BRAZIL EXPORT SHIPMENTS LAG

COTTON'S MARKET SHARE IN APPAREL PLUNGES IN JULY

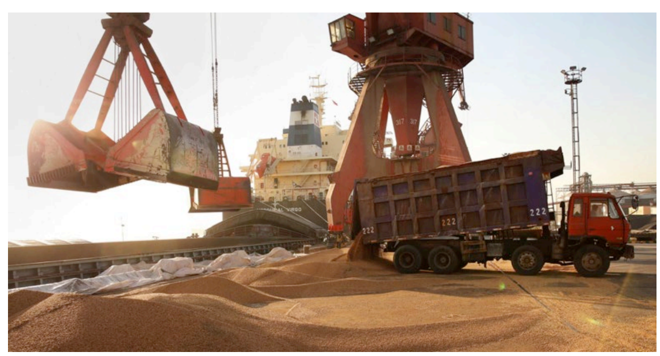
USDA ADJUST 17/18 & 18/19 US EXPORTS

AFRICAN FRANC ZONE BASIS AT A RECORD TO US

JERNIGAN GLOBAL

KNOWLEDGE IS THE NEW CAPITAL

US/CHINA TRADE TALKS AGAIN ADVANCE - IS AN INTERIM TRADE DEAL POSSIBLE?



It appeared last week that both China and the US attempted to slightly move to a more cordial tone with each other. China continues to view the purchase of agriculture products as the key to an agreement and a hot button for the Trump administration. Following the announcement by China of the restart of trade talks last week we saw an official discussion in the Chinese press that indicated that Chinese companies were once again inquiring for US soybeans and pork. The US followed the announcement with their gesture of good will by stating they would delay a 5% increase in some tariffs set for October 1st until the 15th. According to the weekly US agriculture export report, China canceled 20,800 bales of US cotton purchases and purchased 10,900 tons of US pork. Then, on September 12th, came a tweet from President Trump that he expected China to start buying US agriculture products immediately. The President's comment came after China left US key agriculture exports off a list of products that would be exempt from the current import tariffs. On Friday, the Xinhua News Agency announced that China was exempting soybeans, pork, and some other agriculture products from the tariffs applied since June 2018 as a gesture of goodwill. On Thursday, it was confirmed that Chinese importers purchased 600,000 tons of US soybeans for October-December shipment.

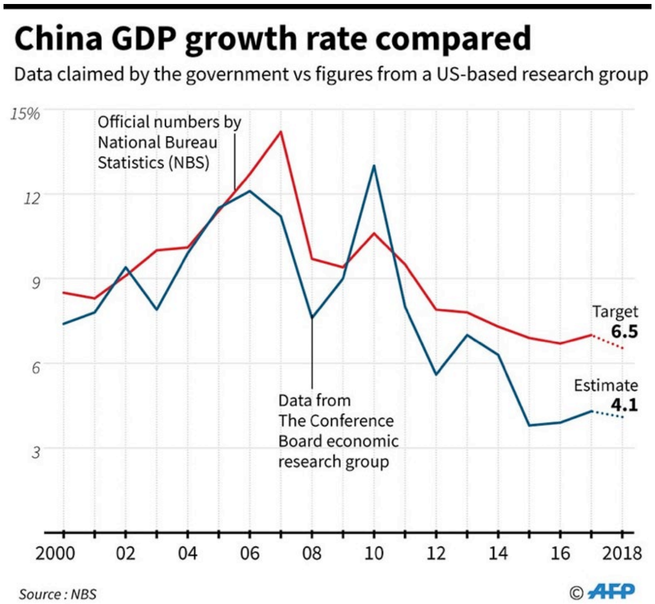
One theory is that China is still misjudging the Trump administration by attempting to influence the trade talks with the offer to buy pork and other agriculture products. There has been no indication of any headway on the major issues. It may be that China is seeking to tamp down the headlines ahead of the important October 1st celebrations. By late Thursday, rumors were in circulation suggesting the US was going to propose an interim deal in which China would make commitments to buy US agriculture products and agree to intellectual property protection. The USA would roll back some tariffs and delay the increase in others. The *South China Morning Post* reported that China was seeking to reach a narrow interim deal focused only on trade.

It is unclear if SCMP's report of Beijing's trade tactics was for real or just an idea floated to test the water. One source said Hong Kong and the human rights issue was not part of the talks. Today, the US Senate and one of the opposition Democrat presidential candidates are taking a harder stance on China than President Trump. US Senate opposition to allowing the Hong Kong Stock Exchange to buy the London Stock Exchange was swift. The Senate passed the Uyghur Human Rights Policy Act last week, and it now goes to the House before landing on the President's desk. It will do a variety of things, including the placing of sanctions tied to the Uyghur imprisonment scheme. Senator Rubio, who was a major driver behind the Uyghur bill, is also pushing several other bills to confront China. The Hong Kong Human Rights and Democracy Act is a law to require Chinese companies listed in the US to meet the same accounting and reporting requirements as US companies or delist. Rubio is also a driver behind legislation to halt US pension fund investments in Chinese companies. There are other legislative efforts underway as well, despite the calm in trade talks. The Senate is seeking to put in more controls on exports to Hong Kong regarding important technology. China was swift to condemn the passage of the Senate Uyghur Rights bill, and said it would damage US/China relations.

US Senator Marco Rubio leads fight to hold China accountable on human rights abuses

US Senator Rubio leads fight to halt US investment in Chinese state companies

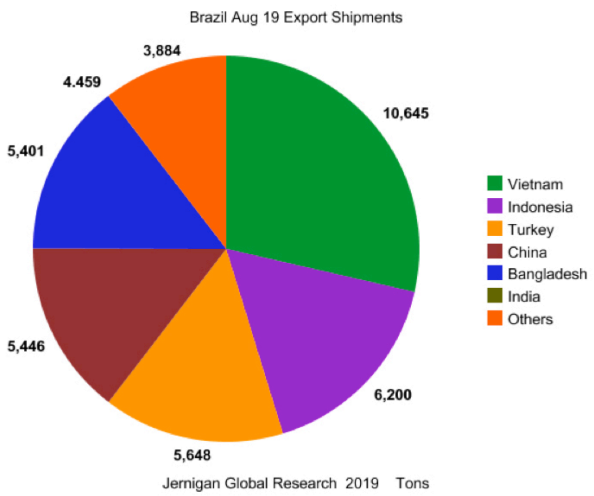
There is speculation that China may be reacting to fears that economic conditions in the domestic economy are growing worse. China has been unable to hide the shortage of pork and soaring prices. The official data shows domestic pork prices increased 46.7% in August, reaching a new record all-time high. The government appears to lack clear direction on how to deal with the crisis. In some areas local governments have introduced rationing only to remove it a short time later. Some have been quick to compare the ration cards to the days of Mao and a sign that Xi's policy has failed. In typical Chinese fashion, the central government assigned the pork issue to one of the Vice Premiers, who reversed several key policies. Many of the regulations put in place to restrict pork production have been removed, new subsidies announced, and environmental restrictions have been lifted. Nonetheless, social media is active with comments concerning the government's effort to deal with the issue. State media is full of stories about how eating chicken is healthy and why reducing pork consumption would improve one's health. An estimated two billion RMB (282 million USD) has been spent on subsidies.

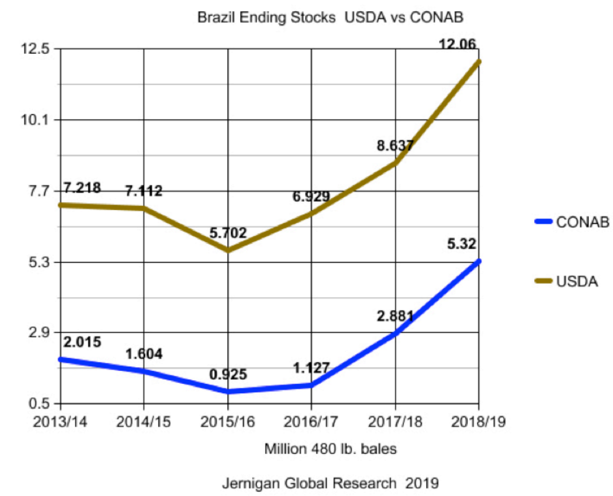


Caixing Global, a well-respected source of macroeconomic and business intelligence about China, reported that a surge in past due uncollectible invoices is now a serious problem, and in manufacturing alone 41.7% of all invoices are uncollectible. Electric car sales fell 16% in August, and weakness is reported across the consumer goods sector. Rumors indicate that Xi Jinping may be under pressure to shore up the economy, and it is quite clear the trade dispute is a major contributor to the weakness, as is domestic overcapacity. The move to reengage in talks has helped stabilize the Yuan/USD exchange rate, and, for now, avoid a collapse in its value. The next 30 days will be important to the prospects of a trade deal, and during that time China will celebrate its 70th anniversary. Many believe this will give Xi more room to agree to a deal. The commitment to exempt purchases of US agriculture products is different from all the previous such commitments that failed to reach completion. First, the commitment was announced by China and not the Trump administration. Secondly, confirmed purchases of pork and soybeans have occurred.

Friday was a holiday in China, so there is no official list of what actual agriculture products will be exempt, with the exception of the announced soybeans and pork. Thus, it was not confirmed if cotton was included, so it remains an unknown if any noteworthy cotton purchases will be included.

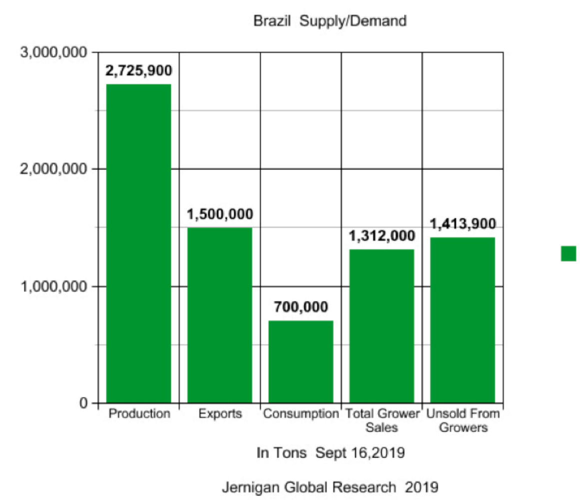
BRAZIL FACES RECORD COTTON INVENTORIES AS SHIPMENTS LAG





Brazil export shipments have been much slower than expected and hoped for. August saw only 41,500 tons of cotton exported, which was far below the average monthly export shipments of 125,000 tons needed if the CONAB estimate of 1.5 MMT is to be achieved. In its September estimate, CONAB raised the 2019 cotton crop to 2,725,900 tons (12.524 million bales), while the USDA estimated the crop at 12.8 million bales. The average yield in Mato Grosso was raised to 1,662 kilograms per hectare (7.634 bales per hectare), up from 1,641 kg in the previous estimate. Bahia yields are estimated at 1,845 kg per hectare (8.474 bales per hectare), which is down from last year's 1890 kg. CONAB placed exports at 1.5 MMT (6.891,750 bales) versus the USDA's export estimate of 6.0 million bales. CONAB estimated ending stocks at 1,158,000 tons (5,320,431 bales), compared to the Brazil Cotton Exporters Association's (ANEA) estimate of 1,594,000 tons (7,323,633 bales). These estimates compare to the USDA carryover of 12.06 million bales. The USDA acknowledges its stock levels are high and indicate the differences were due to the fact the USDA's beginning/ending stock estimates capture Brazilian stocks mid-harvest on July 31st when they are nearly at their peak. The timing issue accounts for the relatively high stock levels and low volatility in stocks-to-use typically reported by the USDA. Despite these adjustments, the USDA is overestimating Brazilian stocks just as they continue to do in India.

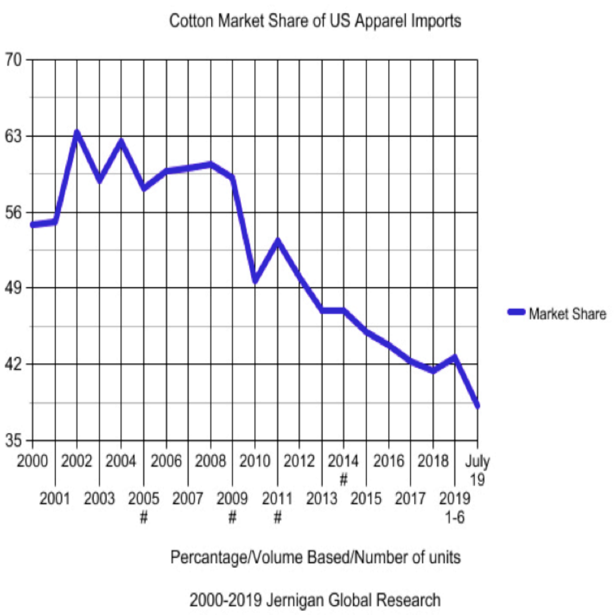
Vietnam was the largest market in August, with shipments of 10,648 tons, followed by shipments of 6,200 tons to Indonesia, 5,465 tons to Turkey, 5,440 tons to China, 5401 tons to Bangladesh, and 4,459 tons to India.



Growers have registered sales on the BBM for the 2019 crop of 937,087 tons. If you assume these sales represent 60% of all sales, then total sales equal 1.312 MMT, or growers are nearly 48% sold. This would suggest that selling pressure will increase as we move into the fourth quarter of 2019. CFR Asia offering levels again turned weaker as futures have rallied, Cotlook is quoting the offering level of a Middling 1 1/8 at 1125 points on Dec and March. However, offers are in circulation as aggressive as 875 points on Dec. Business was generally quiet during the past week, with small volume sales noted to Pakistan, India, and other destinations. Strict Middling 1 1/8 offers are at 950-1000 points on from the most aggressive merchants. A few offers of Middling 1 5/32 are in circulation at very firm basis levels of near 1300 points on the cover month.

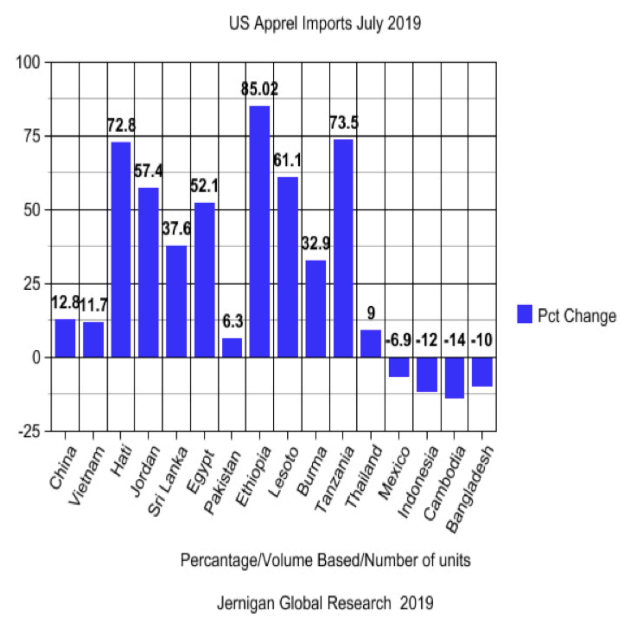
For the first time in the 2019 season the ESALQ Index of a 41-4-35 landed Sao Paulo moved to a discount to ICE futures. On September 12th, the index stood at 60.82 vs. the ICE close of 62.21. The Real/USD exchange rate closed the week near 4.06 per USD. Despite corn prices and the lower cotton prices, early indications are that cotton acreage will be maintained in 2020, with early estimates near 12.0-12.5 million bales. Forward sales on the BBM for the 2020 crops are high at 529,607 tons. Forward export offers are aggressive at 850 on the 2020 cover month for a Middling 1 1/8. If cotton acreage suggests a 12 million bales crop, as many suggest, Brazil will face significant pressure to increase exports because of the inability to carry large stocks, due to the limitation of major warehouse capacity.

COTTON'S MARKET SHARE OF US APPAREL IMPORTS PLUNGES IN JULY



The US imported 8.852 billion USD worth of apparel, which is an increase of 9.4% year-on-year, and total textile and apparel imports rose by 7.6% in volume terms. However, cotton was a loser, as cotton apparel imports increased by only 2% in volume, and cotton's market share in volume terms fell to a new low of 38.26% compared to a year-ago market share of 40.96%. China continued to push cheap man-made fiber apparel into the US market. Apparel imports from China surged 8.6% and posted major gains from markets supplied by Chinese fabric. Imports increased from Malta and Gaza, which up to now had no cut and sew operations of any note. Total Chinese textile and apparel imports into the US in July increased 7% in volume but only 3.2% in price, as Chinese exporters cut the price of man-made fiber products.

Despite the tariff on cotton and other US agriculture products, the US imported 4.161 billion USD of textiles and apparel, with 3.161 billion USD of that in apparel. Imports switching from China have moved to China's surrogates that receive Chinese fabric, then provide the cut and sew and ship to the US with a label that identifies only the cut/sew location. In July, US apparel imports from Jordan increased 57.4%, imports from Ethiopia increased 85.2% in volume, increased 32.9% from Burma, plus 73,5% from Tanzania, and 37.6% from Sri Lanka.



USDA SHOCKS MARKET BY REVISING US 2017/2018 & 2018/2019 COTTON EXPORTS BY NEARLY A MILLION BALES

The USDA's September US Production and World Supply and Demand estimates caused a surprise when they revised US exports for 2017/2018 and 2018/2019. In a very rare move the USDA revised 2017/2018 US export shipments upward by 432,000 bales, followed by a 546,000 bale upward revision in 2018/2019 exports. The upward adjustment was the result of reconciling USDA shipment data with that recorded by the Census Bureau. For decades the USDA has used export sales data as the basis for its end-of-year MY exports estimates.

The USDA stated, "The 2017/2018 MY balance sheet showed a relatively large loss (residual) and there was also a relatively large divergence between Export Sales and U.S. Census export volumes. As the 2018/2019 MY progressed, the divergence between Export Sales and U.S. Census continued to widen. Following past approaches for estimating balance sheet components though for the end of the 2018/2019, MY would have indicated an unprecedented loss residual. This potential for such a large loss led the USDA to examine the entire balance sheet. No reason was found to adjust the production, import or consumption estimates, and there had been no change in the reliability of the stock data available."

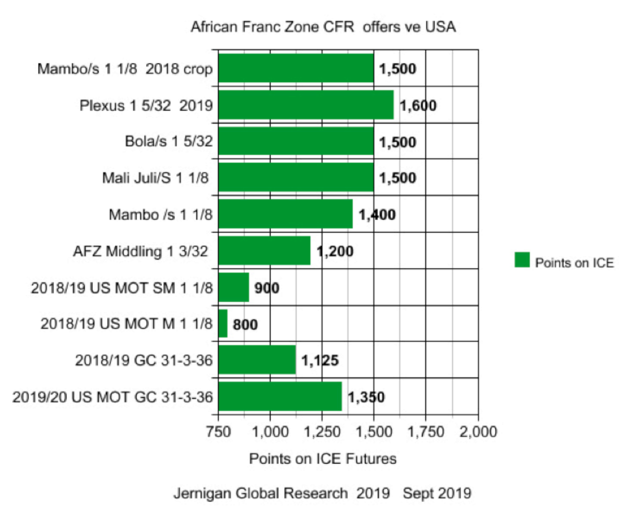
The marketplace was shocked, as 2017/2018 ending stocks were reduced by 400,000 bales, and 2019/2020 ending stocks were left unchanged, despite a lower domestic consumption and export estimate. The USDA also lowered US production by 654,000 bales, and lowered domestic consumption for both 2017/2018 and 2018/2019. US domestic consumption 2017/2018 was lowered to a record low of 2.98 million bales, and 2019/2020 was lowered 100,000 to 3.0 million bales. US 2019/2020 exports were lowered by 700,000 bales to 16.5 million bales.

The USDA revised world 2018/2019 estimates across a range of countries. Imports were raised 668,000 bales, while exports were raised only 319,000 bales. Production was lowered a net 145,000 bales, and consumption by a neat 226,000 bales. The USDA continued to play musical chairs, with Indian estimates again raising both 2018/2019 and 2019/2020 ending stocks. World ending stocks were raised 528,000 bales in 2018/2019 and 1.294 million bales in 2019/2020.

The US production loss came from Texas (-400,000 bales), Oklahoma (-220,000 bales), and Pima (-73,000 bales). The average US yield was reduced to 839 lbs. per acre from 855 lbs.

AFRICAN FRANC ZONE CFR BASIS REMAINS AT RECORD PREMIUM TO US TYPE OFFERS

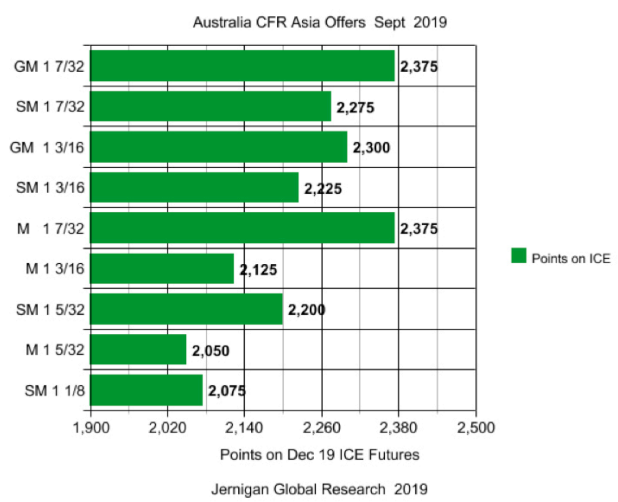
Bangladesh mills last week picked up a small volume of African Franc Zone old and new crop, despite the spinners' current poor margins or the large premium of West African to US type offers. 2018/2019 crop Ivory Coast Mambo/s 1 1/8 (equal to Strict Middling) traded at 1300-1400 points on Dec, compared to US MOT offers of a SM 1 1/8 at 850 points on Dec from the 2018/2019 crop. Why? Talking to spinners the answer appears to be the poor quality of the 2018/2019 MOT crop and the qualities that have been shipped against export sales. Knitting mills have reported problems and have been taking up the African Franc Zone to assure the quality of the finished product. Bangladesh has a large volume of US purchases on the books that have not been shipped; 536,000 bales of upland, with a large volume of those sales carried forward from 2018/2019. The 2019/2020 African Franc Zone CFR basis is also very firm despite the expected record crop. The Strict Middling 1 5/32 types are



offered at 1500-1600 points on the 2020 cover month, Strict Middling 1 1/8 offers are at 1400 to 1500 points on the 2020 cover month and 1 3/32 at 1200 points on.

The African Franc Zone selling organizations have maintained a firm selling basis to merchants, even with the crop size of nearly 5.9 million bales. One reason for this is they are well sold out of the 2018/2019 crop, and farm gate prices paid to farmers were raised from last season. Despite the collapse in export prices, Mali raised the seed cotton price by .04 cents a kilogram to .48 cents, and Burkina also has raised their seed cotton price by 3 cents a kilogram to .46 cents a kilogram. The total crop from the region is expected to reach 5.9 million bales, slightly down from previous estimates due to a reduction in Burkina Faso's crop.

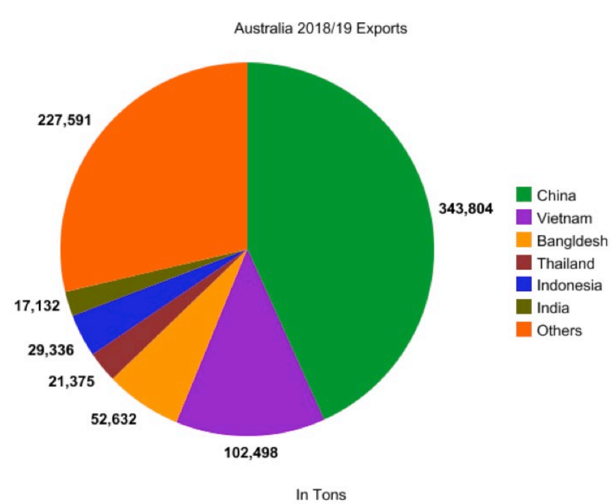
AUSTRALIAN COTTON IN DEMAND FROM KNITTERS DUE TO QUALITY



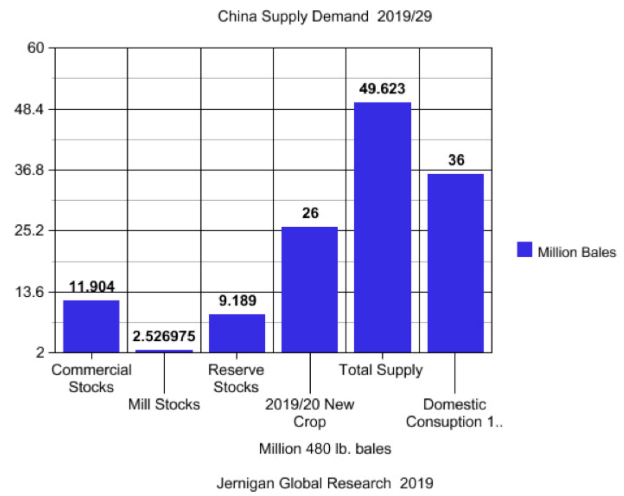
Chinese spinners that focus on knitting yarns purchased Australian cotton from bonded warehouse stocks in spite of the overall poor demand and the problems facing the industry. Moreover, the basis levels make Australian the most expensive of the upland cotton. Knitting mills demand high quality cotton that is free of short fiber content and has excellent dyeing properties. Australian cotton generally meets those requirements. China was the top market for exports in the 2018/2019 season, with shipments reaching 343,864 tons. In July alone, Chinese shipments reached 36,936 tons out of total shipments of 56,831 tons.

A large unsold volume of Australian cotton remains in Chinese bonded warehouses, and those stocks are going to be needed as outlook for the 2020 crop show no sign of improving as planting arrives. Growers face very bleak prospects for water. The price of available water has soared, making any purchases out of reach for cotton growers. Under Australia's water trading scheme, speculators are free to buy and sell water without any tie to the land. This has led to the establishment of Hedge Funds solely in business to trade water and has resulted in water prices surging to 800 AUD a megaliter. In 2018, the average price ranged from 180 AUD to 400 AD a megaliter. As you can imagine, these prices are squeezing the horticultural industry and causing some southern growers to sell the water instead of planting. 2020 crop prospects appear to be near 800,000 bales.

CFR basis levels for the 2019 crop are firm at 2375 points on Dec for a Good Middling 1 7/32 and 2275 for a strict Middling 1 7/32. Good Middling 1 3/16 is offered at 2300, and a Middling 1 5/32 at 2100 points on Dec.

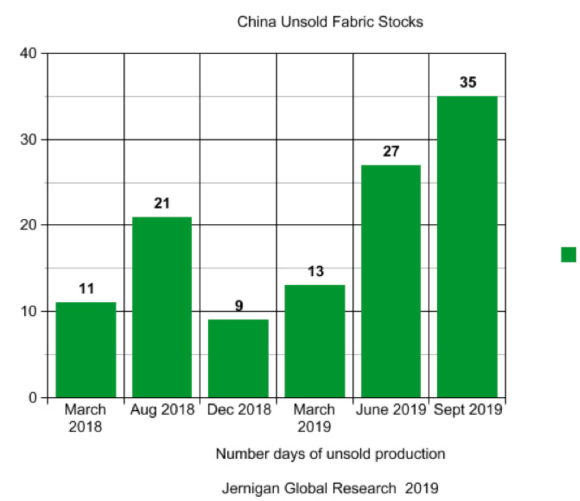


OVERALL, CHINESE COTTON DEMAND REMAINS SOFT



The big question is whether or not the Chinese government will force state trading companies or the Reserve to buy US cotton during this period of good will before the trade talks resume. Looking at it from a purely economic standpoint, there is no commercial demand for US cotton at present. The quality of the 2018/2019 crop suggests that remaining old crop stocks are not needed, and new crop harvest has not reached the stage where quality is assured. In general, conditions for Chinese mills have improved slightly from the recent lows but remain very depressed, and the traditional September pick-up in demand has not occurred. Cotton yarn demand is facing sharply reduced capacity levels. Small and medium sized mills have closed or are operating at reduced capacity rates in fear of accumulating cotton and unsold cotton yarn inventories. Eastern printing and dyeing mills report operating rates of 60% or less. Very large inventories of unsold finished goods from yarn to apparel are being reported, while grey good mills are reporting this as the worst year in memory.

Polyester fiber, which is available at very cheap prices of near 46-47 cents a lb., is taking market share from cotton and Viscose fiber. Polyester staple fiber prices have recovered from their lows, while Viscose fiber continued to move lower over the past week at 68-69 cents a lb. For all fibers the problem is that the “Golden September” effect did not materialize this year, and grey good inventories have continued to rise. Unsold grey fabric inventories are more than 30 days, which is double normal levels for September. This year, mills are being forced to take holidays due to the lack of demand. 2019/2020 cotton consumption in China appears likely to fall to the 35-36 million bales range. The BCO survey of commercial stocks, outside of spinners and the Reserve, estimated stocks at 2,590,600 tons at the end of August. This cotton is unsold and largely unhedged, which means sellers carry large losses and are anxious to sell. Add mill inventories of 550,000 tons, Reserve stocks of two million tons, and total stocks are at 5.14 MMT or 23.6 million bales. The 2019/2020 harvest has begun, and the crop is estimated at 5,594,000 (BCO) to 6,090,000 (CCA) tons (25.7 to 27.980 million bales). Using 26 million bales gives China a total supply of 49.6 million bales.



Such numbers suggest that only political motivation can assure a large import volume, and not supply concerns like stock tightness, unless consumption rebounds in a huge way and quickly. Given the volume of unsold bonded warehouse stocks and unsold domestic stocks, we expect limited import demand based on economics. We also expect cotton’s market share to experience further damage from the new capacity of polyester staple fiber production coming online in the fourth quarter of 2019.

INDIA'S CAI ESTIMATES 2019/2020 CROP AT 36.5 MILLION 170-KG BALES

The Cotton Association of India released its first crop estimate for 2019/2020, stating the crop is expected to rebound to 36.5 million bales. The estimate appears to reflect the caution that the crop is drawing. First, the cotton belt experienced a major drought early in the season, and now most areas have experienced excess rainfall, causing the crop to be delayed by the rains. A total of 12,585,800 hectares has been planted to cotton, and 2,665,720 hectares of that volume is in Gujarat. The Cotton Corporation of India is gearing up to procure the new crop across the belt, including the Northern Zone, and the expectation is that the CCI will be tested, since it is being forced to procure 10 million bales or more given the high level of the MSP. The higher MSP is a serious problem for the textile and mill sector, given the international price levels and the fact that domestic prices remain at large premiums to international values.

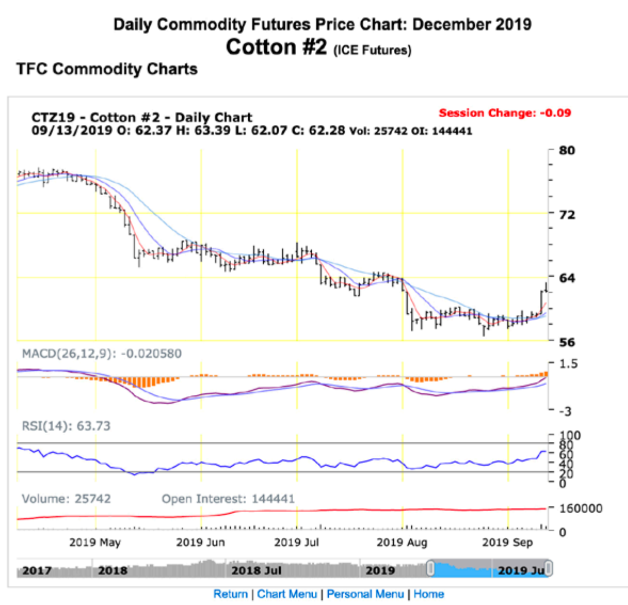
There appears to be discussions of support for an India-US Free Trade agreement. It remains to be seen if this is possible in the current political climate.

US HARVEST EXPANDS WITH QUALITY MAINTAINED

The US classed 111,706 bales during the latest week, bringing the total classed volume to 536,552 bales. The quality remained very good, and weather overall continued to promote quality. In West Texas, light rain brought cooler temperatures. The rally in futures on Thursday and Friday triggers approximately 100,000 bales of turnover in the domestic market, with much of the movement in Texas. Basis levels remain weak, but growers face no major discounts concerning new crop.

ICE FUTURES RALLY SHARPLY AS FUNDS COVER SHORTS

Last week's outside range day and the lack of any additional weakness did indeed serve as a warning for bears. The AI driven Managed Funds turned aggressive buyers as the headlines indicated possible US agriculture purchases by China. On Thursday, cotton, soybeans, and pork futures all surged as optimism spread for a possible trade deal. Cotton received a further boost from the USDA's two-year revision in US exports. Cotton prices moved sharply higher, as the 60 cents area in Dec was exceeded. Volume was very heavy on Thursday, with active two-sided trade on Friday. As we have said before, after falling from over 95 cents to the 56-57-cent area, much of cotton's negative outlook had been discounted. The many barriers to a trade deal were brushed aside last week, as it appeared China was actively pushing for an interim trade deal that would help stabilize its economy. It remains extremely unclear at this point if President Trump would accept an interim trade deal that is limited in scope regarding the major points of contention. The CFTC trade data showed that, even before the rally on Thursday, Managed Funds and speculators were buyers and the Trade was a seller. The Trade was an aggressive seller into the rally to the 63-cent area in Dec.



The 65-cent area in Dec should provide increased resistance, and the extent of the rally will depend on whether cotton will be on the list of goodwill purchases, and, if it is, what will be the volume. Then will come an interim trade deal itself. It's an election season in the US, and the Trump administration appears to be taking a softer approach to international affairs with the firing of John Bolton and the less hawkish approach to Iran. At the same time, it appears China is seeking a limited trade agreement, which might help stabilize its economy. A limited agreement would also allow China access to US pork it needs to fight rampant food inflation. For cotton, we remain uncertain due to the level of demand that would be created by a soft deal in face of China's large domestic stocks and weak mill demand. We are also concerned about the new polyester fiber capacity coming online and its ability to pressure prices. Companies are moving supply chains out of China and will not go back with an interim agreement. Hong Kong and other issues remain ready to create a new crisis at any minute.

For the moment, neither the US nor Brazil is facing basis pressure to move volume. However, by December both origins will face pressure to move inventories.