crisis and price hike have increased man-made fiber and alternative fiber interest, which the cotton market does not need.

Consolidation appears to lie ahead, but caution is advised in becoming too negative, given the total lack of concern from the global financial community. It is certainly a different period when US equity markets are allowing companies to raise billions as equity indexes move to record highs, while the new companies are losing billions, and much of the world has extremely low or negative yields. Also, the world has zero fear of any inflation or commodity shortage.

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