AFRICAN FRANC ZONE BASIS BEGINS TO WEAKEN

US COTTON QUALITY DECLINES

US PIMA PRICES REACH EXTREME DISCOUNTS

PAKISTAN COTTON IMPORTS TO HIT NEW RECORD

JERNIGAN GLOBAL
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BRAZIL'S COTTON EXPORT SHIPMENTS IN OCTOBER SURPASS US BY WIDE MARGIN

Santos Port

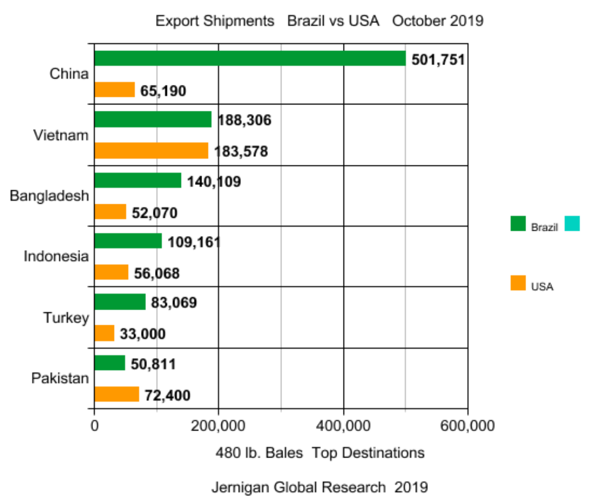
Santos Port

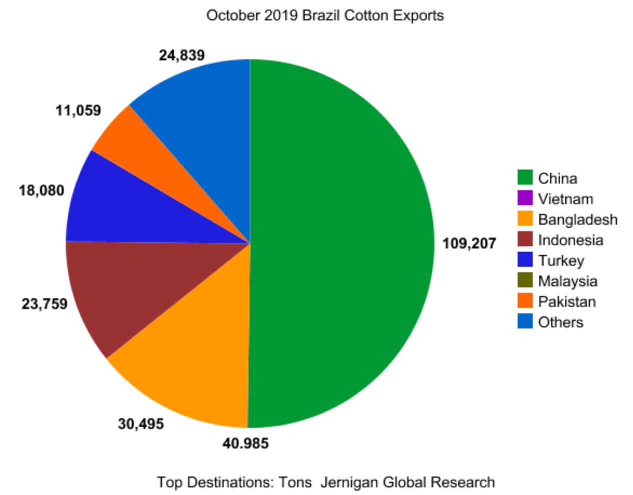
The US and Brazil both face logistical issues concerning cotton exports. The US has a domestic warehouse system that makes timely and efficient movement difficult, while seemingly designed instead to slow walk the process to generate storage costs that have historically been paid by the CCC. Brazil's problem is they have very little rail capacity, which forces them to depend on trucks traveling on narrow two-lane road for most of 1,700-kilometer, 1,056-mile journey, to reach the main export port in the south. In October, the Brazilian industry accomplished an incredible feat when it exported a record 273,400 tons (1,256,136 bales) of cotton. This accomplishment is made even more impressive considering most of that volume left from Santos Port and traveled 1,700 km or 1,056 miles by truck. For anyone who has traveled

BR 163 Highway

the narrow two to four-lane road to Santos, the accomplishment of such a feat is not lost. The Brazilian cotton exporters prepared for the record 2019 crop and succeeded in getting five extra loaders installed at the port. Santos is an extremely busy export port. Brazil also exported a record amount of beef in October. Santos to Shanghai freight rates are up sharply from a year ago. The industry is working on getting container service to the Salvador Port in the north. Brazil will have to repeat the success of October over the next 12-24 months as it keeps the record crops moving to export amid weak domestic demand. The domestic market in Brazil is overrun with imports from China, which continues to damage the domestic industry, as we discussed last week.

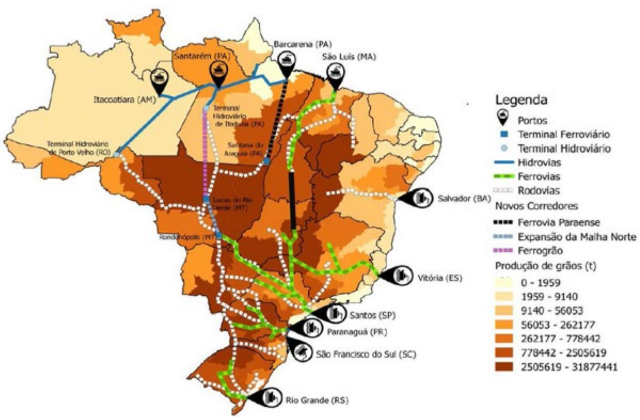
Brazil's record October cotton exports, 1,256,136 bales, compares to US export shipments in October of only 793,102 480 lb. bales (USDA 480 #). Brazil took significant market share from the US in October. The top export destination for Brazil in October was China, which took 109,207 tons or 501,751 bales, compared to shipments from the US of only 65,190 bales. The top export destination for the US in October was Vietnam, which imported 183,578 bales, while Brazil shipped 40,985 tons to Vietnam (188,306 bales), making it Brazil's second largest destination. Brazil also shipped 140,109 bales to Bangladesh in October, compared to the US shipping only 52,020 bales. The US shipped 56,068 bales to Indonesia, which was only about half of the 109,161 bales Brazil shipped. The US shipped only 33,000 bales to Turkey versus Brazil's shipments of 83,069 bales. Turkey is one of the most important markets for US exports. However, Brazil is now the second largest supplier to Turkey, as July-October shipments have already reached 47,574 tons (218,579 bales). The US exported 72,400 bales to Pakistan compared to Brazil, which shipped only 50,811 bales.





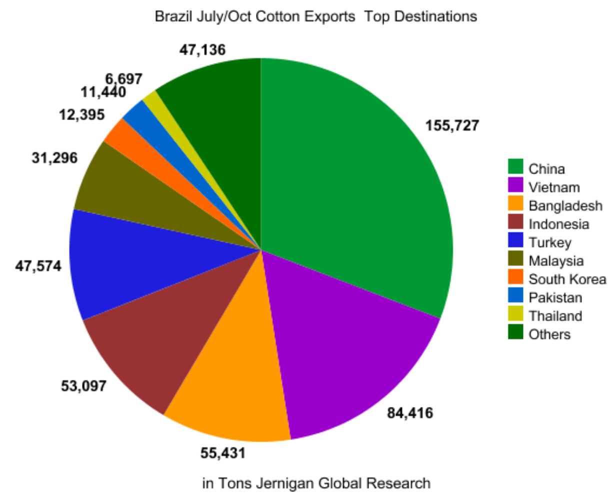
Brazil shipped 505,209 tons (2,321,183 bales) during July-October, with China the top market taking 155,727 tons (715,488 bales). Vietnam has been the second largest market with shipments of 84,416 tons (387,849 bales).

The election of the first free market and anti-corruption government in centuries is having a major impact on Brazil. The impossible happened with the passage of pension reform, and the government has now introduced legislation to begin tackling the economy. The Real/USD exchange rate has strengthened, and new investment is being drawn into Brazil. The exchange rate did experience a setback late last week when it collapsed to near 4.15 per USD following a failed Petrobras auction of drilling rights and a potential supreme court ruling that would release former socialist president Lula from jail. The agriculture sector appears to feel emboldened under the Bolsonaro administration and is making new investments. The expansion in cotton acreage is becoming permanent, as growers make investments in the needed new equipment. Any US growers wishing to sell their John Deere pickers have a ready market. The next major hurdle will be the opening of container service from Salvador and other northern ports. When this happens we would expect increased expenditures on road infrastructure from western Bahia and the Frontier states. The cost of shipment to export could drop by 5 cents or more a lb. from many of the Frontier states. Within 24 months we would expect 50,000 hectares or more of new cotton acreage from these areas could come online. Piaui state, which is located just north of Bahia, has attempted to become a major player in cotton, but their effort has failed due to the state's remoteness, lack of infrastructure, and the fact that their cotton had to be trucked to the Santos Port, which is simply not economical. The entire Frontier region has a lot of potential with the opening of northern ports that will give large growers the confidence to build roads. The northwest has been a socialist region and voted heavily for the party of Lula, so the new administration would likely be very interested in assisting this very poor region with the development needed to end the cycle of poverty fostered by the Workers Party. Rumors were in circulation last week that several companies now operating in Argentina will move to Brazil following the election of the Peronist and their socialist policies.



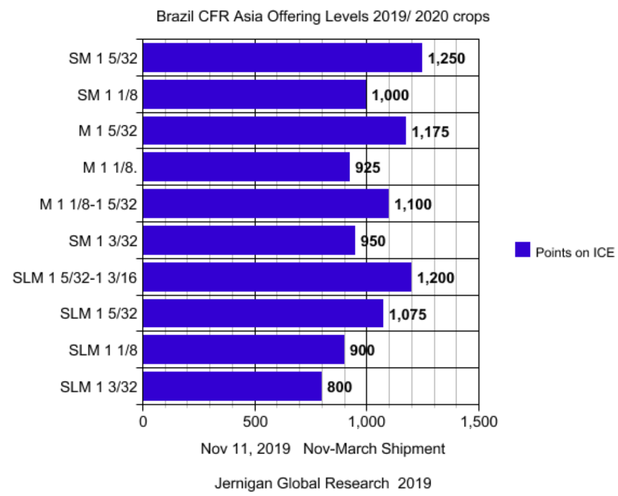
Brazil Map

Harvest is finished, the 2019 crop is being ginned, and approximately five million bales remain in the hands of growers to be sold. Export prices are more attractive than the domestic market, which means much of the remaining volume will also move to export. China will take up a large portion of the surplus. During the past few weeks an estimated 200,000 tons (918,900 bales) of new sales have been made to China. Inquiries are noted daily. Xi Jinping will visit Brasilia this week for a Summit of Emerging Markets, which follows a visit by the Brazilian president earlier in October, and will further strength Brazil/China ties. Merchants appear to be short the domestic basis in Middling 1 1/8 and higher grades, with the local FOB very strong for available supply. Merchants are bidding 500-600 points on Dec for immediate payment and delivery. At these basis levels, growers are receiving 70 cents plus local price at the port, which is very profitable given the yields and exchange rate.



The continued increase in forward export sales to China suggests lower demand for US cotton under any trade agreement without specific commodity volume requirements. Over the past 12 months Chinese spinners have replaced US cotton with Brazilian cotton, and they appear to be pleased with the quality and performance.

Export offers remain steady, with Brazilian styles very competitive with the US styles. Supplies of the longer staple 1 5/32 and longer styles are tight, but Middling 1 1/8 continues to be well offered. Competition is building for the first quarter 2020 with US E/MOT styles. Merchants are offering US E/MOT Middling 1 1/8 at 800 on March, which is at a 100-point discount to the cheapest Brazilian offers. Brazilian styles are the most competitive in the world for December 2020 through 2021 shipment, as Merchants start offering the 2020 crop at aggressive CFR basis levels. This will undercut all other styles. Middling 1 1/8 offers at 800 points on Dec20 ICE futures. As we have discussed with spinners, this is a very attractive level to begin expanding coverage. Brazil faces record export requirements for both the 2019 and 2020 crops, and likely for the 2021 crop as well.



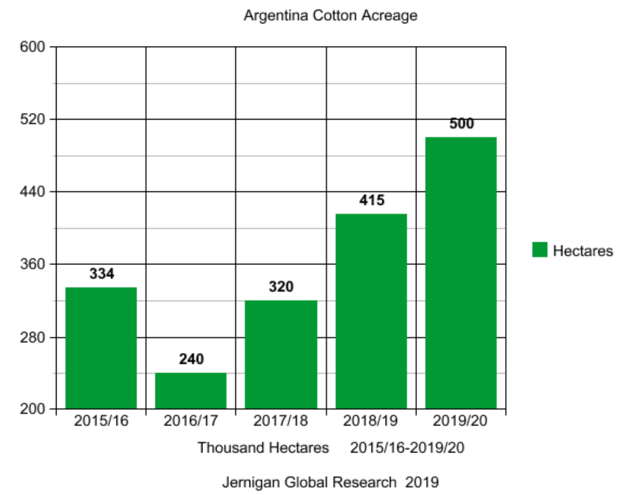
ARGENTINA PREPARES TO PLANT RECORD COTTON CROP

Despite the election of the Peronists the Argentine agriculture sector continues to expand, especially regarding cotton, as it appears growers will be planting a record 500,000 hectares, an 85,000 hectare increase from last season. A major Argentine agriculture group has purchased 540,000 hectares of Australian farmland in the Northern Territory during the past few months, spending over 43 million AD. The group in Argentina grows cotton along with other crops. Planting of the crop has started, and Chaco recorded beneficial rains. Argentina's cotton acreage has increased 100% since 2016/2017, and both yields and quality have greatly improved with the introduction of new seed varieties. The expected 2020 record crop will move largely to export, given the weakness in the domestic economy.

Vietnam, Turkey, Indonesia, and Pakistan have all become regular buyers of Argentine styles. Given the import demand from these origins, it should be easy to move the record crop to export. The quality is normally below Brazilian, and they are popular in open end yarns. CFR basis levels have improved, as spinners have become familiar with the improved qualities of Argentine cotton. The spread between US and Argentine lower grades appears to be the narrowest on record.

Argentine cotton

Argentina Cotton Belt



CHINA POLYESTER PRICES MOVE TO NEW ALL-TIME LOWS

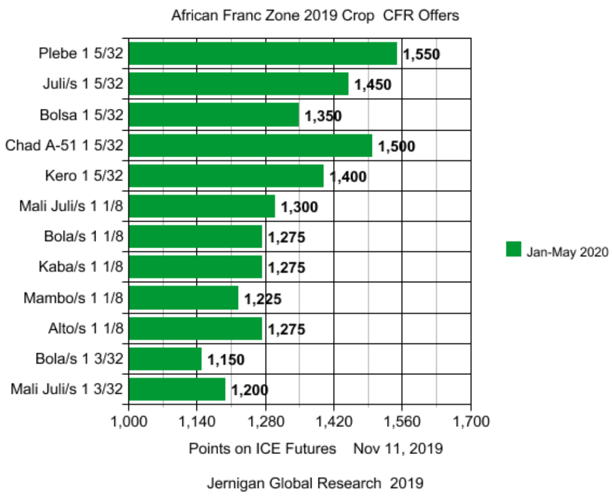
The decline is not dramatic, but Chinese polyester prices are again under pressure and have moved to new lows. The pressure is resulting from new petrochemical plants coming online and the outside pressure exerted from the shale oil boom in the US, as we discussed several weeks ago. Plants are offering discounts, and the price per lb. has moved below 44 cents. The over supply in virgin polyester has narrowed the gap between virgin and recycled polyester in China as well. The world is awash with the raw materials for polyester, and new capacity is coming online each quarter. Profit margins are thin, and debt service is placing serious burdens on companies. However, the major companies in China are largely state-owned.

AFRICAN FRANC ZONE CFR BASIS BEGINS TO WEAKEN

Mali cotton

Mali cotton yard

The African Franc Zone CFR Asia basis has begun to weaken, with the average CFR basis declining by 100-150 points over the past 30 days as US and Brazilian styles have undercut most demand. The traditional US machine-picked export styles relationship with African Franc Zone offers was thrown into disarray last season when the 2018/2019 African Franz Zone high grade styles traded at a record premium to US E/MOT type offers. Despite the issues with increased contamination that occur with the handpicked West African crop, spinners in markets such as Bangladesh and India made these styles very popular in 2019 due to their high uniformity in spinning and ability to hold dye. The 2018/2019 US E/MOT crop was one of the poorest on record, with much of the crop experiencing several major rain events in the field and with regrowth an issue. This appeared to impact traits beyond the typical HVI data, with high degrees of general spinnability reported between regions. Some areas had a problem with dyeability. Despite the improvement in the quality of the 2019/2020 E/MOT crop, type offers are at heavy discounts to African Franc Zone offers. Today, the average African Franc Zone Strict Middling 1 1/8 offer ranges from 1250-1400 points on March and May ICE futures, compared to E/MOT SM 1 1/8



type offers at 850 points on March or May. AFZ offers are even at a premium to Green Card E/MOT offers at 1125 points on March, and near par with Memphis Territory only GC31-3-36 offers of 1200 points on March or May. The average African Franc Zone CFR basis has weakened from 100-150 points over the past 30 days.

The cost of shipping from the African Franc Zone is being influenced by the risk of the region. The International Maritime Bureau said the Gulf of Guinea is a “world piracy hotspot,” and that the “seas around West Africa remain the world’s most dangerous for piracy.” A Norwegian ship and crew were kidnapped last week at the Benin Cotonou Port. Concern is also building over security in Mali, where new attacks have occurred north of the cotton belt. Mali is the second largest producer and is expected to produce 1.355 million bales in 2019/2020. Mali also produces some of the highest quality cotton, with its 1 5/32 and 1 1/8 styles commanding a premium to other origins. The Mali crop is normally long staple 1 1/8 to 1 5/32 and high strength near 33 and mike of 4.0, all features that make it popular with spinners. Its Juli/S tends to be between a Good Middling and Strict Middling.

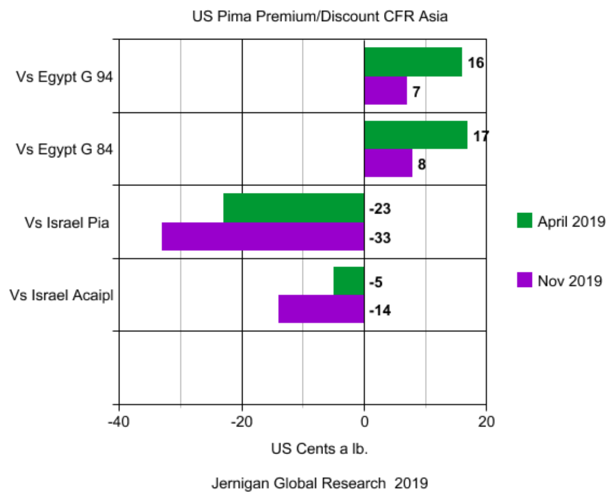
US COTTON QUALITY DECLINES IN SECOND HALF OF HARVEST

The decline in cotton quality during the past several weeks is now showing up in the classing data, with the average color grade dropping to a 41 Strict Low Middling, leaf content increasing, and the West Texas dryland crop is experiencing shorter staple than normal. The average grade in the Memphis Territory and Southeastern belts is now 41, with a 3 leaf and a staple length that is still allowing most growers to obtain a premium to the loan base. The CCC loan does not provide enough of a premium for the longer staple lots. We have pointed this out several times, but the USDA has not moved in several seasons. Growers receive no premium for staple above 37, and some growers have 40 staple lots. Strength premiums are also insufficient, given the importance to spinners. The maximum premium is only 50 points. The base grade of a 41-4-34 distorts the entire CCC loan schedule. For example, the discount for 32 and 33 staples can be offset with a higher color grade and lower leaf. This cotton is overpriced in commercial channels. On one hand, staple and strength are not rewarded, while, on the other, short staple has minimum discounts due to the low base grade.

The general spinning features of the SLM styles now being produced in the Memphis Territory and Southeastern belts suggest that an abundance of SLM 36/37/38 staple, premium mike lots will be available for export. Increased demand is also being noted for regional specific lots such as North Memphis Territory, Memphis Territory, and Southeast, with less demand for E/MOT, which includes Texas and all regions outside Arizona and California. On a CFR basis, the premium for the Memphis Territory is increasing to 75-100 points and 150 points for the North Memphis Territory. The early quality of the West Texas dryland cotton and the weather suggest the discount for E/MOT will increase. Some merchants have already begun to offer the West Texas lots as origin specific.

The average staple at Lamesa is near 34 and just above 35 at Lubbock. At Lamesa last week the average color grade was 11/21, while staple was 34.53. This cotton will be difficult to merchandise. Much of the West Texas crop has faced a host of weather events. The data is showing that yields and quality are below expectations. A total of 1,437,573 running bales were classed last week, bringing total to 7,040,620 bales.

US PIMA EXPORT PRICES REACH SIZEABLE DISCOUNTS STIMULATING DEMAND



US Pima export prices have suffered from the US/China trade dispute, as Pima exporters were forced create demand outside of China. Chinese spinners basically stopped buying US Pima after China placed a 25% tariff on imports. It remains unclear where the orders have been shifted, but India, Pakistan, and Vietnam have all benefited to some degree. US Pima export offering rates remain under pressure. Since April, exporters have reduced prices by 900 points, with the average Grade 2 1 7/16 offered at 127.00 cents. This decline has occurred even though most other ELS prices have remained steady and upland price have recovered nearly 1000 points off the lows. In April US Pima was priced at approximately 16 cents premium to Egyptian G-94 Good +3/8. Today, however, G-94 offers are at 119.00 cents, which reflects only a 100-point decline since April, and G-84 is offered at 120.00 cents. The premium of US Pima has dropped to only 700-800 points. Export offers of Israeli Pima are unchanged since April and now stand at a record premium to US Pima of 33 cents per lb. The discount of US Pima is currently at an extreme.

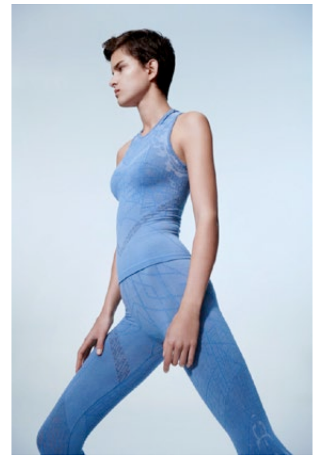
The absence of demand from China appears to be the main driver in the weaker prices. Until the outbreak of the trade war, China was the largest buyer of US Pima. A lifting of the 25% duty in any China/US trade agreement would have a significant impact on Pima prices if demand returns. However, ELS demand in China appears weak, with domestic ELS prices steadily declining. Even without the extra duty, US Pima after VAT and import taxes is at about 145.00 cents compared to the Chinese T137 ELS at 137-138 cents FOB warehouse. There doesn't seem to be any Pima cotton in the bonded warehouses, and mill stocks of Pima are very low. What is not clear is how much of SUPIMA's licensed business has been switched to India, Pakistan, or Vietnam.

US Pima export sales surged in the week ending October 31st, reaching 29,992 running bales and resulting in the largest weekly sale since the week ending April 4th. The US sold 72,915 running bales of Pima in October, which reflected a pickup in demand. India was the largest buyer in the latest period, taking 22,100 running bales, and Pakistan was the second largest buyer at 4,500 bales. During the week ending October 31st, 32,500 running bales of Pima was sold for 2020/2021 to India which was the largest forward sale to a single destination in years and indicated the extreme value level US Pima export offers have reached.

US Pima is experiencing improved demand from the top designers and brands due to its ability to offer a natural fiber alternative to man-made fiber in many products. Several new lines are being offered in performance wear. In addition, the brands and retailers are demanding traceability, which limits any attempts to offer counterfeit products.

WOOL MAKES MAJOR INROADS INTO PERFORMANCE APPAREL

The global activewear market is growing rapidly and forecast to reach 564 billion USD by 2024. For cotton and other natural fibers, this market represents the single biggest opportunity to not only halt the growth in market share of polyester and other man-made fibers, but to take back some lost market share. Leading the innovation for natural fibers is the wool industry. Woolmark and Australian Wool Innovation are doing a great job of working with brands and retailers to develop wool products for apparel items that are now dominated by man-made fibers. Merino wool is known as the Original Performance Fiber because it is breathable, naturally elastic, and odor resistant. Woolmark, Santoni (knitting machine manufacturer), and Studio Eva X Carola (Designer) have come together to offer a 12-piece yoga collection, including leggings, crop tops, bras, a racer-back tank top, and a t-shirt, which is focused on performance. Choosing the perfect yarn was an important factor for the design of this collection, and the hero yarn is a superfine 15.5 micron Merino wool yarn from the Südwolle Group. The yarn offers next-to-the-skin softness and comfort with an extra twist – it was designed to put to an end the perception that wool is itchy. The product is seamless and was constructed using the latest seamless technology circular knitting machines from Santoni Shanghai.



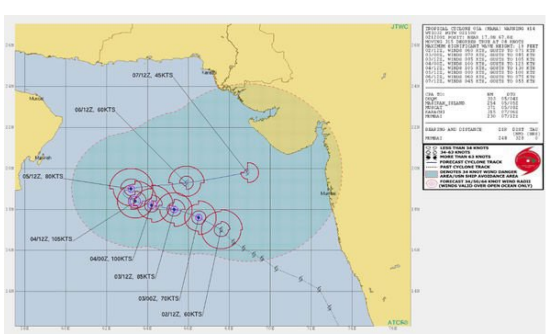
It is crucial for cotton to have the technology available to develop new yarns and applications that will allow it to perform in ways like that of man-made fibers. The environmental damage done by the non-biodegradable, man-made fibers is not compatible with the environmental beliefs of performance and activewear customer. The size of the market makes the task worth the resources spent on R & D and collaboration.

USDA LOWERS WORLD PRODUCTION BY 2.83 MILLION BALES

The USDA made major adjustments to world production, led by an 893,000-bale reduction in the US fueled by a 700,000-bale reduction in Texas. The other key reductions were Pakistan -600,000 bales, India -500,000, China -500,000, Turkey -300,000, and Central Asia -150,000 bales. These changes filter through to a 2.889 million-bale reduction in 2019/2020 world ending stocks. The decline in production triggered a 1.129 million bales increase in global trade as imports expanded. The US crop is now estimated at 20.817 million bales, and demand was left unchanged, with US ending stocks falling to 6.10 million bales. The USDA report highlighted that Turkey's consumption prospects had increased to 7.10 million bales, while their domestic crop declined by 300,000 bales, thus increasing import needs by 600,000 bales.

INDIAN CROP FACING INCREASING QUALITY CONCERN

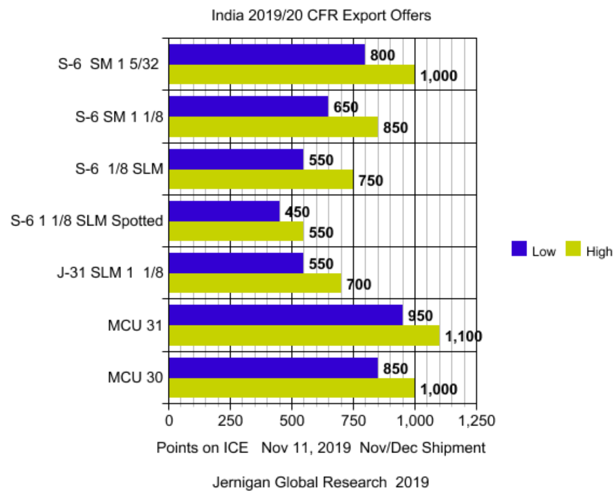
October was the wettest on record over much of the Indian cotton belt, and now late-season Cyclone Maha brought heavy rains and wind to Gujarat and Maharashtra. These rains were very unwelcome and further reduced yields and lowered quality. Rains from Maha were



heavy in the main cotton districts of Saurashtra. The wet October has already lowered yields, caused quality losses, and delayed crop movement. The rains have caused moisture content in seed cotton to surge to over 12%, which has had an impact on local prices. The CCI said it would not buy seed cotton above 12% and has placed discounts on any content above 9%. This means the effective support from the Minimum Support Price is missing, which has resulted in cash prices falling much lower than expected. Growers have been urged to dry seed cotton before delivering to buying centers. Crop damage has been such that Maharashtra State is seeking to provide the hardest hit growers with government payments.

The impact of the size of the crop will not be known for some time. However, the quality of the export offers from Gujarat has been affected. It is clear the supply of Middling and above grades is very tight from the deliveries ginned so far. As the concerns have increased, the basis for the Middling and above longer staple lots has firmed. At the same time, increased offers of Strict Low Middling and Strict Low Middling light spotted have been noted at aggressive basis levels.

The basis for a Strict Middling and offers have firmed. S-6 SM 1 5/32 offers have reached 800-900 points on Dec for November -Dcember shipment, and SM 1 1/8 are offered in a range of 650-800 points on Dec. S-6 SLM 1 1/8 offers are offered at 550 points on, and SLM S-6 spotted 1 1/8 at 400-450 points on. J-34 SLM 1 1/8 offers are at 550 points on Dec.

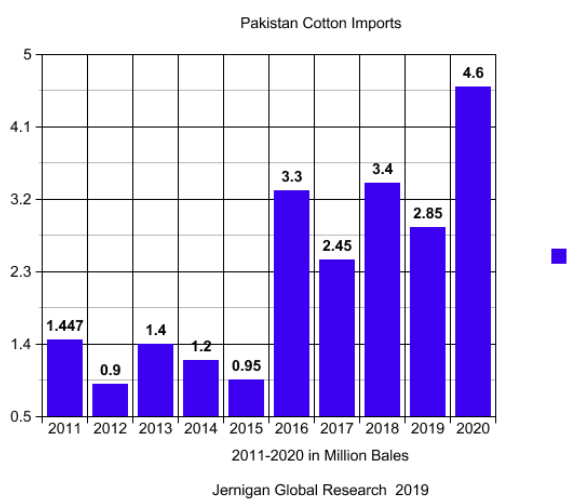


India imported 258,192 tons (1,186,263 bales) of cotton in August-September, which compared to only 48,868 tons in the same time last year. The USA was the top supplier at 133,930 tons, followed by the African Franc Zone at 46,998 tons, and then Brazil at 9,558 tons. Exports in the same period were 24,833 tons.

PAKISTAN CROP HEADED FOR 6.2 MILLION BALES

As of October 31st, growers in Pakistan had delivered only 6,097,465 local bales to gins, which is down 21% from last year's deliveries of 7,706,331 bales on the same date. Fears are growing that the crop will fall below 9 million 150-kg bales, or 6.2 million 480 lb. bales. This would be the smallest crop since 1986/1987 and mean record cotton imports in 2019/2020 that could reach 4.6 million bales. This explains why Pakistan was again an active buyer of US, Brazilian, Tanzanian, Ugandan, Greek, and Sudan Acala. Even spinners who normally depend on local supplies are being forced to return to imports. The cotton surge in import is having a major impact on the monthly trade deficit.

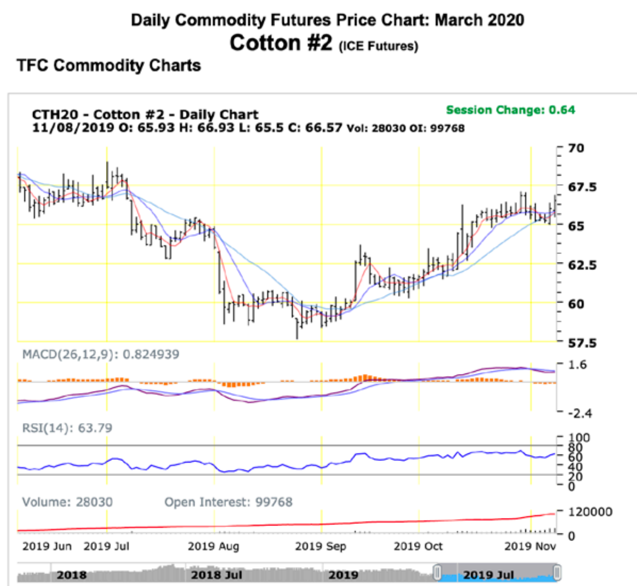
The increasing import demand from Pakistan is filling a void left by overall softer demand from other markets. Cotton consumption is holding, with apparel export demand steady. September textile and apparel exports reached 1.068 billion USD, which reflected a 4.8% YOY increase.



ICE FUTURES EXPERIENCE DULL TRADE AND MORE VOLATILITY IN BASIS LEVELS

The base grade for the ICE cotton futures contract was established more than 50 years ago, and the grade is still a 41-4-34, a cotton designed for the open end yarn market that once dominated the US cotton spinning sector when it was the top customer for US cotton. Because it has not been changed to reflect today's cotton, the contract exposes hedgers to increased basis risk, makes it very difficult for buyers to use as a hedge, and does not represent the global base grade of Middling 1 1/8. Since the NYBT was purchased by ICE, the needs of the Trade are not readily sought by the exchange, so the Trade has little input except for a few large international merchants, and the focus remains simply on trading volume. Most of the trade outside of the hedge paper comes from the machines, with most of the human interaction limited to the Quants that program the algorithms. Much of the movement in ICE futures in recent weeks has been in the spreads, and it appears market conditions suggest that basis movement may exceed that of the net change in futures in the months ahead. Since September the December/March ICE spread has moved from a 40-point discount of Dec to over a 190 point discount.

The widening of the spread reflects the base grade and the premiums available for delivery. A 21-2-34 can be delivered on Dec at a 135-200-points premium, while at the other end a 21-2-37 can be delivered at a 500-point premium. Given current CFR basis levels for either, buying these cottons at the premium would be unprofitable. The widening of the Dec discount has allowed merchants to roll hedges if available. The overall quality of the US crop is excellent on the first 40% of the crop, mixed on the next 20%, and turning lower on the balance after several major rain or moisture events. The ICE contract worked well in past seasons when the total US cotton quality was excellent. However, with the quality turned very mixed, it does not offer the hedge for quality differentials. Global developments over the past 45 days suggest that tightness is likely forthcoming in Middling 1 1/8 and better grades. In the US, the excellent Mid-South/Southeastern crops have given way to a SLM color grade, and in West Texas the crop is shorter staple than expected. These conditions suggest tight supplies of SM 1 1/8 and better cotton. In India, the wettest October on record and a late season cyclone mean a much more SLM and lower color grade crop than normal. In Brazil, unsold supplies of Middling 1 1/8 and better grades are tightening. China's Xinjiang crop has been below the quality of last season. These developments are occurring when the Australian crop will be near a record low, denying the market the normal supply of long staple high grades.



Buying ICE futures does not provide a hedge against any of these events, as the impact will be played out in FOB and CFR basis movement. The ICE delivery rules have changed little since their purchase in 2007 and remain outdated, as does the overall delivery method. Rules and procedures are familiar to only a few Trade groups, and any new purchaser would certainly be at a disadvantage. Buyers could receive any quality from a low grade 1 1/6 and higher at a wide diversity of warehouses. Then the buyer faces the difficulty of obtaining a speedy movement of the cotton. This suggests that few buyers will emerge for physical delivery unless at full carrying charges. If one were to review every delivery period for the last ten years, one would find few successful instances where buyers took delivery with success against physical trades. Ancient rules remain in place that allow for late deliveries. These rules were put in place 25 + years ago to prevent squeezes, and they have never been revamped. Amid these conditions, ICE futures will likely remain dominated by the Algometric and High Frequency Trading systems, with the Trade likely to be mostly focused on short hedges for the next few months.

China's ZCE cotton futures faced resistance last week, as prices reached levels in line with Xinjiang seed cotton prices, with prices finding it difficult to move through the 13,100-13,200 RMB a ton. At this level, ginners in Xinjiang can buy machine-picked cotton and hedge on

ZCE and lock in a profit. Harvest is nearing completion, and attention is on ginning. Cotton demand is steady for the top-quality machine-picked and handpicked cotton. Spinners are still operating at reduced hours, and consumption is soft. Weak man-made fiber prices are an issue, with new pressure last week in polyester and viscose fiber. The size of the Xinjiang crop and its quality remain a bit uncertain. Cotton import demand overall appears limited to Brazilian cotton.

The Algo's moved ICE daily last week based on the trade talk headlines. As of Friday, the Chinese side reported the US had agreed to remove a block of the tariffs. The US side failed to confirm, which explains some of the price movements. Details regarding the agriculture portion of any trade arrangement have been lacking. With limited details, it appears that China's purchases could be based on price and need, which will limit the benefit to cotton. We remain skeptical that any deal will be reached or will have any longevity. Overall, if the Chinese side expected large volume purchase requirements for cotton, why would they buy the recent sizeable volume of Brazilian cotton? We remain firmly of the opinion that the global textile and supply chain is in a state of flux, and under no conditions will the market return to the pre-June 2018 world. We expect Pakistan, India, and Turkey to play a much larger role in cotton use than in recent years. Vietnam is likely near capacity without investment in fabric production and dyeing/finishing. Bangladesh growth has stalled for the moment, with the influence of Chinese fabric imports hurting cotton use.

Consumption prospects are holding in Pakistan, Turkey, and India, while China remains soft, as do Bangladesh and Indonesia. The increased demand from Pakistan, with import requirements that could go as high as 4.6 million bales, and Turkey, is good news for US exports. The US has an abundance of lower grade cotton that will work well with the open-end requirements of both importers. Brazil is also an important supplier to both, and will fight the US in both markets. We continue to expect heavy resistance in the 70.00 area in nearby ICE futures. Also, expect basis appreciation in the CFR Asia basis for the longer staple, high-grade upland basis, which also suggests that US Pima offering prices are near a bottom.

The CFTC data revealed that the Managed Funds and the Chinese Hedge Funds were the bestseller of the market last week. The Managed Funds sold 9,152 contracts in the week ending November 5th, and the Other Reportable Funds sold a net 3,967 contracts. The Small Non-Reportable specs sold a net 730 contracts. The net Managed Fund's short position has now returned to 15,259 contracts. The Trade was a buyer of 4,266 contracts, and the Swap Dealers purchased 9,866 contracts. To our surprise, the specs are net short and appear to be willing to expand that position unless the technical conditions improve. On November 7th, the March ICE contract experienced an outside range day, 65.00 to 66.41, and Friday's close was above that high. If prices hold above that high, it is likely the spec shorts will reverse and cover, but if the price action fails then the specs will likely add further to their shorts. Thus, we appear to have reached a short-term important technical point. This technical point has occurred as the USDA cut world supplies. However, consumption remains overestimated, and cotton is in a battle for market share. For now, the technicals will rule.

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