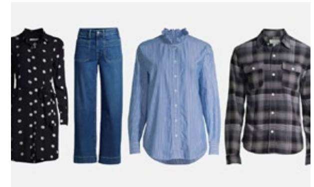
US EXPORT SHIPMENTS LIKELY UNDERESTIMATED

XINJIANG WATER REQUIREMENTS EXPAND

INDIA CCI MOVES INTO SPOTLIGHT AS HARVEST BEGINS



WALMART INTRODUCES COTTON FOCUSED APPAREL

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XINJIANG TEXTILE AND APPPAREL PRODUCTION BASE EXPANDING BEYOND COTTON

Xinjiang first ethylene plant

Zhongtai Xinjiang chemical plant

New Xinjiang petrochemical plant breaks ground

The growth of the Chinese domestic economy is limiting the influence of western brands' and retailers' sourcing decisions regarding government policy toward human rights. Last week, Xi Jinping actually called the Xinjiang concentration camps a success, which has followed an expansion of the high-end security camps in Xinjiang and an expansion of the camps to include Tibet's population. The Chinese leadership view the work as part of the effort to create a 100% uniform Han Chinese society. Amid this environment, investment in the Xinjiang textile and apparel industry is increasing and in much more than cotton. The Xinjiang industry is also expanding its presence in Central Asia. This past weekend, the Chinese state media released stories that claimed the former Soviet Republics of Kyrgyzstan and Kazakhstan were part of China during past dynasties. The media report claimed that the large Kazakhstan Republic had been part of China in the Khan Dynasty and also that Mt Everest (located on the Nepal/Chinese border) was part of China. The stories created a buzz of controversy on social media and were eventually removed. A closer look reveals that China is using the Belt & Road program to take control of the region, which has been very slow to attract investment from other countries. The base of this investment is Xinjiang. The Belt/Road program was launched with Xinjiang as its link and base, with cotton production and textile and apparel manufacturing the major focus.

Chinese companies view China's success with cotton production in Xinjiang as the tool to start the domination of the Central Asian region. First, the climate across the Central Asian cotton belt is much the same as Xinjiang. Cotton production in the region has collapsed since the breakup of the Soviet Union. At one time Central Asia/USSR produced 12.833 million bales, but in 2020/2021 it is expected to produce 5.6 million bales or less. The end of the support from the Soviet government caused the irrigation infrastructure to deteriorate with massive water losses. Irrigation management is a serious problem amid all the various governments. Many of the small republics simply have had no funds to maintain the needed infrastructure. Harvest mechanization has shrunk, in part due to the lack of maintenance of equipment, and there have been no funds for the purchase of new pickers. Attempts to manufacture pickers in the region failed, leaving the crops to depend on hand picking that requires mandatory forced labor of much of the population and resulting in a ban by many on Uzbekistan and Turkmenistan cotton. Seed breeding and new technology have suffered further reducing yields. Every government in the region is plagued by a lack of funds and the inability to generate investment needed to capitalize the major infrastructure that is so badly needed. At the same time, corruption and totalitarian rulers caused significant losses for the early western investors while also creating a lot of impediments to their business operations. Enter China and their Belt/Road program, which provided loans for the needed infrastructure as Chinese companies moved in with investment. The Xinjiang experience in cotton makes it an early focus once cotton production is stabilized and improved the investment in textiles and apparel follows dominated by the Chinese partners.

The effort to address the Xinjiang concentration camps through a blockade of cotton textiles and apparel imports from Xinjiang is only dealing with a portion of the problem. Xinjiang is much more than just cotton. Cotton gets the headlines, but much more investment is occurring. Xinjiang is home to the Zhongtai Group, which in March this year broke ground on a landmark 500,000-ton PET plant in Xinjiang, built in Bayingol Mongolian Autonomous Region. The plant is located in the Korla Petroleum & Petrochemical Industrial Park in Korla City, and the Second Division of the Xinjiang Production Corp is located in the Bayingol Prefecture. The Zhongtai Group shares are traded on the Shenzhen Exchange, and they are owned by the Xinjiang state-owned asset commission. It is headquartered in Urumqi. The group owns two large Viscose fiber plants with annual production of 80,000 tons. The group announced this year the investment in four new projects in Xinjiang. It owns a 1.2 million-ton annual capacity PTA production plant. The new PET plant has annual production capacity of 250,000 tons of polyester fiber and 250,000 tons of polyester filament. This group will provide a major boost to polyester fiber apparel manufacturing in Xinjiang.

Xinjiang petrochemical plant doubles capacity

The Xinjiang Production and Construction Corp also built a powerhouse in Shihezi, the home of the 8th Division. Shihezi is the second largest city in Xinjiang with a population of around 700,000 and is administrated by the PCC. The size of the PCC should not be underestimated. The PCC Xinjiang Construction Engineering Corp is now a subsidiary of China State Construction & Engineering Group, which is listed on the Shanghai exchange with a market cap of more than 200 billion RMB or over 29 billion USD. The largest listed shareholder of the company is COFCO Trust, which illustrates the interconnectivity. The PCC 8th Division has even set up its own mergers & acquisition fund for Xinjiang. Shihezi's textile and production base is a key force in the Chinese market. The Shihezi Border Economic Cooperative Area operates as a free trade zone that is connected to Urumqi by a dedicated highway and rail line. The Shihezi area boasts of the largest cotton spinning plant in Xinjiang. The Shandong Ruyi Textile Group in the development zone established an agreement with the PCC 7th Division to operate a cotton and man-made fiber yarn and weaving plant. Large investments have also been made in a modern technology air jet spinning plant by the PCC 8th Division. Other new projects are being made to set up a full supply chain. The largest cotton and man-made fiber producer in China has set up a large operation, with new investment in shutterless looms. The sanctioning of the Xinjiang Production and Construction Corp has been largely symbolic so far. As briefly discussed, the PCC is simply too large and interconnected to almost every aspect of business in Xinjiang, as well as greater China, for such sanctions to be effective.

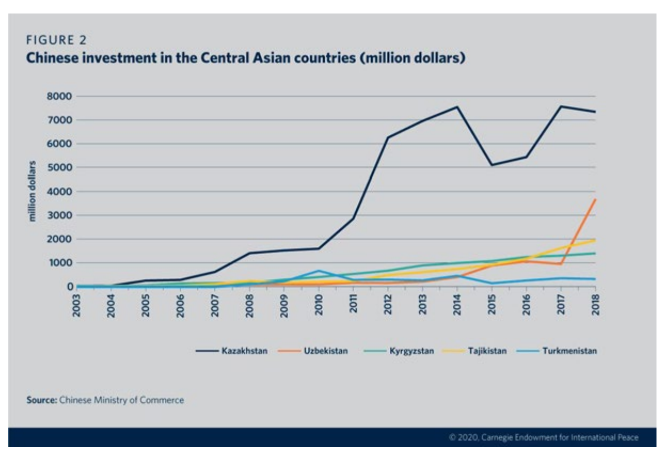
Shihezi, Xinjiang

Shihezi, Xinjiang

Modern PCC farms, Shihezi

China's influence across Central Asia is rapidly expanding under the Belt/Road. The poorest of the republics is Tajikistan. This is one of the targets where Chinese investments have opened the door to the country, including hosting a small Chinese military base complete with Chinese soldiers. Tajikistan has a long history under Persian and Russian rule. It became a Soviet Republic in 1924 and an independent country in 1991 after the breakup of the Soviet Union. Tajikistan was the poorest state in the Soviet Union and shares a long border with China. It began to grow cotton in the 1870s when it was under Russian rule. Russian interest began to seek Central Asian cotton as an alternative to the US imports that had been disrupted by the American Civil War. Its cotton production peaked during the cotton boom of the Soviet Union when it received full financial support from the central government. In 1988/1989, it produced 1.350 million bales, which is the largest production level on record. Soviet Union cotton production grew from just under 7 million bales in 1961/1962 to a peak of 12.833 million bales in 1979/1980. At the time of the breakup of the Soviet empire in 1991, it produced 1.134 million bales. The country experienced a civil war from 1992 to 1997, which contributed to a collapse in cotton production and destruction of the economy. Several western merchants have attempted to operate gins and provide grower finance, but each effort has had very mixed results. Aid agencies have also attempted to assist

Xinjiang Heart of Belt & Road



Chinese investment in Central Asia

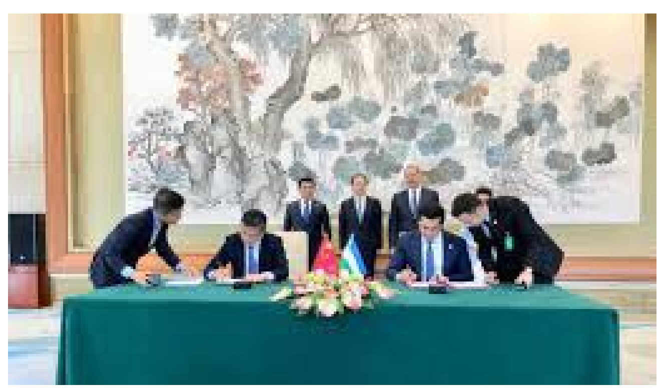
growers and promote organic cotton production. It is an extremely corrupt country with very elusive laws and policies that made it difficult for western firms to manage.

China appears to be about the only country willing to manage the risk and corruption, which is also true for the adjoining Kyrgyzstan Republic. In Tajikistan, the Chinese under the Belt/Road program have built roads and power stations, leaving the country with massive debt. The Chinese built the power station that provides the capital city with 60% of its power. Chinese investment in the country has focused on infrastructure, gold and silver mining, and cotton. Once the Chinese investment in power stabilized the electricity supply, irrigated farming became more productive, and the textile sector could be expanded. The fact that the cotton sector emerged from the civil war and privatization efforts with lots of debt made reform difficult. The Chinese entered with a solution. Everything changed when the Zhongtai New Silk Road Textile Industrial Company was formed and established in Dangara. This company had major economic power. It was jointly formed by Xinjiang Production and Construction Corps and the Zhongtai Group of Xinjiang. As we mentioned earlier, it is a well-financed, state-owned company that produces PTA and polyester yarns in Xinjiang. The new company moved to set up a massive modern cotton ginning plant and cotton spinning facility. It also drew on the PCC cotton production experience and was granted 13,000 hectares of irrigated land to grow cotton, which has all been expanded. A total of three Chinese owned groups are reported to have been granted large blocks of irrigated land for cotton production – one for 14,667 hectares and another for 12,000 hectares, along with the first plot. The textile operation has been extended into weaving, dyeing, and cut/sew. The country is now thought to consume about 70,000 bales, with production in 2019/2020 recovering to 585,000 bales.

In addition to the Chinese investment, the third largest source of Foreign Direct Investment is Turkey. Turkey is the largest export market. In 2019, Turkey imported 5,215 tons of cotton yarn from the country and 132,713 bales of cotton. China also imported cotton and cotton yarn. Cotton is the second largest export, and apparel has now reached number eight on the list of exports. The Chinese government's influence with the Taj government is near that of puppet master. In 2011, it granted China a 1,000-kilometer block of land in Pamir as part of a border dispute. China has been forcing the government to grant without debate leases for gold mining. One such lease was for a mine with 70% of the country's gold deposits.

Kyrgyzstan has never been a large cotton producer. It produced 115,000 bales in 2019/2020. It only grows cotton in the OSH crop district in Kara-SUU. This region was also home to textile plants at one time before they closed. The small country has, however, attracted major Chinese investment after joining the Belt/Road with 5 billion USD or more loaned or invested. The country is a producer of livestock, tobacco, and wheat. Cotton, meat, and tobacco are the main exports, and China is the main trading partner. China built roads, the Detka-Kemin power plant, and transmission infrastructure that provides much of the electricity. It also built the OSH hospital. The largest agriculture project is the Asia Star Agriculture Corporation Zone. The zone is huge (5.67 square kilometers) and is 100% Chinese owned. It offers a complete agricultural supply chain for fruits and vegetables along with 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.

Chinese investment in Tajik cotton processing



Joint China-Uzbek investment established

China and Xinjiang are also playing a crucial role in Uzbekistan's move from a cotton exporter to an exporter of cotton yarn and apparel. Uzbekistan has become an important part of the Belt/Road program. In 2019, the country signed 46 investment projects with China worth 6.86 billion USD and 3.11 billion USD in FDI. At the end of year, 1652 Chinese companies were operating in Uzbekistan. Uzbekistan has emerged as a transport hub due to a modern expressway that opened in 2018 from Tashkent to Andijan extending to Osho in Kyrgyzstan and ending in Kashgar, Xinjiang. Chinese companies are creating the digital infrastructure of the country. A 1 billion-USD project was completed this year with Huawei, which has been banned from the US, Australia, and other countries. China has also been a major investor in infrastructure, including a 2 billion-USD natural gas project that is supplying gas from Uzbekistan and Turkmenistan to China. China has also built several hydroelectric projects.

Chinese companies have provided the key investment in 33 major textile and apparel projects. Since 2016, 12 large new investments have been made in cotton yarn production, fabric production, knitted fabric, and in cut/sew operations. China has also provided extensive training programs for textile workers. This year, a new 2.3 billion-USD synthetic fiber production has been launched with investment from China, Japan, and South Korea. Both South Korean and Turkish companies have also been investors in the textile sector. The Jizzak Industrial Park built between Tashkent and Samarkand attracted investment from four major Chinese textile groups. The Park is focused on cotton and knitted fabric production and production of readymade apparel.

Today, Uzbekistan is much more than cotton. It is a major natural gas producer that has drawn significant investment in a host of petrochemical projects that will supply the raw materials to convert natural gas to PET and polyester fibers. It really began in 2012 with the Surgil project, which was a joint venture with the government and a South Korean firm. Then came a 3.85 billion Euro petrochemical project to convert natural gas to polymers to be used in plastic and polyester production. The investment has been flowing, and Shell launched a large-scale project in Surkandarya.

That investment has, in turn, drawn investment interest in the cotton sector which needed capital, but the lack of mechanical picking remains a real problem. There is an attempt to address the issue of forced labor. However, it is impossible without the availability of mechanical picking. At one time in the Soviet days, a large percentage of the crop was machine picked. The Uzbekistan plants have become large exporters of cotton yarn to China, which has proven popular for use in home textile production. Uzbekistan continues to reform, which is attracting new investment. A French group has just announced a joint venture with the government for industrial hemp production in the Khorezm region. Wild hemp has been grown in Uzbekistan, but this is the first commercial operation.

Turkmenistan is also a member of the Belt/Road but has not attracted the investment in the textile and apparel sector. The government has been ranked as dangerous and unstable, with many investors having their projects seized or faced with increased payment demands. Turkmenistan has attracted infrastructure investment from China, with the country repaying China with shipments of natural gas. Over 80% of its exports move to China. For cotton, many attempts by western firms to operate have proven to be quite difficult. The country is believed to have produced 180,00 tons or 827,010 bales of upland and 30,000 tons of ELS cotton in 2020/2021.

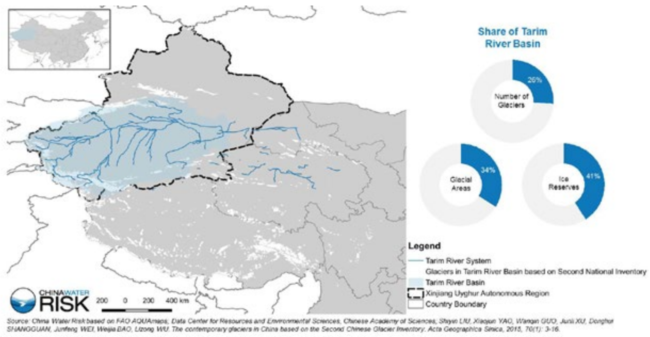
US EXPORT SALES SHOW SUCCESS OF US COTTON PROMOTION AND SUSTAINABILITY PROGRAMS

The US Cotton Council International's promotional efforts concerning US cotton, along with new sustainability programs, are showing results. US export sales in some volume are being maintained to many of the major import markets despite the premium of US export offers. The second feature aiding sales is the large availability of off grade old crop recaps which are competitive and benefiting from the improved demand for open end yarns. US weekly export sales for the week ending September 24th were steady at 238,100 running bales of upland and 20,600 of Pima. China was again a buyer of a moderate volume, 55,700 running bales of upland, which appeared likely to be to spinners and not the Reserve. The largest buyer was Turkey, which purchased 62,500 running bales. This was the largest sale to this destination in weeks, but Turkish consumption has rebounded, and the country is expected to import a large volume in 2020/2021 as the domestic crop falls to near 2.8 million bales. The US faces significant competition from Brazilian, Argentine, Mexican, and Greek cotton in this market. Vietnam has recently increased its purchases of Brazilian but continues to buy a moderate amount of US. Sales in the weekly period reached 41,100 bales.

The other major buyers were Mexico 24,300 bales, Indonesia 13,400, Bangladesh 12,700, and Pakistan 12,400 bales. US Pima sales were very brisk at 20,600 running bales, led by 7,700 running bales to India. While the sales levels are okay, the question is why are export shipments to non-Chinese destinations so slow? US export shipments reached only 218,200 running bales of upland and 10,800 of Pima. Shipments to China in upland totaled 105,400 running bales, which means that shipments to other destinations totaled only 112,800 running bales. Total US export shipments need to average 270,434 running bales for the remainder of the season to meet the USDA's export target. For this to be accomplished, a sizeable pick up in shipments to non-Chinese locations is required.

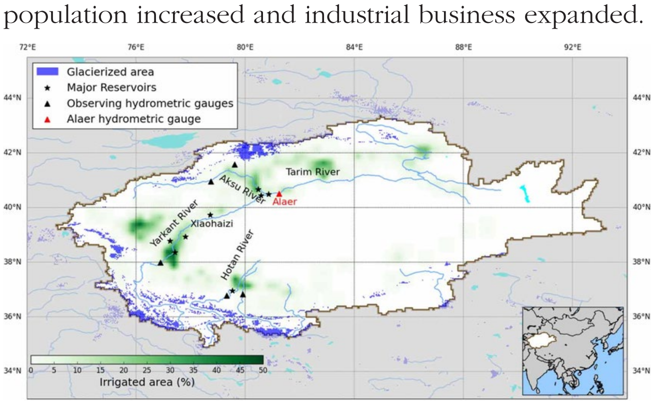
The slow shipment level appears a bit unusual. The US publishes daily Electronic Warehouse Receipts that show old crop open bales at only 3.8 million bales and just over 900,000 bales of 2020 crop that are available. Us export shipments have now been reported at 2,315,818 480-lb. bales. Domestic use has been very weak, with no reported consumption levels due to confidentiality. Thus, if one assumes that domestic mills have used 300,000-400,000 bales and have another 100,000 bales on hand and we add those stocks, this accounts for approximately 6.6 million bales of stocks on July 31st. The USDA has ending stocks at 7.25 million bales, which raises the possibility that export shipments since August 1st have been underreported. During the past two years, a problem has emerged with US exports underreporting export shipments to the USDA reporting system. The Census Bureau data has steadily been showing a much higher export shipment level, which has led to the USDA adjusting US export shipments and ending stock levels. The wide difference between the open EWR receipts level suggests export shipments as reported by the USDA are again being underreported. When this is adjusted, it would reduce US stock levels.

XINJIANG WATER REQUIREMENTS MAY BE AT HEART OF CHINA/INDIA DISPUTE



Xinjiang water crisis

Xinjiang has experienced strong economic growth as the central government has launched an aggressive series of subsidies, cheap loans, and other incentives to lure large investments to the region. As discussed earlier, the textile and apparel sector has experienced ongoing expansion, with a new wave of growth centered on the very water intensive man-made fiber sector. The wave of new textile and apparel plants' use of water is great, as is the expansion of the entire industrial sector. The data suggest that this sector has doubled over the past 5-8 years, which means a large increase in water requirements. In addition, cotton production has also been expanding, which increases the water requirements of the sector despite very concentrated efforts to increase efficiency through canal development, improved drainage, and expansion of the latest drip irrigation technology. Cotton production since 2016/2017 has increased by nearly six million bales, and this alone has increased water requirements. Then, population growth has occurred as the government has pushed Han immigration. These increased water requirements have occurred when water supplies were already stretched to the limit. As early as 2012, there were concerns regarding the shortages of water in the capital of Urumqi as population increased and industrial business expanded.



Tarim River Basin

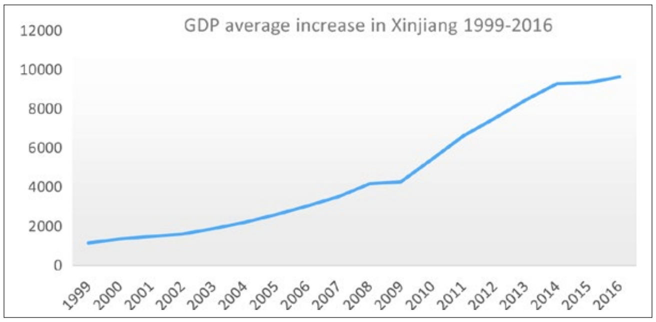
The industrialization of Xinjiang has given Aksu, a major cotton growing region, the honor of having the most polluted air in the world according to Bloomberg Green. Actually, the air quality reading suggests that Xinjiang now has a serious air quality problem.

The region, one of the most arid on earth, has depended on water from two basins, Junggar in the north and Tarim in the south. Much of the water supply depends on snow and glacier melt. The Xinjiang water infrastructure is already a marvel in engineering accomplishment, as it has turned a desert into an agriculture powerhouse and now industrial. However, the region appears to be reaching it maximum production of water from current sources. The central planners are showing no signs of accepting a cap to the economic expansion in Xinjiang, which is the center of its Belt/Road program. It appears that the solution for the central planners is to divert water that flows into other countries back into Xinjiang. This is already at a crisis level for the large Central Asian republic of Kazakhstan. Two important rivers, the Irtysh and Ili, on the country's border with China originate in the mountains of Xinjiang and then flow into Kazakhstan.

Urumqi expands rapidly

Modern Urumqi

These are crucial to the southeastern region of the country and the large city of Astana. The Irtysh is the source of water for the important Lake Balkhash as well as agriculture irrigation across the region. The Chinese have begun to pull the water out of these rivers before they cross into Kazakhstan. The biggest concern is now centered on a 300-kilometer canal that is expected to be complete this year that will divert water from the important Irtysh.

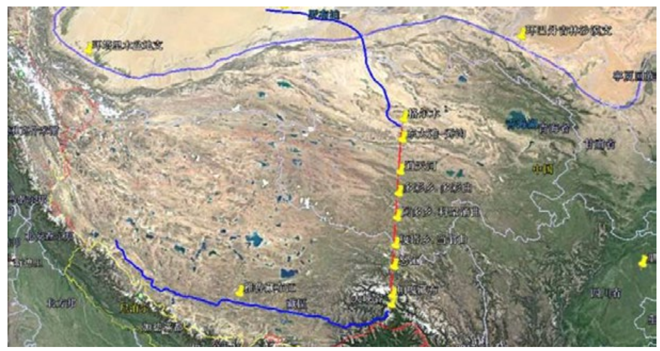


Xinjiang GDP growth

The final solution for Xinjiang's water needs appears to be behind the new China/India hostilities. If you have wondered why China would risk conflict with India over a remote, sparsely populated region, the answer appears to be water. China has identified the two major rivers of Indus and Brahmaputra as the solution for Xinjiang's water problems. China appears to be planning to divert both rivers into Xinjiang via the world's largest tunnel, which will extend 621 miles. A European meeting recently said China planned to use this project to turn Xinjiang into the California of China. The project would involve the construction of 29 new reservoirs. The tunnel would extend across the glacier-covered plateau of Tibet and flow into southwest Xinjiang.

The Brahmaputra river flows into the Indian State of Sikkim, which is part of their border dispute with India and flows through Arunachal state into Bangladesh. China has already blocked the flow of a Tibetan tributary of the Brahmaputra for a Chinese hydroelectric project. The Indus River originates in Tibet and flows through northern India and into Pakistan where it is an important source of water. The Indus flows into India in the border-disputed region of Ladakh, where Chinese/Indian soldiers have already clashed. India rules this region of Kashmir. After the border clashes in the Galwan Valley, China blocked the flow of the Galwan River into India.

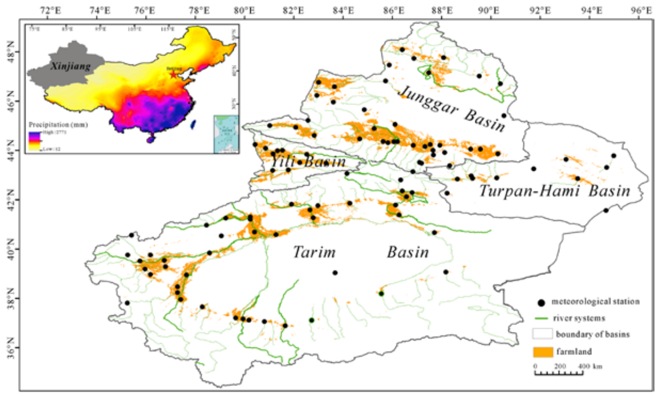
Brahmaputra River under threat



Tibet to Xinjiang water diversion plan

The trial run for the massive diversion project appears underway in Yunnan, where a 410.7-mile tunnel is being built to divert water. The project began in 2017 and is estimated to cost over 12 billion USD and be complete by 2025. This drama is occurring as a major crisis is unfolding following China's construction of dams on the Mekong River that have reduced water flows into Laos, Thailand, Cambodia, and Vietnam. This explains why the China/India border clashes are over much bigger issues. If China is successful in expanding its control in the disputed area, the goals of its water diversion project will be much easier to accomplish. Just last week, China added to the heated rhetoric by saying it did not recognize India's rule over Ladakh. This ignited calls for India to do the same for China-occupied Tibet. The dispute does have serious ramifications for Xinjiang cotton production. The region is very near peak production levels without new water supplies. This past season, a host of reports emerged of farms running out of adequate water supplies for maximum yields in cotton.

No tunnel the size now under consideration has ever been constructed, and it would be done across areas of Tibet that would have significant environmental consequences. The greatest impact would come to the impact the water diversion would have on India, Pakistan, and Bangladesh.



Xinjiang irrigation

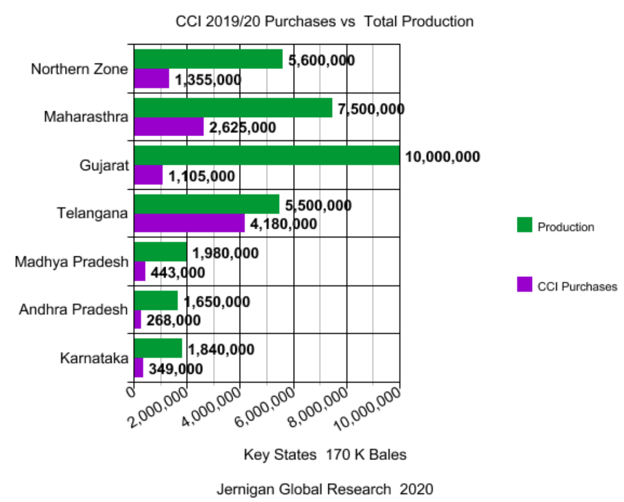
INDIA: SPOTLIGHT ON CCI AS NEW CROP PROCUREMENT BEGINS

2020/21 Cotton Movement begins in Northern India

In 2019/2020, India's CCI procured 28% of the crop or 10,514,000 bales, a record but not enough for the other 72% of the crop trading mostly below the MSP. A review of the CCI buying in 2019/2020 reveals why growers in Telangana aggressively expanded cotton acreage in 2020. In 2019/2020, the CCI purchased 4.180 million bales or 76% of the crop, which means Telangana growers received the highest farm gate prices in the cotton belt and also explains why the CCI stocks are dominated by the long staple lots. In contrast, the CCI only purchased 10.94% of the Gujarat crop while they procured 2.625 million bales in Maharashtra, which represents 35% of the crop. In the Northern Zone the CCI only procured 24.2% of the crop. The 2020/2021 procurement season has begun, and all attention is now on the CCI and its ability to execute a more uniform buying program across more of the major cotton producing states. The expectation has been that the CCI had been expanding buying stations and ginning relations across the country and will be much more aggressive in maintaining prices near the increased MSP. The one factor which has not changed appears to be CCI limit on buying seed cotton with 12% or less moisture levels.

Much depends on the success of the CCI. It has successfully sold a large block of its stocks to the mills and private traders at firm prices and has continued to raise its floor prices. The Trade is holding these stocks and are expecting the CCI to succeed in maintaining the new crop price level near the MSP. If this occurs, the previous purchases by the Trade will see an appreciation in value and allow them to book profits. However, if the CCI's effort is slow to expand and is limited to certain states, this could undercut the entire price structure. New crop could sell at deep discounts to the MSP, which would undercut the Trade's long positions and cause price pressure in Trade offers as well. The challenge for the CCI is enormous. Some expect the CCI will need to double last season purchase volume to be successful in maintaining prices. This means buying 21 million 170 kg bales. The needed purchase volume will depend on the final size of the crop. The 2020 monsoon was one of the most uniform and timely on record, even though it did withdraw late, but officially the withdrawal is underway. What happens if the crop reaches 40 million 170-kg bales, 31.2 million 480 lb. bales? The US Agriculture Attaché estimated the crop at 29.4 million bales.

The ability to execute such large-scale buying programs across the diverse Indian cotton belt has major challenges. In Maharashtra, the CCI indicated it may begin procurement in early November. The



CCI has said it will have 60 procurement centers and the Maharashtra Federation 30 centers. It is already warning it is facing significant issues with staffing at these centers due to a shortage of manpower. The CCI will have to manage the program amid a continued expansion of the Wuhan Virus, with India reporting 86,821 new cases on September 30th. New crop arrivals have begun in the Northern Zone, with Punjab reporting seed cotton prices of 4,515 to 5,198 Rupees, which is below the medium MSP of 5,515 Rupees per quintal. The CCI said it would start buying last Thursday, so much attention will be paid to its success. Punjab will produce 1.4-1.5 million bales. Last year, it purchased only 356,000 bales in the state.

The CCI raised its floor prices on its daily auctions last week, with the floor price of a Shankar-6 1 1/8 about 700 Rupees per candy premium to cash prices. Mills continue to buy cautiously as they hold from 40-60 days of stocks at the large mills and 20-40 days at the small units.

PAKISTAN MILLS ACTIVE BUYERS OF IMPORTED COTTON

Pakistan mills running at 90% of pre-virus level

Pakistan spinners were very active buyers of both domestic and imported cotton last week. Domestic cotton prices reached 65-67 cents, with a few lots trading higher. Such prices increased interest in imports. Overall, spinners feel that the both the size of the domestic crop is falling as well as concerns over quality. Growers have been unwilling to spend the needed money to fight whitefly and other problems. New crop arrivals as of September 15th reached only 1,035,194 bales, which was down 817,215 bales from last year's already diminished levels. Imported cotton trade was again dominated by Brazilian styles of both 2019 and 2020 crops. Brazil is likely to be the top import origin in 2020/2021. Brazilian high and low grades sold, with the largest volume of trade occurring in the SLM 1 3/32, which sold at 150-175 on Dec for 2019 and 250 on for 2020 crop. Recaps of various grades also sold. As we have mentioned before, the demand for physical cotton has improved, but price level is the driver. In Pakistan, the most aggressive trade is occurring because it is a market in which merchants can move volume. East African sold last week, with Tanzanian and Uganda popular at cheap basis levels. Argentine SLM 1 1/16 sold in volume at near 200-250 off Dec. Discounted West African low grades sold, while Sudan styles also sold along with US Pima and Egyptian Giza 94. The general US business was light and focused on the aggressively priced recaps that have continued in popularity.

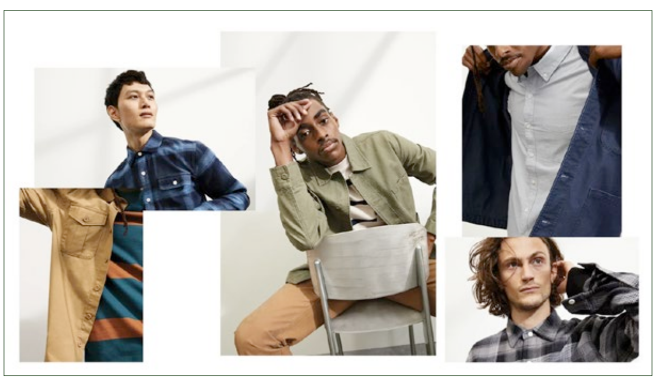
Pakistan exports have reported good interest in Chinese demand for Pakistan 8-10 count yarns, and these yarns are cheaper than domestic produced yarns in these counts and good sales are being noted. Chinese spinners' main source of lower grades has been the Reserve stocks. The Reserve sales have completed, with brisk offtake of 503,352 tons, which sold at very firm prices. Pakistan low count yarns are a much better value for domestic weavers. The Pakistan yarns are reported to be in strong demand from the denim apparel clusters in Guangdong. Pakistan yarns enter China duty free, which should make this an expanding trade, as long as Chinese domestic demand increases.

AUSTRALIA'S BOM DECLARES LA NINA AND EXPECTS INCREASED RAINS ACROSS EASTERN AREAS

The Australian Bureau of Meteorology (BOM) has declared La Nina conditions and now expects increased rains and floods across eastern Australia. This could provide a boost for 2021 crop prospects if it materializes. La Nina has brought some major rains and floods in the past that have shaped water supplies for years into the future. A small rain event is expected Monday. Each such event will take on new emphasis as just such minor rain events have surprised. Some discussion is being generated by the Draft Murray Darling Plan, which has been made public. The most exciting plan is a version floated before of the Bradfield Scheme, which the Greens and Labor never allowed to advance. The most recent plan calls for a 600-kilometer lined canal from northeast Queensland at the Burdekin Dam to the Warrgo River and then to the Darling River. This would divert about one third of the 12,000 Gigalitres of the annual wasted flow out to sea to the Murray Darling System. The entire scheme would be paid for in 20 years. The hope is that this time the project gains momentum. It would change eastern Australia forever and give the country a major boost to agriculture production. Another scheme is being floated that would transfer 4,000 GL of water from the Ord River through a pipeline to the Murray Darling.

The small improvement in water flows has allowed a small improvement in the general security water allocation for irrigators in the Murray Darling to 17%. CFR basis levels for Australian styles have been maintained with little change. Grower bids have improved to 515-521 Australian Dollars a bale for the 2021 crops, while the 2020 crop remains at about 500 AD a bale.

WALMART INTRODUCES A NEW FASHION LINE WITH A HEAVY FOCUS ON COTTON



Walmart Free Assembly apparel

America's largest retailer has released a new fashion line, Free Assembly, which has a heavy focus on cotton. The new apparel line has over 30 items for women and 25 items for men that are priced from 9-45 USD per item. One standout product was a selvedge denim jean offering priced at 45 USD. The men's line product offering was heavily concentrated on a cotton line made with organic cotton. The offering contained 100% cotton carpenter pants, 100% cotton chino pants, 100% cotton denim shirts, and 100% cotton oxford shirts. One product that we were especially impressed with was a 100% cotton flannel shirt offering. While we would have rather have seen a greater use of conventional cotton, we applaud Walmart for a 100% cotton flannel shirt. Flannel is a product which has been damaged by the use of 100% man-made fiber flannels. Flannel is a wool- and cotton-based fabric

Free Assembly jeans

that started being produced in the late 1600's. These fibers began to be replaced in the mid 1900s by man-made fibers. It is refreshing that Walmart realized the importance of returning to the natural fiber version. This will have a positive environmental impact.

The women's line was more of a mixed fiber make-up. Organic cotton was featured, but Viscose was widely used. Viscose/polyester blends were included but only a few 100% polyester offerings. Overall, an impressive offering as the focus switches to more basics.

ICE FUTURES AGAIN STALL ON ATTEMPTS TO MOVE ABOVE 66 CENTS

ICE futures failed to draw a new wave of speculative buying despite the sharp gains in US grains that has left the market void of the momentum needed for another move higher. The failure to close above the 66.40 level left futures in a negative technical position, which accelerated a retreat in Friday's risk off trade across all markets following the news that President Trump and the First Lady were infected with the Wuhan Virus. Adding to the weakness in the futures was the continued lack of export trade following any price strength. In contrast, physical cotton demand was strong in some markets last week, such as Pakistan, at the previously discussed price levels near 65-67 CFR Asia. Support again appeared in futures, as Dec moved below 65 cents from mill price fixations, which remain sizeable in the Dec contract. By the close, the losses had been largely erased, with Dec closing down only 9 points.

The US export sales report revealed that the Cotton USA promotion and sustainability programs have developed a steady demand level from certain mills with devoted programs. US cotton stock levels now appear to be smaller than projected by the USDA. First, the US crop output level has fallen from the last USDA estimate, with the actual level of decline still open for debate. Second, the EWR/export shipment data suggest

that US export shipments have been under reported by at least 400-500,000 bales. During the past two years, a problem has emerged with US exports under reporting export shipments to the USDA reporting system. The Census Bureau data has steadily been showing a much higher export shipment level, which has led to the USDA adjusting US export shipments and ending stock levels. The USDA's difficulty in estimating agriculture stock levels was highlighted by the quarterly USDA grain stocks last week, which provided a shock downward adjustment in soybeans and corn stocks.

While the US exportable surplus is under control for the moment and Brazil is moving volume, the new wildcard is India. The USDA has no doubt overestimated Indian stocks by 5 million bales or so. However, the size of the 2020/2021 crop is now beginning to become the center of attention, with the 2020 monsoon the most uniform and timely in our memory and planted acreage a record. This means a crop of 37-40 million 170 kg bales or up to 31 million 480-lb. bales is possible. The CCI did an impressive job in 2019/2020, and the Indian Trade believes it will do so again. Can it possibly double its procurement to near 20 million bales and succeed in keeping domestic prices at the lofty premiums required to pay the record MSP to growers? This is important to the world price structure, the Trade, and CCI are holding a large block of stocks that will need to move over the next 120 days or so, along with the new crop. If the CCI cannot manage to hold prices near the MSP and the large discounts start to occur, then traders may move to push the CCI stocks to export. Over the past 90 days, the discount of Indian to Brazilian has narrowed, and the Indian CFR basis has been steady to appreciate. This has helped the improvement in physical prices. However, the global price structure is not capable of managing a record Indian crop, which will require the large absorption of Indian exports. All estimates of the Indian supply and demand balance only have moderate exports in their calculation.

Against this backdrop, the Wuhan Virus remains a major drag on the recovery in demand. A second wave in Europe and the UK has added new concerns over order stability. The UK is an important apparel consumption market, and it is being hit hard by a second wave. In the US, the headlines of the President and First Lady being infected have highlighted the risk from the virus that remains. The largest US retail market, New York City, which was named the Fashion Capital of the World before the Virus, is experiencing a dramatic decline from which it will not be able to recover without strong new leadership. A new report stated that in the 60th - 70th street district, which houses the key fashion flagship stores 60 of 130 storefronts, is closed and boarded up. Others that are open report poor traffic and a heavy presence of security guards. The California economy faces comparable serious issues and is dealing with similar mismanagement as that of NYC. These conditions suggest that US retail sales of apparel will fall 20% or more for the year.

We continue to feel that physical levels have solid support, which is providing support to futures when they retreat below 65 cents. This explains why Dec has failed to break the uptrend that again held last week. Adding to the drama for the futures is the quality makeup of the US crop, but the weather outlook has improved, which may reduce the concerns. Yet, it is a SLM 1 1/16 base grade that makes the contract a potential problem. Certificated stocks increased slightly for the week but remain extremely small. China's ZCE futures provided no direction, as the market closed for the October holiday. Dec ICE futures rebounded from Friday's sharp losses, closing the day down only 9 points. A close above 66.40 or below 64.40 both remain important technical points. The COT report showed a 3,184 decline in the Trade house's long position, which coincided during the week with a large EFP and a large TAS block trade in Dec. This may have been the pricing of a physical purchase and liquidation of Trade longs. The only other feature of the report was notable Index Fund buying.

For the moment, ICE futures are appearing to be more of a reactor to developments than providing leadership. It is the strength in physical prices at certain levels that has provided the underpinning to keep prices slowly recovering. The US balance sheet is getting tighter, and this should help ICE price levels. For this to succeed, the 2020/2021 CCI Indian campaign to maintain the record high MSP will be important and required to be successful.

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@Globalej | @JerniganGlobal | Eddie Jernigan | Register for Research info@JerniganGlobal.com | ed.j@jernigancg.com | JerniganGlobal.com