US E/MOT CFR OFFERS AT RECORD DISCOUNTS

US CCC LOAN PREMIUM/ DISCOUNTS LOST IN TIME

US/CHINA TRADE AGREEMENT REMAINS UNCERTAIN

CHINESE COMPANY CREDIT RISK A MAJOR CONCERN

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KNOWLEDGE IS THE NEW CAPITAL

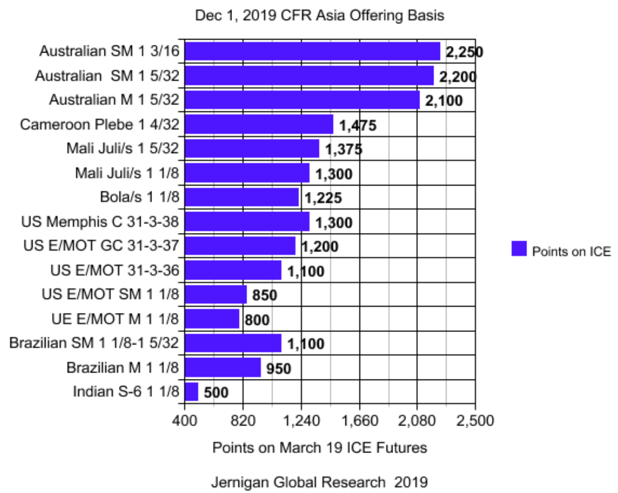
GLOBAL TRADE SPOTLIGHT

THE EQUIVALENT OF AN AUSTRALIAN CROP LOST THROUGH THE INEFFECIENT US MARKETING SYSTEM

At a time when the Australian crop will collapse to 700,000 bales or less, falling short of mill demand by at least 2-3 million bales, the US marketing system is failing to allow the US high grade crop to meet that demand. Change is not something easy to introduce in a marketing system that is nearly 200 years old. The US base grade criterion is more than 50 years old and was established during a time when the US open-end spinners were the top customers. The CCC loan has become a centerpiece of the marketing system since it was introduced. Features of the CCC loan have not seen the needed changes, and one issue is the fact that over the past 10 years the US cotton industry appears to have lost much of its clout in Washington.

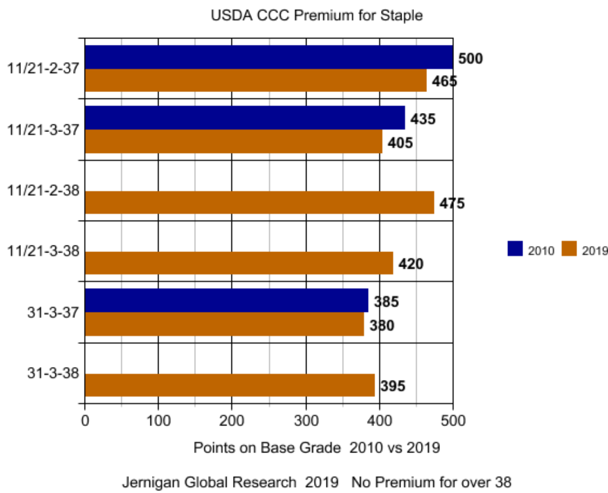
Amid these conditions, the commercial sector has attempted to move a larger and larger crop, a task that has been made more difficult by the China/US trade, war and the absence of a viable plan to deal with the new conditions. The result has been an attempt to simply move volumes into export channels. In this atmosphere, serving spinners and achieving maximum value creation for growers has been lost.

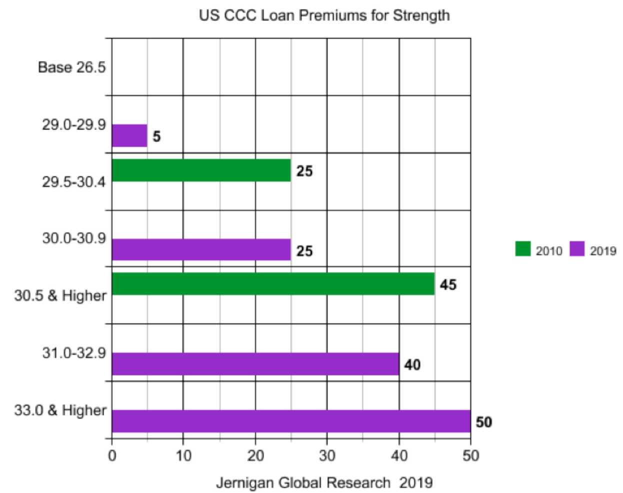
E/MOT has been a popular sales description for US exporters, as it allows cotton from any state outside California/Arizona/New Mexico to be sold in a single lot, giving shippers great flexibility. The premise is that the HIV data makes it all equal. For spinners, the wide origin source and the lack of greater details have been damaging, and for growers producing the long staple, high grade, high strength cotton, it has resulted in lost income. The spinners' attitude has shown up in the discount of an E/MOT description such as Strict Middling or Middling to a Green Card offer, and the discount to a more origin specific cotton, such as Memphis Territory. Even the producers of the higher grade, longer staple West Texas irrigated cotton have become bunched in the broad description. The problem with the E/MOT description has come into the spotlight over the past 24 months. The poor quality of the 2018/2019 US crop, due to its extended weather issues in many regions, resulted in spinners' complaints of variations in general spinning quality between regions, which is not identifiable in the HVI measurements. As this became known, the discount of the E/MOT descriptions increased and the discount of an E/MOT green card to a West African cotton occurred. The discount to West African cotton is a shocking development and should have served to cause reflection in the US. Over the past 5-7 years, West African handpicked cotton, which has contamination issues, has traded at a discount to US machine-picked cotton. Today, a 2019/2020 African Franc Zone top grade such as a Mali Juli/s 1 1/8 is enjoying a 200-point premium or more to an E/MOT Green Card 31-3-36, and a shocking 400-500-point premium to an E/MOT Middling 1 1/8 description. It is near par with a more region-specific Memphis Territory. The West African producers and ginners have made improvements in reducing contamination, but the problem remains. Thus, for US cotton to move to a discount when the African Franc Zone reached a new record in quantity is self-explanatory. The issue has been important enough for Bangladesh spinners known for their value purchases to pay even wider premiums for the African Franc Zone high grades.



Spinners are now seeking a more selective geographical description such as Memphis Territory, TN, MO, MS, LA, AR, or a broader Memphis/Eastern. That includes eastern belt, and a Texas specific such as South Texas and Texas irrigated. Exporters are reluctant to offer the specific regional specifications. One reason is the warehouse system in the US is inefficient. Also, most exporters don't have enough regionalized warehouse space, and independent warehouses focus on storage cost accumulation and not the speed of movement. The US cotton warehouse system needs an Amazon system in terms of efficiency. The use of an E/MOT geographical destination is costing growers, with the discount in export markets being reflected in a much weaker FOB basis for the base grade.

US BASE GRADE AND PREMIUM/DISCOUNT SCHEDULE SERIOUSLY FLAWED

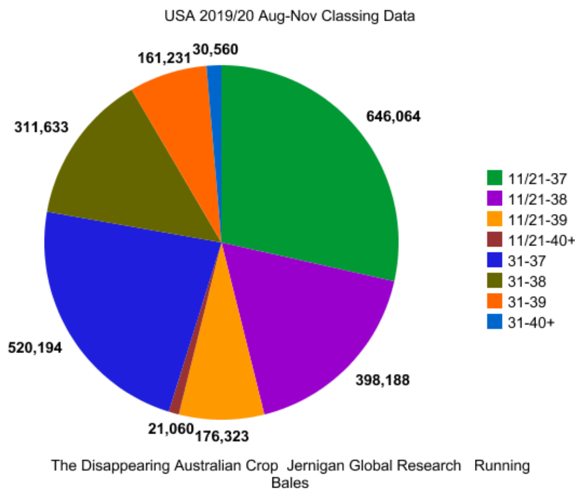


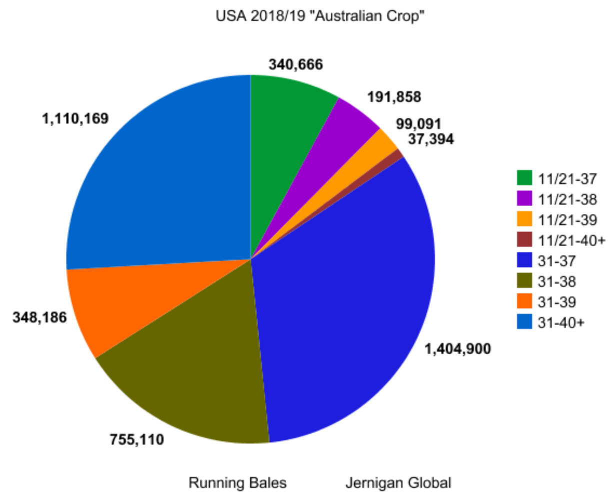


Another problem with the lack of regional offers is the need to separate the top grades produced from a region. For example, the Memphis Territory early crop in 2019/2020 produced a large block of cotton on par with Australian, but good luck finding this cotton offered in any homogeneous lots. The root of the issue is the faulted CCC loan rate schedule. The CCC premium and discounts offer only a very nominal premium for a 37 staple, even a smaller premium for a 38 staple, and no premium above that level. That is simply wrong and out of touch, as it obviously penalizes growers producing the higher-grade cotton and hurts commercial trade. And the nominal premiums continue for a Middling. The CCC loan schedule needs a major overhaul, and it should start with the base grade the industries uses. The base grade is out of line and 40 years past its relevance. It has been argued that if the base was changed, growers would lose premiums, a flawed argument. Why not raise the loan rate, raise the base grade, and extend the premiums? The premium falls miserably short in regard to strength. Growers receive a premium of only 50 points for a 33 strength, while the commercial value is much higher. The premiums are being lost, and exporters cannot separate out and achieve the premiums, because their competition can easily undercut their efforts, because no exporter has paid the grower the premium either. Merchants are typically offering the E/MOT with a 28 minimum strength. This is done to allow as much of the crop as possible to meet the general quality terms, and no incentive for higher strength has been paid. This keeps this cotton from achieving its maximum value and sends the wrong signal.

The CCC loan schedule has changed little in terms of the staple quality premiums during the past ten years, despite the significant changes in quality of the US crop. A review of the 2010 CCC loan schedule finds that at that time a 37 staple or longer, 11/21 color grade, 2 leaf received a 485 point premium, compared to a 465 point premium for a 37 staple, and a 475 point for a 38 and higher today. The premium for a 36 staple has declined. In 2010, there were no premiums for staple length above 37, and today there is a 10-15-point premium – wow, what progress. The reduction in the color grade premiums from 2010 for the longer staple lots is quite surprising. The issue has not been addressed in ten years, and it is a travesty that really brings into question the entire process of establishing this schedule.

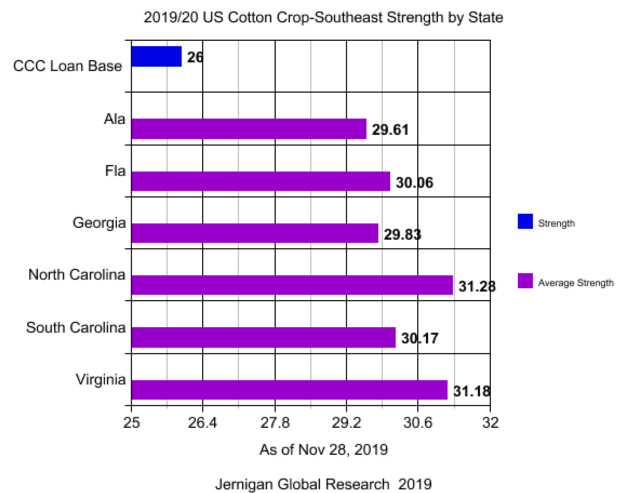
OVER 55 MILLION USD OF GROWER INCOME WAS LOST IN AUGUST-NOVEMBER ALONE

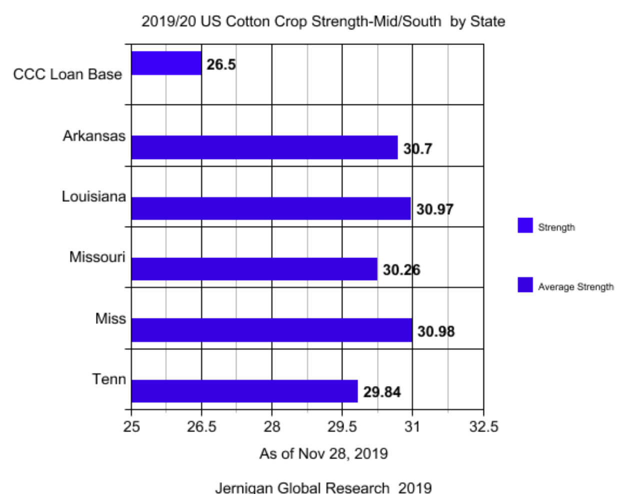




The CCC premium of an 11/21 color grade, 1/2 leaf, 38-37 staple is only 15 points, an additional premium of only 10 points for a 38 staple, and no premium at all for a 39 and above. It is unclear how these premiums were arrived at, but they are easily undervalued by at least 75-100 points. Growers producing a 31-3-37 and above receive only a 40-point premium for 37 and an additional 15 points for a 38 and above staple. Here comes the shock that provides the scale to which the growers and industry are losing income and value by the current practices. In the November 2019 monthly classing summary it showed the US had classed 5,531,754 running bales, with an average staple of 36.45 (34 base). A remarkable 2,265,253 running bales had a staple of 37 and longer, while 625,998 running bales 11/21 1/3 leaf, 37 staple was produced, and 570,114 of 31 color grade and 37 staple. 698,645 running bales of 38 staple were produced, 330,644 bales of 39 staple and 49,388 bales of 40 or longer staple. This cotton did not come from California.

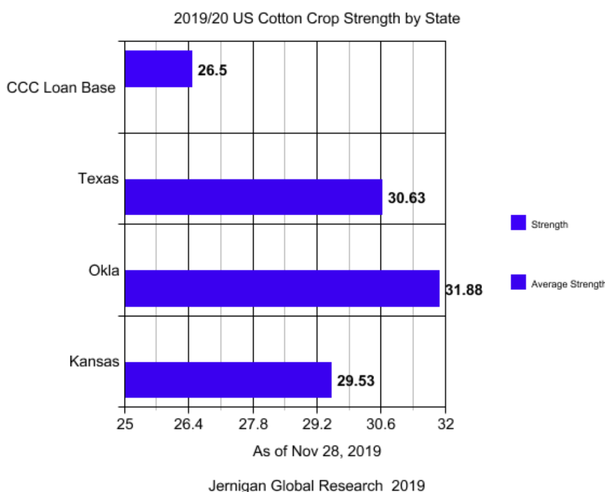
Let this reality sink in. The US South Texas, Memphis Territory, and Southeast produced 2.265 million bales of cotton very close in quality to Australian, which was not separated out or regionally identified and was unavailable for spinners to easily find. Growers will lose approximately a minimum of 55 million USD as a result of the inadequate CCC loan schedule and marketing practices. Spinners will find it difficult to find the quality they want in lots separated out by region and with the needed quality specifications. In a review of offering prices into the major markets, not one attempt to capture this value or to meet this industry need can be found. 2.265 million bales are equal to a medium-sized Australian crop, and the total quantity that meets this criterion will increase when the additional classing data is included.

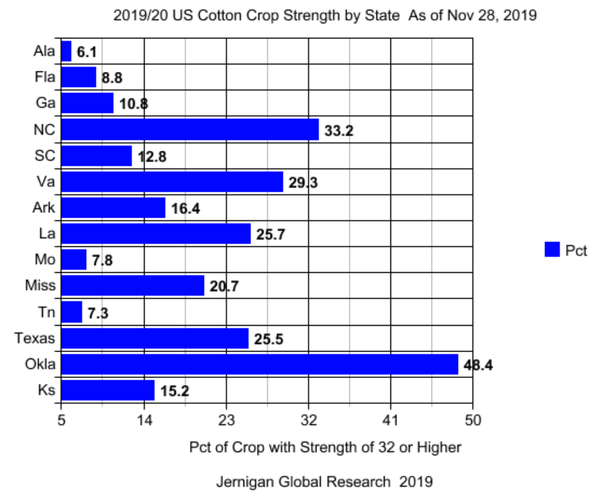




Therefore, in 2019, Memphis Territory produced a volume of 21 (Strict Middling), 2 leaf, 39-40 staple with 32 strength. The premium to the grower was 515 points for a 41-4-34. The cotton will likely move into the marketplace as a Green Card 21-2, 3-37+ for 1200-1300 points on CFR Asia. Meanwhile, an Australia of the same quality will be offered at 2200 on the cover month, CFR the basis. Thus, the opportunity for US cotton to fill some of the void caused by the record small 2020 Australian crop will be difficult, which hurts growers and spinners alike. The spinners will likely receive the cotton in a mixed lot from several states, with only a few bales of the top grades all in the same lot.

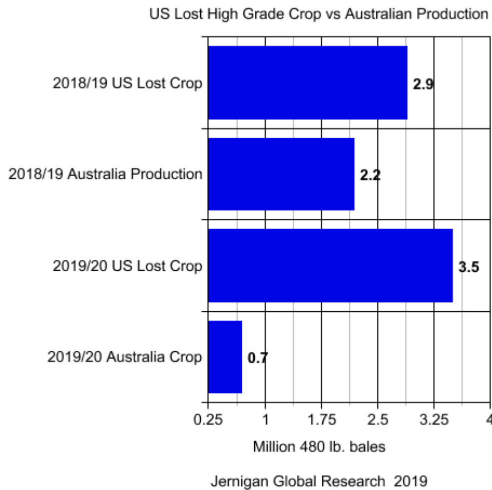
A review of the export offers of US styles by three of the largest US export merchants into the major Asian export markets did not find any Memphis Territory or Memphis/Eastern cotton offered with a staple length above 38, and only a few that was listed "+", which means longer staple was included at no extra cost. The second feature of those offers was that the minimum strength was 27 or 28, which compares to Australian offers at a 29 or 30, minimum. This is very important for many higher-end spinners, and the lack of a promotion of a higher GPT or strength hurts the US basis and image. A review of the classing data for 2019 illustrates that the CCC loan rate provides little premium, and marketers do not pay a premium. This provides problems for anyone attempting to achieve the premiums. Did you know that the average strength of the Arkansas crop is 30.67, and 16.9% is 32 and higher? Did you know that the large Georgia crop has an average strength of 29.77, and over 40% has a strength of 30 or above? The Louisiana crop has an average strength of 31.86, and almost a quarter of the crop is at 32 or higher, MS 30.95, North Carolina 31.27, and Oklahoma has a truly impressive average strength of 31.75. Growers have lost, spinners have lost, and the entire US cotton industry has lost.

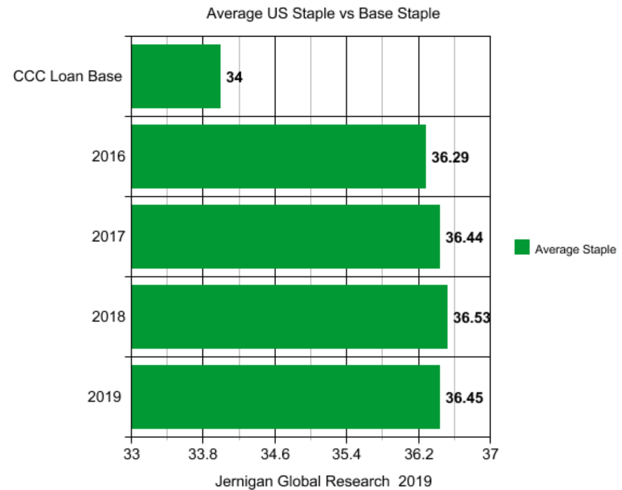




Australian cotton is 80% irrigated, and from a geographic area with less weather volatility between regions, which increases uniformity in spinning features. There is no base loan, and the merchants each have their premium and discount schedules. Normally, the premiums are small and discounts deep. This has given way to growers seeking to produce a crop that will exceed all expectations, and this has contributed to the local FOB basis being 1000 points or higher on futures, compared to a negative US FOB basis, currently 200-300 off in Southeast and Memphis Territory.

The low base grade and the CCC loan premium and discount schedule remain the major problems for US trade and for growers specifically. We expect the E/MOT sales description to give way to more regional specific origins. However, the problems with the CCC loan premium and discounts and the base grade will require significant effort on the part of the US cotton industry's leadership. Without these changes, growers will lose millions in income, and the US will continue to be focused on being simply a volume exporter of a raw product, with no attempt to add value. Meanwhile, the large merchants and growers in Brazil are beginning to offer Brazilian in a variety of staple length up to 37-38, and in color grades up to Strict Middling, with the higher strength the only missing feature, as of today.





WILL LARGE GUJARAT COTTON CROP PRESSURE EXPORT OFFERS?

The Trade Association of Gujarat released its 2019/2020 cotton crop estimate, and the crop is estimated to be up sharply due to increases in yields, at 10,694.302 170-kg bales, which compares to last season's output of 8,174,204 bales. Production in the Saurashtra is expected to increase to 7,817,700 bales based on an average yield of 703.55 Kilograms per hectare, or 3.23 480 lb. bales per hectare, which is up sharply from only 447.88 kilograms last year. Planted acreage in Saurashtra fell 2.11%, but yields increased 57.08%. Yields within the region are estimated to vary from 924.528 kg per hectare, 4.246 480 lb. bales per hectare, in Gir Somnath, to 546.312 kg or 2.523 480 lb. bales in Surendranagar, which is the second largest growing area in the state. The Main Line is forecast to see yields increase only marginally at 756.43 kg per hectare. Yields in north Gujarat are forecast to fall to only 429.20 kg per hectare, or 1.97 480 lb. bales, which is less than one bale per acre. This compares to yields last season of 575.84 kg per hectare. A 1.2-2.0 million 170-kg bales are expected to be delivered to Gujarat gins from production areas outside the state.

Currently, export offers from Gujarat include wide mixture of color grades. The CCI is now reported to have begun seed cotton purchases in the Northern Zone and Gujarat. This has helped spot cotton prices to rally ex-gin slightly off the seasonal lows and the export basis has firmed. Daily new crop arrivals have reached more than 170,000 bales a day. Shankar-6 1 1/8 offered out of Indian shippers ended last week at 550 on March futures, which was about 50 points firmer than the previous week

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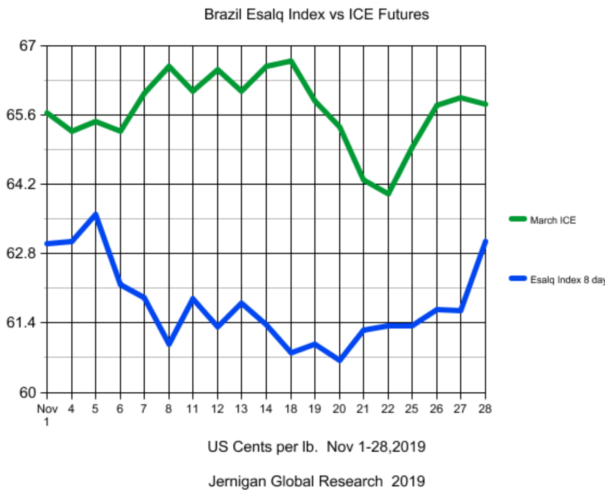
BRAZIL'S DOMESTIC COTTON PRICES NOW AT A MAJOR DISCOUNT TO ICE AS DOMESTIC MARKET REMAINS WEAK



The Brazilian Real/USD exchange rate was under pressure last week, with the Real falling to a new record low of 4.2765. The weakness was tied to a collapse in the Chilean Peso and the suspension of reform measures in Brazil. The ESALQ Index of a 41-4-35 landed Sao Paulo on November 28th stood at 63.04, which is a 277-point discount to March ICE futures. This was very near the same discount that the index had on November 1st. Domestic cotton demand remains weak, with most attention on exports. Brazilian cotton remains very popular in most markets, with further sales noted last week. The CFR Asia export offering basis varies according to the basis position of shippers. Shippers with long basis positions continue to offer the standard Middling 1 1/8 at 800 on March for January-March shipment, while shippers with tighter inventory offers at 1000 points on or higher. Brazilian lower grades have been very popular in Pakistan.

In Mato Grosso, planting of the first crop cotton will occur in December. Acreage is expected to be near unchanged from last year at 155,759 hectares out of total acreage of 1,139,871 hectares, a new record. USD strength against the Real has further increased the attraction of cotton at current levels, and it has also increased farmer interest in selling for export.

LATIN AMERICAN UNREST HURTING APPAREL DEMAND AS CONSUMER SPENDING DROPS

Chile unrest

Columbia unrest

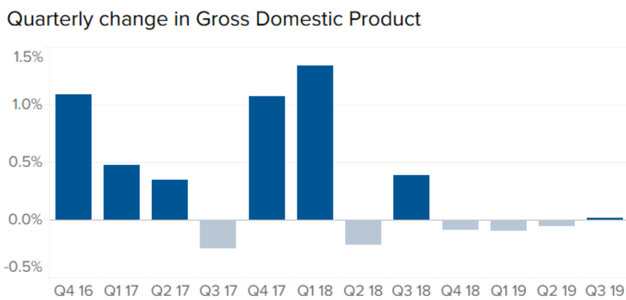
Prior to a few months ago, Chile received little or no attention for its role in the global textile and apparel market. However, the country was the 39th largest consumer market coming into 2019, with a GDP nearing 300 Billion USD. Most of its apparel was imported from China. Monthly apparel sales normally could be depended on to post 5-10% year-on-year growth. That ended recently, as sales turned negative due to a wave of unrest that hit the country. The strife in Chile follows the collapse of Venezuela and Ecuador. Chile has been ranked as the top retail market in Latin America in development. The value of the market was between 8-10 billion USD in 2018, with women's wear responsible for about half the market. Department stores have dominated the market, with Chile often the first market for brands in Latin America. Walmart operates 400 stores in Chile under various names, and it is the top operator of Hypermarts. The country has been hit by a strike demanding higher wages during the turmoil, which impacted the store operations as an

estimated 100 stores closed due to lack of workers. A settlement was reached, and the chain is reported to still be planning to open 20 new stores in 2020.

The stability in Chile all ended on October 18th when riots were triggered over a minor metro fare increase. Riots spread as the issue of inequality became the focus. The Chilean Peso/USD exchange rate plunged to a new record low, losing 20% of its value in November. Since the outbreak of unrest in Chile, riots have spread to Columbia, which has an economy slightly larger than Chile. Last week, Columbia experienced nationwide protest, which led to nightly curfews, border closing, and soldiers deployed in the capital. The Columbian Peso moved to a new record low against the USD. Even Mexico has slid into a recession, as drug cartel violence has ravaged the country. Collectively, this unrest is reducing apparel consumption in the Americas. The unrest is occurring without US leadership, which has its attention turned toward Europe and Asia. Regarding textiles and apparel, Chile and Columbia import approximately six Billion USD worth annually, making these two the largest in the region, and China supplies over 50% of all the imports. Mexico exports about six billion USD worth, and imports approximately 10-11 billion USD, leaving it a 4-5 billion USD net importer. China is the top supplier of the net imports, while the import/export trade is dominated by the US and Mexico under NAFTA.

Mexican economy falls into a "technical recession"

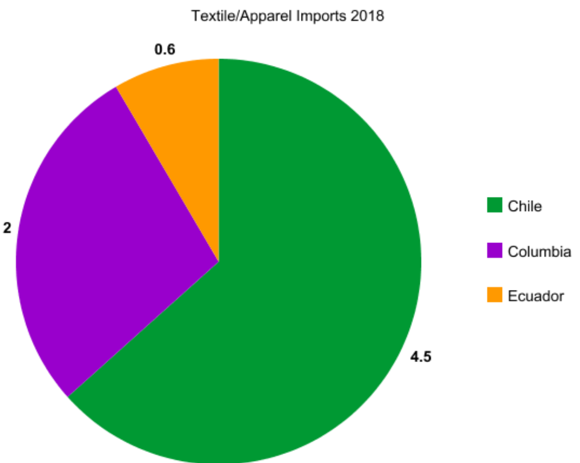
Quarterly change in Gross Domestic Product



Mexican recession

For Chinese exporters, the Chile, Columbia, Mexico, and Ecuador market is collectively very important at 7-8 billion USD of imports of textiles and apparel annually. The recession in this region will likely cut imports by 10% or more. Argentina is in an economic downturn. Its domestic market is protected, and the downturn is hurting mostly domestic producers and Brazilian exporters. The Brazilian government has also expressed concern that the unrest could spread and has suspended reforms as a result. This has sent the Real/USD exchange rate to a new record low. Brazil is a smaller import market than Chile because of its large domestic industry, but nonetheless, China has flooded its domestic markets with cheap imports.

Argentina experienced its Peso crisis earlier in 2019, which, along with increased imports, damaged its economy and its large domestic textile and apparel industry. Argentina is the third largest economy in Latin America, and its textile and apparel sector has declined 50% during the past decade. Retail sales of apparel and shoes have plunged in 2019 as the crisis has expanded. The industry still generates approximately 10 billion USD in sales and employees 700,000 people. In the recent election, which returned the Peronist to power, the new government has proposed a plan to aid the sector with loans and credit. The industry is estimated to need capital injection of nearly 600 million USD to rejuvenate itself. Local brands such as Casino, Montecarlo, and Santista have been hard hit by the crisis. The wool sector also needs a capital infusion. It is estimated that approximately 60% of the small cut and sew shops are idle, due to the loss of orders during the current crisis. The government continues its attempt to use duties to limit imports of apparel, an effort that is expected to increase when the new administration is sworn in.



The US/Mexico border region is in crisis due to violent drug cartels, a fact illustrated by the killing of an unarmed US family (women and children) by cartel members last month. President Trump announced the US will designate the cartels as foreign terrorist organizations, which will open the possibility of military strikes. The unrest has impacted the effectiveness of NAFTA for textiles and apparel. Total textile and

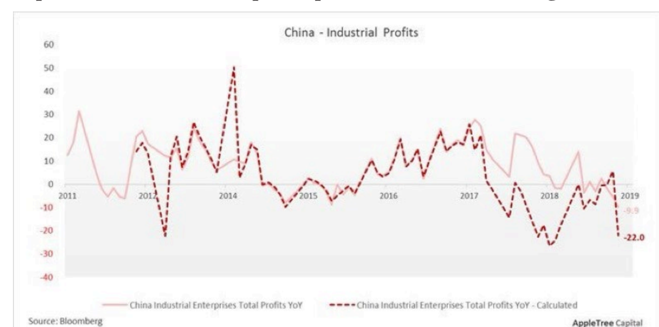
apparel imports from Mexico to the US through September have fallen by 2.38% to 3.38 Billion USD. The greatest weakness has occurred in man-made apparel. Gildan announced it is moving its Mexican operations in Sonora to Bangladesh and Central America, which was quite a shock to the industry. Sonora was the scene of the killing of nine American family members on November 5th by the drug cartels.

US/CHINA TRADE AGREEMENT RISK INCREASES; CHINESE CREDIT RISK INCREASES

Hong Kong Thanksgiving US Appreciation rally

China/US trade will not return to the old normal. With each passing day momentum is building in the US Congress to pressure the Trump administration to confront China on its practices and human rights abuses. For cotton, silence continues to rule the day, but the unfair nature of the Chinese tariffs on US cotton imports and the corresponding continued flow of textiles and apparel, dominated either by Xinjiang cotton or polyester, is beginning to get attention. President Trump signed the Hong Kong Human Rights and Democracy Act on Wednesday, on Thanksgiving eve (November 27th), despite the threats from Beijing. The signing triggered a huge celebration in Hong Kong. It appears that Beijing did not fully understand the new dynamics at play. Human rights matter, and China is not free to act at will while continuing to enjoy commercial trade with the US. The passage and signage of the Hong Kong human rights bill is being touted as the first time human rights in a Chinese Territory has taken importance above commerce, something no other country has been willing to do. The symbolic nature of this should not be overlooked, since it marks the first time any country has stood up to the strong-armed tactics and intimidation of Beijing, and provided for significant economic cost for Beijing if it didn't follow a different course. President Trump and others in the administration said the US stands with Hong Kong, and Beijing's actions will influence a trade agreement and its terms. The signing of the agreement also highlights China violation of the Handover Agreement and means they have lost their right to govern Hong Kong. This marks the first time China is being held accountable to an agreement it signed. The signing occurred on Wednesday, despite all the press comments from both sides that a Phase 1 trade agreement was advancing. The bill requires the US to certify that China is honoring the two systems/one country agreement, and, if it is found in violation, the US will revoke trade provisions with Hong Kong.

In the recent news are reports of Chinese nationals being arrested in the US for attempting to steal intellectual property across a host of industries. A Chinese mainland academic was arrested attempting to enter the US, and she confessed she was here to steal secrets. Under previous administrations, the US had looked the other way. However, many of those instances occurred at a much earlier stage of Chinese development. Today, as the second or third largest economy in the world, the continued spying and espionage at every level suggests the CCP has promoted a moral breakdown. Its heavy-handed persecution of Chinese Christians and attempts to rewrite the Bible indicate clear evidence that China has lost its moral way. This is also being seen in the lack of faith in the food chain, where, despite a shortage of US dollars, a Chinese dairy and infant formula maker has paid a record multiple for two major Australian dairy and drinks groups. The Australian dairy access is so valuable because of the faith in Australia's food safety versus that of China's, which is all related to the absence of a rule of law and moral code. This follows reports that Chinese pork producers have slaughtered



diseased pigs with the pork virus and put them into the food chain, because it feared Beijing would not compensate them.

Bloomberg News reported last week that China was flashing warning signals almost everywhere. It cited major problems with rural bank runs, consumer debt, bond restructuring, company bond defaults, declining health of small banks, and the financial trouble of regional state-owned companies. In a separate news item, it was reported several Chinese lenders last week stopped lending for mortgage loans because of real estate risk. It has become clear that a new significant risk has been introduced into Chinese trade –credit risk for state owned companies. Tewoo Group, a state-owned, commodity-trading group, triggered a crisis with a 1.25 billion USD bond default that has to be restructured. The state-owned company offered a major haircut of 64/100 for cash payment or a swap in the debt for corporate debt in another state-owned company, Tianjin State Owned Capital Investment. The shocking aspect of the bond default is that Tewoo was thought to be one of the most secure companies in China, ranking 132 on the Fortune 500 list. Now it has defaulted and had to restructure its debt.

Overall, Phase 1 of a potential US/China trade deal appeared to continue to be negotiated, with positive comments from China despite the stress over the signed Hong Kong human rights bill. China promised to retaliate against the US, but so far this has not included the trade agreement. However, additional US citizens have been arrested in China, and it is reported that China will stop all publishing of books by US authors.

AUSTRALIAN COTTON BELT EXPERIENCES INCREASED RAINFALL IN NOVEMBER

Several series of storms did bring some rainfall relief to the New South Wales cotton belt in November. However, the rainfall was not enough to increase dryland cotton. It did provide some very welcome supplementary rainfall for the crop though, and increased capacity in some catchments. In the Southern Valleys, a small amount of irrigated acreage was lost, as the water was turned off and the water sold. The greatest November rainfall occurred at Wee Waa, Narrabri, Leeton, and Hay, where 30-50 mm was recorded for the month, while other areas received 20 mm or less. Another pattern of scattered showers moved through NSW and Queensland over the last several days. Dust storms remain a problem, as do brush fires. The crop still appears likely to be near 700,000 bales. Trade is very quiet. The 2020 crop FOB basis remains quite firm at 1365 points on May, or near 590-595 AD a bale. The bulk of the unsold stocks are in Chinese bonded warehouses. CFR Asia basis levels are very firm amid extremely tight supplies.

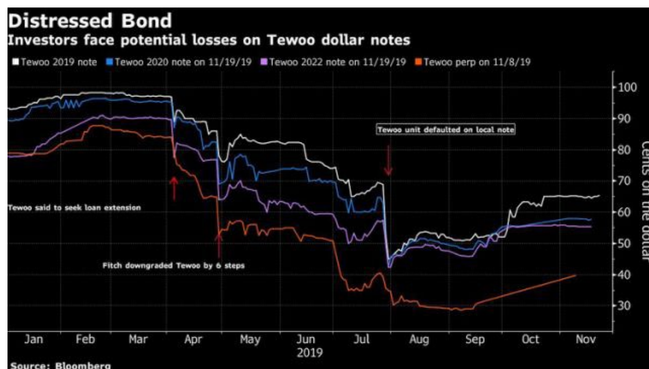
ICE FUTURES FAIL TO BREAKOUT AS DEMAND CONTINUES STEADY

Export demand has been steady during the past week, but spinners will not chase prices higher and remain focused on US and Brazilian styles, along with discounted Greek and East African styles. Chinese demand was lacking, as domestic cotton prices remained at a discount to imported prices. The January ZCE cotton futures contract ended the week with limited movement, as certificated stocks continue to build. Chinese mills remain very hesitant to build inventories, as finished goods prices are under pressure, making the spinners even more hesitant to hold any volume of cotton. October Chinese cotton imports totaled only 70,000 tons. Turkey and Pakistan remained in the market last week, taking up US, Brazilian, and Greek styles. Egypt also experienced strong demand for ELS export offers. None of the turnover was enough to push futures through the resistance. Increased US grower selling was noted, providing some increased Trade selling.

CFR basis levels overall were steady last week. The arrival of the CCI to start seed cotton purchases has firmed the Indian export basis slightly and reduced the selling pressure. It remains to be seen if the CCI can successfully buy seed cotton across the cotton belt in volume large enough to hold local cotton prices at current levels. The steady levels of Indian prices helped international prices hold steady last week.

Our concern remains focused on the weakness in China's economy and the credit risk associated with Chinese companies that is becoming more and more

evident. In several markets, local banks and companies continue to allow Chinese companies to expand credit, which is increasing the dangers of a major issues developing. The default of Tewoo on a 1.25 billion USD debt is quite serious in its ramifications, due to the fact that Tewoo was a state owned commodity-trading firm that was ranked #132 in Fortune's top 500 global companies. This follows an even larger event that was not talked about in the cotton world. Chongging General Trading Chemical defaulted on millions of rubber contracts in late September, sending rubber futures plunging in Tokyo and Shanghai. They were the largest rubber trading company in China, and controlled 1/3 of all the rubber supply in China. Again, Chongging was an important state-owned company that was a subsidiary of yet another state-owned company that also listed shares on the Shanghai Stock Exchange. The company defaulted on over 100,000 tons of rubber. This collapse had far-flung consequences, with growers in Thailand losing millions and the government forced to provide a subsidy to growers. These two instances are very troublesome and raise significant concerns. First, the maze of state-owned companies in China provides no legal protection for non-Chinese owned companies. In both these instances, the counterparties and investors lost millions, and markets were severely disrupted. This certainly brings into question the ability of the large volume of high price cotton import contracts open to Chinese companies being fulfilled. In financial circles, the question is being asked why the government did not bail out state-owned companies that are majority owned by the state itself. This increased risk is being felt throughout the Chinese trading environment.



TEWOO GROUP AT A GLANCE

State-owned enterprise in Tianjin

Operates in a number of industries including:
Infrastructure, logistics, mining, autos, ports

Has operations in countries including:
U.S., Germany, Japan, Singapore

Bloomberg

The risk at the current time would appear to be centered on the large high-priced US export sales to China that are unshipped. In the latest weekly export sales report, China purchased 69,500 bales and canceled 29,000 bales. It is not clear if the volume of higher-priced Brazilian forward sales may also be at risk. For the US, the issue of the high-priced export sales carried forward from 2018/2019 remains a liability, with Mexico canceling a large block in the latest week. We continue to believe any trade arrangement with China and the US, if it occurs, will hold limited benefit for cotton, unless the agreement contains commodity specific purchase requirements. For the US, the unfair nature of the 25% duty on cotton imports and the continued flow of Chinese imports of textiles and apparel without a similar or higher duty remains an issue which will not go away. It is an absolute travesty that, when the US economy is exceptionally strong and retail sales brisk, the flow of cheap Chinese apparel into the US either made from environmentally damaging polyester or a majority of Xinjiang produced cotton has limited US-produced cotton or wool benefiting. At some point, the loss in farmer income or the general disastrous economics of this will be addressed.

March ICE futures continue to find resistance each time it enters the outside range we have been discussing, and it is limiting the ability to trigger Managed Funds buying. In addition, the resistance in Chinese ZCE January futures at 13,000 to 13,200 RMB a ton is also contributing to the resistance, as the Chinese Hedge Funds stay out of ICE. The ability to clear the 67-cents level in March remains important near-term. The lack of Chinese import demand overall is making upside movement driven by the speculative element alone difficult.

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