TURKEY'S ROBUST COTTON USE COMES TO A HALT

COTTON'S MARKET SHARE SURGES IN MARCH

US/BRAZILIAN COTTON DOMINATE VIETNAM IMPORTS

ICE PERFORMANCE DRAWS ATTENTION AMID CHINESE RUMORS

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

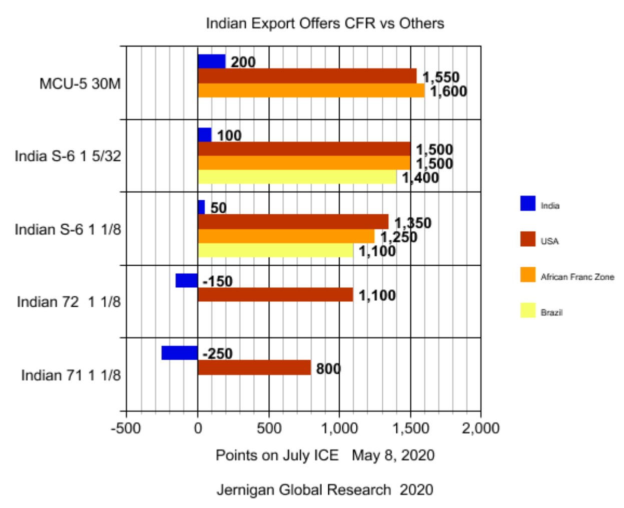
INDIAN EXPORTS MOVE INTO SPOTLIGHT AS DISCOUNTS DRAW ATTENTION

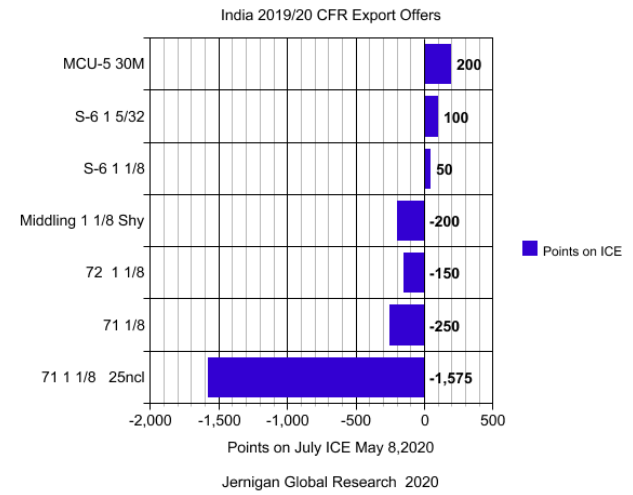
When the 2019/2020 season began, long before the CCP Wuhan Virus destroyed demand, we feared that the CCI alone could not isolate the Indian crop from the world. That fear is coming true, accelerated by the destruction of demand caused by the virus and the sudden total shutdown in India. The pressure is coming in both high and low grades. The Indian lockdown left Indian cotton in the field and in farmers' yards, which has contributed to a further lowering of quality. The shutdown and reduced demand have added pressure from a significant drop in buying interest from Indian mills, which now find themselves with sizeable stocks on hand. At the same time, anxiety is building based on the scale of the build-up of unsold Indian stocks that could accumulate if exports are not quickly forthcoming. The CCI has focused much of its buying in the top grades, leaving the private ginners to find a bid for the lower grades that are now becoming well offered in export markets at extremely cheap prices.

Last week, merchants in China started offering Indian low grades at heavy discounts to all other growths and record discounts to US, Brazilian, and African Franc Zone styles. 1000-1500-point discounts to most other growths are available for most offers.

Despite whatever motivations are behind the Chinese trade house purchases of US cotton, Chinese demand for Indian cotton has been very subdued even at the discounts. It remains to be seen how these offers will impact traders who are holding old crop lower grade US cotton in the bonded warehouses. Traders have shown great resiliency over the past six months or longer in holding firm in their bonded warehouse basis levels. Trading groups have over a 1 billion USD tied up inventories, not a small sum in this environment of tighter credit for holding commodity inventories. All major industrial commodities are under intense price pressure and banks are increasing oversight. The discounts, however, brought others into the market last week, with active demand noted from Bangladesh and others markets.

Indian S-6 SM 1 5/32 offers from Indian shippers stand at 100-150 points on July CFR. Even with quality considerations this is a surprising discount to all major growths. This would appear to raise the question, even with adjustments in yarn yields caused by contamination considerations, how financially stressed spinners can afford to pay 1200-1400 points premium for US, Brazilian, or African Franc Zone. In the lower grades, an Indian 72 RD 1 1/8 is now offered at 100-200 points off. The very good quality MCU-5 30 mm is now offered at 150-200 points on July, which is at a 1500 point discount to US Memphis Territory GC 31-3-38. Indian Shankar-6 1 5/32 is currently at a 1400-point discount to the African Franc Zone Cameroon Plebe 1 5/32.



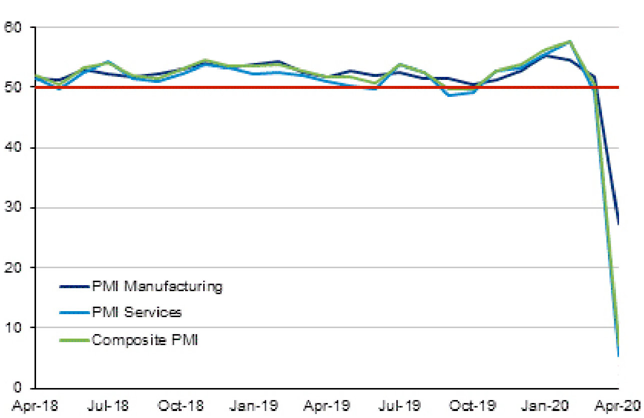


These offers have come as spot prices continue to fall in India as daily arrivals pick up. But the volume is still low, and what happens if they return to 40-50,000 bales a day? The CCI is now offering bulk discounts, and for traders the discount is up to 10,000 Rupees per candy for 10,000 bales or more. At the current exchange rate this equals approximately 23.57 cents a lb. The discount is available for smaller volumes for MSME, KUIC and co-op spinning mills. The discount applies from the CCI offering prices. In private trade, the price of a S-6 1 1/8 ex-gin has fallen to 55.20 cents a lb., which reflects a new low for the season. Merchant bids are below this rate, near 50.50 cents a lb. Daily arrivals have broken 30,000 bales a day. The CCI has been an active buyer since the market reopened, but it is clear the building cotton inventory has created a need for liquidity. The CCI only buys Grade 1, which has added additional price pressure to the lower grades.

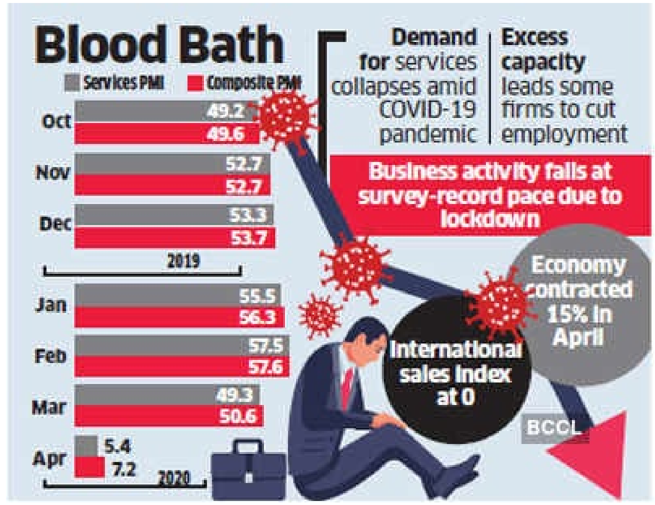
Gujarat cotton ginning

There are two major problems facing the take-up of the crop by Indian spinners themselves. First, there is the need for liquidity throughout the economy, and second, the there is the decline in consumption. The Indian economy experienced the greatest collapse in April of any nation when Prime Minister Modi abruptly shut down the country. The Indian Composite Purchasing Managers Index in April plunged to a record low of 7.2 (any number below 50 suggest a contraction), the Services PMI hit 5.4, and the Mfg. Index stood at 27.4. This data has resulted in forecasts indicating that India's GDP contracted 15.2% in April, with an estimated 122 million people losing their jobs. The collapse of the economy in April resulted in a significant liquidity squeeze throughout the Indian economy. Indian banks have stopped lending to non-bank financial companies. Mutual funds have also reported a squeeze, with Franklin closing some funds. The extreme lack of liquidity is having a chain reaction in the cotton sector. Growers need to sell and get paid, and ginners then need to sell as they gin the cotton. This means exporters need bids. Traders understand the situation, which explains why some international merchants are now putting bids out several cents below the quotes or offers, which is adding to the price pressure.

India experienced the world's largest virus shutdown

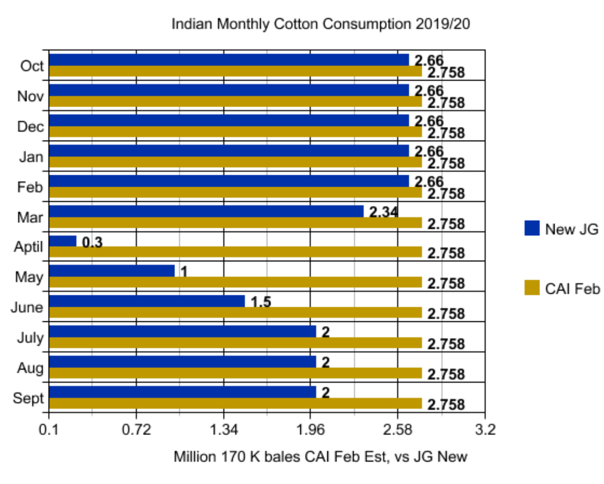


Indian PMI collapses in April 2020



Economic Times India

The combination of an April shutdown and a slow recovery to pre-April levels in consumption over the next several months combined with the liquidity issues could force an additional over five million 170-kg bales into the export channel in the near-term. Even then, stock levels will increase to much higher levels than has been the case in recent seasons. This will prove very difficult unless Indian styles take volume share from African Franc Zone, US, and Brazilian styles. At this stage, this has not occurred against US and Brazilian. However, the standard US E/MOT and Brazilian Middling 1 1/8 is now at a 1,000-point or more premium to a Shankar-6 1 1/8 offer. With ICE futures above 55 cents, this should begin to pressure the US basis or at least halt new business. Even then, without a large block of Chinese demand, there is the question of where such volume of Indian cotton will move. The closure of the Pakistan market makes this even more difficult, leaving Bangladesh in a central role. Bangladesh mills were buyers last week, and they also have a large block of US sales unshipped for 2019/2020, with some of that volume already rolled

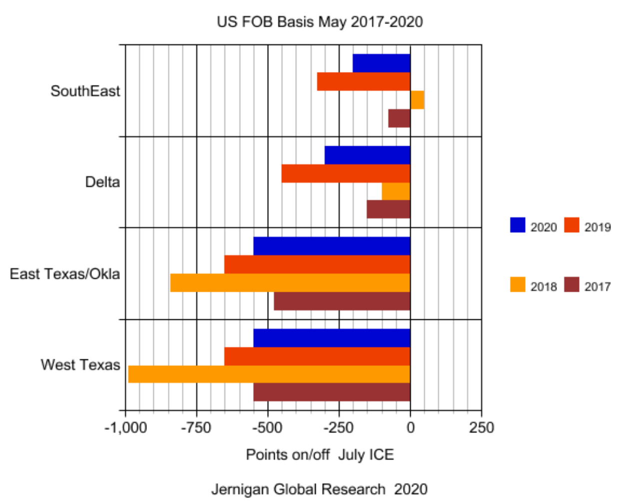


from the previous season. Amid the weaker demand, absorbing these sales over the next 90 days and a large block of Indian raises doubts.

The incentive for export could receive another boost if some of these incentives being discussed are implemented. The Cotton Association of India is requesting a 5-10% duty drawback on both yarn and fiber exports. The challenge is to provide enough of an incentive for spinners to add to inventories at a time of very uncertain demand. The strength in ICE futures has continued to increase the advantage of Indian offers. There is not a simple reason for the lack of brisk demand, even at the record discount. Some spinners are very reluctant to buy Indian cotton due to packing and contamination issues, while others fear a repeat of past problems with the actual quality of shipments. The quality of the cotton received can vary between traders, which also contributes to the general price weakness. Indian spinners themselves are very slow to take up the crop even at the current levels due to the concerns about holding inventories. Overall, at the current discount we expect much improved export demand to develop, which should put pressure on the African Franc Zone basis, as well as slow offtake of US styles. The 2019/2020 crop CFR basis for US and Brazilian styles is firm, and the strength in ICE futures has added to the advantage of the Indian styles.

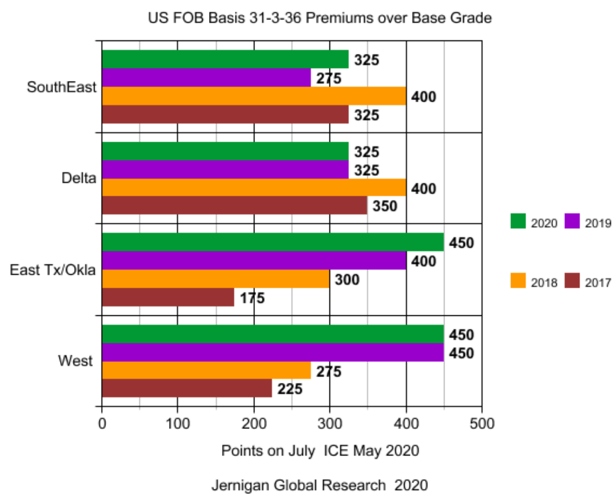
India has also launched an effort to draw supply chains from China. In order to eliminate the problems with acquiring land by foreign entities, the India government announced a land pool for companies relocating to India nearly double the size of Luxembourg. The size is 461,589 hectares, which will include 115,113 hectares of existing commercial zones in Gujarat, Maharashtra, Tail Nadu, and Andhra Pradesh. The government announced ten sectors as targeted industries, which included textiles and apparel. Further details of other incentives to be offered have not been announced.

US FOB BASIS LEVELS WEAK DESPITE FUTURES PRICE LEVELS; NEW CROP SALES LAG



US FOB basis levels remain weak for a futures market in the low 50s and showing strength. The USDA provides the only public data on FOB basis levels in the US. This is done in a rather old system that attempts to monitor merchant purchases and trade. Under this system only about 10% of the crop is recorded. One reason is the large number of marketing pools through which the crop is marketed and the consolidation of the industry, which has harmed information flow as a concentration of Trade concealed trades. The USDA has actually done a good job for all the limitations. This explanation is needed before reviewing the data, because there is always trade that occurs that is unrecorded. A snapshot of the data for the past several years does provide a valuable insight. The basis is based on an antiquated grade, 41-4-34, which usually makes up a very small portion of the crop. The bulk of the crop is closer to a 31-3-36 and thus much of the trade is adjusted. The USDA then attempts to calculate these quality differences and provides a summary by growing region.

In the Southeast, which normally enjoys the strongest basis due to domestic mill demand, the current basis is 200 off July, which is the second weakest level of the last four seasons. The weakest basis in this period was in 2019 when it stood at 325 off July on the same date as the futures were at 73.55. In 2018, it stood at 50 point on even with July at 86.90. The quality premiums stood at 225 points for a 31-3-35, which is near the average for the last several seasons, and the premium for a 31-3-36 is 325 points, which is slightly better than the average. The Delta in 2019/2020 experienced an excellent crop for the first half of harvest and a mixed harvest in the second half. The basis is now at 300 off July, which is much weaker than normal. The exception was in 2019 when crop quality in general affected levels that stood at 450 off on the same date. In 2018 and 2017, it averaged 125 off. Overall, the Delta basis has been damaged by the use of an E/MOT type, which has weakened the CFR basis as compared to Green Card and Memphis Territory offers. The premium for a 31-3-35 is strong at 225 points on, and the 31-3-36 premium is 325 points on, which is weaker than normal when it has been near 400 points on.

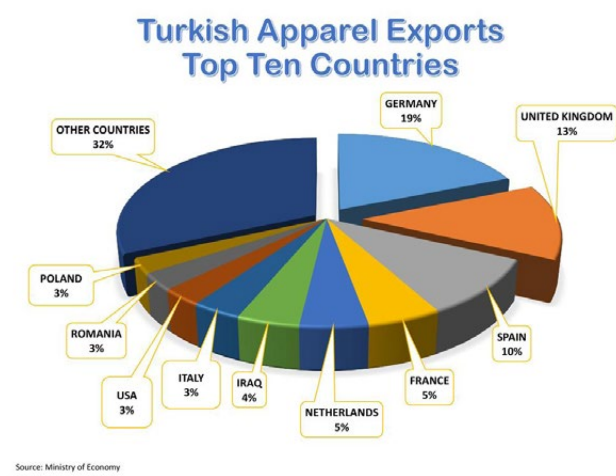


The most volatility is normally found in the Texas basis, which is broken down by East Texas and Oklahoma and West Texas. The current basis for both regions is 550 points off July, the strongest basis in three years. Last year on this date the basis was 650 off, and in 2018 the basis collapsed to 840 off in East Texas and 990 points in West Texas, as the quality of the crop was very poor. The quality premium for a 31-3-35 was 225-250 points on July, which is the same as last year but better than in 2017 and 2018. The premium for a 31-3-36 is quite strong at 450 points on, which is the same as last year and above the 2017 and 2018 levels.

Futures levels in 2019 were at 73.55, 86.90 in 2018 and 72.77 in 2017, which illustrates the general weakness of the basis this season. Current US inventories are over 9.1 million bales, and just over 2.6 million bales remain in the CCC loan as of April 30th. The narrowing of the July/Dec spread and the rally in July ICE futures has not yet showed up in the FOB basis levels.

The volume of 2020 crop that is hedged is much lower than last season at this time. The Open Interest in Dec 2020 futures reflects this at near half the level of a year ago.

TURKEY'S ROBUST CONSUMPTION HAS COME TO A HALT



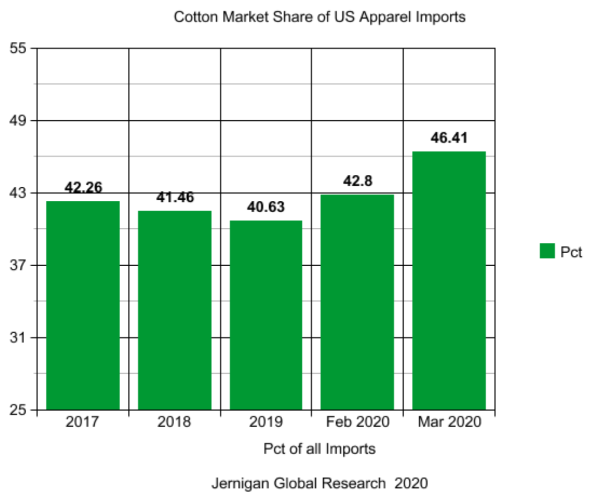
Turkey's textile and apparel industry exhibited real strength pre-virus, with March cotton imports surging to 110,256 tons or an impressive 506,572 bales. The US was the main supplier at 53,517 tons, followed by Brazil's 18,792 tons, Central Asian's 16,653 tons, and 12,529 tons from Greece. Total 2019/2020 imports reached 660,959 tons, nearly double the previous year imports of 378,393 tons. These conditions were brought to a sudden halt due to the cancelations of orders by brands and retailers and the government-ordered shutdown. March textile and apparel export shipments had already begun to slow, declining 27%. Mills have slowly opened but are running much below pre-virus levels, with many operating at 30% of capacity. Worries over the Turkish economy have put considerable pressure on the Lira/USD exchange rate, which has fallen to a new record low at 7.269. This has further stopped spinners from adding to inventories. However, in the latest US export sales report, Turkey did add small purchases of 10,300 running bales of upland, raising hopes that conditions are not as bad as feared.

General discussions suggest the cancelations of orders have not been as bad as in Bangladesh and other Asian destinations, with European groups approaching business more cautiously. The European market is just beginning to open and

Germany is leading the movement, which will be welcome news for the Turkish industry. The inflow of Central Asian yarns has slowed, which should support the domestic market. Many of the Turkish operations have invested in Turkmenistan, which exports yarn to Turkey, along with cotton. In 2019, Turkey imported 185,954 tons of cotton yarn, with Turkmenistan and Uzbekistan their largest origins. Cotton fabric imports came from China, Turkmenistan, and Pakistan totaling 276,895 TSM.

Turkey is expected to see increased sourcing from Europe as companies move to a nearer sourcing model. European retailers face the same problem as in the US, the liquidation of record inventories and the question of how fast consumer will return to the stores. Another concern is the total collapse of the travel industry, due to the fact tourist have been an important part of European retail apparel demand, and that they are likely to be absent for much of 2020.

US TEXTILE AND APPAREL IMPORTS FALL 12.6%; COTTON'S MARKET SHARE INCREASES



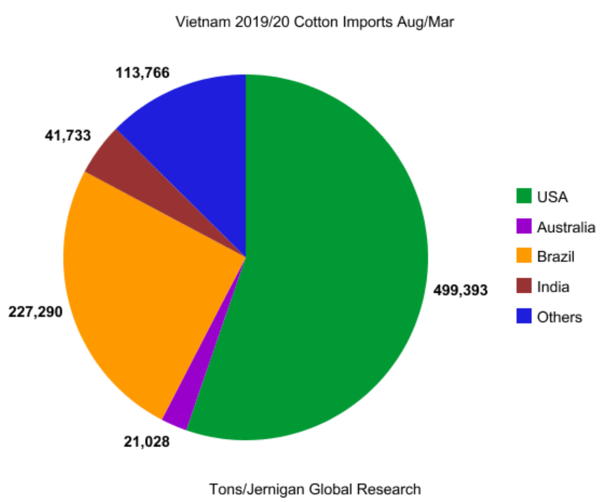
March US textile and apparel imports were likely on a ship long before US brands and retailers realized the CCP Wuhan Virus was going to be unleashed on America. Thus, textile and apparel demand was already weak based on the import volume, which in March fell 12.6% and was off 10.7% in the first quarter. The data for the period showed a significant shift from direct sourcing in China and a sharp increase in the market share for cotton. Imports from China were impacted as well from the port closures in February and March as the virus stormed through China. US imports from China fell 38.6%, and apparel imports only fell 42.6%. These are in volume terms, but in USD terms imports fell 52.4% to only 572.257 USD. This is the smallest of monthly imports from China in 16 years. US textile and apparel imports reached a value of 6.877 billion USD, which was down from 8.054 billion a year earlier, the lowest overall monthly value of imports since April 2010.

The great news was that cotton continued to gain market share, as did other vegetable fibers. Cotton's market share in volume terms surged to 46.41%, up from 42.8% in February and the 2019 record low market share of 40.63%. Imports in April and forward months are expected to see sizeable declines. Thus, it is unclear the volume and whether or not the market share gains will hold. We expect that cotton's market share either has already bottomed or will bottom in 2020. We see a new trend away from cheap man-made fiber throwaway apparel to a smaller collection of much higher value. The transition may be difficult due to the extreme discounting, which we anticipate in the second and third quarters of 2020. We expect cotton's share to start to make significant gains in 2021, as we have previously discussed in detail.

The first-quarter US import data shows that large illegal labeling of products made in China being labeled Made in India, Vietnam, Burma, Macau, and other markets has likely occurred. Imports from Burma surged in the first quarter. This is being addressed, which should dramatically alter future import data. The ability to stop this flow will improve the legitimate flow of increased imports from India, Pakistan, and others.

US & BRAZILIAN DOMINATING VIETNAM OFFTAKE DESPITE PREMIUMS

Vietnam has been a major buyer of US and Brazilian in 2019/2020, through March cotton imports have been running behind last season, as spinners remain cautious regarding cotton yarn exports to China. However, through March cotton yarn exports to China have been maintained. March cotton yarn exports were strong at 152,492 tons, lead by 84,757 tons of shipments to China. The real key will be how shipments hold from April forward, which will indicate demand in the post-virus shutdown world. January-April 2020 textile and apparel exports reached 8.9 billion USD, a 5.8% YOY decline. April exports fell to 1.9 billion. January-March textile and apparel exports to the US reached a robust 3.578 billion USD, which was an increase of 4.13%. Vietnam accomplished a record 16.85% share of the US apparel market in the period. The biggest challenge is the mislabeling of product by Chinese exporters that are labeling product made in China as made in Vietnam. US Customs has identified this as a problem and is cracking down. US/Vietnam relations are quite good, and just last week their ties received a boost with the US strongly backing Vietnam's dispute with China regarding China's illegal claims in the South China Sea. China has turned rather aggressive, and Vietnam's needs the US backing. These conditions will only help to increase sourcing from the US.

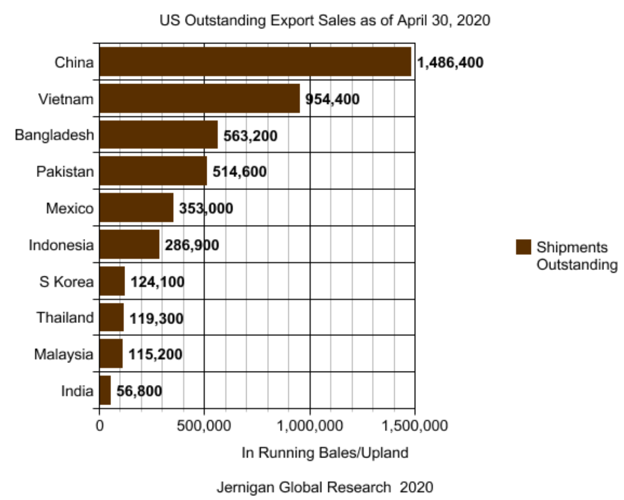


Vietnam has also done an excellent job of containing the damage from the CCP Wuhan Virus and is benefiting domestic economic growth. The textile and apparel sector's greatest weakness remains its lack of fabric production and dyeing and finishing facilities. In the January-April time period, Vietnam imported 3.6 billion USD of fabric, a 10.9% decline in value, much of which was due to the sharp decline in prices.

Vietnam cotton imports in March reached 160,500 tons or 737,417 bales, which was the highest since July 2018. The US was the major supplier of 105,000 tons followed by Brazil's 34,388 tons. Vietnamese spinners report satisfaction with US quality and yarn quality. August-March total imports reached 903,210 tons, which is slightly below a year earlier, and the US achieved a 55% market share at 499,393 tons. Australian and Indian cotton have lost market share, while imports have also increased from Brazil. Imports from Australia totaled only 21,028 tons due to CFR basis levels and the reduced crop size. Imports of Indian cotton dropped to only 41,733 tons versus 113,535 tons a year ago due to the quality issues experienced with previous shipments. Indian exporters shipped lower quality cotton to meet the aggressively priced contracts that spinners were unpleased with. Vietnam has a large number of lower count yarn spinners and exports much of its production to China, so they are heavily focused on price. It remains to be seen if the current record discounts draw spinners back to the Indian styles.

The US has sold a record 3,456,500 running bales of upland to Vietnam and 46,400 running bales of Pima. 954,400 running bales of upland remain to be shipped, along with 16,500 bales of Pima.

US OUTSTANDING 2019/2020 SALES STAND AT 5.757 MILLION RB WITH 90 DAYS LEFT IN SEASON



The US export sales report for the week ending April 30th was impressive, but the key remains shipments as the clock ticks down for the season. Last season, the US carried 2.381 million bales of upland sales into the next season, and they face a similar prospect for 2020/2021 as 5,756,900 running bales of 2019/2020 sales remain unshipped. It would take nearly 64,000 running bales to be shipped daily during the remainder of the season for that volume to move. Last week's shipments of 373,500 running bales raised hopes that shipments could maintain that momentum. The largest volume of outstanding sales, 1,486,400 running bales of upland, remains in China, which carries the greatest risk. The second largest outstanding volume of upland is with Vietnam at 954,400 running bales, and shipments to Vietnam were brisk in the week ending April 30th at 125,100 running bales of upland. Vietnam was also a buyer of 102,600 running bales of upland for 2019/2020 shipment. Turkey has outstanding shipments of 641,500 running bales, followed by 514,600 running bales outstanding to Pakistan. Both were small buyers in the latest week.

Bangladesh has a large volume of sales outstanding at 563,200, and some of these may be canceled. Mexico also has a sizeable volume unshipped at 353,000 running bales of upland. Other notable volumes of upland remain outstanding to Indonesia 286,900 running bales, Thailand 119,300, South Korea 124,100, Malaysia 115,200, and India 56,800 running bales.

US weekly export sales for the week ending April 30th were brisk at a net 370,300 running bales of upland for 2019/2020 shipment and 55,900 bales for 2020/2021, along with 2,400 bales of Pima. These are impressive, to say the least. However, several features stood out that were a bit unusual. First, the USDA reported very large sales and shipments in the Late Reporting feature, which has not been used in recent memory. Late sales of 125,500 running bales of upland was reported to 14 destinations, with 73,500 bales of total sales of 102,600 bales were reported to Vietnam. Sales to Turkey, Taiwan, South Korea, and others were noted. 86,500 running bales of late shipments were reported, and again the largest was to Vietnam at 41,500. Merchants and coops have a lot of flexibility in their reporting, and it is very unusual to rush to report. The volume played a key part in increasing the importance of the sales and its impact on ICE futures. The question is, why was this necessary?

The USDA has now sold an impressive 16.470 million running bales or 16,896,393 480-lb. bales. Therefore, additional sales are not required as it is now all about shipments, as we discussed earlier. Weekly shipments of near 300,000 running bales are needed to meet the USDA's target, so several repeats of the shipment volume accomplished in the week ending April 30th and export shipments will exceed the USDA targets.

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US CROP CONCERNS INCREASE AS WET, COLD WEATHER DOMINATES SOUTHERN CROP BELT

On Friday, the southern Mid-South crop belt was cold and wet as a major cold front moved into the central US. Growers who have planted north of Memphis are concerned about a cold front that could cause widespread replanting. In addition, heavy rains have followed recent rains making planting difficult. Missouri is an area of concern where very little cotton has been planted compared to the 25%-30% normally planted at this time. Tennessee is also behind, but Louisiana is well advanced with 40 50% planted. Arkansas is about 25% planted. In West Texas, weather has remained volatile with record heat to be followed by a cold front. South Texas needs rain, and the region had a chance of good rains the past several days. The Far West is well advanced in planting.

ICE FUTURES; UNUSUAL BEHAVIOR RAISES A HOST OF QUESTIONS

As we review the behavior of ICE futures, we want to keep the "CME May Crude Oil Crash" fresh in our minds, along with a bit of history. The "CME May Crude Oil Crash" made clear the extent of the excessive speculation that now rules the markets. Hedge Funds, with the assistance of the Prime Brokers, created a synthetic short ETF share that the public purchased. Then, the Algos and HFT, with the help of the Funds, front run the rolling of the public share out of May. Despite all of this, the CME said it was all about price discovery and the market behaved as it should. Really? Oil has rallied over 60 USD a barrel off those lows. Where is the call for an investigation? Millennials trading on the Robinhood platform lost millions, and no one appeared to be concerned. It is clear there can be zero faith in the for-profit exchanges protecting hedgers or the public, and that the fees generated by the financial engineers are the driving force, and that no one is watching them.

Against this backdrop, we come to cotton. In commodities, there is no insider trading, and attempts a decade ago to regulate the practice were stopped to protect the hedgers. However, the creation of trading groups by China to exploit the markets has raised the issue again. In the consolidated world of cotton in which we now find ourselves, the CNCRC/Sinograin merger created the largest agriculture-trading group in the world. The Reserve itself has had control in the past of over 50 million bales, or more than 50% of all stocks, with the ability to move world markets at its whim. Such power gives it a strategic advantage over all others, and to the trader who might get access to their intentions. Moreover, China also created two large trading firms that rival Cargill. These groups act as traditional merchants but are also state owned and controlled by the CCP and Beijing. They can corner markets, squeeze markets, take record size positions, and do the bidding of Beijing. These groups have experienced well-publicized losses at times due to speculation on record positions in varies commodities. These groups also trade futures and can take huge positions in the US markets. The Bank of China offered wealth management products that held very large speculative positions in WTI futures. There appeared to be no limit on their positions, as the buyers of those products lost over a BILLION USD in the May crude oil crash.

The creation of these groups was not challenged by the US in the WTO, and no attempt in the new world of limited futures regulation ushered in after 2000 was ever made to prevent them from using their massive inside information of China's buying intentions to move futures prices. It has been simply shocking that an outcry has not occurred, as these groups have the power to hold US Ag exports in its hands as the futures markets. No other group on earth can hold an inventory of 10, 20 or 30 + million bales of cotton, receive unlimited finance from a central government, and then use all that to move markets. What is the logic of giving such power to a small group in China so they can move markets, take futures positions, and weld unlimited influence without any oversight?

During the same period, Chinese companies were allowed to list on US equity exchanges without providing the same financial requirements or disclosures as US firms. Again, driven by the for-profit NASDAQ, NYSE, and others to generate volume in fees. Who in their right mind would think this is okay? Most of these have caused heavy investor losses due to scandal after scandal. Just recently LUCKIN Coffee, which was praised as the new rival to Starbucks, created fictional sales, falsified its records, and lost millions of investors' money. Still the practice goes on, and again there are no investigation, despite the fraud and losses. Again, the exchange ignores the public's losses. Last week another Chinese company went public on the NASDAQ, which is proving very popular with Chinese companies.

For the last several weeks, the murky world of Chinese buying by a Chinese trade house either for the Reserve or itself has been the major mover in the futures market. The behavior of ICE and some traders suggests the sales also had large futures positions, and again, only the Chinese group, Beijing, and the merchants involved know the facts or intentions. As usual, who really knows if China will honor the US Trade Agreement? Again, there is no degree of transparency, and everything is centered around "perhaps" they will. How can the US really deal with such behavior considering they just decided they would no longer honor the Hong Kong Agreement despite negotiating and signing it? The UK was too weak to challenge, and the people of Hong Kong suffered while their economy was destroyed. Overall, just consider the insider information provided with the knowledge that the Reserve was planning to buy 1 MMT or 4.5945 million bales of US Cotton, which reflects over 68% of the projected carryover. Even to give the impression that this could occur wields a lot of influence.

Now the Trade Agreement has the US agriculture markets hostage, including the US cotton market. The Phase I trade deal calls for China to buy 35.5 billion USD of agriculture products in 2020. The year is more than 25% complete, and China has made no real good faith effort to meet the obligations. After adjusting for freight and insurance, sales should reach 31 Billion USD in 2020. US data shows China purchased only 3.1 billion USD worth in the first quarter (interesting that China's data showed 5 Billion USD), which is approximately 28 billion USD short of the agreed volume. On Friday, the US and China negotiators held a call, and again there was a lot of hazy language. The press was told the teams would, "create favorable conditions to implement the Phase 1 trade deal." That, of course, means nothing. Again, why can't China simply make a firm pledge? During the time the Phase I was in place they have been buying record volumes of Brazilian Soybeans and other products.

The rumors we have been discussing for the past two weeks in which the Reserve has been approved to purchase a million metric tons for its stocks has continued to influence prices. Once more we have zero confirmation of this being approved. The question is has a decision been made to buy a portion of this from the US, and was it tied to futures positions linked with the merchant seller? The behavior of ICE futures seems to raise the possibility. Last week, there were 2,145 EFPs that occurred. This was the use of existing futures positions to fix an on call position. At the same time, the Other Reportable Long position was reduced by just over the same volume. Was that linked to a Chinese group that many times carries futures positions under the Other reportable category? The China sales, if not offset by cancellations later, do add some dynamics to the US supply and demand outlook. The question is will they ever be shipped, given the rapidly changing US/China relations? It has become very clear that Beijing views its power of trade and ability to move agriculture prices as a weapon against the US and the Trump reelection prospects.

The lack of Certificated Stocks is another issue that raises the prospect that someone expecting a possible tightness in July. May futures expired with no notable deliveries, and the qualities of the cotton sold to the China trade house has tightened the available supply, which may impact deliveries on July despite the lack of carry. Whether the China sales are linked to the Reserve or just a play by the trade house, it has raised the possibility of July futures diverging from the world market. We see this already in the collapse of the Indian CFR basis. Will the Brazilian and African Franc

Zone CFR basis follow?
The technical behavior of the ICE futures has turned very positive. As we discussed earlier, the futures play associated with the recent sales are the catalyst behind the movement. Today's futures can be moved by artificial forces, and there is really no oversight to force the market to represent the interest of hedgers. The NYCE spent decades traveling around the world promoting the contract as a global hedging tool. ICE has not made a similar effort and allowed the contract terms, delivery, and other features to remain almost unchanged, which resulted in the contract experiencing much fewer deliveries and allowed the delivery process to be dominated. If the China trade house and merchants play unfolds, then the next major feature could be an extension of the rally in the middle of a total collapse in global demand. That would certainly make the contrarians proud. The strength in ICE has also had a positive impact, as it has allowed merchants and spinners to maintain open contracts with some adjustments, reducing the volume of cancelations that were once feared. The International Cotton Association contract enforcement has also made outright defaults costly for spinners.

All this has happened as the US and European retail sector begins to reopen. The reopening has been tough, with well know retailers like J Crew, Neiman Marcus, and others announcing bankruptcies, while others have announced store closures. An ITMF survey of 600 textile operations forecast total sales in 2020 to be down 33%. Spinners have generally approached new business extremely cautiously. The exception was Argentine and Indian styles. The extreme discounts of Indian styles have now begun to attract business.

It remains to be seen how the July ICE contract will unfold. This drama will force more and more attention to the Dec and forward months. The technical condition of the market is causing the Managed Funds to cover shorts, and there is a chance the conditions have improved to the point where they could switch back long. This has raised the possibility that the China trade house's inspired squeeze on July could extend the rally to the 65-cent area. We are not at all sure this will occur, but the possibility does exist. The July/Dec spread traded in to 110 on Friday before recovering. The Trade, which has non-US cotton hedged on ICE, as well as all those not involved in the play, will suffer losses from any hedges in July if the rally occurs, because demand will not follow. The best thing to remember in such an artificial environment is that anything is possible. The market could be pushed to the point that the entire position is liquidated into the rally and the tightening of spreads, which would cause prices to suddenly collapse into carry. One observation is that volume in futures was very light, with spread and Algo/HFT trade dominating as the cotton Trade stood aside. Average daily volume of nearly 25,000 makes any firm paper such as the Managed Fund buying have major influence.

As all this plays out, the improvement in cotton's market share is underway, as is a change in sourcing, which will benefit cotton when supply chains move closer to their home markets.

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