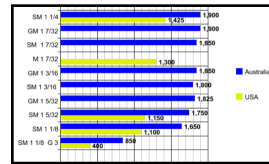




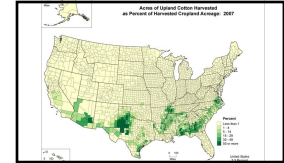
**UZBEKISTAN EMERGES
AS NEW ASIAN SUPPLY
SOURCE**



**RECORD YIELDS
EXPECTED IN
BRAZIL**



**AUSTRALIA COTTON
COMMANDS RECORD
PREMIUM TO US**



**US CROP
UNCERTAINLY
CONTINUES**



JERNIGAN GLOBAL

— KNOWLEDGE IS THE NEW CAPITAL —

NEW COTTON SUPPLY CHANNEL UNDERWAY; RECORD BRAZILIAN HARVEST EXPANDS; UZBEKISTAN CONSIDERS BAN ON EXPORT



The global cotton supply chain is in the midst of a rapidly changing world, as Brazil harvests a record 2 MMT plus crop with plans for an even larger crop in 2019 while Uzbekistan, the epicenter of the Central Asian cotton belt, last week openly said it was considering a ban on cotton exports in 2019. Both these events signify a dramatic turning point for the global cotton industry. Brazilian growers have overcome a range of obstacle to become an agriculture powerhouse. The country's agriculture sector was built first on soybeans and then expanded to a host of other agriculture products. Cotton got its start in Brazil as a single crop but has now evolved as a major income producer for growers as a second crop. Brazilian growers have embraced industrial agriculture on a massive scale with much of the center part of the country a virtual "Garden of Eden" where 2 - 3 crops are grown annually. China has become a global powerhouse across almost every industry due in part to the hard work of its people, however, the extent of success of their industrial and commercial sectors is the result of financing, support and subsidies supplied by the Chinese government. In comparison, Brazil's agriculture success has grown despite decades of weak, corrupt governments which have over regulated the sector, denied it modern infrastructure and provided a very weak rule of law. All of these headwinds make Brazil's success story that much more amazing.

Brazil's 2018 harvest, in the major states, is the most advanced in Bahia where an excellent dryland and irrigated crop has been achieved. The final yields are at record levels and the quality appears excellent. Bahia is often compared to Australia; its cotton production area is concentrated in the western part of the state. The belt is a vast open expansion which enjoys more annual rainfall than

Australia, but the timing of that rainfall is sporadic in some seasons which can affect yields and quality. The region has a very reliable dry season from May through the first half of August and a rainy season with heavy rainfall during December – February. If growers are able to plant at the right time and the rains stay true to seasonal patterns and averages then growers have the potential to achieve excellent yields. The region has great potential if irrigation schemes could be launched on a state wide basis. Instead, it is up to growers to manage their own schemes. The region has a decrepit highway/road system which burdens the entire agriculture sector with extremely high transportation cost. In a perfect world, with the proper rail and roadways the crop would move for export through the Salvador or a northern port. Instead, there are no infrastructure connections with the eastern half of the state so the crop moves by road south to the Santos port, which is time consuming and very expensive for growers.

Yields this season in Bahia are expected to reach a new record at 8.1984 bales per hectare from estimated acreage of 265,100 hectares reflecting a 31.89% increase. This exceeds the average yield of just over 7.5 bales in Mato Grosso. The highest yields in Brazil occurred in Mato Grosso Do Sul where it reached 8.359 Bales a hectare. Overall, Brazil has the highest dryland cotton yields in the world.



The 2018 harvest has enjoyed near perfect conditions and the dryland Bahia crop is now being rapidly ginned and shipped to the port. Early export offers suggest excellent quality. Most of the first bales have moved to domestic mills which had almost no inventory as the season ended. July's overall cotton exports have been much smaller than last season. In addition to the heavy competition with domestic buyers growers have had to deal with the aftermath of a nationwide truckers strike that resulted in volatile freight rates which slowed movement and added to grower's cost. The harvest is advancing in Mato Grosso; in the south the Rondonopolis area has picked about 15 - 20% of the crop with yields a bit below expectations ranging from 210 to 305

arrobas per hectare of seed cotton. Growers have been fighting bollworm and destroying stalks as rapidly as the crop is picked. Harvest has reached nearly 15% in the central area of the state where yields are 260 - 300 arrobas per hectare. In the east-central area harvest has reached 40 - 50% with excellent yields of 285 arrobas a hectare and an average 41% ginning outturn. Fiber quality has been excellent. Harvest is just starting in the northwest and north-central areas. In Sorriso in the north harvest has reached 20% as hot temps have continued, yield are averaging 265 arrobas per hectare of seed cotton.

Using the new offers from some of the largest Brazilian merchants as a guide then quality has been excellent. Strict Middling color grade offers are in circulation with offers in 1 5/32 staple at 1400 on Dec and Middling 1 5/32 at 1300 - 1350 on and Strict Middling 1 1/8 at 1300 on. The increase in the

percentage of 1 5/32 staple offers illustrates the improvement in seed quality experienced during the past 2 seasons. While the standard Middling 1 1/8 offer remains at 1200 on Dec a few merchants are now offering discounts. One group has discounted offers to 1025 points on Dec for a Middling 1 1/8 and 975 points for a Middling 1 3/32, all are CFR Asia.



Grower selling has slowed with BBM sales during the past week registered for 2018 crop of 8,100 tons, 12,400 tons of 2019 crop was sold and 1,000 tons of 2020 crop were sold. Growers are very well sold for 2018 crop and are feeling very little pressure to sell, which has maintained the ESALQ Index for a 41-4-35 price at a premium to ICE futures with the Index at 90.26 cents a lb.

equals 2,188.80 USD so an average yield of 7.5 bales per hectare means a breakeven cost of 60.80 cents a lb. Much of the crop has been sold at 75 - 80 cents making cotton exceptionally profitable. Mato Grosso IMEA estimated a record 782,900 hectares was planted to cotton with only 112,142 hectares planted as a first crop. Early indications are that 2019 acreage in Mato Grosso may expand to 900,000 hectares or more. One limiting factor is the availability of John Deere's round bale pickers. John Deere has no competition in the round bale pickers and growers in the USA, Brazil and Australia all compete for an annual allocation of the new supply available each year. The expansion of cotton as a second crop has already created a strong market for any used US pickers.

As global demand for cotton increases Brazil is the one region with the potential to meet much of that demand. In Mato Grosso alone the state planted over 4.5 million hectares to corn and the current profitability differences between the two crops suggests further expansion of cotton can occur on a major scale. The other area for potential growth is expansion of the acreage in the frontier regions. Extreme high transportation cost and inability to move the cotton to the northern exports for export has limited cotton acreage in those regions. The individual policies of these states have also encouraged soybeans. Currently logistics are back at the forefront as the ineffective government in a settlement of the truckers strike moved to get involved in setting minimum freight rates for truckers. The nation's crops are moved by trucks and greatly depend on the truckers. Until the new law is finally approved the exact freight rates are not known and this uncertainty has reduced forward sales as growers are unable to account for the freight rate from a gin to the southern ports. The current 2019 crop forward FOB Santos port basis is 400 - 600 points on Dec 2019. Normally a FOB basis at this level and the level of Dec 2019 futures would trigger massive forward selling, however, it appears freight cost could rise nearly 100% which mean farmers would need 600 on to equal 300 on last year. Logistical challenges remain main inhibitor to the growth in the cotton industry. As Brazil begins to move the volume to export which we will see in 2018/19 and 2019/20 it will require investment in new logistics and warehouses. So far the primary investment interest is coming from Chinese groups which want to secure Brazil as their procurement source for agriculture products. At this point Chinese investment has been focused on grain but as we go forward additional focus on cotton will be required. We see warehouses as a significant investment necessity; currently cotton at Santos port is stored outside on pallets under tarps.

Brazil is the largest cotton consumer in the America's but it has failed to show any real growth for a decade as their socialist policies have stifled growth and held the industry back from reaching its true potential. The socialist administration of Lula and Rousseff failed to attempt any trade relationship with the US as it followed a path that made it allies of the failed states of Cuba, Venezuela and Nicaragua. The Brazilian textile industry has top notch companies and in 2017 it had revenues of 45 billion USD but was a net importer of textiles and apparel. Brazil's 2017 trade deficit was 4.1 billion USD. This should not be happening with an industry that has the potential to be an export leader into the US market. In the pre WTO world many of its companies had a foothold in the US market and were well respected for quality and design. That all ended with WTO and China's flooding the US and world markets with cheaper products. In its aftermath neither the US or Brazilian government attempted to negotiate any substantive trade agreement. The US did reach free trade agreements with Peru and Columbia with Peru becoming an important supplier of textiles and apparel to the USA.

Brazilian industry in the last few years has attempted to become more competitive by investing in Paraguay where its government launched a very successful program on a small scale to promote low regulation and labor cost to make itself the "China of South America". It has sharply lower labor cost than Brazil and much lower energy cost. Many of their textile and apparel products are exported back to Brazil under its trade agreement. Brazil will use approximately 3.6 million bales of cotton in 2018/19 and there is the potential for this volume to grow in a major way. This will, of course, depend on the next administration and both its domestic and foreign policies.

The Real/USD exchange rate was firm last week at near 3.75 which reflects a significant improvement over recent weakness. The firmness occurred following a boost to the campaign of centrist presidential candidate Geraldo Alckrin. Ex-President Lula continues to hang over the race even though he is in jail. He remains active on social media and his Workers Party continues to support him for president. The Brazilian election rules are difficult to understand as is the social media campaign of an ex-president in jail. A few weeks ago an attempt was made by judges allied with the ex-president to get him released. The exchange rate appears to be moving with expectations of the presidential race.

UZBEKISTAN ADVANCES TO TEXTILE AND APPAREL CENTER

Uzbekistan became part of the Russian empire in the 19th century and cotton was first grown in the region more than 2,000 years ago by the Chinese. After it became part of the Soviet Union large scale cotton production occurred as the Soviet Union attempt to

MEET JAMIE LABO, SUPPLY CHAIN MANAGER, JERNIGAN GLOBAL



Jamie has extensive experience in Apparel design and sourcing. Jamie previously was an Apparel & Technical Designer, Product Developer and Sourcing manager with Apparel Simplified. Her previous position was with Li & Fung, of Hong Kong which is the largest textile & apparel supply chain manager in the world. At Li & Fung she managed the Apparel Sourcing for Tractor Supply, the largest farm supply chain in the US.

Please contact Jamie at Jamie.L@jerniganglobal.com to discuss your supply chain requirements.

make the country self-sufficient in cotton. The industry was state owned and today conditions have changed only marginally with small reforms. Cotton production peaked in 1988/89 at 7.995 million bales; at that time Uzbekistan consumed only 787,000 bales which made the country a major global exporter. The country's success with cotton took a great toll on the regions environment as it drained water supplies causing the great Aral Sea to shrink with the eastern region now a desert. This drew the attention of the world and contributed to the bad image cotton received during the boom in man-made fibers. As water supplies dwindled and irrigation schemes became more antiquated cotton acreage declined and food crops began to increase. The sudden breakup of the Soviet Union left the country ill prepared with its currency weak and foreign exchange earnings in short supply. The early cotton export boom cost the new country millions as cotton was bartered for food and other supplies at very cheap prices. Even as the industry evolved from that situation the heavy state involvement led to large inefficiencies and corruption.

Despite an early attempt to mechanize the cotton harvest through the barter for equipment and an attempt to manufacture pickers locally mechanical picking remained limited. To get the number of hand pickers needed compulsory service was required of all those not tied to the political leadership, from children to doctors. This proved to become a public relations nightmare. The government did, however, soon understand it had to create job opportunities and added value to its cotton production. Thus, a major effort was made to first establish spinning operations which were expanded into fabric production and then cut and sew. There appeared several drivers in this unusual journey to establish a rare, fully integrated supply chain. The first was an abundant supply of cheap cotton, the government's local price in local currency was far below the international price. This drew companies which would manage the high risk, South Korean and Turkey were major early investors. The state was the main driver as an investor and in joint ventures.

The availability of cheap raw cotton and labor allowed Uzbekistan yarn to penetrate many markets, including China. The success of Uzbek cotton yarn into China set the stage for steady waves of investment from China which has accelerated in recent years. Uzbekistan has evolved to become a powerhouse in textiles and apparel. It is now drawing new investment, one new project has been announced which will involve cotton farming. The Asian textile and industrial group, Indorama, has announced a 225 million USD investment for creating a cotton production cluster in which it will grow cotton under modern conditions and has committed to 100% mechanized harvest. The company already has sizeable investments in textile plants in the Fergana Valley which will use the cotton. This is not the first time commercial investment in cotton farming was attempted, the previous

effort occurred under the previous presidential administration of Islam Kasimov and failed with the investors losing millions. This occurred early after the breakup of the Soviet Union in 1992 - 94 when a major cotton merchandising group invested millions in cotton production only to have the operation

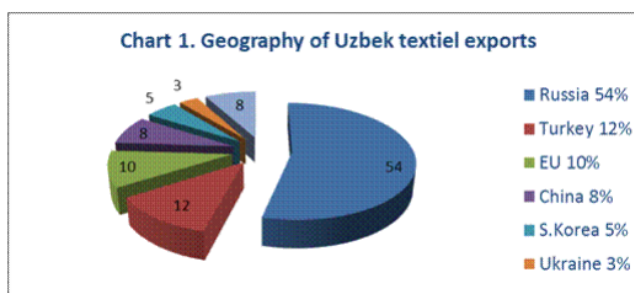


Table 5. Export trade matrix*

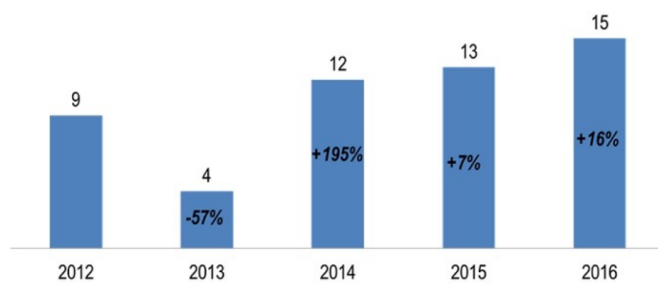
Commodity	Cotton	Units	Metric tons
Time period	CY2012	CY2013	CY2014 Jan-Sep
U.S.	0	0	0
Others			
Bangladesh	250000	198000	175000
China	310000	227530	120000
Russia	19100	11200	7450
Turkey	8760	7220	8135
Iran	41980	22850	21530
Italy	1000	2270	1100
Total of others	630840	469070	333215
Others not listed	56160	151730	116785
Grand Total	687000	620800	450000

*Note: Data in export trade matrix is from trade related sources, as official statistics on cotton exports by destinations is not available.

seized by the government. At the same time the group invested in a spinning plant in Samarkand. The losses in Uzbekistan lead to the bankruptcy of the firm which was a well-respected Liverpool based member of the cotton trade. Since then investments in the cotton farming sector has been limited. This most recent confidence regarding investments appears due to changes put in place by the new Uzbekistan president. In 2018 before the new investment comes on line an estimated 140,900 hectares of cotton was being grown in what is referred to as cotton textile clusters.

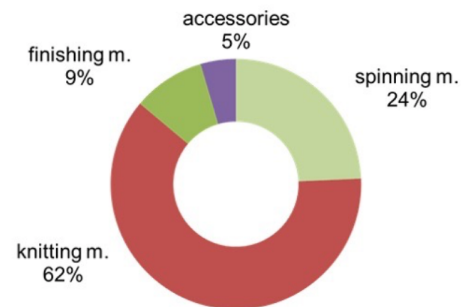
Cotton production will fall to only 3.7 million bales in 2018/19 which is less than 50% of the peak level. The new focus on accelerating investment in textile and apparel operations appears to be part of the new president's policy for ending the international pressure placed on Uzbekistan for its use of forced labor for the cotton harvest. A concerted effort launched by some groups to avoid the use of Uzbekistan cotton in its products has clearly forced the government to move the issue to the top of its agenda. The importance of the issue was evident in the remarks by the new president when he expressed frustration at the continued harassment of the government regarding the issue when he goes to discuss other investments. In 2017 total textile and apparel exports reached 1.1 billion USD. First quarter 2018 exports were up 14.7% at 316.9 million USD. Cotton yarn still dominates exports at 58.9% of all shipments with knitted apparel making up 21.3% of the exports and fabrics the balance. Exports were noted to 50 countries.

Italian textile machinery export to Uzbekistan (million euro)



Source: ACIMIT

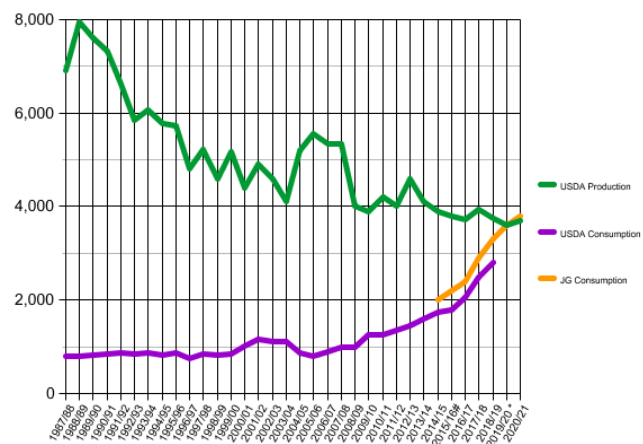
Italian textile machinery export to Uzbekistan by categories (2016)



Source: ACIMIT

The country launched a major investment drive in 2017 to expand the sector to bring in investment of over 2 billion USD by 2020. Finished apparel and hosiery is set to make up 70% of all exports with less focus on yarn. The government has set up a public company to manage its investments and joint ventures, O'zbekyengilsanoat. The available export data and domestic statistics suggest the USDA has been under estimating cotton consumption back to 2014/15 through 2018/19. The end result is that production and consumption will reach equilibrium in 2019/20. This is also in-line with the plan for expansion played out in 2017. At 3.6 million bales of estimated production in 2019/20 equals the Jernigan Global estimate of consumption of 3.6 million bales. After this point consumption growth will slow until advances in yields increase the cotton supply. A greater emphasis will be made on investment past yarn in the supply chain. Our estimate for 2020/21 indicates a tiny deficit of production to consumption.

Uzbekistan Cotton Production vs Consumption



In Thousand Bales # New President *JG Estimates



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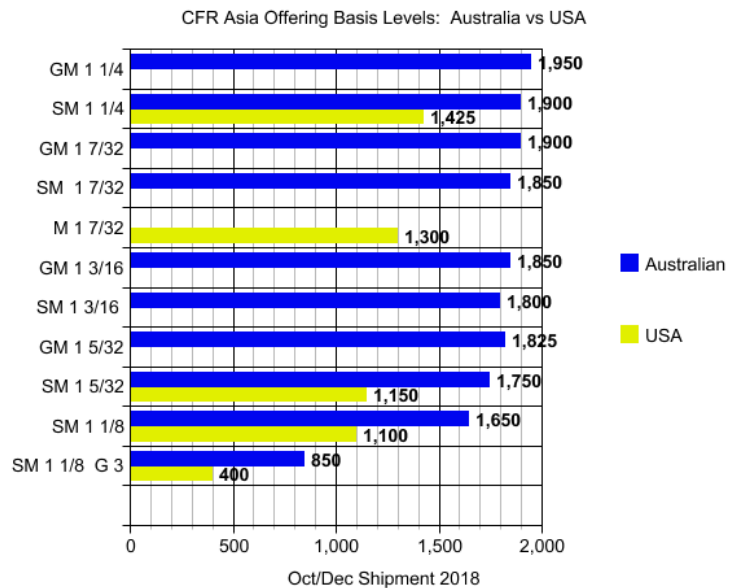


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AUSTRALIAN COTTON COMMANDS RECORD PREMIUM TO US

Australian growers had a banner year in 2018 with many growers achieving record yields and prices above 600 Australian Dollars a bale. Now merchants for the first time in more than 3 years are enjoying an appreciating basis. The quality of the Australian 2018 crop was excellent with Good Middling/Strict Middling color grades dominating, along with an abundant volume of 1 3/16 and 1 7/32 staple cotton. The only upland cotton that can compete with Australian is US Acala, Memphis Territory, Southeastern and a small volume of Texas irrigated. Chinese access to these growths is now cut off which leaves only Australian for Chinese buyers. Our comparison of offers is limited by the small available volume of US high grade offers. The US Trade has not adapted to the new grade makeup of the US

crop and it is giving spinners a bargain and cost growers millions in quality premiums. While the new seed varieties of Deltapine and others have produced cotton of comparable quality to Australian in volume this cotton is being purchased on an out of date loan differential schedule and flows through traditional market channels. Therefore, no one is offering a Memphis Territory 31-3-39+ new crop (if you show us your quotes) instead the majority of offers are either a Strict Middling 1 5/32 or 31-3-36 GC as the top grade. We have devoted an entire issue to this problem earlier this year.



We have recommended to our procurement clients for some time to go long the US high grade basis for any of their higher grade needs, as well as, their base grade needs. Much earlier we had recommended Australian forward purchases but recently, since the Chinese/US trade dispute began, we recommended if possible and your merchant allowed to switch from Australian to US at the prevailing discounts if you were allowed to achieve the savings in basis levels. Let's look at what are record discounts. The few high grade 2017/18 crop offers of Memphis Territory are cheap, Australian SM 1 1/4 offers are at 1900 on Dec while the Memphis Territory is 1425 points on, what a bargain for the spinners looking for cotton for a 60 or above count yarn. An Australian SM 1 7/32 is offered at 1850 on Dec and the closest offer we could find is a Memphis Territory Middling 1 7/32 at 1300 points on providing a 550 point discount.

Here is the shocker, the average basis of an Australian SM 1 5/32 is 1750 points on Dec and widespread US Memphis/Eastern SM 1 5/32 are in circulation at 1100 points on. CHEAP is the word as this is 200-300 points below Brazilian. Australian SM 1 1/8 (actually not much of the crop falls this low in 2018) is offered at 1650 points on Dec which compares to Memphis/Eastern M 1 1/8 at 1100 points on or a 550 point discount. As a rule these appear to be record discounts. The Chinese tariff does not seem to be the only reason for the discount, another appears to be the logistical issue the US is experiencing. In 2016/17 and again in 2017/18 the US has suffered massive delays in export shipments. The delays appear wide-ranging beginning with the warehouse where many are operating very inefficiently as they focus on achieving storage income and maintain lower cost, labor shortages at warehouses is also an issue in some places. Many farmers and gins deliver first to a local warehouse, however, merchants and coops have moved to using their own warehouses. It is nearly impossible to have enough warehouses, to have them located in every needed area and avoid the local warehouse. Thus, the cotton moves from gin to local warehouse, then to central merchant or coop warehouses and finally it will be shipped to the port for shipment. All along the process warehouse efficiency has broken down. To add another hurdle, a shortage of trucks has added to the

issues along with soaring cost. On top of all that the record trade deficit and the outsourcing of the supply chains have overwhelmed the ports which have encountered a host of problems.

The 2017/18 season is coming to an end and more than 2 million bales have not been shipped, which is totally unacceptable to buyers. Shipping delays have been occurring all season. Australian cotton already enjoys a shorter shipping time and cost to many of the Asian destinations. Moreover, its shippers appear to have mastered the logistics process, however, it is simpler with most warehouses at the coast. This means the cotton moves to a gin pad and then has to be moved quickly to the coastal port. The lack of inland warehouses has really simplified cotton movement. We are not logistics experts but it appears the marketplace has now begun to provide the incentive for the US to find a solution to the problem. It also illustrates another cost to losing your domestic industry .

INDIA PLANTING CONTINUES; CROP IN A WIDE VARIETY OF STAGES

India's growers continue to plant but this season planting is late as monsoon rains arrived late in many areas, including Gujarat the largest producing state. This means the crop is in a wide variety of stages, a common situation in India as more than 60% of the growers are at the mercy of the monsoon. Due to the erratic monsoon the crop must be planted despite the timing which means no set schedule is ever adhered to. As India faces a crisis in its attempt to eliminate the pink bollworm it will need to implement some new measures. A new more restrictive planting schedule and stalk

Dhule , Maharashtra India Cotton Crop 2018-19



Marathwada, Maharashtra India 2018-19



Maharashtra Crop : Two Fields/Two Stages

destruction deadline is must. The wide planting window means a that cotton is being harvested almost year round, daily arrivals of 1600 bales were noted on Friday even as planting continues. This compares to the US, Australia and Brazil where planting in each area has a restricted planting window and a restricted stalk destruction date. In Mato Grosso harvest is followed almost immediately by

stalk destruction. Even with these hard time tables and the best treated seed growers still battle some pest.

As of July 26th growers had accelerated planting with 10,251,500 hectares planted which was down only 8.896% from a year ago. This suggests final acreage will exceed our estimate of 10.5 million hectares as growers in Telangana and Maharashtra go back to cotton despite the economic losses of last year following the sharp boost in the MSP. Telangana has planted 1,639,000 hectares which reflects an almost unchanged level from a year ago, Maharashtra has planted 3,678,200 hectares which was down only 1.688% from a year ago and Gujarat has planted 2,184,300 hectares which is down 4.0% from a year ago. We continue to be concerned about yields due to the performance of the black market seeds and a possible pink bollworm outbreak. In addition, the widely scattered planting means late season monsoon rains will be important. The collapse in arrivals suggest that the 2017/18 crop will not meet industry estimates.

US CROP CONTINUES STRESSED ACROSS TEXAS

The crop harvest is advancing in South Texas and attention is turning to West Texas as we near the month of August. The belt began last week at record highs temps of 110 F in some locations. A cool front arrived mid-week bringing milder temps and scattered rains which has raised hopes the remaining irrigated crops across the Texas High Plains can be saved and the Rolling Plains dryland finish well. The dryland crop will have large losses, some field have been hanging on and have just enough boll count that it will not be a clear decision by insurance adjusters. The concern starts with the USDA weekly crop conditions report which is an opinion of crop observers in each state. They have been charted and tracked against final yields which have proven to be a useful tool. As of last Monday 49% of the Texas acreage was rated poor or very poor. Generally very poor is acreage that is lost and very poor acreage that is barely hanging on. 45% of the Oklahoma crop was also ranked as poor/very poor. These numbers suggest that approximately half of the 8.120 million acres in the Texas and OK region are in trouble. Another 31% of the Texas crop is ranked fair which suggests below average yields on that amount. We certainly are not qualified to forecast the final Texas outturn but widely scattered thunderstorms occurred Thursday, Friday and through the weekend bringing some areas the highest rainfall in year. The rainfall will continue into this week with the best



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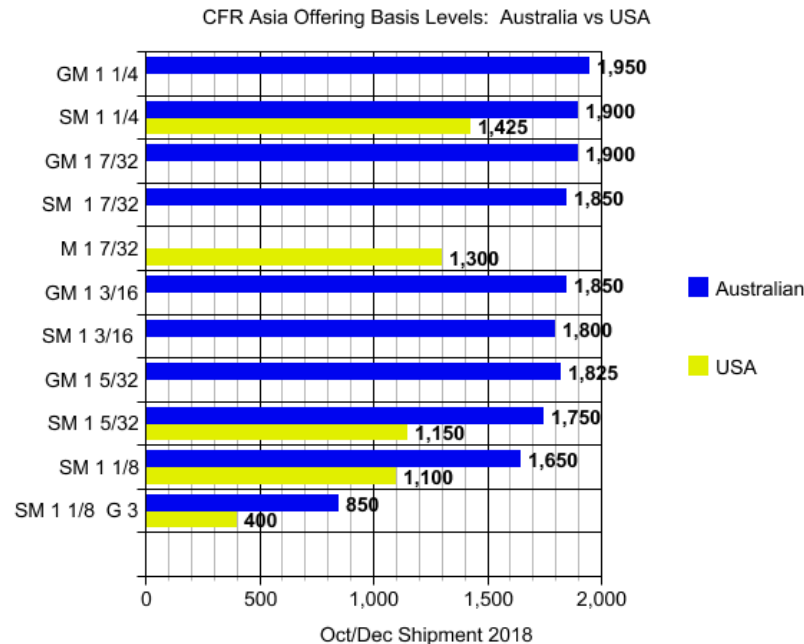


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chance of rain on July 30th. Remember that date, last years' experience illustrated just how hard it is to get an clear, warm fall.

The balance of the US crop can be summed up as possibly headed for a record yield. Sure there are trouble spots but as a whole we believe new record yield may be achieved. However, the size of the total US crop will depend on Texas, with over 8 million acres in play and very high abandonment average yield will be important. Last year it was 809 lbs., in 2015 it was 611 lbs. This year many dryland growers may have attempted to save cost amid a very poor moisture situation which means some planted cheaper seed which may impact yields. It's now August and the clock is ticking and rainfall will be crucial now for a large block of the remaining Texas acreage.



ICE FUTURES MOVE SLOWLY HIGHER AS CHINA DISPUTE CONTINUES

While ICE futures experienced another dull week as trade remained dominated by the HFT/Algo systems which attempted to move in front of whatever real paper that appeared. It was interesting that these mindless systems continued to tend to sell as the market opened at night in the US and then chase paper all session and then move the market back higher by the end of the day. We could not help but get a chuckle out of these elite systems. It appears the Chinese Hedge Funds continue to be a very light seller, all the trade issues has not stopped the order flow between the Chinese Funds and US markets. It appears the funds flow switched to parts of the equity market, the group of stocks called FANG was the center of attention as was every tech stock. Wall Street has been active creating more and more derivatives of these stocks including FANG Futures and FANG ETF or other hybrids. Disappointing earning of Facebook triggered a 20% sell off on Thursday which is reported to have wiped out 120 billion USD worth of shareholder equity. To put this in perspective this was near the value of the entire GDP of Kuwait or Angola in 2017. This illustrates the extent the AI systems rule the market and the extent the complex derivatives which have been developed on the major financial instruments.

The December contract closed last week 126 points higher for the week at 88.34, which was above the first outside range session that occurred of 87.36 and just below the high of 88.49 of the second outside range day that occurred last week. The fact that two outside range sessions have occurred

in the current consolidation period suggest the importance of this area. A move and close above 89.00 may finally bring the Managed Funds back as buyers. The China/US trade dispute remains a major physiological barrier to the bull market. This is understandable given that China has been the center of the cotton universe for our lifetime. It remains very important but its position as the global center of the textile supply chain is changing, it's a slow move but it has begun. The Artificial Intelligence systems that are now used for a portion of both Managed and Hedge Funds are only as good as their input. The programmers have no understanding of the true dynamics and instead attempt to be triggered by USDA reports or certain press stories or economic data. We feel assured these systems do not take into account the complex nature of global cotton trade thus they have not yet reacted to the fact that the dispute actually has long-term bullish implications for cotton and that any loss in shipments to China will just mean import replacement between US styles and other growths. However, these systems do follow technical movements which a close above 89.00 would imply.

We have explained in-depth over the past two editions our feeling on the Chinese/US trade dispute. Putting aside all emotion of the moment it would appear that the US is in a stronger position than even a week ago. The US economy with a GDP of 4.1% in the second quarter signals a new economy. The details are not yet clear but the EU president and US president both declared progress in their trade dispute with the EU saying it will commit to greater US sourcing which will narrow the deficit and also favors zero tariffs on cars in both directions, which suggests an easing in the US/EU drama. Leaks on the US/NAFTA negotiations indicate a deal with Mexico is very close and will be signed first. Against this backdrop this leaves the China dispute. The tariffs on the US side are causing companies to seek new supply chains and in some products this means reshoring is starting. This will shake the markets and people views; for example US steel producers are opening new mills and hiring new workers while companies manufacturing in the US have seen margins collapse as they are forced to pay more for steel. What is clear is that the stimulus in China of 2008 flooded the world with a host of cheap subsidized raw materials, such as steel and polyester fiber. Industries took advantage of these cheap raw materials, increased profit margins and expected it to continue forever. That period has passed and the biggest impact of the current drama would appear to be putting inflation back into the pipeline. Once the AI systems pick this up they will react.

Against this back drop we continue to expect the Dec and 2018/19 crop months to breach the 100 cents level.

globalej published on TradingView.com, July 28, 2018 14:07 UTC

ICEUSA:CTZ2018, D 88.34 ▲ +0.11 (+0.12%) O:87.95 H:88.58 L:87.30 C:88.34



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