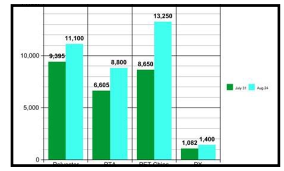
BRAZILIAN TEXTILE INDUSTRY SUFFERS NEW IMPORT SURGE

COTTON UNDER ASSAULT IN DENIM

US RETAIL RED HOT WITH TOTAL TEXTILE/ APPAREL OFF-TAKE TO SET A RECORD



POLYESTER PRICES SURGE AS ENVIRONMENTAL CLEANUP ACCELERATES

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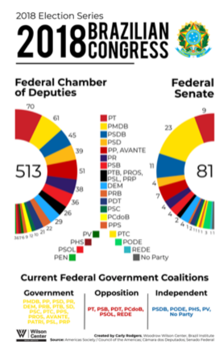
BRAZIL ELECTION UNCERTAINLY IMPACTING CONFIDENCE WHILE VENEZUELA COLLAPSES



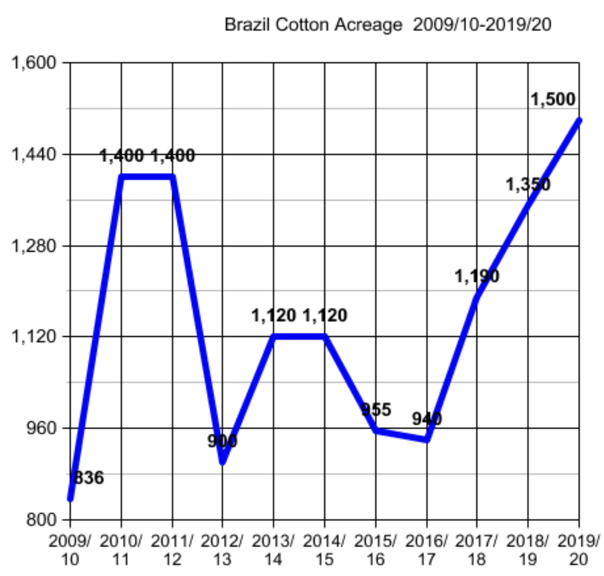
The global cotton textile supply channel covers a vast majority of the world which means on any given day it is being affected by some global macro event or even at times a single country's political or economic situation. However, today the chain is being challenged in ways not seen in 70 years or more. First, the world largest cotton consumer and largest textile and apparel exporter is engaged in a trade war with the US. Second, a dispute between the US and Turkey has expanded a trade issue with another major cotton consumer and importer. Third, while the world's attention has been focused on China and Turkey the CAFTA trade region has been experiencing unrest which has cost textile and apparel exporters from the region millions of USD. Venezuela, once the richest economy in Latin America, has descended into chaos with the Central Bank devaluing the currency by 95% last weekend as inflation hit one million pct. As reported by NBC News, to purchase a whole chicken (if one can even be found in the country) at a Venezuelan market it would take a wheel barrow to carry the 14.6 million Bolivars. The current destruction of Venezuela is now reaching the same point as that of the war in Syria but right in America's backyard. The refugee flow out of the country in 2017 reached more than 1.5 million Venezuelans. 2018 will break that record with Columbia, America, Spain, Chile, Argentina and Brazil the primary destinations. A lack of US leadership in the region has meant the situation is continuing to worsen and estimates suggest the displacement of people will be the greatest in Latin American history.

Brazil should be enjoying a period a great prosperity as it benefits from the US/China trade dispute and the fact its agriculture sector is a booming export powerhouse. However, an exceptional 2018 season and additional expansion for the sector in 2019 are now being threatened by a very uncertain election. Ex-president Lula, a socialist who has been sentenced to prison for corruption, continues to influence and haunt the country. Even while he is in prison he remains head of the Workers Party and is its candidate for President while remaining quite active on social media. The election season has started and legal experts claim Lula will be declared ineligible for the ballot but a new poll last week showed that if Lula was on the ballot he wins with 39% of the vote. Then there is the United Nations Human Rights Committee which ruled he cannot be disqualified, "until his appeals before the courts have been completed in fair judicial proceedings." His appeal has not yet been heard and it is making the markets and the country nervous. Jair Bolsanaro comes in second at a distant 19%. Adding to the anxiety is the fact that last week's poll showed support for Lula and the Socialist Workers Party increasing by 9 percentage points since June.

Lula on the ballot is one unknown and the second unknown is the ballot without him. Another recent poll indicated if Lula is out then his VP, former Sao Paulo mayor Fernando Haddad, is expected to lead the Workers Party since he leads in that poll at 17.3%. The polls with and without Lula shows great volatility and uncertainly and the market friendly candidates have quite an uphill battle. Unlike in other countries the candidates are allocated free TV time based on their representation pct. in congress, 44% of all TV time goes to candidate Alckmin who has only 3.7% in polls and to the Workers Party, Haddad, with the 2nd leading candidate Bolsonaro receiving hardly any time. These are certainly different rules compared to most western democracies. A win by one of the socialist candidates has brought forecast of a collapse of the Real and the country's equity markets. The Real/USD exchange rate on Tuesday, August 21st fell to a low of 4.0508 per USD, down 2% for the day and the lowest since February 2016 and close to the record low of 4.2478.

At the same time the country faces an issue with law and order and a flood of refugees from Venezuela. These events make it more difficult for normal finance to flow to the agriculture sector and the collapse in the Real will make inputs more expensive. The early surveys show that both soybean and cotton acreage in 2018/19 will be a record but the surveys were taken before the collapse in the Real/USD exchange rate. Forward contracting has been heavy in cotton with registered sales on the BBM for the 2019 crop of 519,500 tons. Barter sales with agriculture input company's remains a popular option for input finance. The latest survey has soybean acreage reaching 36.28 million hectares, an expansion of 3.2%. We estimate that cotton acreage will expand to 1.350 million ha in 2019 and increase further in 2020. However, the high input nature of cotton also makes it subject to crop financing restrictions.

The 2018 cotton harvest has reached 70% in Bahia with a post harvest deadline of September 20th for stalks to be destroyed. Growers achieved record yields in 2017/18 and also record profits. ABAPA forecast 2018/19 acreage is expected to increase 20% to 313,000 hectares and 2019/20 acreage will expand even more as additional acreage comes online. The western region of the state is open, poor and has an abundance of land for expansion. The current Real per bales return is providing the incentive to bring new land into production. In Mato Grosso harvest continues but continues to be affected by early wet season rains. Early last week record rainfall fell in isolated areas of Mato Grosso on Monday and then returned again on Saturday, harvest has reached 60%. Transport issues continue as growers face greater cost moving cotton south to the ports.



A crisis has developed in export shipments, infrastructure is always an issue and the trucking industry was thrown into chaos by the truckers strike and the settlement which followed. The slow approval of the settlement into law left truckers and shippers in a difficult spot which has slowed movement to the port thus delaying export shipments of cotton. In addition, a shortage of containers has been reported at Santos as the overall import volume has slowed. Any cotton sold for August and September is going to be delayed. As of the third week in August, season to date export shipments have reached only 25,000 tons which is the slowest pace since 2002/03 when only 106,000 tons had been shipped. These delays, plus the slow shipments in the US, are causing anxiety for spinners.

The new economic uncertainly is not good for the textile and apparel sector. The retail sector had already turned weaker in April with June retail sales up only 1.5% from a year ago. Apparel retail sales in June fell 3.4% from a year ago proceeded by a 3.7% decline in May and 8.2% in April. The consumer needs confidence to return to the shopping malls. The weak Real should increase export opportunities but the industry continues to run a trade deficit in apparel and that deficit has been increasing again with no progress despite the weak Real/USD exchange rate and an abundance of unemployed people. It is so sad to see the lost opportunity in Brazil; the country has the potential to be the global textile and apparel powerhouse in the Americas. The ineffective government, over regulation, heavy taxation and extreme labor regulation left from the past socialist policies has left the industry unable to compete. January - July textile and apparel imports soared 20.16% from a year ago and were up 43.42% from the import level in the same period in 2016. The sharp rebound in retail sales of apparel from the peak of the recession has had only limited impact on the domestic industry and instead benefited importers.

Total textile and apparel imports in January - July have reached 3.379 billion USD with the driver being imports from China which reached 1.8 billion USD giving China an even a larger market share than in the US at 53.27%. Cotton is under assault in Brazil in the textile and apparel sector. It is very difficult for domestic mills to procure cotton and it appears every season the same price behavior is repeated with mills being squeezed the second half of the season because of their hand to mouth

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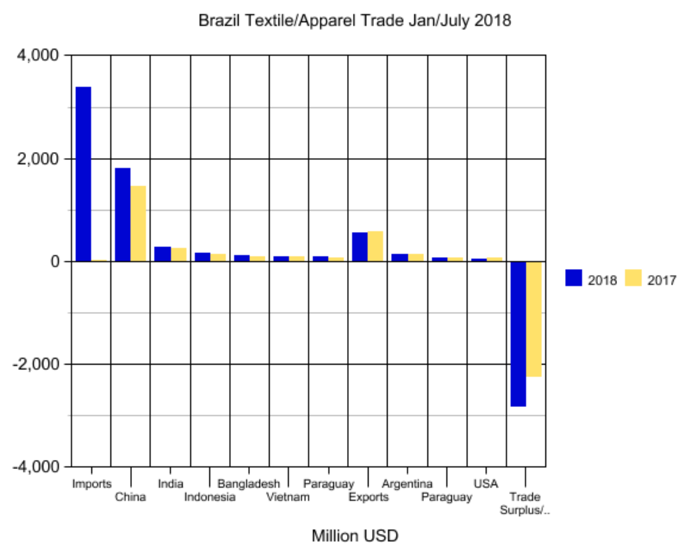
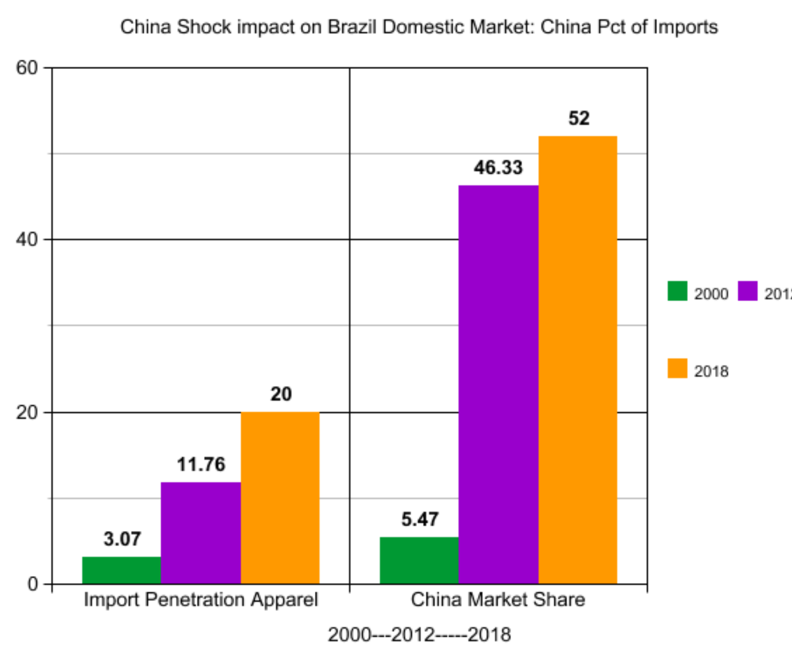
procurement. Brazil's domestic interest rates are normally at large premiums to USD rates and it is extremely expensive to carry inventories. Credit card rates are the highest in the world. Cotton producers aggressively forward sell the crop to merchants and some of the largest mills and then they tend to move inventories quickly. The forward selling is heavily focused on barter for inputs which means the input suppliers want to immediately convert to cash by selling to exporters. Domestic spinners normally are able to source cotton at competitive prices in the first six months of the season but then supplies become squeezed as supplies tighten from the heavy export sales. This pushes domestic prices to a large premium to the international market the second half of the season. The lack of reasonable financing makes cotton very difficult for profit margins. Small spinners have faced especially hard times. The industry is quite segmented with few fully integrated operations outside of home textiles which has opened the way for man-made fibers. Cotton use in 2017 totaled 700,000 tons or 3.216 million bales which reflected only a 47.1% market share of all fiber consumption. In contrast, polyester fiber consumption hit a record 501,400 tons. Cotton use has fallen sharply from its 2008 peak. Viscose consumption is also under pressure reaching only 11,900 tons in 2017, far from its record 47.39 tons in 2007. Cotton growers have launched an effort to boost cotton consumption at the consumer level, however, the problem is not with the consumer but is the lack of a financing mechanism for the domestic industry to procure cotton and also a need to create fully integrated operations. The extreme labor regulation, taxes and cost has driven cut and sew operations to the informal sector.

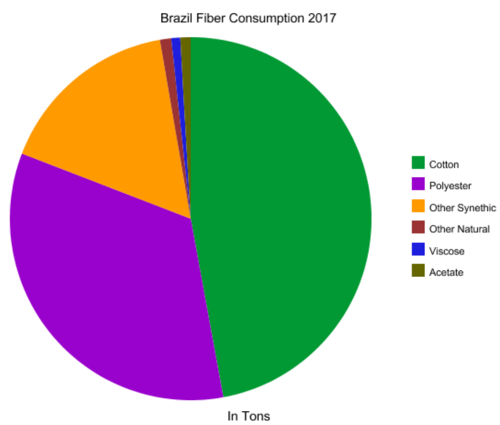


The most shocking aspect of the increase in import penetration in textiles and apparel occurred even as Brazil raised tariffs to attempt to halt the flow of cheap goods. One study showed that in apparel the import penetration in 2000 was 3.07% and by 2012 it had reached 11.7 %, however, China's market share was 5.47% in 2000 but had reached 46.33 % by 2012. This occurred as the average applied import duty increased from 22.81% in 2000 to 44.98% in 2012. In textiles import penetration in 2000 was 9.68% and by 2012 it was 15.64% with China's share rising from 2.4% to 48.17% while the average applied duty increased from 19.69% to 34.98%. Adding to the issue was a sharp drop in the average hourly wage paid in textiles and apparel between 2000 and 2012 in Brazil. In a bid to compete, the Brazilian apparel industries moved to using workers as informal workers, many cut and sew operations are today contracted out to third parties to lower cost. In 2000 22.28% of apparel workers were in the informal workforce but by 2012 that had increased to 53.31%.



Today, the import penetration of the Brazilian market has not declined but has actually increased slightly. In the January - July period the country has expanded its trade deficit in textiles and apparel to 2.827 billion USD which is up from 2.240 billion last year at this time. Brazil is running a trade surplus which has averaged from 2.76 to 6.28 billion USD driven by soybeans, meats and iron ore. China took 22% of all exports in 2017.

As these numbers suggest, the Brazilian textile and apparel industry is in need of a significant government policy revision and without it domestic cotton consumption and the country's textile and apparel sector will not grow. Domestic consumption peaked in 2007/08 at 4.450 million bales but this year it will struggle to reach 3.5 million bales as import penetration again increases. The new government could accomplish significant growth by, first, removing the heavy taxes on electricity which is part of the constitution. Second, institute meaningful labor policy reform and establish special economic zones. Paraguay has built a small textile and apparel cluster focused on labor cost, which are 50% of Brazil's, and almost free electricity.



Brazil faces very uncertain times as the election nears. The Real/USD exchange rate ended the week near 4.08 per USD after a low of 4.1257.

CONSUMERS BEGIN TO LOOK AT LABELS AND FIBER CONTENT; AGE OF NATURAL FIBERS UNDERWAY

"**Dear Answer Angle Ellen**: Is there any way to ask fabric manufacturers to start using more cotton in clothes? I have stopped buying clothes because they irritate my skin. Also, all those rayons, nylons, modals, polyesters and spandexes are HOT in the summertime. Why have they stopped making cottons and linens? Those that are available are prohibitively expensive. What happened? I'm sure it's cheaper to make clothes out of synthetics. Can you let clothes manufacturers know that some of us want cooler clothes in the summer!!" – *Carolyn in Texas*

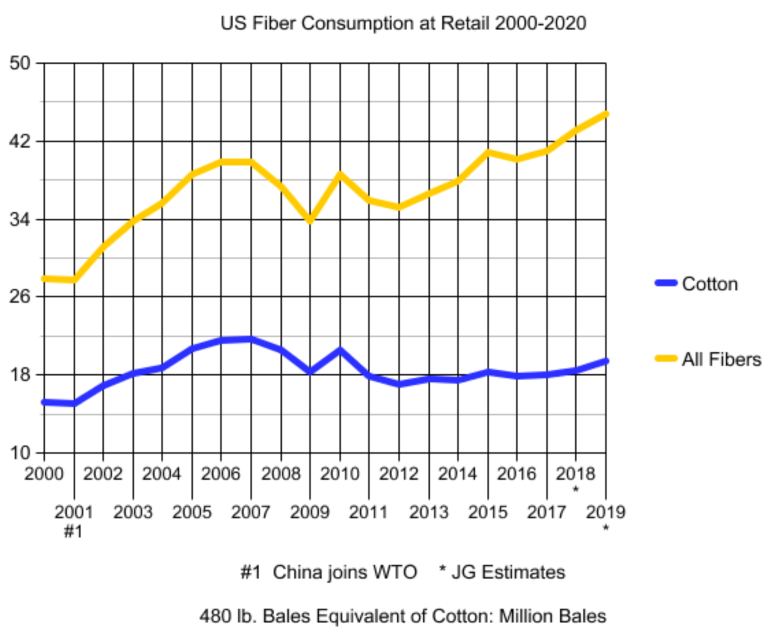
The above questions sent to a Chicago Tribune contract editor that covers fashion got our attention because Carolyn's inquiry, and frustration, appears to be part of a broader trend. According to the well-known economist and market analyst, Jim Cramer, of CNBC's "Mad Money" show a new phenomenon is occurring, he states "the consumer is looking at the labels and cares". His discussion was not about the makeup of the apparel but on where it was made but as his statement is unpacked it also extends to the makeup of the fabric. This is extending to normal conversations, when it is mentioned you are involved in cotton the first reaction, "I bet the negative microfiber issue is helping your business". The downside to man-made apparel and its sister products are gaining lots of attention as landfills are overflowing with every polyester and pieces of plastic ever made. We can thank China for accelerating the importance of the issue due to its ban on the importation of most plastic trash on January 1, 2018 which caused a panic in the US and Europe because of the magnitude of recycled products they were shipping to China. Presently both the US and Europe find themselves in an extremely difficult situation as they are forced to deal with the ever growing mountains of recycled plastic. The massive scale of the problem is one of the primary reasons why the issue is now moving to the headlines as it trickles down to local cities where some recycling programs are forced to end due to soaring cost.

As the switch from Polyester and Man-Made Fiber accelerates a new battle is beginning for cotton and that battle is against misinformation with conventional US & Australian cotton under assault despite its very environmental conscious production by groups promoting certain agendas which are based on misinformation. These groups have attempted to disparage US and Australian cotton for its environmental track record without any understanding of the facts. Cotton seed technology in the US and Australian has advanced genetics to the point that pesticide use has dropped sharply and high
Quality cotton is now grown on a much reduced environmental footprint 50%. Water, land use and labor regulations are the toughest in world on any farm. Despite these successes some groups want to attempt to paint a different picture using misinformation and have gone as far as touting alternative fibers as more sustainable. That word has much less meaning today after its constant misuse. Cotton now needs an aggressive advocate that confronts each misinformation point and dispels it quickly. A famous quote says" But I suppose the most revolutionary act one can engage in is… to tell the truth."

Cotton and wool are at the forefront of the switch but viscose fiber, under the brand Tencel, is making significant strides by promoting itself as a sustainable natural fiber. A review of the new denim lines reveals a record number of lines which include a denim product that contains Tencel. The company has launched a new Tencel line called Ecovero by Lenzing which is derived from certified renewable wood using what they call an Eco-Responsible production process which has 50% lower carbon emissions and greater water reuse than traditional viscose, according to the company's promotion material. Lenzing has a 55.4 million Euro research and development budget, 62.6 million USD, putting it on par with the budget of Cotton Inc. in many years. Such a budget from one company is making the fiber a real competitor to cotton. It is also a private sector competitor and uses extremely impressive marketing efforts. It has devoted a large portion of its marketing budget to take market share from cotton in denim products.

The cotton industry does not fully understand the attack that is being launched by Lenzing. The company has worked with the UN to actually produce a documentary on Made in the Forrest Apparel. The film is produced under the United Nations Development Program (UNDP) and is called "Made in Forests" and Michelle Yeoh, an international film star, is the moderator and a UNDP Goodwill Ambassador. The program is having real success; the denim brand Madewell recently launched High-Rise Skinny Jeans - Tencel edition. They are calling it “the softest jeans ever”. Get ready, the fabric makeup is only 44 percent cotton and 42 percent Tencel lyocell blend with a touch of polyester and elastane. Think of it this way, in the past the product would have been 95% cotton which means each 1,000 lbs. of denim fabric had 950 pounds of cotton compared to just 440 lbs. of cotton in the Tencel edition. And this is just one product line. Tencel has a very soft feel and the pitch to make it environmental friendly, even though it is produced in a lab, is making it attractive to the brands looking for that different product. Long forgotten is the fact that viscose began as nylon, a word that is far less fashionable. It seems there is no discussion in the UNDP film regarding the viscose production process which involved dissolving wood pulp in a solution of aqueous sodium hydroxide, a highly caustic base, in the presence of carbon disulfide, an extremely toxic and poisonous compound. Cotton lacks a commercial advocate which is always promoting and marketing a new and innovate cotton fabric. The cotton industry’s attitude and approach has, to be honest, been lazy relying on brands and fabric mills to do this and it’s obvious that model has failed. Cotton continues to loss the public relations battle; one example is the fact they have allowed the high-jacking of the word ‘sustainable’ to include a number of man-made products. It’s really quite unbelievable if you think about.

US RETAIL MARKET IS RED HOT; A RECORD 43 MILLION BALE EQUIVALENT OF COTTON SET TO BE CONSUMED IN 2018



The US economy continues to report robust growth with one of the strongest consumer sectors in a decade which has set the stage for record offtake of textiles and apparel at the retail level. Using textile and apparel imports as the measurement the US consumed the equivalent of a record 41.049 million 480 lb. bales of cotton (based on USDA and US Commerce Dept. calculations) in 2017 and the actual consumption numbers will be slightly higher after domestic production consumed locally is added. When consumption is measured by fiber content man-made fiber is the top product accounting for 20.247 million bales of consumption which represents a 49.33% market share. Cotton’s market share declined to 43.49% with the equivalent of 17.977 million bales of cotton. Cotton consumption at retail reached a record 21.637 million bales in 2007 and has never returned to that level. Cotton use peaked just before the global financial crisis and then fell to 18.377 million bales before returning to 20.545 million bales in 2010 which drove the bull market that resulted in record prices. From that point forward cotton has recovered slightly but has suffered from a loss in market share which stood at 43.85% in 2017, down from a market share peak of 54.88% in 2008.

Total offtake of all textile and apparel at US retail has been improving since 2012, which stood at 35.162 million bales and has been steadily improving reaching a record 41.049 million bales of all fibers in 2017. Cotton began to recover market share in 2018 due the strong growth in the US retail market. Retailer after retailer are posting earnings which are exceeding expectations, such as Target, a top ten US retailers, which posted strong sales in the last quarter. The red hot US retail market follows a record tax cut and a bull market in US equities which has added an estimated 18 trillion USD in wealth since it started. US equities are now experiencing the longest running bull market in US history.

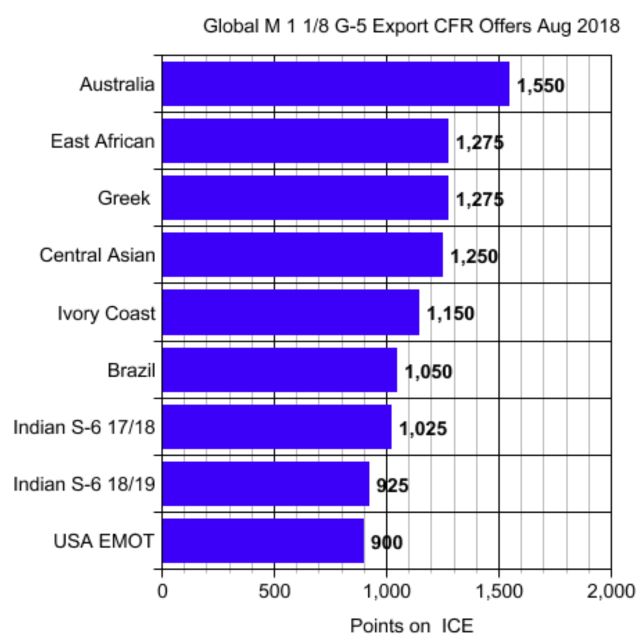
Amid these conditions we expect total fiber consumption at retail to reach another record of 43.10 million bales in 2018 with cotton's portion reaching 18.516 million bales. The lack of a domestic or regional supply chain makes it much more difficult for this improved consumer demand to be felt in US cotton demand. The 2007 record of 21.637 million bales of cotton demand is expected to be reached by 2021 based on current consumption patterns.

US E/MOT SM 1 5/32 OFFERED ON PAR WITH INDIAN; AGGRESSIVE OFFERS ABOUND

The trade battles have undermined buyer's confidence in expanding coverage. Removing Chinese and Turkish mills from the market has caused merchants and coops to turn increasingly aggressive in their export offers of US cotton. The sheer scale of US export offers got our attention last week as offers fell to par with Indian 2017/18 crop and a discount to East African. That is quite surprising considering the low contamination and higher yarn output of US cotton normally commands a sizeable premium to most handpicked cotton's. The move by China to apply a duty to US cotton which was covered by the WTO quota has caused major anxiety with US exporters, especially after new Turkish sales were halted by the country's financial crisis. At the higher-end of the grade matrix, the Memphis/Eastern top grades, such as a 21-2-40 which compares to the Australian GM 1 ¼, is offered at 600-700 points discount to the Australian cotton and even the SM 1 5/32 M/E is offered at 575 point discount to the Australian offer. Prior to the extra 25% duty US high grades have been flowing into China in sizeable volume at discounts to the Australia; the discounts have increased since the duty was announced.

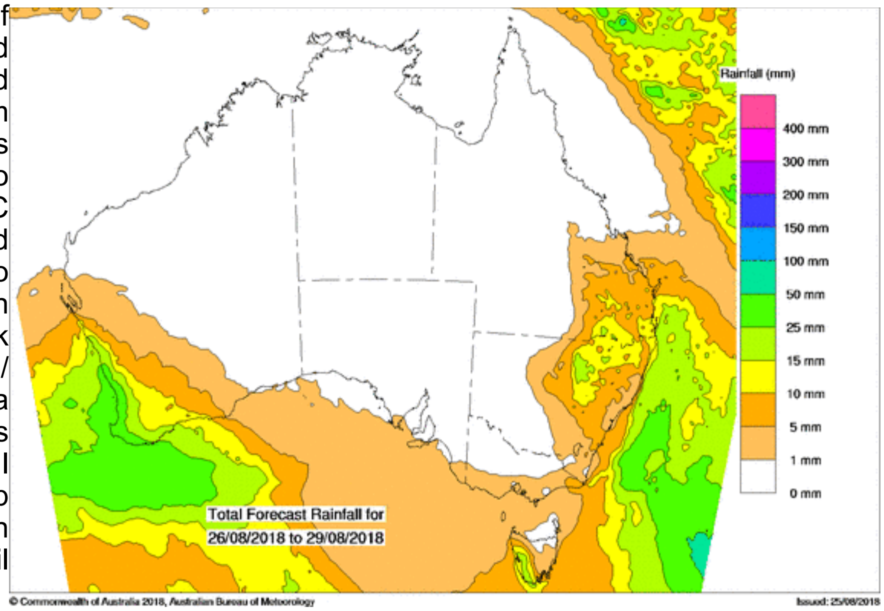
The standard US M 1 1/8 E/MOT (includes Texas, Memphis Territory & Southeastern) is now offered at 900-1100 points on Dec. The most aggressive offers are at large discounts to all growths and in our survey of offers the most expensive is Australian which is offered at 1550 on or about a 650 premium to EMOT. Most other offers fall in a range of 1150-1250 points on. Indian 2017/18 crop S-6 1 1/8 offers are at 1025 points while new crop is offered at 925 on. These aggressive offers are keeping US cotton moving to the large consuming markets outside China and Turkey.

US export sales remain slow with sales during the latest week for 2018/19 at 188,000 bales of upland and 7,500 bales of Pima. Vietnam, Malaysia, Pakistan, Indonesia and Peru were the main buyers. Export shipments also remain much slower than expected at 157,400 running bales of upland and 7,600 of Pima.



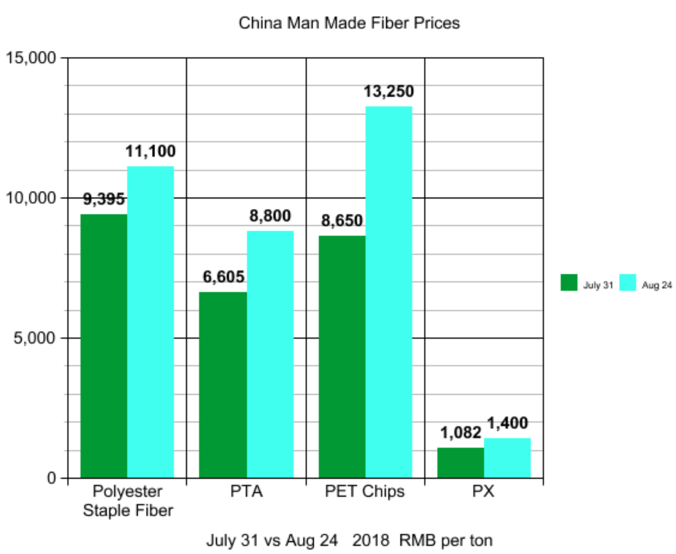
AUSTRALIA: ANOTHER GOOD CHANCE OF RAIN EMERGES

A new low pressure has brought another chance of rain to much of the Australian eastern cotton belt with best chances for rainfall over the weekend. Rainfall amounts are forecast to be in the 5 - 25 mm range. Any rain is welcome with the hope that one of the systems will bring the big wet, which normally ends the periods of severe drought. Export demand for Australia cotton has increased lately with renewed offtake from China during the recent futures weakness. A recent visit to Australia by the CNCRC suggests that Chinese demand will increase in the future due to the trade row. Local FOB cotton prices received support last week from a weakness in the Aussie/USD exchange rate following a change in the country's leadership with PM Turnbull being replaced. The 2019 crop basis remains very firm with grower selling at a standstill until it rains.



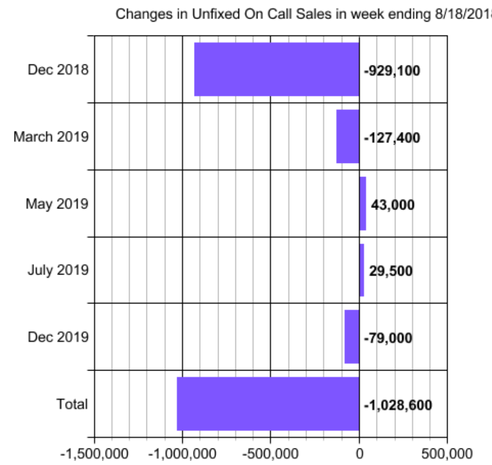
POLYESTER PRICES SURGE REACHING 75.24 CENTS A LB.

Since 2017 we have been discussing the end of the "Age of Cheap Polyester" and the trend is now accelerating as much of the planned new capacity in China is not coming online due to pollution cleanup regulation changing the dynamics. The expected new capacity in raw material PTA and polyester fiber has not come online; 2 MMT of new polyester fiber production capacity had been expected to come online in the second half of 2018 but only 100,000 tons has materialized. The price of PTA, the major raw material ingredient in polyester fiber, has increased by 30% since July 31st and PET chips have surged by a similar percentage. Polyester staple fiber prices have gained nearly 20% reaching 11,100 RMB a ton or 75.24 cents a lb. Gains have also occurred in polyester yarn prices. This surge in prices has help cotton consumption. The move to shut down old capacity and force all remaining plants into environmental cleanup and compliance continues. The compliance enforcement has become quite serious.



The Cotton/polyester ratio is continuing to improve which is helping to establish a price floor for cotton.

HEAVY MILL PRICE FIXATION IMPLIES CONFIDENCE IN PRICE LEVELS



During the week ending August 18th mills fixed 1,028,600 bales of On-Call purchases and appeared to return with fixations last week after prices returned to 81 - 82 cent range base the Dec 2018 ICE futures contract. The fixations were heavily concentrated in the Dec 2018 contract with unfixed On-Call sales falling 929,100 bales. Unfixed sales increased in May and July but fell 79,000 bales in Dec 2019. The fixations were noted for US, Australian, Brazilian and West African cotton.

DRY WEATHER RETURNS TO MUCH OF THE US COTTON BELT

A welcome period of dry warmer weather is now prevailing across the US cotton belt. The recent heavy rains in parts of the Mid-South caused boll rot and a few instances of flooding. In a small area of northeast Arkansas 11 - 12 inches of rain was recorded in a 24 hour period which caused flooded fields. With the 7 day forecast void of rain in most areas growers in Arkansas, Mississippi, Louisiana and Missouri are all beginning to apply defoliation. In the Southeastern belt boll rot and boll lock have been reported in Georgia following the recent wet period. West Texas experienced isolated pockets of storms and heavy rainfall with some farms reporting 2 - 4 inches while others only received sprinkles. An additional 101,276 bales were classed last week and the quality improved slightly with an average staple of 35.5 and an average mike of 4.8, 37.8% of the cotton classed was 5.0 or higher. A total of 292,919 running bales have been classed so far.

INDIAN MONSOON ACTIVE WITH CROP DAMAGE IN THE SOUTHERN BELT

After a prolonged absence the Indian monsoon delivered extremely heavy rains across central and southern India last week. Cotton and soybean acreage was damaged in Telangana as the rains destroyed fields. June through August rainfall in Telangana has reached 1035.6 mm compared to the normal 744.5 mm; the rains came in a very short period. Overall the monsoon has been erratic but the late rains have helped the crop. Prolonged periods of dry weather in Maharashtra before the rains returned have damaged yield prospects. The crop in the Northern Zone is nearing maturity.

India exported 1,079.420 MT, 4.959 million 480 lb. bales, of cotton from August 2017 - June 2018 which was impressive and exceeded last year. Bangladesh remained the largest market but shipments to Pakistan and Vietnam were up sharply while shipments to China totaled 113,856 tons. Cotton yarn exports in the same time period were impressive as well at 1,132,596 tons.

Increased sourcing interest is being reported from US brands and retailers during the past few weeks. We expect a sizeable increase in cotton use in 2018/19, however, the size of the crop remains an unknown.

PHOTOS OF IMPACT OF HEAVY RAINS IN ADILABAD, INDIA

ICE FUTURES REMAIN WEAK AS TRADE DISPUTES CONTINUE

All eyes were on a Washington meeting between China and the USA last week but the meeting ended without any tangible headway being announced. The hope remains that the issues will be solved quickly. There was also no improvement in the US/Turkey dispute. The cotton market wants stability and that is exactly what it is not getting and the speculative forces are losing interest. The absence of both Chinese and Turkish buyers is making US exporters very nervous and resulting in the cheapest CFR basis levels in years. With two of the largest buyers removed from the market the cheaper basis levels are not having the desired effect. ICE futures volume has dropped to extremely low levels and gone is the excitement of the Funds sector. The weekly COT report confirmed the continued erosion of the Managed Fund's long position. The US dollar strength and the rout in the emerging markets has triggered some aggressive selling in some commodities, sugar reached a 12 year low last week and coffee a 10 year low. The US equity market was the center of attention with the market surging on Friday to end the week at record highs with the USD losing some of its gains after a speech by Federal Reserve Chairman Powell. Even the late decline in the USD did not help cotton which experienced a wide range of 83.88 down to 81.68 in the Dec contract before closing just off the low. This poor performance appeared to mirror the prevailing attitude of the global Trade due to the two main issues of China and Turkey remaining unresolved.

In these conditions the surge in polyester and man-made fiber prices, as we discussed earlier, managed to draw very little attention. The sharp nearly 20% gains since July 31st has further provided a floor underneath cotton prices. With the FOB price in China at 75 cents cotton in the 80's on a CFR basis has real value. The Chinese Reserve would appear to be looking at some sort of restocking as the auctions wind down and it may or may not include US cotton. Any move not to include US would mean uncommitted supplies of Australian and Brazilian would be absorbed quickly. The Reserve is likely to focus restocking efforts on machine picked cotton that can store well. Against this backdrop we would look for ICE futures to again find new stability if the market moves lower from here.

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