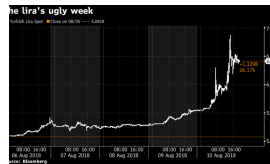




**NICARAGUA UNREST  
ENDANGERS US  
COTTON USE**



**TURKEY LIRA  
COLLAPSE CAUSES  
NEW CONCERNS**



**US PRODUCTION  
RAISED TO 19.235  
MILLION BALES**



**XINJIANG TEXTILE/  
APPAREL SUBSIDIES  
DRAW ATTENTION**



# JERNIGAN GLOBAL

— KNOWLEDGE IS THE NEW CAPITAL —



**USA: SOUTH TEXAS COTTON HARVEST**

## USA: WHAT HAPPENS IF TEXAS PRODUCES A HIGH MIKE/SHORTER STAPLE CROP?

2018 Texas weather has once again been quite volatile. South Texas saw excessive heat and drought followed by a “Big Wet” while the West Texas region has so far experienced record heat and drought with the first widespread rains of the year due during the next few days. These extremes have affected the crop in a variety of ways. South Texas’ dryland acreage in the RGV is lost while the “Big Wet” came just in time to save a large block of the Coastal Bend crop from being zeroed out from an insurance standpoint. Harvest has arrived in both the RGV and in the Coastal Bend and first yields on the irrigated RGV crop are down sharply from last year and appears to be falling in the 2 - 3 bales range compared to 3 - 4 last year. Much of the dryland acreage in the RGV was lost which may boost the district’s average yield above last season as harvested acreage is down considerably. The decline in yields appear to be the result of heavy June rains which exposed the crop to standing water and shedding of bolls from the heavy rain. The early quality results reflect this stress as dryland acreage is the first to be processed and illustrates the drought and heat stress the crop experienced. The crop is short staple and high mike but excellent in color grade, strength and Uniformity. The first block of bales classed was very short staple with more than 60% 1 1/16 and shorter. The next block showed improvement with an average staple of 34.5 - 34.77. At this point it is far short of the long staple crop which the region has normally produced. Moreover, the crop is averaging above 4.9 micronaire with more than half of all cotton classed at 5.0 and higher. Even though these statistics apply to only the first 100,000 bales there is the fear this may be indicative of what is to come.

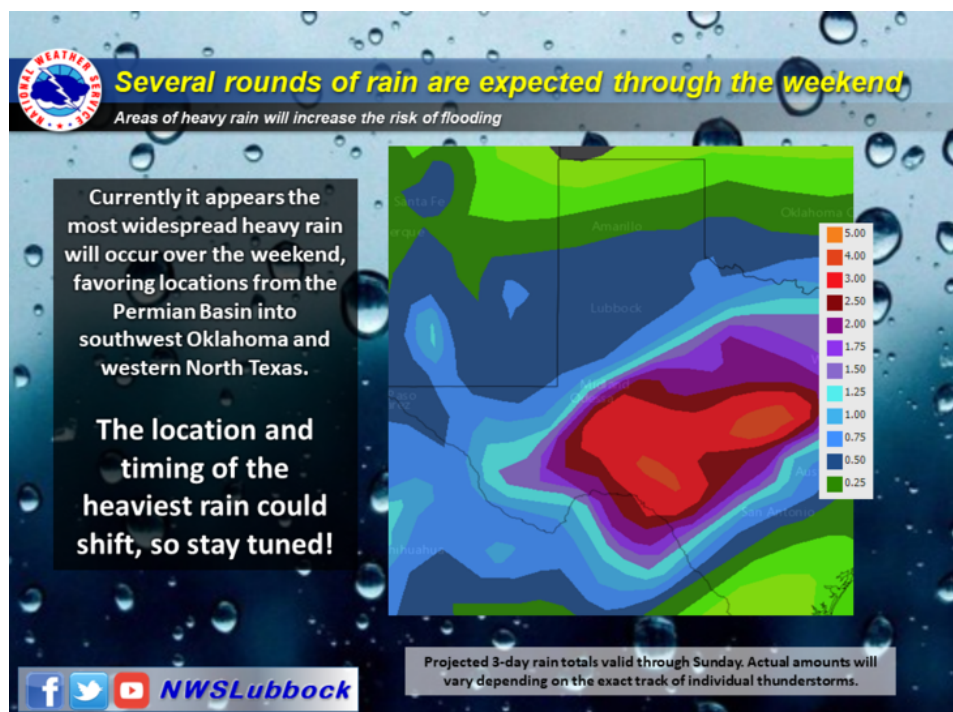
The RGV is estimated to have planted 213,040 acres in 2018 up from 194,700 in 2017, USDA estimated 215,000 in the Aug report however, 158,520 acres of the 2018 acreage was dryland and perhaps up to 80% of that was zeroed out for insurance. The USDA in the Aug report estimated harvested acreage at 110,000 acres with an average yield of 873 lbs. or below 2 bales per acre which is down from last year's 980 lbs. Yields in the Coastal Bend appear to be ranging from 360 lbs. to a max of 960 with some dryland acreage, which is most of it, under major stress. In 2017 it planted 317,300 acres which was likely increased in 2018 and last year's average yield of 1,135 lbs. will not be achieved. The USDA has estimated 330,000 acres was planted and 275,000 will be harvested. The USDA placed the average yield at only 742 lbs. which is off sharply from 1,135 lbs. last year. Harvest has not yet started in the Upper Coastal bend but it has been the region with the most potential and this was confirmed in the USDA report, planted acreage was placed at 319,000 acres up from 252,700 last season with harvested acreage at 317,000 acres which suggest no losses. The average yield was 856 lbs which was down from last year's 1,017 lbs.

Overall the USDA estimated the South Texas crop at 1,360,00 bales which is down from last year's 1,745,500 bales which is slightly better than some had feared following the record heat early in the season.

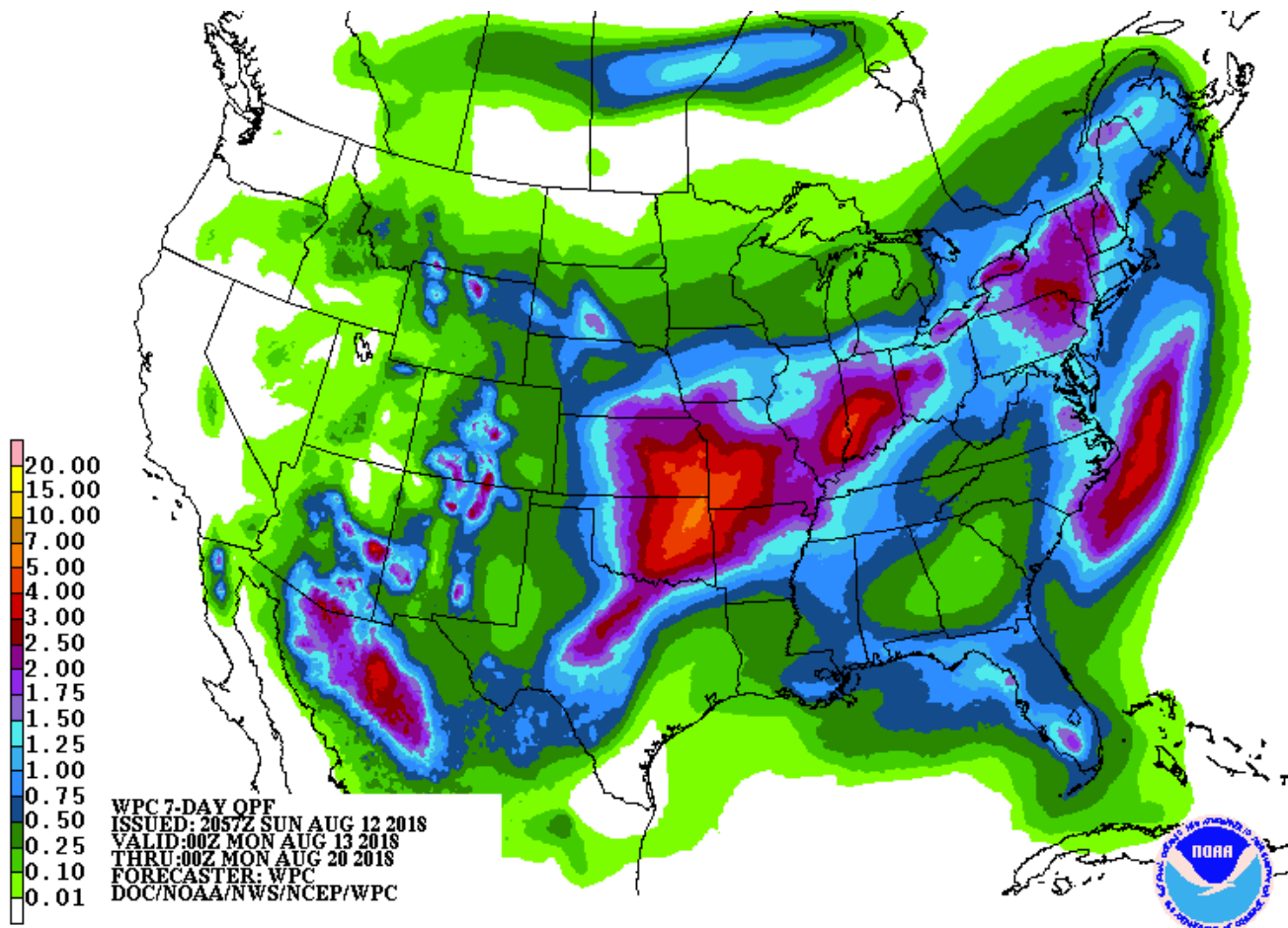
The entire Texas High Plains experienced record high temps with both nighttime and daytime remaining much hotter than normal much of the season. The heat rushed maturity with the crop now expected to be early, many ginners are preparing for crop movement which is 15 - 30 days ahead of last year. Such conditions have previously caused high mike. Color grades in South Texas have been averaging 21 so far which means that even a shorter staple and high mike crop will not produce the discounts of 2017.

West Texas is now expecting the "Big Wet" to occur during the August 9<sup>th</sup> – 13<sup>th</sup> time period. The rains contained winds and hail which may damage some of the mature crop. The rains are generally welcome but will come too late for most of the abandoned dryland acreage, however, they will boost any remaining dryland and assist the irrigated crop. Total rainfall amounts from the system could be the heaviest of the season in many areas. Temps also cooled down with the extended forecast keeping temps in most region below 90 for the remainder of August, which is below normal.

In its August crop production survey the USDA forecast that Texas would harvest only 4.3 million acres out of planting intentions of 7.4 million which means 3.1 million acres was lost. Even with such losses the average yield on the remaining acreage was placed at only 726 lbs. which was down from last year's 809 lb. average. To put this in perspective, 726 lbs. per acre equals only 3.735 bales per hectare which compares to over 7.5 bales per ha in Brazil. Yields this poor will hit grower's bottom line by lowering profitability. Total Texas



production was placed at 6.5 million bales versus 9.27 million bales in 2017/18 which is the largest amount of Texas acreage lost since 2011. A review of the USDA August estimates reveals that the Rolling Plains was impacted much more than many had expected. 660,000 acres that were lost came from crop district 21/22 which is the Rolling Plains. The average yield on the remaining acreage in the 22 district was estimated at only 343 lbs. which compares to 525 last year. This means these growers face sizeable losses.



## TEXTILE AND APPAREL SUPPLY CHAIN EXPERIENCES ADDITIONAL CHALLENGES; SECURITY OF CAFTA SHAKEN BY NICARAGUA UNREST

The security of the Central America Free Trade Agreement, including Dominican Republic, (CAFTA) supply chain is important to every US cotton farmer and many brands and retailers due to the fact the region provides approximately 7.5% of all US textile and apparel imports. The regions 2017 imports reached 8.032 billion USD making it larger than any single country other than China and compares to imports of 5.673 billion USD from Vietnam. The region's success has added importance because the cotton in the 4.218 billion USD of cotton apparel and products in that import volume comes from a field in the US. Most of it arrives as US cotton yarn spun in the US, actually about 80% of US domestic cotton yarn production is exported to CAFTA. The agreement was the key to US cotton consumption stabilizing in the 3.3 to 3.5 million bales range. The region has great potential but is being held back by the continued unrest of the entire Central America region, which has experienced numerous periods of unrest since most of the countries were granted independent in the



early 1800's. The region got caught up in the cold war battle between the US and Soviet Union when the USSR began exporting Communism and unrest, with the help of Cuba, to EL Salvador, Guatemala and Nicaragua through civil wars and coup d'états. The unrest continues to this day as a result of the US's failure to develop a real sustainable economic policy to stabilize the region.

Honduras is in a state of unrest after massive protest in recent months resulting from a highly contested election. There is new turmoil in Nicaragua which has a long history of strife, unstable corrupt governments and botched US involvement and intervention. The country has been in a continuous state of instability since a Cuba supported civil war gave birth to the Sandinistas by overthrowing a corrupt US backed dictator in 1979. This brought socialism to the country which brought about



another civil war with the US sponsored Contras. A peace settlement was reached which resulted in free elections that voted out the Sandinistas in 1990. Daniel Ortega, the Sandinistas' Communist leader, remained involved and after several failed administrations he was voted back into office in 1996. He is currently president and his wife is Vice President and it appears he is reverting back to his socialist ways and seeking the role as ruler for life, followed by his wife. The opposition is calling for elections and began protest as his handling of the economy and other moves caused a great outcry. He reacted by calling in the army to stifle protest which has left more than 448 people dead this year. In recent days the army's crackdown has become more brutal and the country's economy is collapsing. The last 100 days has caused all confidence in business or the economy to fail. Foreign investment has fallen to zero after reaching 897 million USD in 2017. All law and order has broken down and gangs rule the streets at night. Millions of dollars are being sucked from the economy every day and a total economic failure is not far away. Ortega's closet ally was the Socialist dictator of Venezuela who is also fighting for survival. Venezuela has been providing the oil but is owed million and its aid to the country has ended.

Nicaragua's textile industry operates in Free Trade Zones where energy costs have increased. It is unclear how workers are still able to reach the plants given the unrest on the streets. The country has been successful up to now in drawing new investment in operations in the Free Trade Zones. Many of the small and medium companies have closed or only operating at less than 25% capacity as the unrest has ended all





normal banking support and caused local interest rates to soar. The international companies appear to have ended all new investment and have begun to even reduce operations. Travel to the country is unwise and many hotels are closing.

The country exported 1.48 billion USD of textile and apparel to the US in 2017 and exported 743.829 million USD worth of products in January - June. Cotton is very important accounting for over 65% of all exports. Cotton apparel production in Nicaragua is focused on lower priced commodity products in men's and women's knit shirts and blouses and men's cotton trousers. This business is clearly in doubt as it becomes unclear how long the Free Trade Zones can operate in this level of chaos.

It is not clear where orders being fulfilled in Nicaragua will move if conditions worsen since the rest of CAFTA operations are near capacity and have received additional orders recently as the China trade dispute has worsened. The entire region is unstable and is the source of the thousands of refugees who are attempting to reach the US. The US needs a real economic and political policy to assist the region but with North Korea, a trade war with China and the Russian drama this region is well off the radar. For the moment any full-fledged shut down of the Nicaraguan operations would hurt US cotton consumption, the exact potential loss is not easy to calculate. Using the export data it would appear that approximately 400,000 - 500,000 bales of US cotton consumption is tied to Nicaragua.

The instability in the region is the greatest inhibitor to CAFTA benefiting from the need to develop a new cotton textile and apparel supply channel in the Americas.

## **TURKEY: LIRA COLLAPSES; US RELATIONS WORSEN RAISING NEW CONCERNS**

Turkey's textile and apparel sector is a major success story due to its large fully integrated operations and ability to provide products from socks to the highest end products, an excellent alternative to China. It is a major exporter and supplier to Europe and the Middle East. Turkey's textiles and apparel exports to the USA have been booming with shipments up 20.09% in the first six months of the year at 838.776 million USD. In regard to cotton the country is a very important customer for US exports purchasing 1,992,400 running bales of upland and 14,500 bales of Pima making the US its largest supplier in 2017/18. The heavily discounted lower grade US crop helped stimulate large offtake in 2017/18. Their other key suppliers are Greece, Turkmenistan, Brazil, Australia and West Africa. The textiles and apparel industry plays a significant role in the economy providing more than 17% of all exports in 2017, which reached 24 billion USD.

Today, two major concerns exist, first, the Lira has collapsed against the USD and Euro. The Lira has been under pressure all year but over the last 30 days it has completely broken down and declined by over 18% on Friday alone. The drama centers around the move by the country's President, Recep Tayyip Erdogan, to continue to consolidate and expand his power. The latest election allowed him to change the constitution, increase his powers and begin to challenge the country's institutions. Prior to the election an alleged coup attempt has been used to purge all opposition which damaged the economy, saw people locked up, business seized and a loss of confidence. Then came his interference with the Central Bank and appointment of his son in law. The post-election purge of opposition challenged the role of Turkey as a democracy and the US failed to stop those moves. Erdogan actually accused the US of some involvement in the coup attempt and demanded the US extradite one of the opposition leaders that resides in the US. The US refused which resulted in Turkey arresting an American Christian pastor that has lived in Turkey for many years in what appears to be trumped up charges. The US demanded his release but despite repeated demands Turkey has not released him in what appears to be the hopes of a trade for the opposition leader. This total breakdown of due process and the rule of law in Turkey and the strong arm tactics of Erdogan have brought the country to the brink of collapse.

Turkey is a NATO member but the recent actions, including the pivot toward Russia, has left their status in doubt. The EU has been quiet and leaderless in reacting to the changing condition. Last week it all appeared to reach a crisis point with the Lira declining as each event unfolded. President Erdogan's latest refusal to a direct request from President Trump to release US Pastor Andrew Brunson, a focal point for the deteriorating relationship, ratcheted up the conflict. Earlier in the trade dispute over steel and aluminum included a 10% and 25% import duty on Turkish imports. On Friday it was announced these duties will be doubled following Turkey's failure to release the Pastor. This sent the Lira to a new all-time record low of 6.8703 to the USD before it stabilized at 6.5758. At its lows the currency has lost more than 81% of its value against the USD and slightly less losses against the Euro.



This week's issues regarding their currency would challenge even the most seasoned veteran Turkish companies trying to manage their FX risk. Friday's collapse of the Lira has the European Central Bank concerned about their exposure to Turkish loans and also European companies risk exposure. The Lira decline also extends to the health of the Turkish banks. Goldman Sacks estimated a Lira collapse to 7.1 would wipe out all Turkish bank's excess capital reserves and Friday's lows were not far from this level. The three largest European lenders to Turkey are Spain's

globale published on TradingView.com, August 11, 2018 15:00 UTC

FX\_IDC:USDTRY, D 6.42950 ▲ +0.01590 (+0.25%) O:6.41360 H:6.42950 L:6.41360 C:6.42950



Created with TradingView

BBVA, Italy's Unicredit and France's BNP Paribas. Banks in these three countries are estimated to have 140 billion USD of exposure to Turkish loans and debt. It is unclear how much of the FX risk is hedged and how secure are the insurance or instrument used. These banks also have ownership in several local Turkish banks. Any company with a Euro or USD loan now faces nearly doubling of debt. We understand that smaller textile and apparel groups borrow internally in Lira which may explain one of the reason the sector has grown over the past year despite the economic challenges.

Purchases of US cotton has slowed in recent weeks but this is normal as the spinners move to focus on local cotton which begins to move in the fall. Turkey has an estimated 7.5 million spindles and 700,000 rotors and has been estimated to consume 7.5 million bales or more in 2018/19. A portion of that use has moved to an expanding domestic market, which is likely to be the first hurt by such devaluation. It remains to be seen how EU's relationship will be impacted, one reason for the lack of any EU response to the crisis is the fear that Turkey will stop cooperating on holding back the flow of refugees into Europe.

The concern is first the financial health of the Turkish spinning sector and its ability to handle such currency devaluation and how will it manage future cotton imports. The second concern is will the doubling of the US import tariffs cause a retaliatory action, such as increasing the current 3% anti-dumping duty on US cotton imports. Replacing US imports would not be easy and likely cause higher cost to Turkish companies. However, the possibility of cotton being drawn into the dispute does exist. The change in the flow of an additional 1.5 million bales or more of US exports in addition to China would cause further trade flow changes for 2018/19. Also of concern is the impact on Turkey's per capita consumption of textiles and apparel, Turkey is one the top 20 economies in the world with a GDP of more than 860 billion.

## **US EXPORTS BEGIN 2018/19 AT A RECORD; INDUSTRY FACES SHIPPING CHALLENGES**

The 2017/18 season has ended and US export shipments were disappointing due to continuing shipping issues. The size of the carry forward sales reached 1,564,650 running bales which were the largest since 2010. A review of the designation of the largest unshipped supplies suggests the issue is the result of the inability to get the cotton out in a timely manner. The largest carry forward was with Vietnam which had 328,800 running bales of upland unshipped, China had 235,400 bales unshipped with cotton continuing to be shipped through last week. This suggests some special exemptions are occurring to the tariffs. Mexico has 192,900 bales unshipped, Indonesia 188,200 bales, Bangladesh 174,000 bales and Turkey 109,400 bales unshipped. A portion of the unshipped sales to China are being switched to Vietnam, as expected. In the week ending August 2<sup>nd</sup> Vietnam purchased 93,800 running bales of upland which included 30,900 bales switched from China. China was a new buyer of 12,200 bales. The USDA reported new sales of 51,000 bales, destination changes of 30,900 and cancelation of 7,900 bales.

Overall, 2018/19 begins with a record volume of 8,736,853 bales of cotton sold for export.

## **USDA RAISES OVERALL US CROP TO 19.235 MB DESPITE TEXAS LOSSES**

We have been discussing for some time that we expected the crops of the Southeastern and Mid-South to experience near record yields or even record yields. The USDA first field survey supported our opinion revealing the crop is indeed near a record. In the Southeast the crop was forecast at 5.576 million bales with an average yield of 952 lbs. per acre. Georgia was forecast to produce 2.9

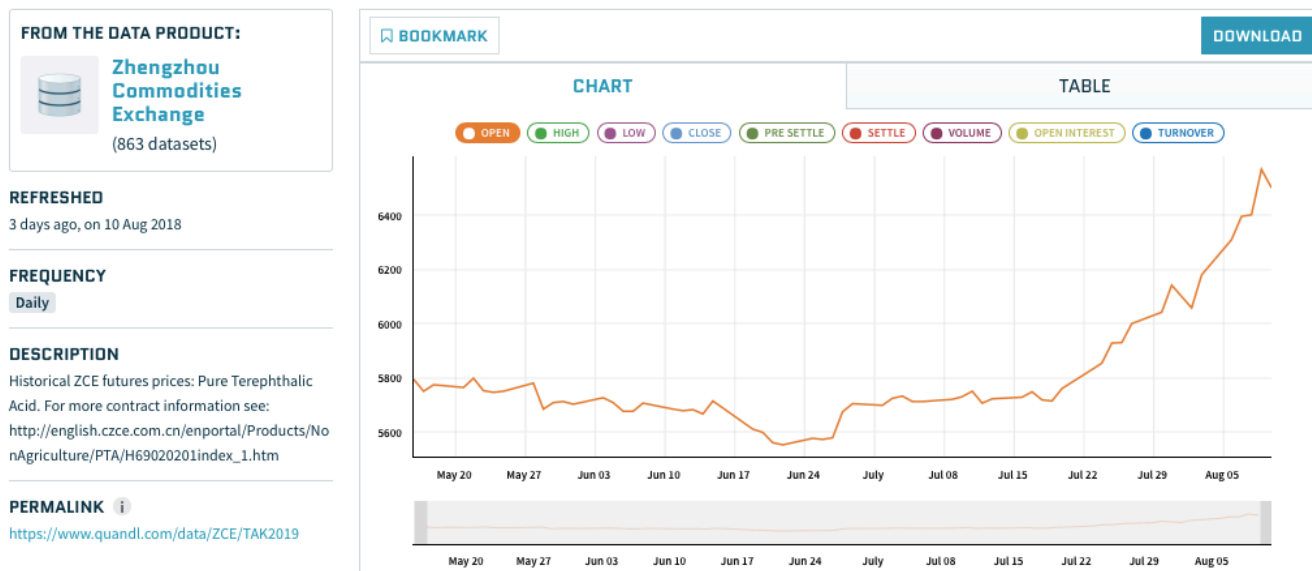


million bales with an average yield of 967 Lbs. which is still well off the 2012 record 1,043 Lbs. In the Mid-South production is expected to reach 4.495 million bales with an average of 1,142 lbs. per acre. No state was at a record yield but many were close. Arkansas, MS, Missouri and TN could yet post new record yields if the harvest period is favorable. In Arkansas the average yield is estimated at 1,112 lbs. which at this point is below last year's record of 1,177. Mississippi's average yield was placed at 1,211 Lbs. which is only a few lbs. below the record of 1,218 lbs. Missouri average yield was forecast at 1,200 lbs. versus the 1212 record while Tennessee's average yield is placed at 1,050 lbs. which is below the 2016 record 1,082.

The Western crop is in excellent shape. California's small Acala crop was forecast to have an average yield of 1,861 lbs. as compared to last year's 1,287. Pima production was estimated at 779,000 bales which is up 79,500 bales from last year. The USDA, as expected, lowered exports for 2017/18 which raised the US beginning stocks to 4.0 million bales. The USDA raised 2018/19 exports by 500,000 to 15.5 MB which helped offset the increased crop but total ending stocks still increased 600,000 bales to 4.6 million bales.

## CHINA'S PTA AND POLYESTER PRICES ADVANCE AS ENVIRONMENTAL CLEAN UP CONTINUES

### Pure Terephthalic Acid Futures, May 2019 (TAK2019)



Amid all the market turmoil around the world one development went unnoticed, that was a surge in the price of Pure Terephthalic Acid (PTA), the main raw material in polyester. China dominates the PTA market worldwide and is the largest producer and consumer. China's ZCE commodity exchange trades the benchmark commodity contract for PTA which draws large volume. Last week daily volume surged as prices moves sharply higher. The September contract closed Friday at 7,158 RMB a ton which reflects large gains for the week and volume on the contract hit an almost unbelievable 4,472,728 contracts (contract size is 5 tons). This represents the highest prices since 2014 and is near an all-time record. The other raw material, MEG, has also rallied sharply. Due to these increases in raw material cost the price of polyester fiber and filament have surged. The market is up 27% since late June and the price of polyester staple is now above 66 cents. This in turn has meant

a further boost to the poly/cotton blend market. It also continues to confirm what we have said about the end of the Age of Cheap Polyester.

## **XINJIANG RECORD TEXTILE AND APPAREL SUBSIDIES - ARE THEY A VIOLATION OF WTO?**

We have written repeatedly about the fact that Xinjiang is an impressive region and how China has accomplished major engineering marvels and feats in this very diverse and harsh environment. China has transferred the region where water is a scarce commodity into an agriculture powerhouse compared to that accomplished in California's San Joaquin Valley, prior to the arrival of leftist state government which has halted development and caused great damage. The region has become the center of high quality long staple cotton production and the home of the largest tomato paste exporter as it carved an agriculture belt from the desert. As Eastern China has become over invested and experienced a surge in labor cost, as well as, environmental cleanup problems the country launched a policy to transfer the textile and apparel industry to Xinjiang where cotton production is now centered and a need to provide employment for the native Uyghur population.

The recent trade dispute with the US and China's violation of the WTO with its attack on US agriculture imports and a placement of a 25% duty has now raised the question of why there has been no discussion regarding the legality of the Xinjiang subsidies to its textile and apparel sector. While the US cotton industry has suffered millions of USD in losses as a result of the WTO complaint by Brazil and then its subsequent compliance, the total lack of any discussion concerning Xinjiang's subsidies are now coming to light. Under the Obama administration the US had such respect for WTO rules that it removed cotton for the first time ever as a covered commodity in the US farm program. Despite this move it failed to enforce China's clear violation of WTO under a host of agreements, to discuss China's record 2011 - 2013 cotton subsidies and then the ending of cotton imports outside of quota in 2015. In spite of these actions the US continued to import record volumes from China and over 38 billion USD worth of textiles and apparel annually.

Recently competing exporters have raised the issues of the subsidies which have allowed apparel originating in Xinjiang to be competitive around the world. The One Belt, One Road initiative is to make Xinjiang the center of the program and move its products to exports across the Middle East, Europe and Russia. Xinjiang's location makes it an expensive location to build a agriculture and textile and apparel powerhouse. The exact volume of subsidies offered is hard to quantify but is sizeable. In 2014 the government announced a 20 billion Yuan, 3.2 billion USD, fund to aid the textile and apparel industry of Xinjiang. These funds were publicly announced to be used to build industrial parks for textile and apparel operations. Abundant and cheap electricity was to be offered at highly subsidized rates and cotton spinners were offered a subsidy on their cotton purchases. In 2016 free rent was announced for textile and apparel companies operating in industrial parks in the Hotan, Aksu, Kashgar and Kizilsu Kizilsu areas. The government also announced large freight subsidies for shipment of cotton yarn and other products back to eastern China for final processing.

Until recently an estimated 2 new textile or apparel plants opened every day in



Xinjiang. Even with the scarce water supplies some dyeing and finishing operations have been moved to Xinjiang. New waste water treatment plants have been approved and announced in the targeted areas, such as Aksu. Some companies have expressed reservations that the plants have the adequate capacity. The World Resources Institute has named some of the areas targeted for these developments as having extreme water risk. The size of the subsidies appears to vary depending on the exact location. The Aksu region, which has a very high Uyghur population, has been identified for major development. A large subsidy allocation has been offered to an estimated 52 cotton spinning companies. The subsidy scheme also has extended to the development of man-made fiber, wool, apparel, home textiles and industrial textiles with a per ton of output subsidy provided. Furthermore, an additional 1,000 RMB, or about 146 USD, per ton freight subsidy has been provided to ship yarn back east from Aksu for processing. Wool and hemp yarn also receive the subsidy. Yili Prefecture, which is located in the north in a very remote area, has received a 455 million RMB, about 67 million USD, subsidy for 186 textile operations in the region, where a second phase of expansion is underway. Labor cost are estimated at about 3,000 RMB, 439 USD, a month for workers in cut and sew operations which is much higher than Vietnam or Bangladesh. The factories are believed to receive a subsidy for employment and also to bring any needed skilled workers from East China for training or to fill gaps. Some labor shortages are being reported following the security clamp down which has removed workers from the workforce. The clamp down has also slowed regional trade.

The heavily subsidized textile and apparel parks of Xinjiang have also caused anxiety in Pakistan where the China/Pakistan Economic Corridor has not provided any protection for Pakistan's textile sector. Chinese companies have been buyers of used Pakistan equipment at very cheap prices for shipment to textile parks in Xinjiang. Overall, the level of government support and handouts has given Chinese companies a significant advantage. One company stated off the record, "How could you not move to Xinjiang when the subsidies reach approximately 520 USD a ton for cotton yarn". Even at China's domestic price that means the cotton itself was free. The lack of transparency on a complete accounting makes the subsidies totals a moving target. The issue is moving to the front of the discussion as the tit for tat tariff battles between the US and China continues.



**ASK US ABOUT OUR  
CUSTOM RESEARCH**



**JERNIGAN GLOBAL**  
— KNOWLEDGE IS THE NEW CAPITAL —

**WE HAVE BROUGHT TOGETHER  
GLOBAL EXPERTS TO SOLVE  
YOUR PROBLEMS**



## ICE FUTURES FALL SHARPLY AMID LARGER CROP AND FURTHER TRADE TURMOIL

Friday August 10<sup>th</sup> was not just another slow summer day in the commodity world as market chaos was unleashed by the collapse of the Turkish Lira. Turkey is an important economy and reflects the bridge between Europe and the Middle East and has deep ties to both Europe and the US. On Friday, after a week in which the Lira was falling against the USD, the currency collapsed, as we discussed earlier, falling 18% before stabilizing. This triggered more than a 1% fall in the Euro against the USD and much weaker equity prices for European banks and companies.

This event caused a cross commodity and currency collapse with all major US and European equity and capital markets impacted. Turkey is one of the top textile and apparel exporters and a major cotton importer and customer of US cotton so these events alone would have had a negative impact. Then came the USDA WASDE report which created heavy speculative selling due to the US crop forecast being higher than many expected. The USDA world estimates failed to offset the increases as the USDA left both China and India estimates without significant revisions. The stage for the market to fall was set some weeks ago as spinners began to not follow prices higher following the expanding trade battles. We discussed this last week and our increasing near term negative view until either prices reach bargain levels or trade confidence is restored. After experiencing several outside range sessions without breaking out the price action told us the market was very hesitant to move higher without a major new stimulus until the trade issues calm down.

At the root of the price weakness is the US trade dispute with China, China's actions have undermined the confidence of spinners. Until the trade spat included actual tariffs spinners both in China and across all markets had confidence in prices moving higher and feared a shortage could be coming. This was evident in the fact that each move up was supported by spinners who purchased additional supplies and fixed prices which pushed the market's base price higher and higher. The expectations of higher prices were undermined by record forward US export sales not only for 2018/19 but also 2019/20, as well as, sales of other growths. In recent weeks market rallies lack that support which left each rally without a firm nearby price support and that kept the Funds from following in any significant way. Now the Funds are looking to trimming positions. Last week the market also took on a negative tone prior to the USDA report; from the start of Index Funds rolling longs from Dec to March much earlier than normal. This was confirmed in the CFTC COT report for the week ending 8/7 it showed the Index funds reduced their net long by 2,812 contracts, this left the Index funds net long 80,266 contracts. The Index funds had recently build one of the largest Index fund positions in cotton on record.

This caused the Dec/March spread to invert. While the invert was caused by the Index Funds, the movement began to raise the question earlier than normal if Dec would find a taker at even to a premium to March. For ourselves we have begun to fear what a shorter staple Texas crop might mean. While the mike level has made the early cotton ineligible for certification it should be noted that at the end of the day the base ICE grade is a SLM 1 1/16 cotton, in most years the US produces little of a crop that falls to this level. What if a large volume of 11/21 color grade, 34 staple cotton was produced? Only one place offered the premium for the color grade which would be ICE. Maybe nothing comes of this but it is on the radar.

We continue to be a bit short-term negative and this is not because the US will produce a crop above 19 million but rather because of the trade flows. We have expected that the US crop could be a record outside the Texas, Oklahoma, KS area and continue to feel this way. The US will likely sell every bale, however, until the confidence of spinners is restored they will only buy this cotton except

on price weakness and at cheap basis levels. US CFR basis levels are very cheap and discounted to West African, Brazilian and Australian. Longer-range, there are two macroeconomic forces, which we have discussed, which are well underway – First is the switch from man-made fiber which is increasing and cotton is expanding its market share. The second is the Age of Cheap Polyester is behind us as polyester prices continue to prove. In the short-term spinner confidence needs to be restored before the benefit of these developments produce the needed results.

globalej published on TradingView.com, August 11, 2018 15:27 UTC

ICEUS\_FOD:CTZ2018, D 85.23 ▼ -2.03 (-2.33%) O:87.25 H:87.69 L:85.10 C:85.23



Jernigan Commodities Global, LLC and its offer of services, whether given orally or in writing or in electronic form, has been prepared for information purposes only. This newsletter may contain statements, opinions, estimates and projections provided in respect of future periods. Such statements, opinions, estimates and projections reflect various assumptions concerning future results, which may or may not prove to be correct. As a result, no representation, warranty or undertaking, expressed or implied, is or will be made or given in relation to the accuracy of any such statement made in this brochure. In particular, but without limitation, no representation or warranty, is given as to the achievement or reasonableness of future projections or the assumptions underlying them, management targets, valuation, opinions, prospects and returns, if any. Consequently the recipient of this newsletter must make their own investigations and must satisfy themselves as to the particular needs of the recipient and seek professional independent advice. Jernigan Commodities Global, LLC disclaims all liability at law and in equity from any and all damages, loss, claims, liability, costs and expenses of whatever nature arising directly or indirectly out of any act, omission or decision made by the recipient in reliance upon this brochure or any statements made by any director, officer, employee or agent of Jernigan Commodities Global, LLC.



**JERNIGAN GLOBAL**  
— KNOWLEDGE IS THE NEW CAPITAL —



@Globalej



@JerniganGlobal



Eddie Jernigan



Register for Research  
info@JerniganGlobal.com



ed.j@jernigancg.com



JerniganGlobal.com

