



CHINA APPAREL MARKET
WILL OVERCOME USA FOR
FIRST TIME



CHINA COTTON & TEXTILE
PRICES HOLD GAINS



BRAZIL CFR BASIS
LEVELS FIRM



INDIAN CCI RAISE
PRICES/SPOT PRICES
INCREASE



JERNIGAN GLOBAL

— KNOWLEDGE IS THE NEW CAPITAL —

COLLAPSE OF NEW YORK CITY AT HEART OF US RETAIL APPAREL SALES WEAKNESS

Global Fashion Capital Shifting to Shanghai



上海时装周 SHANGHAI FASHION WEEK

The Wuhan Virus pandemic has caused significant destruction to several of the US's largest metropolitan areas, which have also experienced an outbreak of rioting and looting by anarchist mobs. The issues associated with a lack of law and order has revealed the fact that most of these key US metro areas are among the worst managed in the world. The illustration of strong states' rights has revealed that the role of local elected officials is much more important than previously thought. Many of the largest metropolitan areas in the US are managed by

unqualified local politicians that have proven to be socialist and unable to manage the crisis of 2020. This has led to a sharp contraction in the economies of these metro areas and has also triggered a crisis at the state level, both being forced to seek aid as their tax base collapsed. Unfortunately, none of these officials have been

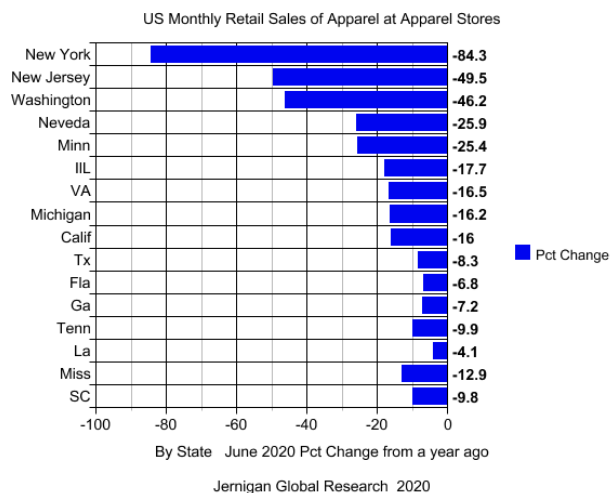
removed from office and replaced with more qualified officials, so the problem continues to worsen. These areas make up a large portion of the US's GDP and are having a major impact on US apparel sales and the collapse of some retailers.

The economic calamity of these areas, along with the changes in lifestyle since the pandemic, have left US retail sales of apparel down 32.6% for the year through September. In September, US total retail sales increased 5.4% from a year ago to 531.172 billion USD, which was actually a stronger growth rate than China's retail sales in September, which grew by 3.3%. Apparel sales, however, again fell 12.5% from a year ago to only 17.130 billion USD. Retail sales of apparel in the January through September period declined to 125.556 billion USD, a 32.6% decline. The September data showed that while apparel sales fell, sales of home and building material soared 19.1%, sporting goods grew 14.4%, and health and personal care increased 5.3%. Thus, a change in focus is clear. A closer look at the Census Bureau data reveals the heart of the dismal apparel sales numbers are the result of a dramatic decline in sales in the poorly managed metropolitan areas, led by a near total collapse in the largest metro area in the US, the New York City statistical area.



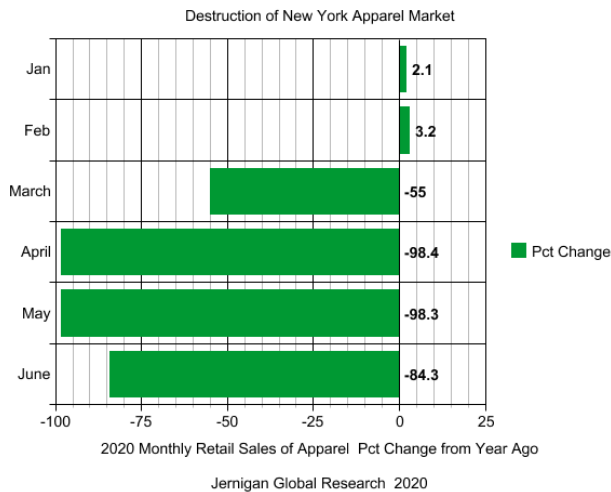
We have discussed in previous issues the profoundly inept management of this region by the NYC mayor, which is destroying the economic base of the region by the day. The New York state governor of the same political party has added to the problems as he blames the lack of federal aid to bail out the mismanagement. The NYC/New Jersey/Connecticut metro region had a GDP of 1.7 trillion USD in 2019, representing 8.27% of the total US GDP. The Census Bureau's US sales data by state lags the general data, with June the most recent sales reporting month. In June, total US apparel

sales fell 25.4% due to a nearly total collapse in apparel sales in the state of New York. New York state's retail sales of apparel in June fell 84.3% from a year ago, and New Jersey sales fell 49.5%. This near total collapse was enough to drag US apparel sales down sharply. The data for the March through June period shows just how hard the retail apparel sector in NYC has been impacted by the end of tourist trade, surge in crime and homeless populations, shrinking of office workers foot traffic, and irresponsible decisions of the local city government concerning forced closures. Sales of apparel in New York fell 55% in March, 98.4% in April, 98.3% in May, and 84.3% in June. It is easy to understand the massive losses that have occurred for retailers. New Jersey monthly sales data follows closely that of New York.

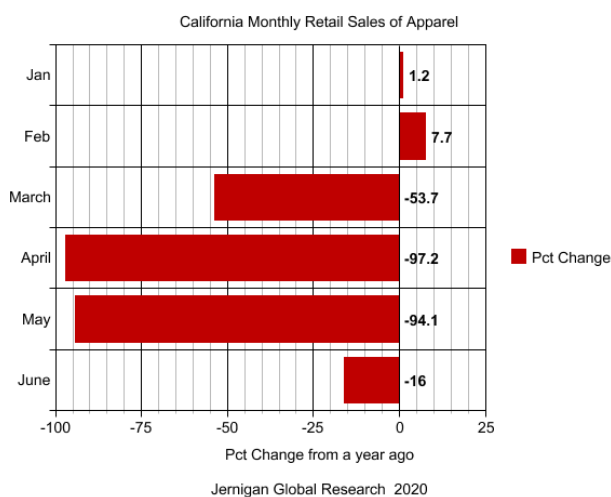


This sales weakness was joined by a decline of apparel sales in Washington state, where riots and looting continue in Seattle, another city mismanaged similar to NYC, resulting sales in June falling 46.2%. Minnesota, a state with riot-torn areas in its largest city, saw apparel sales fall 25.4%, while in California, with a GDP of 3.1 trillion USD in 2019, saw apparel sales fall 16%. California represents more than 15% of the US GDP. In Illinois, home to violence-ravaged Chicago, sales fell 17.7%. These sharp declines were in contrast to the much better run states which experienced only small sales declines. Texas sales declined 8.3%, Florida sales fell 6.8%, and Georgia sales were down 7.2%.

The situation in New York is fast being joined by new economic troubles in an even more important economic region, the state of California. The headline of the British newspaper the Telegraph last week read, "far-left extremism has turned California into a dystopian basket case," and Bloomberg had a feature entitled, "California Boom Collapses." California has



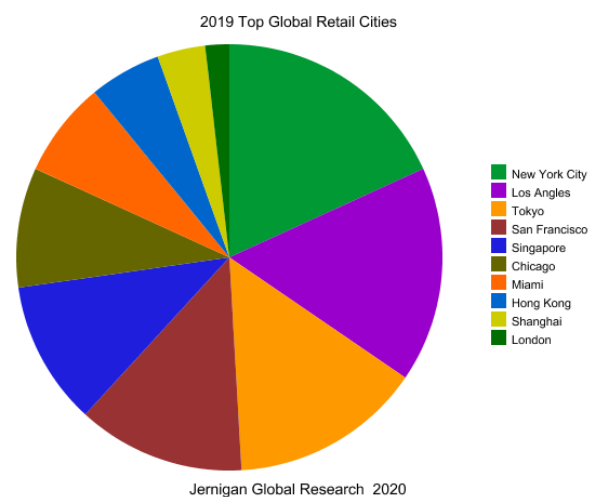
been booming thanks to the massive tax revenues from the tech sector that funded an extravagant spending spree by the state government. However, that has come to an end. First came the Wuhan Virus, then the riots and unrest, and now the wildfires. Bloomberg estimates the spending on the wildfires in 2020 will reach 1.1 billion USD, a problem that could have been avoided with proper forest management and clearing. It was revealed the state spent less on prevention than in previous years. The Federal Reserve estimated that 69% of the state's economic output is at risk. Industry is exiting as rolling blackouts indicate a Third World power structure. The fires have burned across the beautiful Napa Valley, greatly damaging the very important wine industry. Taxes are extremely high, with some individuals in the state facing combined taxes over 60% of their income. At the same time, homeless populations are exploding in San Francisco, Los Angeles, and other areas, as well as all forms of crime.



A mass exodus of people that pay the tax burden is underway from city urban centers out to the suburbs

and then out of state. A survey of Nashville, Tennessee suburbs revealed that 9 out of 10 home sales were to California buyers, with many only seeing the home via video tour. California's troubles are US troubles given the size of their economy. The lack of political will to change remains a serious problem. To put the importance of California in perspective, its GDP is similar to that of the United Kingdom. The UK has been the first or second most important apparel market in Europe.

In 2019, in a ranking of the hottest retail cities in the world, eight US cities ranked in the Top 20, and the top ranked city in the world was New York City. The fall from the top has significant ramifications for the world's fashion capital. The fall is rapid as retailers close shops. A new study released last week indicated that 35% of all commercial retail space on Madison Ave is now empty and rent in the top shopping districts declined 52%. This is so sad and dramatic for a street that has been home to some of the top global brands' flagship stores. The second hottest city in the ranking was Los Angeles, which is now experiencing a major slowdown. The fourth hottest city was San Francisco. Once a beautiful city on a hill, it has been overcome with homeless issues and law and order issues. A stay at a downtown San Francisco five-star hotel comes with a warning: do not walk outside the hotel. This is ironic as it lies near Silicon Valley, the scene of the greatest wealth in the world. Chicago was ranked 6th in the survey with its miracle mile shopping. Now, rioting and looting mobs and a crime wave have the city under assault. Miami was ranked 7th and is the only US city in the top ten that has escaped most of the chaos with its excellent city management and the leadership of the state. Florida retail has suffered only minor losses from the virus and little from unrest. It will move up dramatically in future ranking and could emerge as a fashion center for the US.



Outside the US, the highest ranked city in the 2019 survey was Tokyo with its 9.3 million people. Singapore was ranked 5th and Hong Kong ranked 8th. Hong Kong has seen a collapse in tourist trade that has combined with the loss of confidence caused by China's violation of the handover agreement, which has seen retail sales of apparel fall 41% in the January-August period. This, plus the implementation of the China National Security Law, suggests that Hong Kong may drop from the top ten retail cities in the next listing.



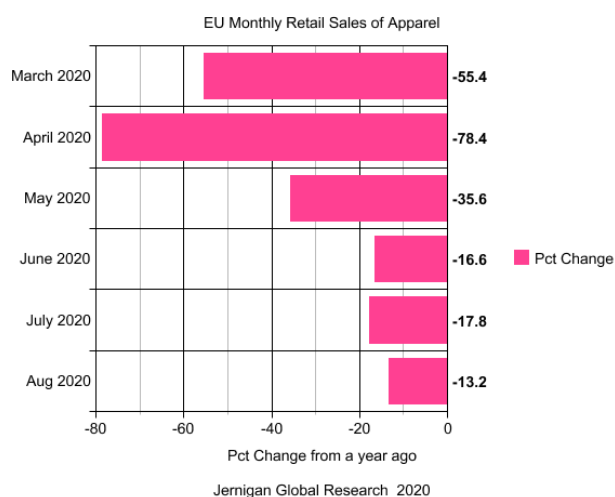
Shanghai Louis Vuitton, Shanghai Plaza 66

London was ranked the tenth top city in its survey, and the United Kingdom was the top market for apparel consumption in Europe in 2019. The great city of London, as the UK has been hit by a massive economic loss from the virus, is now being impacted from the second wave. The only Chinese city in the top ten was Shanghai, which was ranked 9th. Shanghai has 22.7 million people, the largest population in the top

20 cities. Shanghai is the best managed city in China and has escaped the virus with very minor economic damage. It is a city to be respected in its management and promotion of retail. It has led the world in managing the economic impact of the virus on retail, as the bustling streets of the city and the opening of new stores shows. It has also led China in retail sales of apparel and consumer products. January-May retail sales of consumer products in Shanghai reached 78.53 billion USD, outpacing all other cities, including Beijing, Guangzhou, and Shenzhen.

The vibrant level of the retail sales environment for apparel is illustrated by the performance of the largest Louis Vuitton showcase store in Shanghai. It is located in Shanghai Plaza 66. The store is reported in the local press to have had the largest single-store sales record in China in the month of August. August sales are thought to have reached 22 million USD, which followed a very successful Spring 21 Men's show launch. While the European and NYC fashion shows were limited to virtual shows, Shanghai has just completed a full October 8-18 Shanghai Fashion Week with 90 live shows, the only such event in the world. The event is being called the global fashion event of 2020. Harrods of London used it to roll out its new Harrods Residence, a private shopper store opening in Shanghai. Harrods Residence is opening in several Chinese cities.

In an indication of the rising sophistication of the upper middle-class Chinese shopper, the Shanghai Fashion Week in 2020 had a focus on sustainability, including a material trade show focused on sustainable raw materials. The definition of what this means remains in question, as man-made fibers were included. One show during the event, One Time Show, drew over 15,000 people and held a two-day forum on sustainable fashion. At the same time, an earlier event showed the pivot of export firms to the domestic market. The



China International Fashion Fair was held September 23rd–25th and also was a live trade show. Normally, it focuses on drawing international buyers, but this year it focused on the domestic market and drew 43,986 visitors to the three-day event. That was only down slightly over 10,000 from 2019, indicating the robust nature of the growing domestic sales.

The damage being done to the US apparel market is of lasting proportions and has global consequences. New York City will soon lose its title as the Fashion Capital of the World and is not likely to regain it without revolutionary change. Paris has been the main competitor to NYC in recent year, but it is not clear the title will shift so simply back to Paris as its problems with the fallout of the Wuhan Virus continue. The center of the fashion universe is quickly moving to the Chinese consumer. While the US, European, Indian, Brazilian, and many other important economies will shrink in 2020, the Chinese economy is growing again. For years, the consultants and talking heads have been promoting that the Chinese economy was larger than the US and also its apparel market. That was not true. However, the Wuhan Virus, which was simply unthinkable a year ago, has produced the conditions that the day is fast approaching in which the Chinese apparel market will be larger than the US. In September, US apparel sales totaled 17.130 billion USD, a decline of 12.5%, and China's apparel sales expanded 8.3% to 16.79 billion USD. October sales, which include the October National Day holiday, may see apparel sales in China exceed those of the US. January-September Chinese apparel sales have reached 120.07 billion USD compared to 125.55 billion USD in US, which suggests for the year that Chinese sales will surpass the US for the first time in official statistics. While the SSB data has some errors in over counting, the true data will be close enough that there is little debate.

The greater European Union area has an apparel market that rivals the US, with retail sales near 247 billion USD in 2019 compared to US's 266.78 billion USD. It, however, has suffered much of the same fate as the US and is now being hit with a second wave of the virus that is exceeding the number of cases of the first wave. All the major metro centers are being hit, with France declaring a national emergency. The European Central Bank forecast 4Q growth to show negative growth due to the second wave. In Italy, more pain is occurring, with September sales of fashion products down 35.3% from a year ago. New lockdowns are underway in many areas, including the Lombardy region. A review of the EU monthly apparel retail sales reveals the region has suffered sizeable losses but not

quite as bad as the US where the unrest in the major cities has added to the pain. March apparel sales fell 55.4% from a year ago, followed by a 78.4% plunge in April. Sales recovered in May with a decline of 35.6%, followed by a 16.6% decline in June. July sales fell 17.8% and August only 13.2%.

The second wave of infections and closures appears to have already begun to trigger a new wave of store closures. The GAP was reported to be considering closing its network of stores in Europe. The combination of the second wave of infections across Europe, the continued weakness in the major US metro areas, and the sharp contraction of the California economy mean that China's domestic market rise will have even greater impact, as brands and retailer look to any market for growth in sales. Improvements in the sales in South Korea, Japan, and the rest of Asia will also aid in the pivot to Asia.

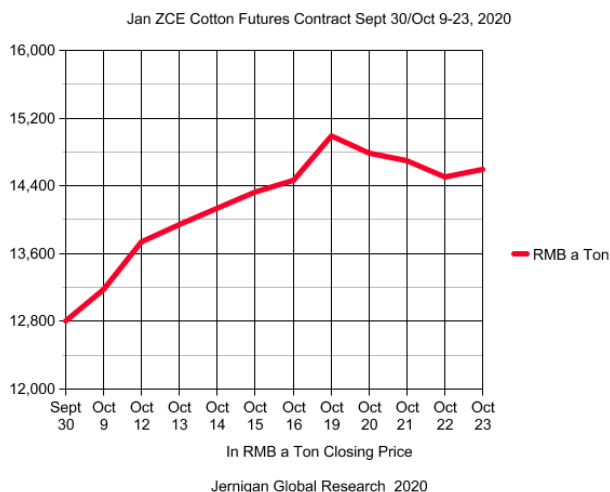


New rankings of the Hottest Retail Cities will see Shanghai move up and could reach the top 5 or even achieve the top ranking. In the 2019 survey, Shanghai had already overtaken Paris, which was 13th. Beijing was ranked 19th and will likely move up as well. This shift has major ramifications. Brands and retailers are more than ever viewing the Chinese market as the path for growth and the route for survival. As the domestic market grows, the domestic textile and apparel industry will become more and more focused on it and less concerned about exports. Thus, the influence of the US or brands and retailers on human rights issues and other concerns is reduced. The growth of the domestic market increases the raw material deficit. Record cotton and petrochemical exports to China from the US and elsewhere will occur, along with the agriculture demands that will increase China's influence with US groups. Another question is how natural fibers fare

against man-made fibers and a consumer base that has limited concern for environmental issues. The new focus on sustainability in the Shanghai shows suggests that the domestic brands see it as a coming influence.

Wool has performed well and has been shown to have a high consumer preference despite the price premiums.

CHINA'S DOMESTIC COTTON PRICES FIND RESISTANCE AT 15,000 RMB/TON



The euphoria of the previous week faded across the Chinese fiber and textile markets last week as prices found price resistance after the record gains we discussed last week. The retreat began Tuesday following Monday's surge in the ZCE Jan cotton futures contract to a new high of 15,305 RMB a ton or 102.85 cents a lb. This was an intraday high, with the contract retreating to close at 14,985 RMB a ton or 100.70 cents a lb. The China Cash Cotton Index on Monday hit a high for the season at 14,983 RMB a ton or 99.80 cents a lb. The ZCE cotton yarn contract surged on Monday to 22,765 RMB a ton and closed with 690 RMB a ton gain at 22,260 RMB. Monday's high was a high for the week. The polyester fiber futures surged on Monday to a high of 6,595 RMB, or 44.32 cents a lb. in the May 2021 contract. Further gains occurred on Tuesday before prices began to correct. The new polyester contract on the ZCE is a major success, with daily volume already exceeding that of cotton and with volume Monday hitting 1.412 million contracts vs. cotton's volume of 1.261 million contracts. PTA, a key feedstock, saw its rally run out of steam after a new high on Monday. The ZCE Jan cotton futures contract found resistance from aggressive hedging by Xinjiang ginnerers who have purchased record volumes of seed cotton at high prices and had been waiting to hedge when the ZCE price level provide a profit, which it did on Monday.

The equilibrium of ZCE prices then triggered downstream resistance by ginnerers to bid seed cotton prices higher. By Tuesday and Wednesday, ginnerers had lowered seed cotton prices, which actually increased the volume of grower selling. After having been involved in China since the Deng opening, it was exciting to see the Chinese cotton supply chain perform in a manner that would have been impossible previously. Seed cotton prices reacted to ZCE futures and active hedging. The ZCE exchange has been a major success, with a very qualified staff advanced in the development of the market. Its markets trade significant volumes without a hitch, and its markets also are much better managed than many of the US contracts, with speculative volumes controlled with oversight. For cotton, the market found support near 14,350 RMB a ton as futures, cash prices, and seed cotton prices all attempted to find their footing and a value point.

As is normal in China, the heavy hand of the state is not far away. The state Reserve announced it would begin purchases of Xinjiang 2020/2021 crop for its reserve rotation program. The daily auctions will begin December 1st and continue until March 31st, with daily purchase limits of 7,000 tons and with a target of 500,000 tons or 2.297 million bales. This will equal nearly 10% of the record Xinjiang crop. In order to limit any speculative influences and to keep the price paid tied to the market, a limit of 800 RMB a ton will be placed on the difference between the auction price and international prices. If the auction price exceeds the 800 RMB limit for three days, the auctions will be suspended until the difference comes back in line. At the time of the announcement, such differences were exceeding that limit due to the strong price level of domestic Chinese prices as compared to the international price level.

The move by the Reserve to launch the restocking with strict quality requirements may be a bullish influence for prices and add to the tightness in Xinjiang new crop high grade supplies. With the Xinjiang crop at a new record high as seed cotton yields in almost all

areas have exceeded last year, the timing would be good to restock. However, the quality of the 2020/2021 Xinjiang crop is down from last year as we discussed last week. The crop is shorter staple, higher mike, and lower strength. The Reserve, whether it's domestic or imports, has not in recent years purchased cotton below a basic Middling 1 3/32 grade. In the record 2011, 2012, and 2013 purchase programs, where it purchased almost every bale of the 2012 and 2013 crops, it purchased every grade and quality. This is believed to have resulted in large losses associated with the storage of the cotton. So, in accordance with the new policy, it announced that 2020 purchases must be 80% grade 3 and above color grade, a 28 mm or longer staple, must have grade B mike, and the CFQMC will inspect each bale. Each bale must be in a cotton bale covering. The issue this season is the sharp decline in staple length, which has reduced the volume of 28 and above staple length, especially with the machine picked. This suggest the Reserve purchases would tighten the supply of this cotton, which would support the China Cash Index and the ZCE contract. It would also increase the discount of the shorter staple cotton. Moreover, it may force the Reserve to adopt measures to protect fraudulent grading and purchases. This could cause the price limit to be triggered and also support import purchases. Quota limits may move this to yarn imports. The Reserve could later lower the quality limits to include a larger percentage shorter staple, but nevertheless, the Reserve action is supportive to both domestic and international prices.

Across Xinjiang, seed cotton retreated last week from the extremes reached. Most ginner had a seed cotton average price that allowed them to lock in processing margins, but the quality issue remained at the forefront. The issue is the most severe in north Xinjiang where all regions reported that in areas where Double 29 and

30 was reached last year almost none was achieved this season. In some areas, no Double 28 was achieved as well. In southern Xinjiang, quality appeared to improve, but there is continuing shortage of staple length above 28. Seed cotton yields are excellent with many areas reporting 50-100 kilogram increases in seed cotton yield per Mu. This translates to yields increasing from a half a bale to a bale or more per hectare on a lint basis. For growers, the shorter staple is having no impact on income. Thus, cotton income is up sharply, a 500 RMB increase per MU, with some discussion much higher, meaning over a 1,000 USD a hectare increases in income. It will be interesting to see if the target price and cotton support program will attempt to begin to link quality, which is very difficult in a seed cotton-based procurement program. In India, this is being done with seed cotton moisture as the premium/discount, but this will not work in Xinjiang.

China's domestic cotton prices appear to have found stability near 14,500 RMB a ton or 97.44 cents a lb. This is in line with the seed cotton prices after they retreated from the highs. This remains at a premium to international values and compares to a landed the port price of 87.78 for a Brazil Middling 1 1/8 before any cost of quota. Mills with TRQ have incentive to import cotton. This also continues to provide the incentive for use of imported yarns. If a mill has to purchase quota the incentive drops to 2-3 cent advantage plus the quality advantage. Bonded warehouse sales have remained popular due to the price advantage. The Jan ZCE contract ended the week at 14,595 RMB a ton or 98.08 cents, reflecting a small gain of less than 1% for the week. This is very close to the China Cash Cotton Index of 14,643 RMB or 98.39 cents. Yarn prices and man-made fiber prices all retreated slightly after early gains during the week. Overall, the price panic ended, and prices stabilized.

INDIAN SHANKAR-6 EXGIN PRICE HITS 70 CENTS FOR FIRST TIME IN 2020/2021

Indian domestic prices were firmer last week, as excessive rains hampered seed cotton movement and disrupted the ability of the CCI to buy cotton at the MSP. The CCI raised its floor prices by 1400 Rupees per candy, with the sales for the week reaching 565,000 bales. Daily arrivals have now exceeded 100,000 bales a day, including old and new crop. The CCI has continued to buy seed cotton at the MSP in the Northern Zone, with purchases as of October 20th reported at 230,000 bales. Elsewhere, the CCI has been slow to start purchases due to an issue of the extreme level of seed cotton moisture. Seed cotton moisture as high as 18% has been reported due to farmers not having the physical facilities to dry the cotton, and the continued rains have halted the drying of cotton on roads and open areas. The rains have been heavy in the Vidarbha and Marathwada of Maharashtra and across Telangana. Expectations regarding yield and quality losses are being noted, with some areas having



received record rainfall for October. Rainfall in Telangana this season has been excessive, +34% in June, +9% in July, +78% in August, +94% in September, and +97% in October. Seed moisture levels have been excessive, which has caused growers who need cash to sell the high moisture seed cotton at

heavy discounts to the MSP.

In Telangana, the state government has added new incentives for growers to dry the seed cotton. The CCI dominates the cotton purchases in the state, with 300 gin buying yards and nine market yards. The state has announced that the MSP will be paid only for 8% moisture, with premiums for 6% and 7% moisture levels. Purchases will be made to a maximum of 12%, with discounts for each 1% of moisture above 8%. The seed cotton being sold with the extreme moisture is carrying heavy discounts, with seed cotton prices at 4,600 to 1,300 Rupees per quintal, which is far below

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WHY COTTON?
Comes from Nature, Returns to Nature

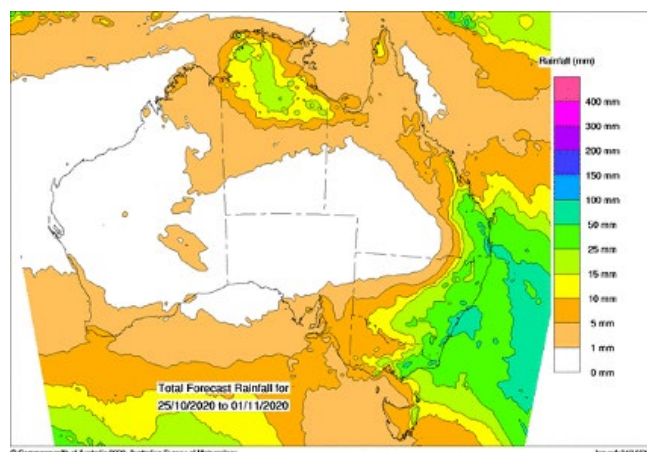
the MSP. Growers are also selling old crop seed cotton that has been in cold storage. Water is standing in the fields, and bolls are colored from the rain. In Maharashtra, the CCI has not yet started buying and reports a shortage of labor for picking. Seed cotton moisture on the early arrivals has been 18%-22%, which means very poor-quality lint and large discounts to the MSP are being paid by private ginners.

Spot prices of Shankar-6 1 1/8 ex-gin hit a seasonal high of 70 cents a lb. in Gujarat. The rise in the local

prices and the increased floor prices from the CCI raised the majority Indian exporters CFR Asia export basis levels. New crop privately ginned S-6 1 1/8 CFR basis levels firmed 50-100 points to 150 points on Dec, CCI 2019/2020 RG Middling 1 5/32 CFR basis levels improved about 25 points to 225-250 points on Dec, and CCI Middling 29.5-30 mm has firmed 50 points to 300-325 points on Dec. Indian cotton exports in August were brisk at 57,755 tons, with Bangladesh and China the top markets. Cotton yarn exports reached 91,662 tons with the same two major buyers.

HEAVY RAIN-PRODUCING SYSTEM MOVES INTO AUSTRALIAN COTTON BELT

A heavy rain-producing system has moved into eastern New South Wales and eastern Queensland, with notable pockets of sizeable rain noted as of Friday and with additional heavier rains expected to continue to the end of the month. As of Friday, 11-41 mm had been reported across the northern NSW cotton districts. Moree reported 21 mm, and the Riverina received from 2 mm up to 28 mm. SE Queensland received 59 mm at Biloela, the Darling Downs reported 21-28 mm, and St George reported 11 mm. Planting is underway, and the earliest planted areas are developing well. Total planted acreage will reach up to 250,000 hectares of irrigated acreage. The FOB basis was steady last week, with the 2021 crop ending the week at 475 on May 2021, 455 on for the 2022 crop, and 475 on May for the 2023 crop. CFR basis levels were steady with no major changes.



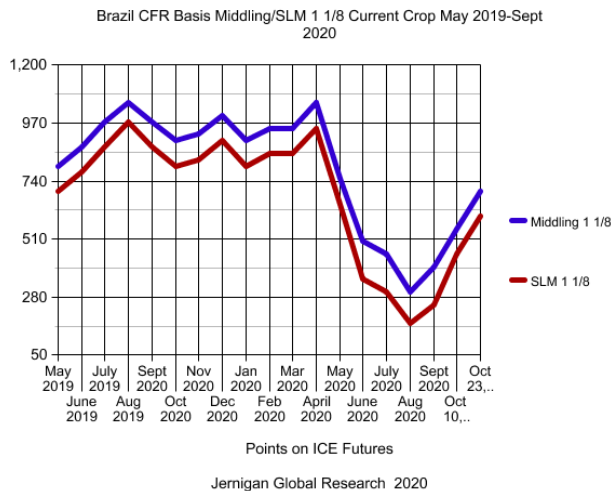
US HARVEST ADVANCES; FOB BASIS FIRMS

The US classed 754,215 running bales last week, with 2,365,741 running bales classed for the season. Despite the arrival of several hurricanes and major rain events, the quality of nearly 15% of the crop has proved better than expected. Over half of all the cotton classed from the Mid-South reached Middling or better color grades, while a slightly more mixed is occurring in the Southeast belt. Georgia is seeing 41, 42, and 52 color grades. In Texas, the non-West Texas region has produced a crop reaching 50% of more Middling and above. In West Texas, the early cotton is dominated by 11 and 21 color grades. Staple in West Texas is better than many seasons at 35-36.

US grower selling increased last week but not to the extent expected, which resulted in the FOB basis firming despite the futures gains. The Southeast basis firmed 25 points to 275 points off, while the Mid-South basis firmed 25 points as well at 375 points off. The East Texas basis was steady at 575 points off, and the West Texas basis firmed 75 points to 575 points off.

The weather was clear across much of the belt, with harvest advancing. Rains are in the forecast, with major rains in many areas expected by Tuesday or Wednesday. The West Texas region will experience a cold front over the weekend with some snow possible.

BRAZIL CFR BASIS FIRMS AS EXPORT SALES EXPAND



The CFR basis for Brazilian 2020 crop continued to appreciate last week as the growth narrowed its discount to US offers following very robust offtake. The average CFR export basis for Asia has appreciated sharply off the August lows when CFR basis levels collapsed to record lows as ICE futures disconnected from global markets. In August, the average CFR basis for a Brazilian Middling 1 1/8 had reached 300 points on Dec. At these levels, the Brazilian offer was at a 700-800-point discount to the US Middling E/MOT 1 1/8 offer, which triggered sizeable sales into all the major non-Chinese markets. Since that time, Brazilian styles have dominated every major market as it remained the most competitive machine picked high grade supplier. As of October 23rd, CFR basis levels have experienced significant appreciation, with some merchants raising offerings above our estimate of average basis levels. The average CFR basis for a Middling 1 1/8 is now near 700 points on Dec, up 133% from the low but remains at a 325-point discount to the most competitive MOT US type offer. The once heavily discounted SLM 1 1/8 offers currently stand at 600 points off compared to

August when the basis reached 175 points on, with sales in Pakistan actually occurring at even cheaper basis levels. Some discounted offers can still be found at cheaper levels. This also only reflects a 150 discount to US E/MOT offers.

It remains to be seen if this sharp rise in CFR basis levels can hold and business will follow. A small uptick in domestic cotton yarn production has stimulated a sharp rally in the ESALQ Index of a 41-4-35 landed Sao Paulo, rallying sharply last week reaching 70.06 US cents a lb. on October 22nd. This is up sharply from the October 15th level of 63.46 and a 30-day low of just over 55 cents. Domestic buyers have had to match FOB export values to secure stocks. The Real/USD exchange rate has been steady at 5.62 Per USD. The record prices paid for corn and soybeans and robust meat exports have been a major boost to the Brazilian economy, especially in rural areas.

Soybean planting is now advancing following the arrival of the wet season after a delay. The blocking ridge has shifted, and most of the belt is now receiving welcome rains. The rains are expected to extend into western Bahia by October 25th. Planting of the soybean crop has been delayed, and over a third of the crop is going in several weeks late, which could affect second crop planting for corn and cotton.

Merchants have generally withdrawn export offers of Argentine cotton following a depletion of recent merchant stocks. A large block remains unsold, and the reason for the withholding may have to do with a possible devaluation of the Argentine Peso, which has officially fallen to 78 per USD with the black-market rate at record levels of 140-150 per USD. Thus, exports may be on hold until the devaluation occurs.

PAKISTAN TEXTILE AND APPAREL EXPORTS BOOM AS IMPORTS EXPAND

Pakistan export orders remained strong in September, with textile and apparel exports increasing 11.35% to 1.189 billion USD. Double digit gains were all noted in apparel and made-ups, knitwear exports grew 24%, bed wear +13.4%, towels +29.85%, tents/canvas +58%, ready-made apparel +12.6%, and made-ups up 36.47%. Other textile and apparel exports, which include PPR, surged 88.82%. Cotton yarn and fabric exports remain

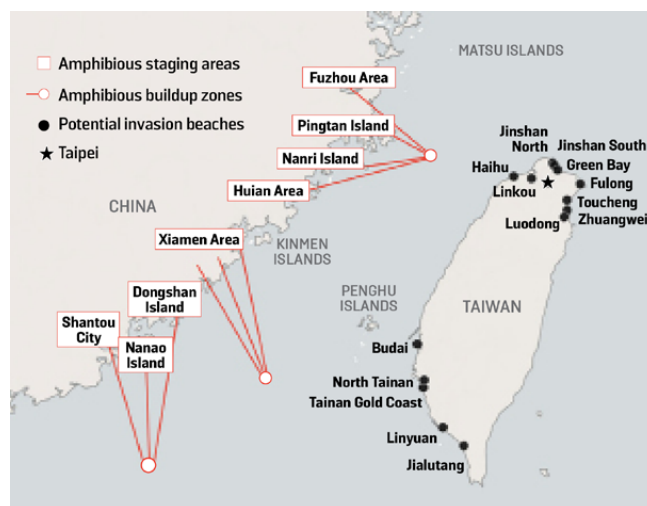
weak. It is not clear how the export report handles exports of cotton yarn to China under the free trade agreement. Cotton yarn exports to China were very brisk during the past week.

New crop prospects continue to shrink, with arrivals as of October 15th down sharply from last year at 2.688 million bales vs. 4.440 million bales last season on

the same date. Some private estimates have the crop falling to only five million 480-lb. bales. The USDA is at 5.8 million bales. Thus, the expanding import demand made Pakistan a major market last week. A sharp appreciation in Brazilian high-grade basis levels has turned some attention to other styles. US low grade

recaps are again quite popular following the withdrawal of most Argentine offers in the market. Mexican old crop stocks are being taken up again, along with East African. US Pima and Egyptian Giza demand remains good. African Franc Zone styles have also sold.

CHINA IMPORT DEMAND STRONG FOR COTTON & YARN BUT CONCERNS OVER TAIWAN INTENTIONS ARE INCREASING



China has been a major driver in pushing global cotton prices higher, as its surge in the domestic price structure triggered new import demand for cotton fiber and imported cotton yarn, as well as causing a destocking of the bonded warehouse stocks. This demand has made the importance of this market even greater in the months ahead. One fear that is not just increasing across the cotton exporters but also across agriculture exporters in general is what if there is a surprise with new aggression or invasion of Taiwan by CCP China? The Voice of America recently carried a warning from US National Security Advisor Robert O'Brien that the "White House officially warns that Taiwan should prepare for a possible Chinese invasion." This follows China blatant violation of the Hong Kong Handover Agreement that resulted in no action by the other signee, the United Kingdom. The Beijing calculation that the UK had too much vested economic interest at risk to do anything. It was weakened by the Wuhan Virus and was no match for the Chinese military. Beijing was correct with the Tory government barely uttering anything other than a few small reactions. The US action started bold and then stopped, as unrest hit the major US cities the very night it announced a major set of actions. These were only instituted mildly, and US investment banks continue to

operate in Hong Kong and raise record sums of money for Chinese companies and Hong Kong IPO market is set for a record despite the violation, confirming that the West is ruled by money not principal.

Then Xi himself has made speech after speech in which he called for preparation for a takeover of Taiwan. Some fear has been that this could occur if the US election resulted in chaos, which would open an opportunity for China to act, as the US is sidelined, such as occurred on Hong Kong as the unrest engulfed the US cities. Chinese PLA military aircraft have been flying repeatedly near Taiwan in the Taiwan Air Defense Identification Zone, which had previously been respected by China. Last Sunday, the 220th intrusion of the airspace occurred in 2020. This was followed by the move by the puppet government of Hong Kong recently to block a Taiwan aircraft from flying in the airspace and landing in the Taiwan Island of Prates Atoll, which is far flung in the South China Sea. China's media has also been aggressively been calling for an invasion and launching attacks.

The foreign policy experts cite the radicalization of Beijing's position on Taiwan under Xi Jinping. Taiwan reunification has been a key part of his Great

Rejuvenation program in which China recaptures many other Asian nations. They have already done this in Tibet, with the aggressive concentration camps in Xinjiang, with the militarization of the South China Sea, and with attacks on India. The Wuhan Virus has proven a mighty economic weapon, having triggered a record contraction in the US and Europe and allowing Chinese economic power to expand. The signs of aggression are at every level. Last week, a group of Chinese CCP diplomats in Fiji gate crashed a Taiwan National Day party and started filming all those in attendance and attacking a Taiwan diplomat, sending him to the hospital. Such thuggery has not occurred since Germany's actions just before WW II.

The fear is that these actions have started what may be phase 1 of the attack, that is an attempt to weaken Taiwan economically and psychologically with what is called a "grey zone" attack. The SCMP has reported that China has beefed up its coastal forces. Another researcher argues that any amphibious attack is unlikely due to the rough seas in the Taiwan strait until March. The US is on alert for any early moves such as the airspace action recently. The US just announced a 1.8 billion USD sales of 135 precision land attack missiles to protect the country. In the US Congress, several bills are moving forward that would force the US to defend Taiwan and end the ambiguity. Many of these are led by major Republican Senators. Thus, election results will determine their fate.

For the cotton market in particular, the result of a Taiwan invasion would not be easy to shake off. All trade between the US and many allies would be stopped for a long period. This would end the Chinese trade agreement, which is very important for the 2021/2022 season for US cotton exports. It would, of course, disrupt apparel sourcing. Therefore, the cotton industry must be alert to the increased risk.

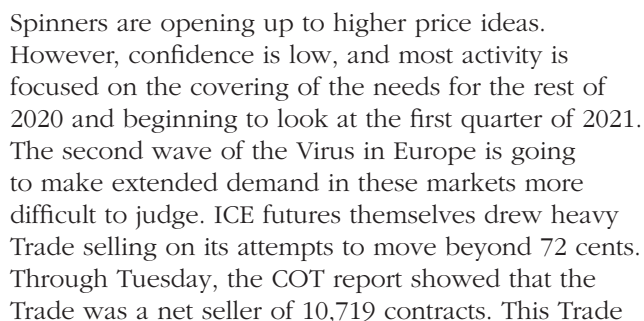


ICE FUTURES FIND RESISTANCE AT 72 CENTS

Dec ICE futures reached a new high last week of 72.13, but after two attempts to move higher the rally stalled. The driver were the Speculative Funds and Index Funds. Trade selling provided the resistance as did the lack of Trade buying on the strength from fresh mill offtake. China and Pakistan were both active buyers last week, which supported physical prices. The movement of basis levels and other physical prices was actually more thrilling than ICE trade last week. The CFR basis for Brazilian cotton has now recovered to the point that some buyer resistance is starting, and the discount to US type offers is now back within some historical norms. Argentine offers have been depleted, with new selling from origin appearing to wait a currency devaluation. The ability of the Cotton Corporation of India continues to impress, as the group made further sales last week, over 500,000 bales, and still raised floor prices by an impressive margin, as the

spot ex-gin yard price for a Shankar-6 11 1/8 + hit 70 cents. Pakistan prices moved yet higher as the size of the domestic crop shrinks.

The driver of the surging Chinese markets was halted, with all prices consolidating after the previous weeks record gains. Even the oldest natural fiber, wool, saw the Eastern Market Indicator move 7.74% higher last week in USD terms, reaching 863 cents a kilogram or 391.40 cents a lb. This follows improved Chinese demand. Unfortunately, the growth in the Chinese market and a few of the Asian markets is the driver. The second wave of the Wuhan Virus has hit Europe, and a double dip recession appears very likely. As we discussed in detail, the US faces major problems as a result of difficulties in the large Metro areas. This is impacting broader demand and will tame the bullish aspects of the Chinese improvement at some point.



We had expected resistance near 72.50 in the nearby ICE, and that is occurring. It was interesting to note that the US FOB basis was stronger in the main regions last week, even with the futures strength, which is unusual. Concerns over the size of the US crop and the size of the China sales are keeping any basis pressure from occurring in US styles. The rise in the Brazilian basis has made the US lower grades more competitive, which has aided business. At this point, support should occur on any sizeable setbacks, while the move on toward 75 cents in Dec ICE may be troublesome as spinners remain hesitant to chase the gains in futures and basis when forward books are thin.

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