



US METRO UNREST/POOR
MANAGEMENT REMAIN A
DRAG ON RETAIL



US FABRIC IMPORTS
SURGE FROM CHINA AMID
NO PROTECTION



CCI BUYING BEGINS AS
INDIAN HARVEST EXPANDS



21/22 ICE FUTURES DRAW
ATTENTION AS TRADE
DEAL SUCCESS EXPANDS



JERNIGAN GLOBAL

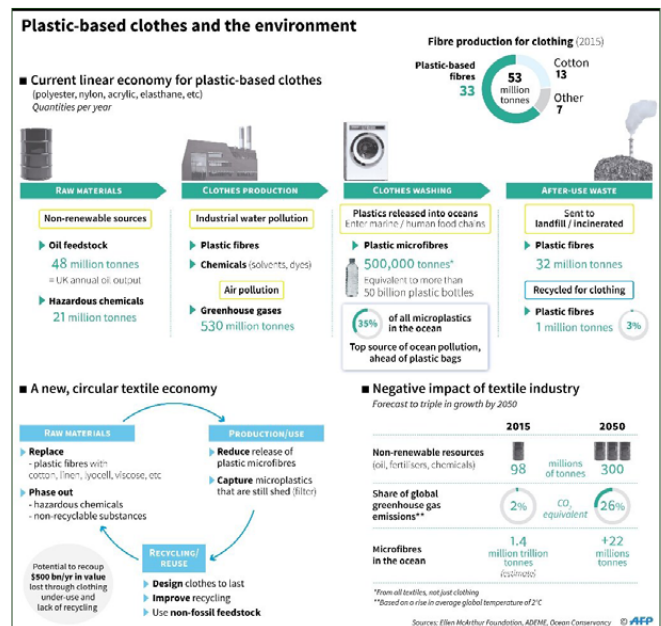
— KNOWLEDGE IS THE NEW CAPITAL —

WILL NATURAL FIBERS BENEFIT FROM THE SURGE IN PLASTIC POLLUTION FOLLOWING THE EPIDEMIC?

Environmental Cost of Polyester Exceeds the Current Wholesale Price



Polyester clothing warning poster



Plastic apparel and the environment

Global plastic pollution has reached epidemic levels since the outbreak of the Wuhan Virus, which is being created by a surge in the use of single use plastic. Adding to the crisis is the surge in use is occurring in virgin plastic, which has extended its discount to

recycled plastic to record levels. Virgin plastic is now selling at an 80-90% or more discount to recycled plastic. The same raw material used in the production of plastic is the raw material use for polyester fibers. First, this price differential has made recycling efforts

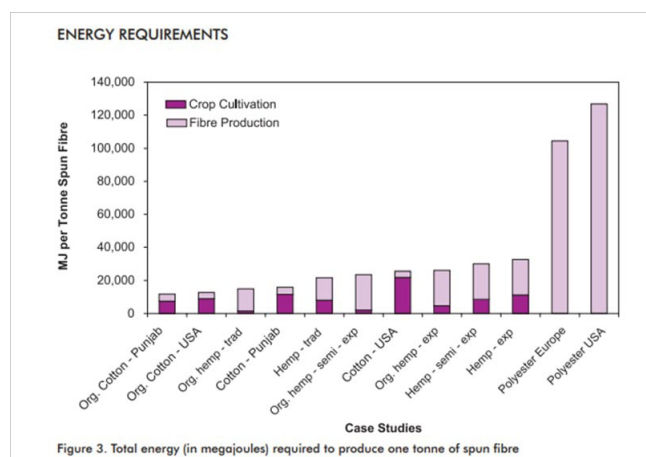
for plastic very difficult to justify, and the price to the consumer or brand is nearly double for the product. Second, there is the energy and environmental cost to recycle the plastic bottle and other products to begin with. The collapse in the discount of virgin plastic and polyester is coming as new raw material plants come online driven by the US. As we have discussed several times, the US petrochemical capacity is exploding due to record new investments with the construction of the largest petrochemical plant complex in the world now underway in Louisiana near the Gulf of Mexico. This capacity is the result of cheap natural gas being converted into the raw material for plastic and polyester. At the same time, China is expanding production and is increasing capacity in converting coal into polyester and plastic whose environmental impact breaks all records. In one case we have been simply shocked to learn that a Chinese State Company is attempting to build in the US one of the largest Methanol plants in the country and even use US subsidies. The plant has been called a “Carbon Bomb” and is owned by a state-owned Chinese Company that is owned by the China Academy of Science. The plant will release a million tons of greenhouse emissions if allowed to be built. An attempt to get Federal Grants has alerted the public, with groups attempting to halt its construction in Washington State.



Proposed port of Kalama methanol plant, owned by China Academy of Sciences

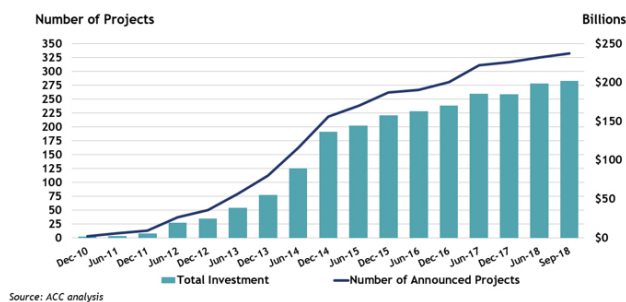
The expanding of the crisis, along with pollution and environmental impact, raises lots of questions as to how long will brands and retailers continue to allow such instruments as the Higg Index to call polyester the most sustainable fiber while at the same time attacking the natural alternatives. It is clear these falsehoods are due to alternative motives. The production of single use plastic PPE created billions in new sales for the plastic producers. So far, they have been able to move the product into the market without paying for any of the environmental costs that follows shifting that cost on to local governments that already face budgets at the breaking point.

The epidemic has slowed all efforts by governments to control the use of single use plastic. Moreover, despite all the discussion of the “Green New Deal” and global warming, there has been no serious discussion involving the environmental cost of the petrochemical plants themselves. It appears the prospect of a few well-paying jobs is causing cost to be ignored. A World Economic Forum study shows that manufacturing just four plastic bottles releases the equivalent greenhouse gas emissions of driving a gas fueled car for one mile. Before it gets to this stage, the pollution is shocking as the raw materials are manufactured. The “Cancer Alley” of Louisiana, nicknamed for its toxic air caused by the region’s concentration of petrochemical plants, is a shocking example. It has been called the most dangerous air in the US. Each new petrochemical plant increases the toxins in the air.



Stockholm Environmental Institute Study, Energy required to produce fiber

Cumulative Announced Chemical Industry Investments from Shale Gas

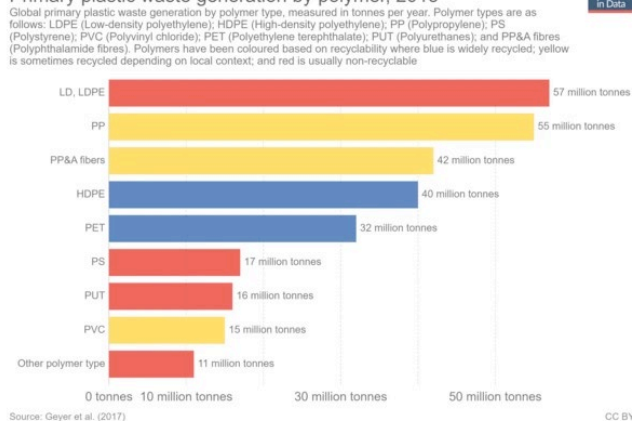


US petrochemical investments, 2010-2018

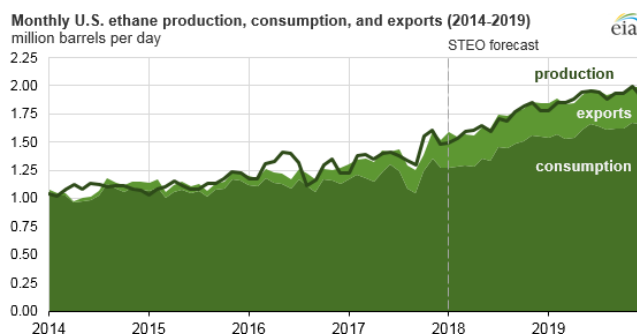
Carbon Tracker estimates that the oil industry will spend 400 billion USD over the next five years in new plants producing virgin plastic and polyester. As we have discussed, this is a global problem with India

rapidly expanding petrochemical plants and capacity despite its already harmful air quality and a crisis of plastic pollution. China has attracted 25 billion USD of new investment in 2020 alone from three major multinational oil and chemical groups. China has record capacity with more coming online monthly. China is expected to produce 100 billion plastic-based face masks in 2020, with each ending up in a landfill to never biodegrade or being burned and releasing harmful chemicals into the air. The expansion of petrochemical production into the arid climate of Xinjiang in China has given this remote region the most polluted air on earth. China's lack of environmental management and addiction to petrochemical production will cost the country trillions in the years to come.

Primary plastic waste generation by polymer, 2015



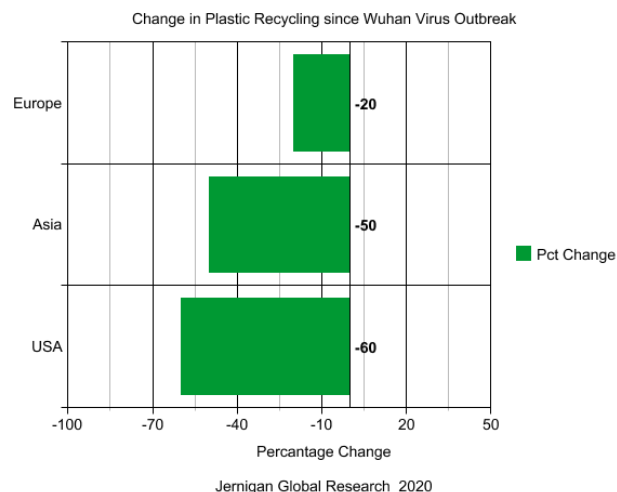
Plastic waste by polymer



US ethylene/polyester raw material production doubles in five years

Since the Wuhan Virus epidemic, the use of recycling in Europe is estimated to have declined by 20-30%, collapsed 50% in Asia, and over 60% in the USA. This all occurred after Earth Day in 2019 was marked with a major fashion brand releasing an Earth Day shirt made from 12 recycled polyester bottles. While we applaud the recycling of all materials, including plastic bottles, this is not the answer to the epidemic. The answer lies

in a halt to the opening of additional Petrochemical plants and a tax structure that applies to account for the true cost of these products and that addresses the environmental cost of the cleanup. It has been estimated that plastics have an environmental cost of 1,000 USD a ton. This is the cost of the Co2 emissions, air pollution, and collection and disposal cost. Such a tax would more than double the cost of plastic, which would level the playing field with natural fiber-based plastics. The wholesale price of the standard polyester fiber staple is now near 772 USD a ton, FOB China or 35 cents a lb. If the 1,000 a ton environmental tax is applied, then the cost moves to 80.37 cents a lb. Thus, the entire discussion changes with natural fibers then having a price advantage. It would also provide a much greater incentive to increase the research into plant-based plastics. It would also provide a stimulus for a switch from single use plastic. Currently a 24-36 bottle package of bottled water is sold at a major US retailer at around 4 USD. This is driven by dirt cheap plastic and accelerates the use of single use plastic.



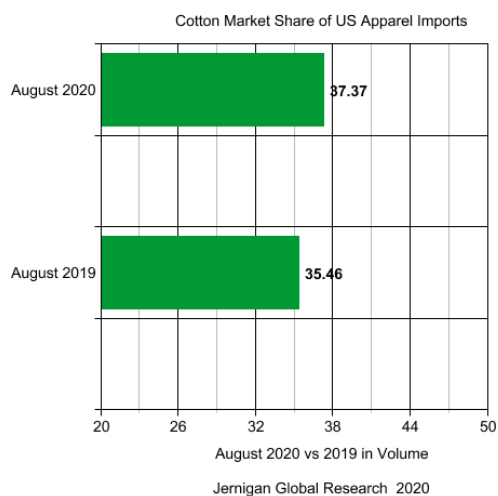
British Petroleum estimates that plastics account for 95% of all growth in crude oil consumption, and that 9% of all crude oil produced is now used in plastics. The move to electric cars has reduced gasoline demand, but these reductions are being offset by the drive to increase plastic production. Despite this, the same enthusiasm exhibited for electric cars has not yet found its way to those same consumers who are using plastic or wearing plastic-based apparel.

These events are leading to new uses of cotton and wool as technology advances occurs. In the wipes industry, interest in cotton is increasing as debate begins over the use of Viscose fiber which dominates the sector as a natural fiber but is made in a lab and has questions regarding its biodegradable timetable.

The development of a US based PPE industry has also started to raise the question of the environmental cost of single use plastic-based products. Momentum is building to establish taxes on these products to provide for the environmental cost of the cleanup that follows. The surge in PPE production has been a significant boost to polyester demand. In China, the wholesale

price of polyester fell from near 44 cents to a low of 35 cents where it found support. Demand has improved to the point that the market has been able to hold these lows despite the new capacity coming online. Prices enjoyed a brief rally to over 37 cents as PPE demand peaked, but prices have since returned to near 35 cents.

The increased PPE production in the US has stimulated a sharp increase in imports of man-made fiber products. August US textile imports grew by 14.1% to 4.395 million SME. Man-made fiber fabric imports into the US increased 25.5%. Natural fibers face many challenges in expanding market share in medical apparel because of the increase use of Chinese fabric in the US. In apparel, cotton's market share in August increased to 37.37%, which is up from 35.46% in volume terms from a year ago. This confirms the slow shift we see underway as the environmental disaster associated with man-made fiber becomes clearer. Each 1% market share cotton can gain globally means it will increase consumption by a million bales or more. Thus, consumption can increase even in a stagnated world market if market share is expanded.



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WHY COTTON?

Comes from Nature, Returns to Nature

NAGORNO-KARBAKH WAR IMPACTING AZERBAIJAN COTTON BELT

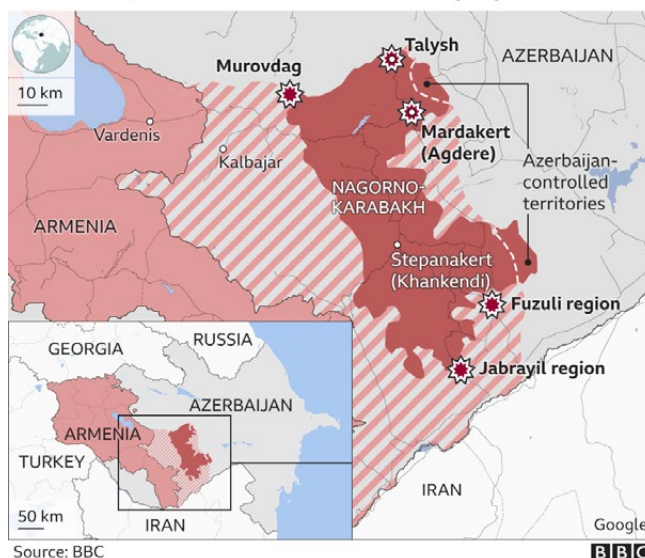


During the old Soviet Union days, Azerbaijan reached the status as a sizeable cotton producer with production reaching near 1.5 million bales in 1981. But by the time the Soviet Union broke up, production had declined to 813,000 bales. The industry has faced many challenges since the breakup of the Soviet Union, suffering poor irrigation management, a lack of local seed cotton development, and the Nagorno-Karabakh conflict. In 2010/2011, production collapsed to a record low of only 51,000 bales. A combination of private investment and new government subsidies revitalized the industry, resulting in 2019/2020 production reaching 480,000 bales. The cotton belt is focused in the central part of the country. The largest producing oblasts are located in the east extending along the Iran border and then through the central part of the country.

The cotton belt extends to the second largest city in the country, Ganja, which is home to over 300,000 people and is a cotton processing center as well as the country's wine production center. Ganja is also home to the Azerbaijan Scientific Institute of Cotton. The Azerbaijan cotton belt extends to the contested Nagorno-Karabakh region. Ganja is located just north of the region. The regional Nagorno-Karabakh conflict, between Armenia and Azerbaijan, began in 1988 when the region was part of the Soviet Union, and it broke into a full-scale war that ended in a 1994 ceasefire. When the ceasefire ended, the region and the area which extends to the Armenian border were administrated by Armenia but still claimed as part of Azerbaijan. Major border disputes have followed, with a 4-day war occurring in 2016. There have been

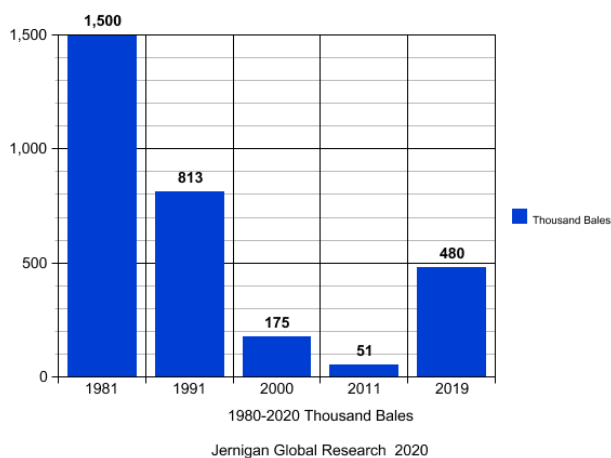
Conflict in Nagorno-Karabakh

Approximate areas of battles, 27-28 September 2020



several border clashes since then, but new more serious hostilities have broken out, including artillery shelling. Electricity has been knocked out in the Nagorno-Karabakh capital of Stepanakert and fighting intensified last weekend with Armenia bombing Ganja inside Azerbaijan. This has heated up the battle. Turkey backs Azerbaijan and called the bombing a violation of international law, while Russia backs Armenia. The attacks on Ganja could impact cotton production and ginning but is near the major gas and oil export pipelines.

Azerbaijan Cotton Production Highlights



Ganja is also important to a small textile and apparel industry. It is home to the Mingachevir Industrial Park

which was opened in 2015 and has nine factories producing cotton yarn, acrylic yarn, wool yarn, dyeing and finishing facilities, and cut/sew operations. Azerbaijan is also home to the largest chemical complex in the former USSR which is located on the Caspian Sea.

Azerbaijan cotton ginning and provision of finance to growers is dominated by a few companies. The largest owns about 50% of the gins. The sector has not been without Chinese investment despite the heavy Turkish influence. China's Xinjiang Yinlong International Agriculture Company, which is owned by the Xinjiang Production & Construction Corps, has opened a gin and seed breeding operation. Turkish cotton seeds have dominated recent acreage. The crop is about 50% machine picked and 50% handpicked. Yields have been improving from the lows of 2010/2011, and some varieties bred for Azerbaijan have been introduced. In 2019/2020, the average yield reached 3.462 bales per hectare.

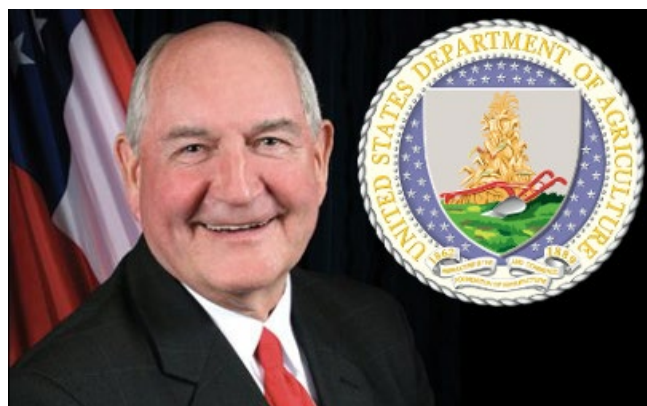
The current hope is that the long-fought battle over the Nagorno-Karabakh region can be controlled. If not, the impact will be felt on the small textile and apparel production and on cotton production, which is recovering. The conflict will also make new investment difficult and open the way for greater Chinese influence, as these companies appear willing to except the risk.

The unrest in the former Central Asian cotton belt is expanding. Last week, Kyrgyzstan, the small cotton producer closely aligned with China, experienced an overthrow of the ruling president and parliament following what is being called a rigged election. The opposition stormed parliament and seized the current president, demanding his resignation. Kyrgyzstan has never been a large cotton producer, with 2019/2020 production of 115,000 bales. It only grows cotton in the OSH crop district in Kara-SUU, with China their main trading partner. China built roads, the Detka-Kemin power plant, and transmission infrastructure, which provides much of the electricity. It also built the OSH hospital. The largest agriculture project is the Asia Star Agriculture Corporation Zone, which is huge at 5.67 square kilometers and is 100% Chinese owned. It offers a complete agricultural supply chain for fruits and vegetables and chickens. Regarding cotton, Chinese groups moved in and started providing seed and technical guidance, which began to improve yields by 2015. The country in recent years has seen major investment in organic cotton production led by European and Turkish groups. In 2019, 1,180 farmers planted 14,631 hectares of land to organic cotton, with production of 22,309 tons. It has agreed to allow Chinese railways to connect with Uzbekistan Rail to allow China a direct freight route to Germany via Uzbekistan.

NEW YORK TIMES SUGGESTS COTTON HAS FRIENDS IN WASHINGTON



In September, the US Customs and Border Protection Agency told Reuters it was about to announce a near total ban of US imports of cotton textile and apparel and tomato products from Xinjiang. It went on to say that the announcement would be officially made later in the week. However, that declaration



was never made, but eventually a very weakened version of limited actions was announced. The New York Times carried a report stating that the reason was due to an intervention by US Trade Representative Robert Lighthizer. What makes this stand out is that Lighthizer is one of the toughest trade negotiators in

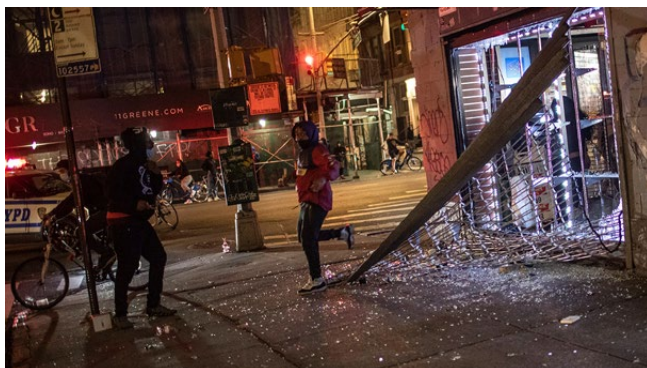
the administration and was the leader of the team that negotiated the landmark Trade Agreement with China. According to the New York Times, he, along with US Treasury Secretary Mnuchin, US Agriculture Sec Perdue, and Chief of Staff Mark Meadows, intervened to halt the Xinjiang ban. The reason was that such actions would anger China and risk the ongoing success of US cotton imports by China that have surged since the Trade Agreement was signed.

It appears that US cotton does have friends in Washington and that attention was paid to cotton when the Trade Agreement was negotiated. The spending allocation per commodity was not made public. China purchases of US cotton have reached near 2 billion USD since the agreement was signed, which exceeded the expected target for cotton and surpassed

all expectations. It was quite a surprise to hear that Lighthizer intervened. It seems that, as the negotiator that worked with China to achieve the agreement, he expects China to honor it. It is also worth noting that cotton exports were important enough to have the attention of the Trade Secretary as well as others in the administration.

Secretary Lighthizer is a very serious player and gives few interviews and made a name for himself in early trade disputes with Japan. His defense of the landmark trade deal he negotiated maybe should give us confidence it will be fulfilled. Last week, it was clear China had stepped up its energy purchases via crude oil imports, and rumors were in circulation of new soybean purchases following the already record sales.

US RETAIL EXPERIENCES A COLLAPSE IN BUSINESS CONFIDENCE IN MAJOR URBAN AREAS



Sobo, New York was called a war zone at height of unrest



Downtown Seattle riots

A review of the top metropolitan areas of the US reveals that the effect the Wuhan Virus and urban unrest, along with the mismanagement of both crises, has had on US retail sales of apparel. Seattle was back in the headlines again last week with new riots and more destruction of property the previous weekend. Rioters and looters launched explosives into a Starbucks coffee shop. Seattle had been experiencing significant economic growth driven by tourism, great environment, record investment, and employment by major US companies headquartered in the city. Seattle was the home of the original Starbucks and is the headquarters of Amazon. In 2019, it was ranked as the 11th highest ranking US metropolitan area, with 3.94 million people in its Metropolitan Statistical Area (MSA) and a GDP of 355.66 billion USD. Seattle's economy has been damaged by the handling of the virus, and

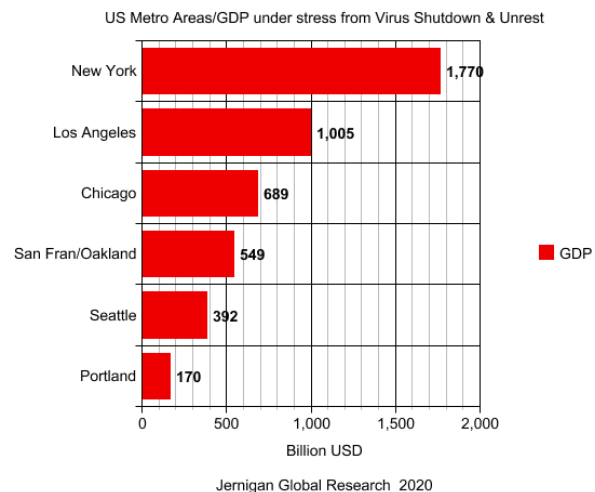
the management of the mayor and the city council has proven to be inept. The city has been severely impacted by riots, looting, a policy of non-persecution of shoplifters, a surge in homeless population, and an increase in drug dealing due to lack of prosecutions. These policies have destroyed the downtown region, which was vibrant a year ago. 126 major businesses located downtown are reported to have closed since March, including several well-known landmarks like the downtown Columbia Sportswear store. The conditions in Seattle have coincided with the collapse of Portland, Oregon, which is known as the sportswear capital of the US and is home to Columbia Sportswear and Nike.

The largest metro area in the US is New York City, and when New Jersey and more extended parts of the metro area are included its GDP climbs to 1.77

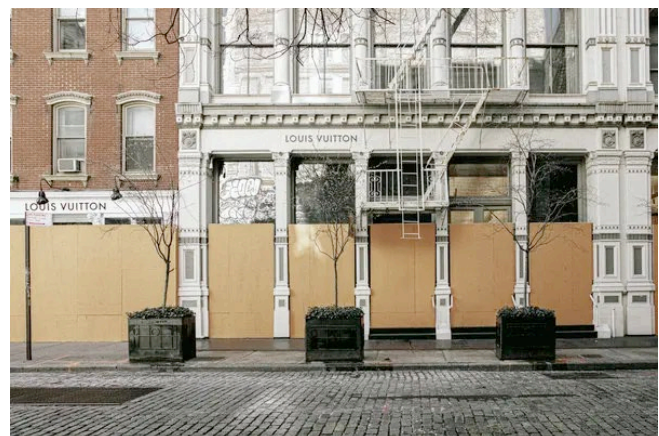
trillion USD, with 1 trillion attributed to New York City alone. We have discussed the problems New York City is having; the exit of people from Manhattan has caused a boom for the more rural areas of New Jersey and New York State where home prices have soared as NYC prices have fallen. A second virus wave has occurred, with the NYC mayor asking the state to actually approve a new shutdown for areas it is calling virus hotspots. If approved, these new shutdowns would finish the destruction of all retail and restaurant trade in these areas. The second largest MSA in the US is Los Angeles, where the virus remains an issue and with the governor issuing new restrictions, some of which seem to be an infringement on individual rights and unconstitutional. The Los Angeles MSA has a GDP of just over 1 trillion USD, while the entire state of California has a GDP of 3.2 trillion. The state's economy is now facing its greatest challenges on record, with the virus and now a second wave and the impact of forced shutdowns. Then came the unrest and increase in crime, the large-scale homeless problem, and now the mass destruction caused by record wildfires and the state's inability to provide basic electricity to homes and businesses. All of this is playing a key role in damping apparel sales.

These issues are joined by the exodus from downtown San Francisco, which has the fourth largest MSA in the US with a GDP of over 500 billion USD. The virus, unrest, crime, and homelessness have ignited a mass exodus out of the downtown areas. The destruction of nearby Napa Valley due to wildfires has added to the woes and concerns. The economic losses from the virus, unrest, and wildfires could cost the state more than one third its GDP. Such cost is making the tax burden on the remaining companies and citizens almost impossible to bear. The tech community that has provided much of the robust tax base for the state's budget is now moving, with Austin, Texas a new Tech hub, including locations in low tax states.

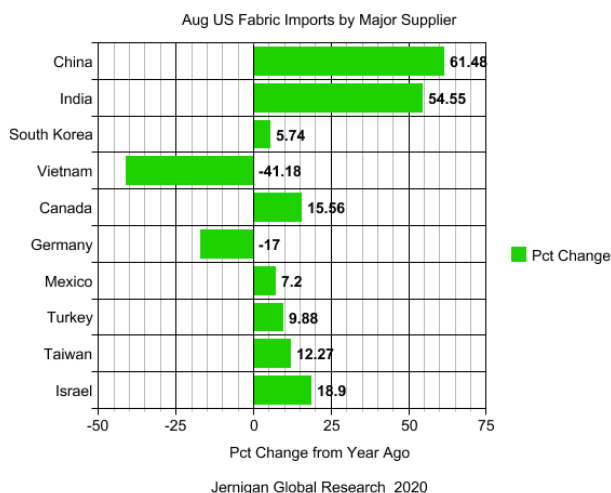
While an economic rebound is underway in many other areas, the economic losses in apparel sales from the situation in just three of the top five US MSAs will reduce total US sales by 15-20%. Just last week, the importance of these three markets was



recognized by one of the large theater chains. First, the expected global blockbuster movie, James Bond, was delayed until next spring due to the unopened theaters in California and New York. Second, the largest movie theater chain announced it was reclosing all US locations because of low attendance and lack of new movie releases. This illustrates how important these three markets alone are to US retail. Chicago is the third largest Metro area with a GDP of nearly 700 billion USD, and like the other three MSAs it is facing problems related to the unrest and lack of law and order. Recent weekend violence in Chicago is a national disgrace and rivals that of any global trouble spot.



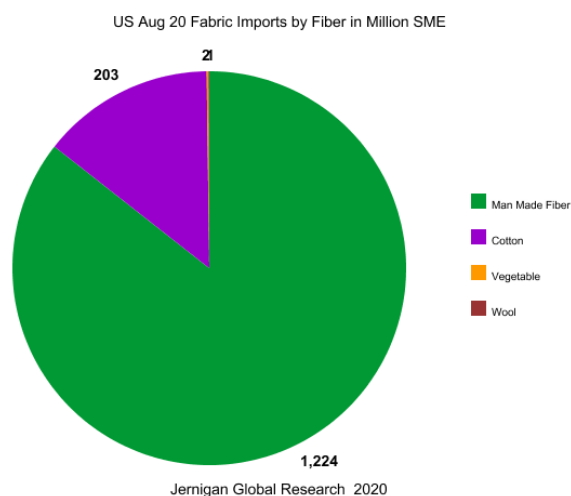
US FABRIC IMPORTS SURGE IN AUGUST AS APPAREL IMPORTS REMAIN WEAK



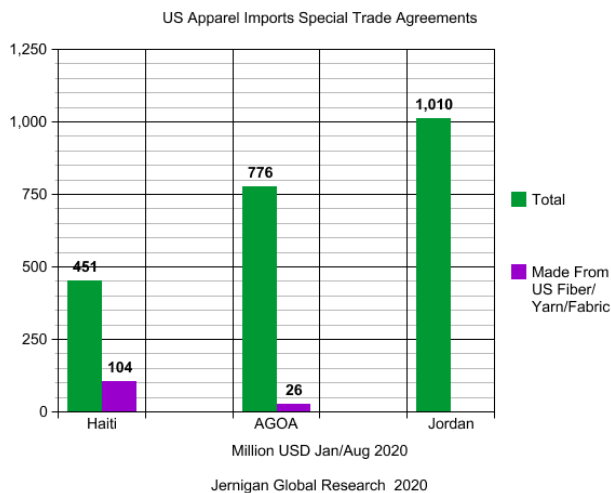
Nearly a third of all fabric imports in August came from China, reaching 543 million SME, which represents a 61.48% increase. India was the second largest supplier at 193 million SME, a 54.55% increase. The other major suppliers were South Korea, Vietnam, Canada, Germany, Mexico, Turkey, Taiwan, and Israel.

January through August cumulative US fabric imports reached 3.765 billion USD, which is an 11% year on year decline and is quite shocking in the lost opportunity for the US fabric sector. Overall, US textile imports increased 14.1% in volume in August, while apparel imports fell 12.7% in volume from a year ago. The US textile import increase occurred in fabric and made ups.

We have discussed for some time the crisis facing the US in rebuilding domestic cotton consumption due to the lack of cotton fabric production in the US. The US has a serious deficit in fabric production capacity, which is resulting in a large increase in fabric imports as US domestic PPE and medical apparel manufacturing expands. Total US textile imports in August increased 14.1% in volume, while fabric imports surged 31.4% in volume. Man-made fiber fabric accounted for 85.6% of all imports. Cotton fabric imports increased 87.4%, indicating that domestic cotton fabric production for use in PPE is not adequate. The largest domestic producer of PPE fabric in the US uses no cotton. Man-made fiber fabric imports grew by 25.5%. Wool fabric imports fell 25.3% to minor volume, while vegetable fiber fabric imports fell 41%.



US ALLOWS MASSIVE FLOW OF CHINESE FABRIC DUTY FREE INTO USA



Three trade agreements the US has in place – the Hope Act with Haiti, African Growth & Opportunity Act, and a free trade agreement with Jordan, have acted to open up a major flow of apparel made with Chinese fabric duty free into the USA. It is clear the US textile and apparel industry and US cotton farmers have suffered from the trade agreements agreed to by past US administrations. A free trade agreement with Jordan in December 2001 by US President George Bush was part of the US Middle East peace program. It allowed Jordan to export apparel to the US made from any fabric duty free. It has been a major success for Jordan as January-August 2020 imports of apparel reached 1.1064 billion USD. It is unknown how much of the apparel was made with US cotton, but the majority was Chinese fabrics, which is confirmed in the Jordan trade data. The African Growth and Opportunity Act allows for apparel to enter the US duty free as apparel cut/

sewn in the AGOA-approved countries. From January through August, the US imported 775.698 million USD worth of apparel, and 750 million USD was made with no stated US cotton or fabric content. The Haiti agreement began with a US yarn or fabric restriction but was extended to allow any fabric under the Hope Act. Through August 2020, the US has imported over 450 million USD of apparel, and only 23% contained any US yarn or fabric.

Collectively, these three agreements have allowed imports of 2.106 billion USD of apparel at a duty advantage or duty free. These imports have largely been made up of Chinese fabrics, and the volume of imports is equivalent to six million bales of cotton before adjustments for yarn yield. This illustrates how little the US textile and apparel industry has been protected by these various trade agreements. It also explains why the US has little cotton fabric capacity. These loopholes are a critical problem for the development of US fabric production. The benefits they provide in the local countries is positive. However, a requirement for the use of US fabric or at least fabric made with US cotton would offer important safeguards.

China is the largest fabric producer in the world, and its massive schemes of subsidies and use of slave or forced labor provides significant economic advantages. In addition, the lack of proper environmental standards is also a crucial part of the “China Price Advantage,” which is allowing China to undercut all other textile hubs from expanding its fabric sector. The US imports of fabric in 2020 will likely exceed 5.5 billion USD or more even in the Wuhan Virus affected market. China will supply one in four fabrics or more.

FEARS INCREASE OVER QUALITY AS HURRICANE DELTA BRINGS RAINS BACK TO SOUTHERN US BELT

US cotton producers were running pickers late into the night across the Mid-South region last week ahead of the arrival of Hurricane Delta which hit land in Louisiana. Growers are likely to have harvested 30-50 % of the Arkansas, Mississippi, and Louisiana



crops before the rains hit and about 20% or less in Missouri and Tennessee. The rains will extend into Alabama and Georgia, where only 10% of the crop will be off the stalk. The quality of the early Mid-South classed last week was excellent. For example, on October 6th, 44,087 bales

were classed with an average grade of 31-3-37 with 31.5 average strength. The same quality followed on October 7th. Quality will change dramatically if the 4-6-inch of forecast rain is realized. The US faces tightness in the Middling 31, 3 & lower leaf grades following more than five million bales of sales of old and new to China believed to have been dominated by 31-3-36 and better Green Card sales. These sales, combined with sales to other destinations, suggest that the US supply of 31-3-36 and better grades may fall short of

the total sales levels. In 2019/2020, the US produced only 6,116,392 bales of 31-3-36 and better qualities, including cotton from Arizona and California. The fear is that the continued rains will not only lower a larger portion of the crop to 41 or Strict Low Middling but could force the percentage of the crop falling below that level to increase, which has a greater effect on demand and what products the cotton can be used to manufacture.

GLOBAL TRADE - US EXPORT SHIPMENTS REPORTED BY USDA ARE DIVERGING FROM CENSUS BUREAU WHILE PAKISTAN AGAIN MAJOR IMPORT MARKET

The US exported 640 million USD worth of cotton in August, and in bales 1,424,000 bales were shipped using the census bureau data compared to the USDA's reported shipments of 1,287,600 bales. In the weekly export sales report, the USDA reported shipments of only 142,300 running bales of upland and 15,800 of Pima. When China's shipments of 53,500 bales of upland and 600 bales of Pima shipments are accounted for, non-US shipments drop to extreme levels. However, the stocks do not show up in EWR receipts. US export sales during the week were again moderate at net sales of 178,400 running bales. Vietnam was the largest buyer at 125,500 running bales of upland and 2,200 of Pima. No China Reserve purchases appeared, with retail sales of 26,700 bales of upland. China did, however, remain a buyer of sorghum, soybeans, beef, and pork in the weekly sales, and large sales to China of US soybeans were reported October 7th and 8th.

US export sales to other destinations were of retail portions. Pakistan purchased 21,500 running bales, Costa Rica 6,200 and Mexico 5,200 bales. 15,000 bales were sold for 2021/2022 shipment, while Pima sales were very brisk at 22,200 bales lead by a 11,300 bale sale to India.

Pakistan mills were again very active taking up imported cotton. The top growth was Brazilian, with both Brazilian Middling 1 1/8 styles selling along with recaps. Low grade West African sold along with the East African Tanzanian and Uganda cotton that has been popular this year on basis considerations. US retail lots of recaps sold along with a large volume of very aggressively priced old crop Mexican recaps. The purchases of the Mexican cotton along with a purchase of Afghan cotton suggested mills are cleaning up all aggressively priced lots. Good demand continued for US Pima and Egyptian Giza. Bangladesh was also mentioned as a buyer of Brazilian styles.

INDIA'S CCI MAKES ADDITIONAL SALES AND RAISES PRICES

The Cotton Corporation of India (CCI) continues its bold play of pushing Indian prices higher. Last week it again raised floor prices at its daily auctions by at least 700 Rupees per candy following sales of an estimated 70,000 additional bales. The floor price for a S-6 1 1/8 ended the week at 38,200 Rupees



CCI Buying Station

per candy or 66.69 cents a lb. compared to the spot price of S-6 ex gin of 64.71 cents per lb. The quality premium continues. New crop arrivals are picking up daily, reaching over 20,000-30,000 bales of new crop along with 20-30,000 bales of old crop. The CCI appears to be holding firm in limiting seed cotton purchases to 12% moisture

or less. Much of the early seed cotton arrivals have moisture levels of 15-22% and thus are selling at below the MSP. The CCI has been urging growers to dry their seed cotton before delivering it to buying stations. A few early arrivals in Gujarat sold below the MSP to private gins. Reports from Haryana Friday showed CCI buying yards full of cotton arrivals. Private exporters are now offering CCI stocks with old crop 2019/2020 and new crop 2020/2021 in their catalogs. After the gains of October 7th, CFR basis levels on Indian offers from private merchants dropped. The basis was more volatile last week as ICE moved to new highs. On October 8th,

CCI Middling 1 5/32 and new crop privately ginned Shankar-6 1 5/32 were both offered at 50-75 points off Dec, while a CCI 30 mm Middling was offered at 75 points on Dec.

The CCI announced it set a target to buy 12.5 million bales in 2020/2021, which would be a new record. Will it be enough to hold the cash price levels near the MSP? The CCI launched a massive buying program in the Northern Zone to support prices, but the real test will come when the crop movement spreads to all states.

CONAB PLACES 2020/2021 CROP NEAR 13 MILLION BALES

Despite the late arrival of rains and the delays in soybean planting, CONAB released a very optimistic first crop estimate for the 2020/2021 cotton crop, placing planted acreage at 1,614,800 hectares, which is down only 50,800 hectares from the record of the previous year. Production is pegged at 2,816,600 tons or 12.941 million bales. This is based on an average yield of 7.769 bales per hectare, which is down from the record last season of 8.28 bales per ha., suggesting some concern over the late start that much of the second crop will get. The CONAB estimate is much higher than earlier private estimates such as ABRAPA of 2.5 MMT or 11.486 million bales.

The CONAB estimates had several interesting features. First, Mato Grosso cotton acreage was estimated unchanged at 1.166 million hectares, which is above most private work. Second, Bahia acreage was forecast to drop 15% to 266,600 hectares, with production of 483,600 tons. Third, planted acreage in Goias was also unchanged. CONAB also forecast exports to increase to

2,010,000 tons from 1,920,000 in the previous season. It also forecast a recovery in domestic consumption at 690,000 tons or 3.170 million bales from last season's depressed 570,000 tons. Soybean production was forecast at a record 133.6 MMT, which is up 7%.

The delayed rains for Mato Grosso and central Brazil have been the center of attention, with northern Mato Grosso reporting the lowest soil moisture in 20 years. Planting of the soybean crop has been delayed, raising the possibility of the second crop corn and cotton crops planting being delayed as well. The weather models suggest light rains will return this week, marking the start of the rainy season. Much attention will be on the level of rainfall. Mato Grosso's seasonal rainfall normally drops sharply in April and May, and the concern is that delayed planting of the corn or cotton will impact yields. Corn prices in Mato Grosso have reached record levels, and Brazil has withdrawn from offering soybeans for February shipment, indicating the level of concerns over the delayed rains.

USDA LOWERS WORLD ENDING STOCKS BUT KEEPS US CROP AT 17 MB

The USDA October WASDE estimates sent US soybean, corn, and wheat futures surging but was a disappointment for the speculative Funds in cotton, as the US crop was reduced by only 19,000 bales to 17.045 million bales. The surprise was all in Texas where the USDA raised the average yield by 25 lbs. per acre to 761 lbs. Texas production, despite the collapse in harvested acreage, is forecast at 6.1 million bales, which is down only 220,000 bales from the previous seasons. Moreover, the USDA also raised the average yield in Georgia by 36 lbs. to 968 and raised the average

Mississippi yield by 19 lbs. This is quite intriguing considering the USDA only actually does yield survey's for cotton in four states, Arkansas, Georgia, Mississippi, and Texas. The increase came in three of those states, but it was offset by reductions in yields in Alabama, Florida, Louisiana, Missouri, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, and Pima. The largest reduction occurred in Oklahoma.

The USDA lowered 2019/2020 world production by 152,000 bales and consumption by 78,000 bales, which

lowered ending stocks slightly. For 2020/2021, the USDA lowered world production by 934,000 bales, with the largest reduction as expected a 580,000-bale reduction in the African Franc Zone and a 400,000-bale reduction in Pakistan. World consumption was raised by 1.504 million bales resulting from a one million-bale

increase in China and a 500,000-bale increase in India. Both increases were expected, and we have discussed the improvement in Chinese use for some time. World ending stocks were reduced 2.708 million bales. The disappointment for the market was the fact that US carryover levels were left unchanged.

ICE RALLY EXTENDS TO NEAR PRE-WUHAN VIRUS LEVELS



Friday's trade began with excitement. In China, the ZCE reopened with the January cotton contract surging to a high of 13,300 RMB a ton and closed with 375 RMB a ton, with gains at 13,130 RMB. The gains were equal to 2.5 cents a lb., with the close at 87.58 cents. This is a premium to Thursday's A Index when adjusted for VAT and 1% tax of 83.13 cents a lb. This is a new high for the January contract and an upside breakout for the contract. The volume was light, however. The ZCE cotton yarn contract also closed with 425 RMB a ton gains in the January contract. Many of the Chinese markets were higher, with 8% gains in Dalian soybean futures. China's CSI Stock Index closed with 2% gains. ICE futures followed with sharp gains and surged to a new high of 68.68 cents. Those impressive gains eroded following the release of the USDA WASDE reports, while the grain complex surged to new highs. With ICE trade driven by Algo's with limited input the movement was easily explained. ICE movement was erratic all week as the Algo's and HFT drove trade. The rather ragged recover in ICE stands in contrast to rather steady to higher physical priced levels led by Indian prices. India is the largest cotton producer in the world and will likely see a record crop in 2020/2021. The global spotlight is on the CCI and its ability to hold domestic prices near the MSP or at least above current levels. Last week, the CCI made

additional sales of its stocks and raised floor prices. This is keeping the discount of Indian CFR export offers from reaching the point where they would take business from Brazilian or other styles. CFR basis levels outside of Indian shippers were steady last week despite ICE gains. The level of Indian prices and the brisk offtake in Pakistan and Bangladesh have given confidence to shippers for the moment. Attention will be back on China this week and how spinners react to the higher ZCE and export offers. One development that also was of note last week was spinners cleaning up the heavily discount lots of the minor traded growths. For example, a firmer basis is now prevailing for Argentine offers that have been moving at deep discounts.



Dec 2021/ Dec 2020 side by side

All the attention is in the 2020/2021 crop ICE futures. However, the 2021/2022 strip of contracts appear much underpriced. Dec 2021 futures are near par with Dec 2020. November 2021 soybeans are nearing 10 USD a bushel, and with a positive basis, growers can now lock in 10 USD soybeans across the Mid-South and Southeast, leading to the question of who will plant cotton. In Texas and the same areas, sorghum and corn are very attractive following the Chinese purchases. US cotton acreage with 67 futures could fall several

million acres. Spinners have focused on nearby needs since the Wuhan Virus destroyed demand. When they do buy, they appear to be On Call the 2021/2022 months. 1.1 million bales have been registered as sold and unfixed. While 2020 teaches us that the future is very uncertain and Black Swans can come in dozens, as long as new crop soybean and corn are at current levels or higher US cotton acreage is in trouble unless prices adjust. We are far from clear on what 2021 will hold for the market, with an upcoming presidential election that could create a range of issues, some quite significant. The China/US trade deal up to now has been a massive success for US farmers producing sorghum, corn, soybeans, wheat, pork, and yes, cotton, as all have sold in volumes, which the pundits all said was impossible. In full disclosure, we must admit to being skeptical as well. We were wrong, and China's purchases of 5 million bales of cotton or 2 billion USD worth, would not have happened without President Trump and his team managing the trade deal. The food purchases have their arguments and could be driven by demand, but there was no urgency in regard to cotton and it could have easily never happened. The Chinese did get a bargain on at least half the purchases, but I can't imagine anyone complaining too much. The trade deal has been ridiculed and mocked by the Biden team. Thus, the future of the agreement, which includes tariffs on Chinese imports, is unknown if the

opposition party win, which the mainstream media is pushing for. However, putting that aside for a moment, the agreement is a two-year deal and calls for the same volume of purchases in 2021. If that was to hold true, then another 4-5 million bales of US cotton could be purchased for 2021/2022 season shipments. Such purchases would have an important impact on supply and demand balance sheets for both the final part of 2020/2021 and also for 2021/2022. The underpriced nature of the 2021/2022 futures strip is due to the new inefficiencies of ICE and its heavily dominated Algo/HFT systems, which have no concept of value but only create volume. The machines are programmed without the ability to find undervalued opportunities, as many of the legendary floor traders once did. Open interest in the 2021/2022 strip stood at only 1.853 million bales as of Friday.

We continue to see physical price levels attempting to inch higher, which is supportive to ICE. India's success in maintaining prices or moving them higher is very critical. ICE trade is erratic and will continue in that manner, while prices are nearing the emotional pre-Wuhan Virus levels. The weekend rains raise issues with US quality, which will determine if spreads and certificated stocks continue to inch higher. The next 30-45 days are likely to be rather erratic and quite volatile.

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