US MAN MADE FIBER APPAREL IMPORTS SOAR IN OCT

BRAZIL SHIPS A RECORD VOLUME OF COTTON IN NOVEMBER

AUSTRALIAN COTTON HAS TO BE REPLANTED IN QUEENSLAND AMID HIGH WINDS

DEMAND REMAINS THE ISSUE FOR COTTON PRICES

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CHINA/US TRADE FRAMEWORK MISSING THE IMPORTANCE OF TIMING



"Negotiation then, is undertaken for the Dual Purpose of gaining time to buttress a position and to wear down and harass the opponent"
Mao Zedong

By now the dinner meeting between the US and China leadership last Sat night has been analyzed and cross checked. What is clear is that differences in translations between Chinese and English can be just as ambiguous at the diplomatic level as at the corporate or individual level. Many a meeting has ended with the English side believing he has a reached a firm "yes" while the Chinese side actually said, "perhaps we have a deal". The lack of a joint communique from the meeting has left the markets in a period of anxiety as press releases from both the White House and the Chinese presented somewhat differing views in English and both lacked any real specifics. We are hopeful that all the skepticism will fade away and a firm deal will evolve, however, one cannot help but be reminded of the countless Memorandum of Understandings (MOU) which has been signed with Chinese government and state-owned companies, followed by great fanfare but in the end resulting in absolutely nothing ever being firmly transacted. It seemed as though the Chinese side often believe the signing of the MOU alone was a great success. The fact the US team included the experienced Chinese negotiators Navarro and Lighthizer gives us hope of something real coming from the Chinese. The problem for the US agriculture sector is that it needed the tariff on soybeans and cotton to be lifted on December 3rd and not 30 - 45 days from now. In the case of soybeans, many farmers have beans stored in the very unconventional plastic silo sacks due to elevators being full and it takes time to move this product onto ships and get it to China before the end of the 90 days. Rumors where in circulation by Tuesday that some Chinese companies had started buying US soybeans but there was no confirmation.

When the US grain and cotton markets opened on Sunday night prices moved slightly higher, however, the gains eroded as the full session followed with both markets closing on the lows. This was followed by losses on Tuesday's opening. President Trump attempted to control his comments as part of America's mourning period for President George H W Bush who passed away over the weekend. US financial markets were closed Wednesday as part of the official day of national morning. During this period members of the US delegation gave the impression that the framework was a personal one between US President Trump and Xi Jinping which did not provide much confidence to the markets. Adding to this was confirmation there would be no paper offering details of agreement. Several statements were conflicting and had to be corrected or walked back. President Xi Jinping and the China negotiating team remained outside of Beijing most of the week visiting Panama, Spain and Portugal before going back to China which appeared to limit the ability of the Chinese to provide additional details on what it would be implementing.

On Tuesday the US equity markets collapsed amid the chaos displayed on the US side and the silence on the Chinese side, the DJIA fell over 800 points with the equity averages falling by more than 3%. The weakness affected Asia on Wednesday which appeared to motivate the Chinese Commerce Ministry to issue a statement that China was confident a trade agreement could be reached with the US in 90 days which was the first confirmation by Beijing regarding the 90 day window. At the same time, press reports surfaced from the Chinese side stating they wished the Trump team had not made the full list of concessions public. It was clear the Beijing did not want the Chinese people to know the full extent of the concessions, as was evident when the US Embassy released details of the deal on Chinese social media and it was partially censored on Monday and not allowed to be forwarded or shared.

A fair analysis suggests that China made a host of concessions with the only one by the US being the delay in the January 1st increase in tariffs from 10% to 25% on 200 Billion USD of products. The US side, despite the experience of the team, lacked any clear communication strategy and showed a lack of real experience negotiating with the Chinese. However, the Chinese commitments were vague and lacked a firm timetable. As it relates to agriculture, the US said China would buy large volumes of products immediately but the Chinese statement only said it would work to buy more US products to reduce the trade imbalance as needed. The details are not known but it could be that Xi Jinping made the broad commitments and has left his team to work on details. In each of the commitments the devil is in the details and no one knows what the actual understanding was on the part Xi and Trump. This of course left US farmers facing a number of issues while also doing nothing to provide the leadership and guidance which US producers need. In past negotiations the Chinese and US leaders appeared to focus more on a team approach and less on personal relationships.

On Wednesday a potential new point of friction appeared when Canada arrested Meng Wanzhou, the CFO and daughter of the founder and CEO of China's Huawei Technologies, at the behest of the US government. She is expected to face extradition to the US relating to Huawei's violation of US Iran sanctions. Huawei is one of the largest telecommunication equipment manufacturing companies in the world. Its ownership structure is incredibly opaque; it is not listed on any Chinese or Hong Kong exchange and issues no financial reports to the public. The company has been the center of controversy due to the security risk of using its products which are open to spying by China. The company was founded and currently led by Ren Zhengfei, an ex-People's Liberation Army officer, and is subject to Chinese law which requires companies in China to support, cooperate with and collaborate in national-intelligence work as requested by Beijing. The company has been a big part of the "Belt and Road" project providing the telecommunication infrastructure which has led many to question its actual ownership structure. The USA, Australia and New Zealand has banned the company from providing equipment to communication networks. The company global revenue is near 100 Billion USD which makes it a major source of revenue for China. Its role in the Belt and Road projects suggest it has extremely close ties to the Chinese government. Huawei attempted to establish a partnership with ATT but was blocked. The concern was that Huawei products can be used by Chinese security services to spy on users. The company has close ties to ZTE. Huawei while banned from the Australian 5G network still has deep roots in the country which include deals with Chinese mining groups operating in the country and one of its Australia directors has been tied to a takeover attempt of GrainCorp.

The media was full of attempts to speculate on when the Trump administration knew of the arrest, the date of the arrest added to the speculation which occurred on December 1st as Trump and Xi were meeting in Argentina. The administration has denied any knowledge but the incident has naturally drawn the anger of the Chinese government, social media was full of rumors that the CFO may have entered China under a Canadian passport. Some have compared her arrest to the equivalent of a top Apple executive being arrested in Beijing and that executive being the son of Steve Jobs. The entire episode has caused US companies to cancel trips to China due to the fear of retaliation. By the end of Thursday speculation had begun that China itself may have been informed of the pending arrest at the time of the Trump/Xi meeting which helped to erase part of the earlier sharp US equity market losses.

Analysis by Bloomberg Technology Reports suggests the arrest of the Huawei CFO could have very big shockwaves across the Chinese Technology companies. As the daughter of the company's founder she is connected to one of the most powerful companies in China with global reach. If the arrest leads to Huawei facing a boycott of US technology and products it would deal the company a major blow which would damage China's 2025 program. The Chinese government has already threatened New Zealand for banning Huawei from its 5G network. US stock index futures and Asia markets opened lower following the news of the arrest as fears expanded of its effect on the trade talks. 33 US companies are the top suppliers to Huawei. Asian equity markets opened sharply lower following the news and US equity futures, which were closed on Wednesday, opened sharply lower on Thursday following the announcement with trading paused by the exchanges to slow the decline.

The arrest of the Huawei CFO will be a significant test for the framework of the US/China agreement with emotions high on both sides making the situation even more volatile. At the same time the pressure on the situation in Xinjiang is getting more and more global press while China is continuing to push the theme its all about security. Interviews with people who have been released from the camps have been widely distributed on social media and some media outlets. This, along with an accelerated attack on Churches, is creating major problems for China in the US Congress where several bills are being considered which would complicate any trade deal.

Another troublesome issue for the agriculture sector was the lack of USDA involvement in the discussions, none of the US team has any in-depth understanding of agriculture. Given the importance of agriculture in the negotiations it has been very unsettling why officials from either the USDA or major US farm groups were not more directly involved. The granting of access of US agriculture products to China on an ongoing basis is crucial to the US farm community; we have not heard any explanation of this from the Trump team or even the US agriculture community. What is unsaid is that if no major trade agreement with China is reached in 90 days then it is back to where we have been plus more tariffs. At this stage we do not know if the cotton and soybean tariff will be lifted during this period or purchases will be subject to a rebate or exemption. The risk is the 25% tariffs would apply to any US agriculture exports that had not cleared Chinese customs by March 1st. The shipping time from Houston and New Orleans ports to the east coast of China is 37 days and is shorter from the west coast ports. This means cotton or soybeans must be sold, LC's opened and product on the water by mid January. Does the US team understand these and many other details? What is so amazing is the eerie quite prevailing across the agriculture sector while the US retailers and brands sourcing in China are quite vocal about the cost of the tariffs and why most tariffs are at 10% and all apparel has been exempt so far. The multinational companies have also launched major campaigns on the damage done by tariffs. The agriculture sector has not provided alternative solutions.

For soybeans and cotton the details will be very important. The important details to look far over the next few weeks are:

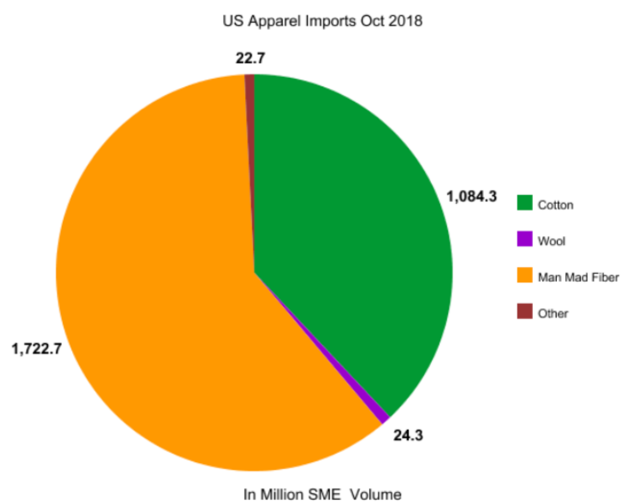
1. Lifting of the 25% import tariff on US cotton and soybeans with some assurance it will not be reapplied.
2. Reserve purchases of US cotton in volume.
3. Indication that the shipment of the remaining 2018/19 forward sales will be allowed to be shipped without duty regardless of the March 1st outcome.
4. Some enforcement mechanism if China fails to honor the spirit of the agreement.
5. Any firm trade agreement should address the record Chinese on going subsidies for domestic cotton production and agreement on phase out with enforcement clauses.

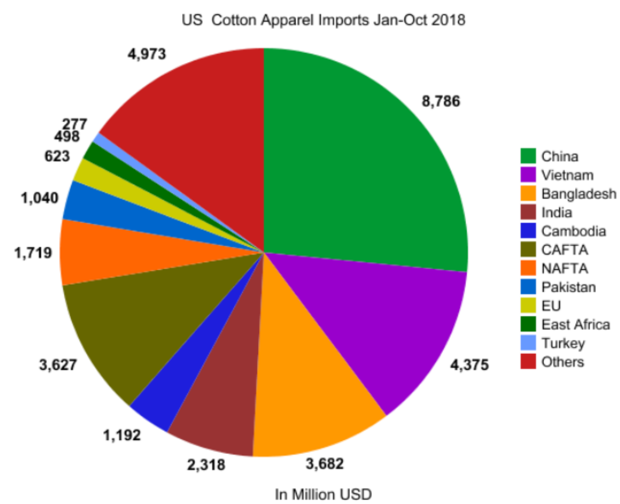
6. Some mechanism for the prevention of the US apparel market being flooded with cheap polyester apparel.

A failure of these issues to be addressed will undermine the US cotton industry and further undermine cotton market share in the US market.

A few hopeful signs have emerged since the Trump/Xi dinner. Polyester staple and man-made fiber prices in China have, for now, stabilized. Rumors have surfaced in China that the Reserve has begun to purchase imports or is preparing to. If the spirit of the Trump/Xi agreement is indeed going to honored then a large US purchase will be required. It is interesting that this rumor surfaced after the Sunday dinner. It might be remembered that China's announcement of the issuance of sliding scale import quota for cotton occurred during the June period when China was attempting to influence the Trump administration to not apply tariffs. As the week ended the Chinese Ministry of Commerce said the arrest of the Huawei CFO and US Trade talks were separate issues. This stood out as very calming as compared to the rhetoric in the Communist press.

COTTON MARKET SHARE IN US APPAREL IMPORTS PLUNGE IN OCTOBER AMID SURGE IN CHEAP POLYESTER APPAREL





Man-made fiber and polyester is proving to be an albatross around the neck of any attempt for cotton to regain market share. In the January - September time period cotton apparel had regained market share in US apparel imports experiencing a market share in volume of 41.75%. Then came a surge of imports in October with US apparel imports increasing 14.5% as retailers and brands attempted to stay well ahead of a general tariff on Chinese apparel imports and to prepare for a Holiday season in which apparel is playing a greater role. On Black Friday US spending on apparel increased 5.4% from a year ago with active wear a major driver. Against this backdrop it was very disappointing that cotton apparel imports experienced the slowest growth of any of the categories. Cotton apparel imports increased by 7.1% compared to a 9.6% in wool apparel imports and a 16.6% in other vegetable or natural non-cotton or wool apparel imports. Man-made fiber imports surged 19.1% with MMF experiencing a near record market share in volume terms of 60.36%. Cotton's market share fell to 38.26% in volume terms. Overall, US textile and apparel imports experienced 13.3% growth in volume terms and in value terms imports increased by 11.9% to 11.233 Billion USD.

The October total import volume was a record in USD terms for the month of October and the second highest month on record for any month. Imports expanded across all product areas. Apparel imports reached 8.548 Billion USD with China having a 36.56% market share at 3.125 Billion USD.

Vietnam was the second largest apparel shipper at 1.332 Billion USD which reflected a growth rate of 16.9%. CAFTA-DR was the third largest supplier at nearly 702 Million USD. One surprise is a sharp increase in apparel imports from Italy, in October Italy apparel imports increased by 28.4% to 133.588 Million USD which was nearly as large as Pakistan for the month. The growth in imports from Italy are focused heavily on wool and cotton which account for 70% of apparel imports. Total US textile and apparel imports from Italy have reached 1.6 Billion USD in January - October making it a serious supplier.

Yarn and fabric imports also increased in October with yarn imports increasing 21.8% as South Korea replaced China as the top supplier due to the impact of the tariffs on yarn imports. Sharply higher yarn imports also were noted from Taiwan, Turkey, Mexico and India. Fabric imports grew by 7.4%.

China dominates the imports of MMF products with January - October imports of MMF products having a market share of 43% with imports of 21.01 Billion USD. Vietnam is the second largest supplier with a 13.18% market share, 90% of the raw material for these imports came from China which means that over half of all MMF products are from China. In MMF apparel China's reach through its fabric exports suggest it is suppling over 60% of all US MMF apparel imports.

PAKISTAN DEVALUES RUPEE; CHINA MAY DEPLY TROOPS FOR SECURITY

Pakistan continues to increase its relationship with China through expanded military ties in order to boost security in the country. Discussion of joint military exercises was announced while the issue of a base at the Gwadar port remains a rumor. Against his backdrop Pakistan continues to appear to be preparing for an IMF bailout by devaluing its currency on November 30th by 5% with the Rupee/USD rate falling to 141 before strengthens to 136.50. This appeared to slow offtake of imported cotton early in the week but improved as the week progressed. Thoughts of the size of the domestic crop continue to be no more than 10.0 - 10.5 million bales. Arrivals as of November 30th reached only 9.366 million local bales which compares to 10.1342 million bales last year on the same date.

Last week the local press called for Chinese investment in cut and sew operations in Pakistan which would allow China to import Chinese fabric and then cut and sew as made in Pakistan. One of the most unusual aspects of the massive Chinese investment in Pakistan has been the lack of deals in textiles and apparel. The investment appears to be much more focused on setting the stage for China's use of the Gwadar Port, increasing its military footprint and developing the infrastructure necessary to connect to Xinjiang. So far the aggressive Xinjiang clampdown and imprisonment camps of local Muslims has not caused any significant uprising or discussion in Pakistan, which appears to illustrate the amount of economic power China exerts over the country, one is left to surmise that economics are more important than religion.

BRAZIL SHIPS A RECORD VOLUME OF COTTON IN NOVEMBER

It is clear the agriculture sector of Brazil is excited as the country prepares for a new president and an end of socialism. Agriculture will have a powerful seat at the table and is ready to begin to exert its influence. The cotton industry is energized with some beginning focus on preparing the needed infrastructure for the 2019 record crop and the effort it will take to move this crop to export. November cotton export shipments reached 198,400 tons which set a record. Exporters continue to battle a shortage of containers following a drop-in import. Brazil is the world's largest exporter of coffee and now moving up the ranks in cotton exports and both products compete for container space. If imports do not pick up during the first of 2019 then shipping cost will rise as shipping companies will have to bring in empty containers, which is expensive. This, plus the increased trucking cost, will impact basis levels or grower's income. Much of the cotton crop is sold FOB the port with growers responsible for the cost of the truck freight.

Brazil imports have increased the last three months; November imports were up 28.3% at 16.9 Billion USD but remain far below the record set in October 2013 of over 23 Billion USD. Capital goods imports surged in November with China the top import source. Capital goods are goods used to produce other goods. This data is in line with the increased manufacturing activity. No retail sales data is yet available for the post-election period.

The success Brazil has had in improving cotton quality is evident in later ginnings with some merchants offering 1 5/32 length cotton and even a few bales of even longer staple. This is quite an accomplishment given that as recent as 2015 and 2016 significant issues with short staple was occurring with a high percentage of exports 1 3/32, which are now seeing a reduced role. This compares to a base grade in most contracts of SLM 1 3/32 with a small premium for better quality. Merchants remain very aggressive basis offers for the 2018 crop with sales of the Middling 1 1/8 noted at 875 on March. Brazil lacks the storage facilities to carry cotton for long periods so shippers, for the most part, hold ginned cotton in yards under tarps which means the need to move inventories is always an issue. Brazil will need to move a record volume to export in 2018/19 and 2019/20; note that the 2018 crop moves in the 2018/19 calendar year and the 2019 crop in 2019/20.

Lots of attention was created last week when the CEO of one of Brazil's largest agriculture production firms said that Brazil could bring 43 million hectares of new land into production. This would come from the new Frontier states and degraded pastures. This of course got lots of attention for it represents more than 106 million acres, more than the total US soybean acreage in 2018. Several weeks ago we discussed a switch in sourcing of some tractors from China to plants in Brazil and November production of agriculture machinery in Brazil surged 70% indicating a real awaking of the industrial sector and new confidence after the election. The push to improve infrastructure is gaining momentum. China has targeted Brazilian infrastructure as part of the Belt and Road. In 2017 China Merchants Port purchased a lease on the very important Port of Paranagua in the South. In 2018 the China Construction Corp, which is the driver in the Belt and Road, purchased 51% of the project to build a grain terminal at the Port of Sao Louis in Maranhao state in the north. This port will handle about 10 MMT of grain and fertilizer as well as oil products. There have been some discussions of container facilities that would allow cotton export but that appears to have possibly been dropped in the final tender.

Now a landmark railway project, known as Ferrograo, connecting Mato Grosso and other regions to the northern ports appears ready to be tendered in early 2019 after some delays. It will build up to an estimated 1,142 kilometers or nearly 710 miles of railway track when complete. It is estimated to cost 12.7 Billion Real or 3.27 Billion USD. A group of Mato Grosso growers are reported to considering a stake in the project. The tender to operate the railway and build it has drawn the interest of the Shanghai Pengxin Group which owns the grain trader Fiagril which operates in Brazil. Cargill has also been mentioned. This project is badly needed and would dramatically reduce logistics cost for grain. It is extremely important for cotton to be included in the project but we have not heard of any container services being considered. One issue is that the northern ports are heavily focused on bulk grain and iron ore.

Earlier this year we discussed how Argentina's crisis and sharp fall in domestic consumption was driving the Cotton crop to export and increasing its role as a USD export earner. 2018 exports have lived up to the hype reaching 70,761 tons during the January - October period with shipments of 17,494 tons in October. Indonesia is the top market followed by Pakistan, Vietnam, Turkey and Thailand. 2019 planted acreage is up sharply and the crop should be near 50% higher which means another sharp increase in exports.

INDIAN CROP APPEARS HEADED TOWARD LOWER ESTIMATES AS YEILDS DISAPPOINT

Growers in Gujarat have already completed harvest, destroyed stalks and have planted jeera which indicates a reduced number of pickings due to the sharp drop in yields caused by the drought. Despite the lower crop domestic mills continue a hand to mouth buying strategy. Exporters remain in the market and the weaker crude oil complex has help keep the Rupee firmer. After a high of 69.48 per USD it has slipped back to 71.00 and it has soared to 1.98 Pakistan Rupees. The CAI estimates the crop at only 34.025 million 170 kg bales, consumption of 32.4 million bales and exports of 5.3 million bales thus reducing stocks to only 1.325 million 170 kg bales which confirms our thoughts that record imports will be required in the August through December 2019 time period.

HIGH WINDS IN AUSTRALIA'S QUEENSLAND FORCE REPLANTING OF COTTON

Australian growers in Queensland's Darling Downs have been fighting record winds and Queensland is experiencing a record heat wave, high winds and record wild fires which now cover 527,000 hectares. The heat wave extends to southern New South Wales were daily highs reached near 40 C compared to 25 - 28 C normally. In the Darling Downs the winds have blown sorghum out of the ground and sandblasted cotton which is causing some late replanting. The early heat is increasing water use as well. So far Australia has avoided any additional trade issues with China, however, the current China disputes could draw the country into the dispute. Meanwhile China is extending its reach in Australia with Labor Party officials displaying pro-Beijing policies with Victoria signing a secret MOU with China under the Belt and Road program. The Northern Territory is also pushing for expanding investment in the Darwin Port. In the West the power of China's CITIC appears to be increasing in access to some ports.

In southern NSW planted acreage is placed at 81,092 hectares with all but 867 hectares irrigated reflecting a 37% decline from last year. Old crop Chinese port stocks of the 2018 crop continue to move out, the 2019 crop CFR Asia basis is very firm at 2000-2100 points May futures. The Australian Dollar has weakened which has aided forward FOB prices which have remained below levels to stimulate any sizeable grower selling. 2019 crop prices reached more than 625 AD per bales, FOB gin, and 2020 prices are in the 590-600 AD range. Water concerns are limiting major new sales.

DEMAND REMAINS THE CONCERN AS WORLD ADJUSTS TO NEW ORDER

Confidence in economic growth across the globe is in doubt and in addition, many of the traditional centers of power appear to be shifting. France is the fifth largest economy in world and it is hard to imagine a brisk holiday season as December opened with riots, burning cars and riots in the heart of Paris. The headlines of the chaos competed with last weekends G-20 meeting. Its neighbor across

the channel, the United Kingdom, appears to be headed to a crisis as Brexit proves much more complicated than anyone ever expected. The cost to the UK will be huge however it gets settled. The UK is the sixth largest economy in the world and when combined with France they are larger than Japan and almost half the economy of China. The two great nations face a crisis which they cannot avoid and will have a global economic impact. GDP growth in the third quarter reached 1.4% YOY in France, falling each quarter of 2018 while the UK grew by 1.5%. Confidence, however, has slipped in the fourth quarter. As the week ended another wave of major riots are expected over the weekend in Paris and a no confidence vote has been launched against Macron lead by the Socialist parties. Macron has been one of the remaining stewards of the global order and globalization and his possible fall is causing fears of a new world order emerging. Adding to this is the stepping down of German Chancellor, Angela Merkel. The EU appears to be facing some daunting challenges which extend to Italy and Poland.

One positive is the emergence of Brazil from its socialist past, Brazil in one of the top ten economies in the world ranked just below Italy. The election of President Bolsonaro has raised hopes and created opportunities. There is talk of a Brazil/US alliance with the US granting MNNA status to Brazil, this is the most favored non-NATO ally status which has been granted to Australia and Japan. Brazil could prove to be a major ally with the US in the China dispute with both countries collectively controlling major food commodities. China’s aggressive prosecution of Christians offers significant common ground. Brazil has over 200 million Christians and has the largest Catholic population in the world. The alliance could also extend to trade which would give the Brazilian economy a major boost. While India’s growth has slowed it is still one of the fastest in the world and the expanding US/Indian alliance would suggest new export growth to the US is expected.

China’s domestic apparel market was slated to surpass the US but that does not now appear likely as much slower economic growth continue to expand. The US/China trade dispute has undermined confidence in forward orders. One reason for the anxiety is that supply chains are in flux and this has buyers uncertain of future sourcing options. Since June it has become clear that companies must move a portion of their supply chain out of China and the arrest of the Huawei CFO and daughter of the founder, a very powerful family in China, has added to the anxiety by exposing additional risk to the US Tech supply chain in China. Foxconn, a Taiwan owned company, is estimated to manufacture 40% of all electronics sold worldwide and has a large supply chain in mainland China with 12 plants, it is well known for manufacturing iPhones. Foxconn has warned that the US/China trade dispute could last a decade. The company made headlines when it announced a new large plant in the USA in Wisconsin. Recently it was exposed that it is setting up a large mfg. plant in Vietnam as part of the move to diversify out of China. Vietnam and Thailand appear to be the top two beneficiaries of the movement of the Tech supply chains. Thailand reports a large shift by Chinese companies to set up in Thailand in order to avoid the US tariffs.

Even the US economy is showing cracks as wage growth has been below the needed level as many companies used the tax cuts to buy back shares instead of expanding US domestic supply chains.

This has been clear in the red-hot Tech sector. One estimate has stock buy backs since the tax cut at a mind blowing 437 Billion USD. The failure to prevent buy backs has been sighted as a major weakness in the tax cut program. The US housing has been showing weakness. Against this backdrop confidence in consumption has faded and has returned to the “prove me” status.

ICE COTTON FUTURES REMAIN TRAPPED BY THE CHINA/US TRADE DISPUTE

ICE futures again lacked direction last week; Monday saw March futures reached 81.85 and by Thursday prices had slid all the way back to 78.60 as the market received no confirmation on a resolution that China would open the flow of US cotton. The experience of the last six months has illustrated the dangers of a supply chain with too great of concentration not just for cotton but much of the US agriculture complex and consumer products industry. By Friday the events of the last week could have been right out of the many political thrillers, such as the well known “House of Cards” or “24”. The global markets were transfixed on the who, what, when and where surrounding the arrest of the Huawei executive and what it meant to the potential for a US/China trade deal. It made the old Soviet grain embargo dramas look like child’s play. Adding to the theater of it all was the drama on what terms where actually agreed to in Argentina and the interpretation of US Presidential tweets. It appeared each new revelation indicated that world growth was indeed tied to, first, the US and China reaching a general trade agreement, second, China will for the first time actually honor the agreement and, third, the US will enforce it. Finally, that the massive intrigue regarding spying, political influence, hacking, stealing of intellectual property will at least be slowed and there will be some reining in of the massive Chinese state companies’ role in the world can be achieved. If not the current intertwining of China and US faces a massive breakup which will have major economic consequences.

The US/China trade dispute and the reopening of the Chinese market to US cotton is extremely important but this event also highlights just how fragile the access is without some real strength behind the enforcement. So far no one in the US trade or the current administration has appeared to support linking textile and apparel market access with US agriculture product access. So today much of the cotton apparel imports from China sold in the US is made mostly from Chinese cotton and a small volume of imported cotton. The exception is Supima products manufactured in China which continue to be made with US Pima. Why? All SUPIMA licensed product must be made from US Pima and verified through testing. The brands and retailers have required the Chinese manufacturers to meet these requirements. How long the US upland industry will continue the current practices remain to be seen. Such a program has lots of merit which include taking the issue out of the political sphere of the trade debates. US consumers are set to use 20 million bales of cotton at retail which is nearly 17% of all global cotton consumption now expected in 2018/19, this is a powerful tool no one is using.

The second challenge for global cotton use is again the flow of cheap polyester and MMF out of China. The overcapacity created by the China's stimulus has again come back to haunt the market. Robust economic demand, stable oil prices and a Chinese pollution clamp down had appeared to put the age of cheap polyester behind us. However, the trade war and other issues has caused domestic Chinese polyester and MMF demand to collapse and the economic downturn has caused the government's aggressive environmental cleanup program to wane, winter curtailments to be suspended and a surge in US crude oil production has help cause a collapse in crude oil prices. The October US trade data already reflected a 19.1% increase in cheap polyester apparel imports from China which pushed cotton market share in volume down to 38.26% from 41.75% in January - September. The surge in polyester apparel is undercutting cotton and causing significant environmental problems. The US and global cotton industry needs to address this issue as the US cannot allow this surge in imports to continue. We will be discussing this more in the future.

Overall our opinion remains the same, if indeed a reopening of US cotton to the Chinese market is achieved and it includes a sizeable Reserve purchase then cotton future can recover back to the 85 cents area as we discussed last week. However, the overall level of demand and the longevity of any China/US trade agreement means risk management should be used by producers and spinners alike. The market has entered the period again where demand must be proved. Moreover, the US has a quality mix from the 2018/19 crop which will be very price sensitive to export. This suggests the market faces a difficult time returning to pre-June confidence levels. In the near-term a firm close above 81.75 in March is needed to maintain any upward pressure in futures. An attempt to take this out failed last week as heavy trade selling stopped the rally and spinners failed to slow the price strength. Demand is simply a problem.

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