

GLOBAL LUXURY MARKET
WEAKNESS IMPACTING
COTTON USE



CHINA MILLS FOCUS ON
LOWER COUNT YARNS



INDIA BANS IMPORTS
FROM CHINA FOLLOWING
ATTACKS



CFR BASIS LEVELS
CONTINUE TO FALL AS
PRESSURE MOUNTS



JERNIGAN GLOBAL

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BRAZILIAN STYLES MOVE INTO THE SPOTLIGHT AS DISCOUNT INCREASES



The collapse in demand, the US/China trade deal, two consecutive record crops in a row, and no commercial warehouse capacity have taken a toll on the Brazilian FOB Santos and CFR Asia basis. Adding to the anxiety is an artificial squeeze in ICE futures, which is the only risk management tool for Brazilian traders, and record volatility in the Real/USD exchange rate, along with an acceleration of the Wuhan Virus epidemic. The FOB Santos, which most growers sell off of, has collapsed to even the Dec ICE futures and follows 300-400 points on during the past twelve months. The CFR Asia basis has moved from 1200 on the futures month to 500-600 on for 2019 crop, with discounts for the lower strength lots. Some sales occurred to Pakistan at an even cheaper basis for SLM 1 1/8 at 300-350 on Dec. The spread differentials with the other major growths have also changed dramatically. A 2019 crop Ivory Coast Mambo



1 1/8, equal to Middling, is offered at 1175 points on Dec, and a Bolsa 1 1/8, also equal to a Middling, is offered at 1125 points. Both these are handpicked

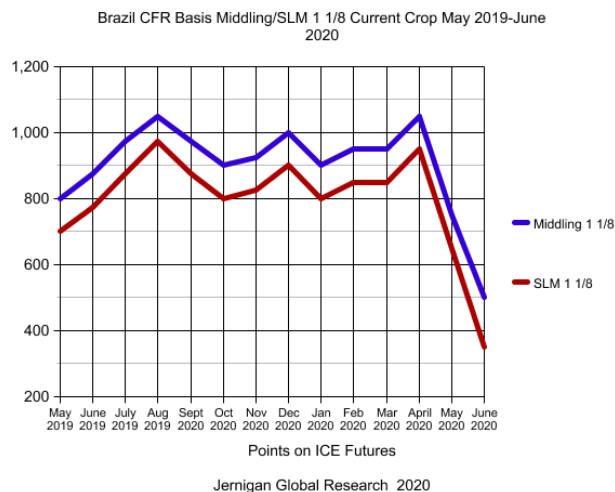
African Franc Zone cotton that can have contamination problems. The African Franc Zone basis has held up much better than expected so far, as that region is facing the problem of carrying a record three million bales forward. The first cracks showed up last week in regional markets. But, at this time, the discount of a Brazilian style is at a record. Merchants need to move the remainder of the record stocks of the 2019 crop they still hold. With most storage capacity under a tarp on pellets, this cotton needs to move before the 2020 crop begins to be ginned and shipped. In the past, a smaller Brazilian crop and much better domestic demand made the FOB Santos very firm at the end of the season. However, while Brazil will export a record volume in 2019/2020 and enjoyed robust demand in the first part of the season, today the world is different, and post-Wuhan Virus demand is far from recovering pre-virus levels.



Brazil retail has been destroyed by virus pandemic

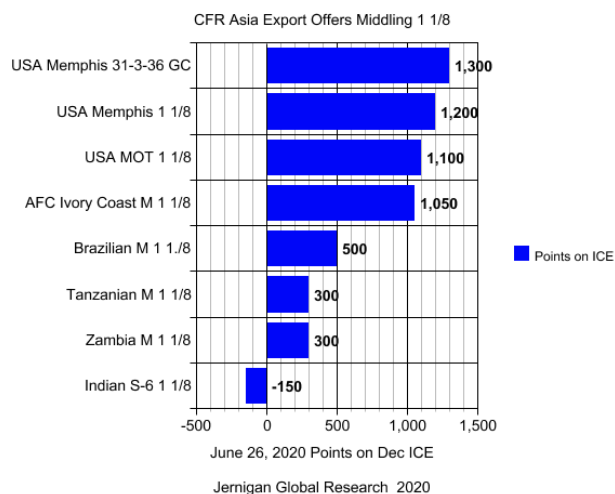
Normally, the 50% or more decline in the 2019 crop CFR basis would ignite record exports, but with the 90-120-day shutdowns all spinners have more inventory than expected, and the retail sector is only beginning to recover. Actually, conditions are a long way from resembling anywhere near the activity prevailing before the virus outbreak occurred. Brazilian offers have also reached record discounts to US E/MOT and M/E styles, and 2019 offers are now up to a 450-500-point discount. The US basis has been elevated by the nearly two million bales of US cotton sold to the China Reserve over the last several months.

The harvest of the 2020 crop is advancing in Bahia and has started in Mato Grosso on the first crop. 2020 yields are expected to reach a new record, but the unknown



is the quality. Western Bahia is dry and hot with no rain in the forecast well into July, which should allow color grades to hold and harvest to advance. Bahia is expected to produce longer staple lots that have proven popular for export, but this season the lower demand from China may make sales more difficult.

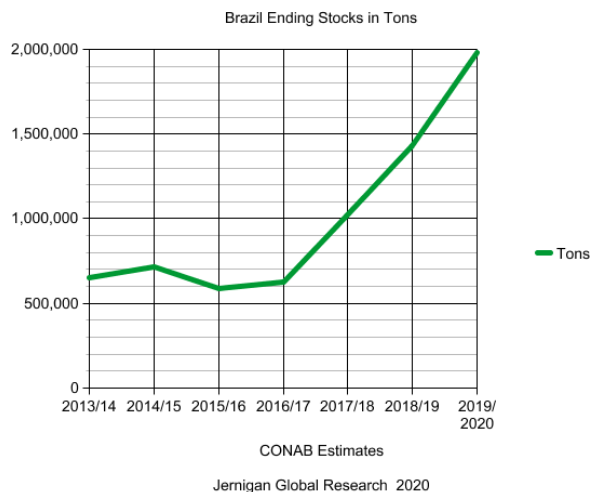
The weaker CFR basis has also expanded to the 2020 and 2021 crops that are now offered through January-March 2022. 2020 Middling 1 1/8 offers are at 700-800 points on Dec for August-September, SM 1 1/8 offers at 900-950 points on Dec. Middling 1 1/8 is offered at 650-700 points on March 2021 for January-March shipment. 2021 offers are at 800-900 points on Dec 2021 for a Middling 1 1/8. Very cheap 2021 crop offers have now appeared and resulted in a small amount of offtake. SLM 1 1/8 sold at 450 points on July 2021, which is equal to about 600 on Dec. Adding to the difficulty in stimulating forward demand is the lack of an efficient futures market. The ICE forward have no open interest, since the Algorithmic systems have no interest in creating a real market. The ICE Curve is flat thru May 22.



The bulk of the recent offtake has focused on Pakistan spinners. Argentine has also sold and is attracting very cheap basis levels. Discounted Tanzanian has also sold. Turkey is also now focusing on the Brazilian styles.

The problem remains the poor level of fresh demand. In China, besides the Reserve purchases, mill demand is quite weak, and the record bonded warehouse stock levels are clearly impacting fresh imports. 2018/2019 stocks in the bonded warehouses need to move and are being offered at aggressive basis levels. The other major markets appear to be approaching offtake very cautiously. The real challenge will occur in November when the 2020 Brazilian crop is ginned and needs to move in volume. Record shipments in 2019/2020 provided the outlet, and it appears demand will be much softer in 2020/2021.

The pressure on the CFR basis is likely to continue, as all origins except the US feel pressure to move



inventories. Export demand for US styles outside the Reserve has dried up as illustrated by the weekly export sales report.

CHINA DEMAND FOR LONGER STAPLE UPLAND AND PIMA HAS BEEN DAMAGED



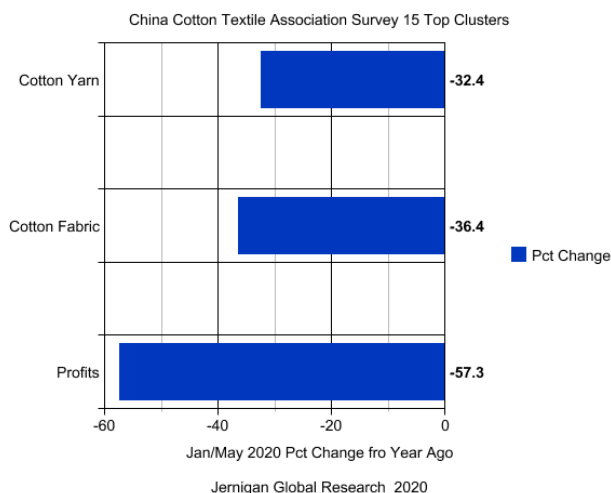
In China it is clear higher count and combed yarn demand has taken a major hit following the collapse in export demand and a changed domestic market. The robust Xinjiang textile and apparel sector is operating at a much-reduced capacity following companies pulling orders due to the use of forced slave labor from the Uyghur concentration camps, which is now well documented. Still, some brands have been reluctant to pull orders because of the price advantage, but the recent passage of the Uyghur rights bill in the US, now signed into law, has made that position much more difficult. The shipment of the Uyghur labor units east to other factories has caused issues for the eastern exporters. These conditions have made

many Xinjiang exporters attempt to switch the focus to Europe and Central Asia. Both these regions have not experienced any major effort to divert sourcing because of the human rights issues. Recently, the Aksu Textile Industrial City Cluster has promoted its efforts to promote exports to Central Asia and has reported improved operating rates from shipments to Kazakhstan and other markets. The Urumqi Customs has streamlined export procedures to facilitate shipments by rail to Central Asia and Europe. It offers 24-hour clearance. Recently the Xinjiang government promoted that 595,000 people were employed in the textile industry. It did not differentiate between slaves and free. At the recent Canton Fair, which was held online, 146 Xinjiang companies promoted export products.

While logistics forces the Xinjiang textile and apparel industry to focus on exports west, the eastern industry is increasingly focusing on the domestic market. The demand for the export of top-end luxury apparel has been very weak, which has impacted demand for the Xinjiang ELS crop and also demand for US Pima and Egyptian imports. In the east, demand for the higher count yarns of 50 and above has been weak. Some large and medium spinning mills in Shandong, Jiangsu, and Zhejiang have suspended production of 60s and above yarn counts. Instead, they are focusing on production of 21, 26, 32, and 40 count yarns, which are

headed for use in products for the domestic market. One large Henan spinning mill that produced only 60s and above count yarns closed their operations.

The domestic demand is for 21s–40s count carded yarns, with an increasing number of spinners changing their focus to the lower count yarns. This means reduced import demand for Pima and Australian cotton. If these conditions continue into 2021, the 2021 crop Australian basis could be impacted, as exporters no longer can be assured of shipping 75% or more of the crop to China. It has become popular to ship Australian cotton to bonded warehouses due to the brisk demand from Chinese mills. Overall, Australian, because of its excellent spinning qualities, is the favorite for the higher count Chinese yarn mills. The CFR Australian basis is already down to 2000 points on for a SM 1 5/32, but other growths basis levels are much cheaper.



Even with the greater focus on the medium and lower

count cotton yarns, this market is also difficult with profit margins thin. The recent attempt by ZCE cotton futures to move the September ZCE contract above 12,000 RMB a ton (76.88 cents a lb. including VAT) failed, and the ZCE was unable to follow ICE futures higher. The reason was the lack of demand at the higher prices and the failure of cotton yarn prices to follow the ZCE gains. The September ZCE contract is back to where it traded in early May.

Chinese demand for US Pima has already collapsed. Total purchases for 2019/2020 through June 11th have only reached 97,100 running bales, a 61.5% decline from the previous year. 2020/2021 imports are likely to fall even further. Global luxury sales are likely to require a long recovery period to return to pre-virus demand levels. China's domestic luxury market is in the best shape of any region globally today, and a new trend has emerged, a new focus on health instead of extremely expensive items. Imports of Egyptian cotton have collapsed to almost zero.

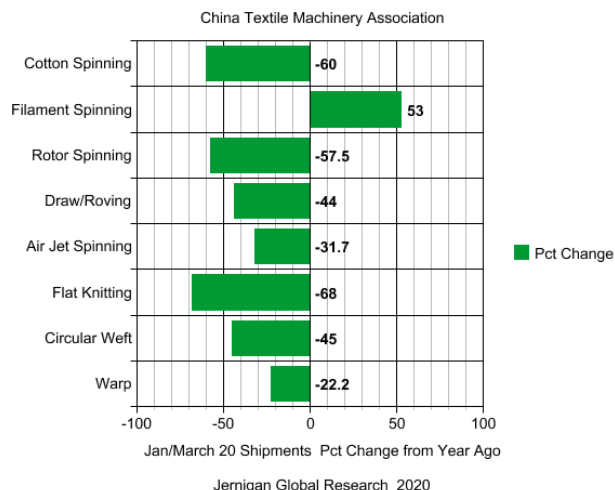
The improvement in demand for the carded yarns below 50 count suggests some moderation in import requirements in 2020/2021 and also should reduce overall import demand. Rumors were circulating Friday that the Reserve would start its auctions. This should allow spinners to access some old low-grade stocks, which would be attractive for open end spinners. Cotton imports in May declined to only 70,000 tons or 321,615 bales. The China Cotton Textile Association surveyed the 15 largest Chinese textile clusters and revealed that January-May cotton yarn production fell by 32.4%, while cotton fabric production was down 36.4% and profits off 57.3%. The average operating rate was 57.3%.

CHINA'S FIRST QUARTER TEXTILE MACHINERY INVESTMENT PLUNGES AS ECONOMY SHRINKS



The China Textile Machinery Association released the textile machinery shipment data for the first quarter of 2020. Shipments fell sharply, led by a 60% drop in the first quarter for cotton spindles, and shipments of rotor spinning machines fell 57.5%. Draw frames, roving frames for combing machines fell 50%. In weaving, shipments of rapier looms declined 31.8%, shipments of water jet looms fell 44%, and air jet shipments were down 31.7%. In the knitting sector, shipments of flat knitting machines fell 68% from a year ago, shipments of circular weft dropped 45%, and shipments of warp machines fell 22.2%.

Shipments of flat screen-printing machines fell 50%, while digital printing machine shipments were off 23.5%. Dyeing machine shipments declined 35.8%. The exception to the weakness was a 53% increase in shipments of filament spinning machines, as the PPE output and demand surged. Shipments of non-woven equipment also increased.



LUXURY DEMAND AT RETAIL IS FACING SERIOUS HEADWINDS



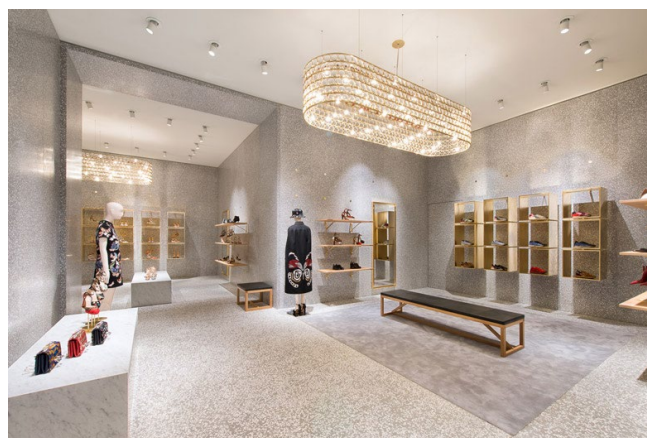
New York Luxury stores boarded up to prevent looting

The flight of the major Luxury retailers from New York City has begun following the Wuhan Virus epidemic and the collapse of law and order that allowed looting and destruction across all major shopping districts. When retailers pay the most expensive rents in the world, they do not expect to have to board up their windows due to a lack of police protection. The legendary luxury brand Valentino has sued to close its showcase boutique on Fifth Avenue. It has asked a court to immediately terminate its lease, telling the court that, "The Fifth Avenue location was no longer a workable luxury destination and the situation was unlikely to change." The management of the virus and then the looting allowed by Mayor DeBlasio has been a disaster, with many calling for the New York Governor to remove him from office. The situation is growing worse by the day, as the city faces a collapse in tax receipts, which means significant cuts in city services. A sharp increase in gun violence has occurred during the past 30-45 days, as the Mayor undercut the power of the police. The Valentino flagship store is

located in the previously much-coveted section of 5th Avenue ten blocks east of 49th Street at the corner of Central Park. This area had been known as the most expensive retail in the world. The store had to be boarded up to prevent looting. Victoria's Secret has also invalidated its lease on its flagship store.



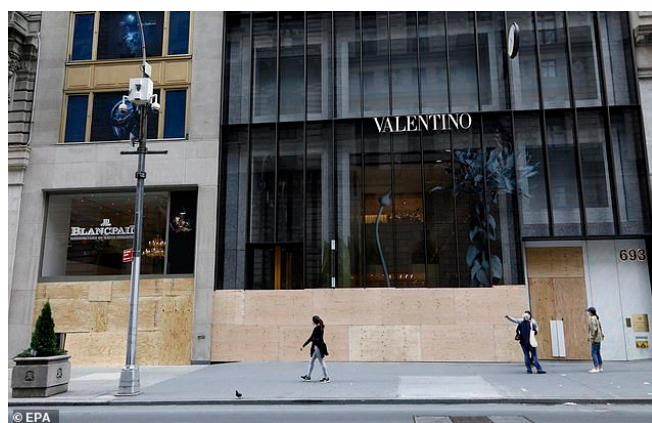
Valentino flagship store NYC



Valentino NYC flagship

Much attention is now focused on Hudson Yards, which is the largest mixed-use private development in US history, costing 25 billion USD and containing high-end retail, luxury homes, and Class A office space. Its offices have been empty and future construction projects halted. It is a city within a city, with 28 square acres that can house 125,000 people. Neiman Marcus, which has entered bankruptcy, is the largest tenant in retail. The attraction of New York City is very much in doubt, as a complete collapse in confidence in the local/city government has occurred. Other political leaders tied to the city have also undermined confidence. An estimated 40,000 people were reported to have moved from New York in May. New York plays a major role in the US luxury market, which is estimated at 90 billion USD. The European market is slightly larger at nearly 100 billion USD. Other major luxury centers in the US, such as Los Angeles, are experiencing major problems as well.

A survey of workers in New York, Boston, San Francisco, and Seattle showed that 50% of the people would move if the job allowed working from home. Three of those cities have very dysfunctional local governments that have fueled the unrest and destroyed confidence. The virus and the incompetence of the DeBlasio administration have now put a trillion-USD economy on the skids. The exodus is accelerating, and retail will suffer. The unrest has undermined the confidence of tourists, and this is only likely to get worse as he moves to reduce funding for police and other city services. A survey of moving companies indicates a near panic to exit the city. One moving company reported a 900% increase from a year ago.



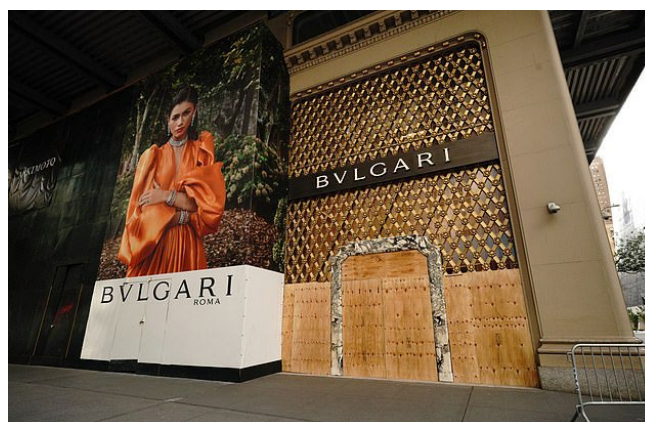
The retail show of a boarded- up Valentino

Bain and Company estimate the global luxury apparel market alone at 60 billion USD, which is 23% of all luxury sales, with accessories the top category. This segment has been hit very hard by the Wuhan Virus,



Valentino luxury store boarded up in San Francisco

and the impact from the collapse in travel alone has been devastating. An estimated 6% of all luxury sales occurred at an airport. Chinese travelers, which have stayed home since January, made up a large percentage of all shoppers. Adding to the difficulty of meeting the demand for the luxury apparel sector is its changing face. Bain estimated 40% of all women's luxury apparel is now modest fashion, which includes apparel for Muslim women. 20% of the women's apparel is "inclusive," which is the plus size groups.

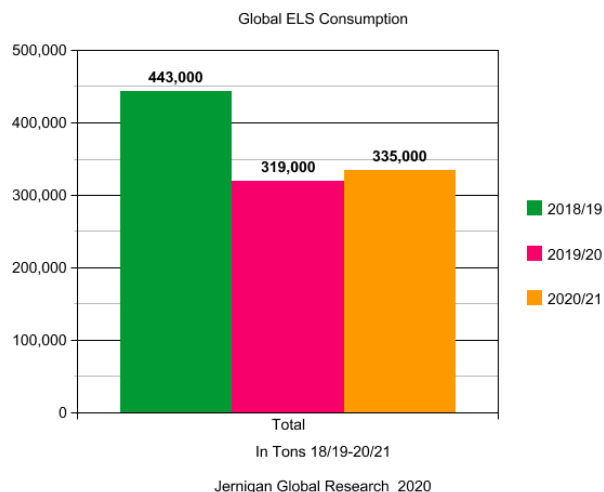


Bulgari luxury store NYC

The luxury apparel market was already experiencing headwinds prior to the virus pandemic, with the growth focused on beauty, shoes, handbags, and jewelry. The weakness in luxury apparel orders into the US is being felt across many brands and retailers. The loss of the travel and tourist segment appears set to remain for the rest of 2020. US Wuhan Virus infections experienced a second surge that resulted in a halt in the expansion of opening up in several important states such as Texas and Florida. In a reversal, New York, New Jersey, and Connecticut announced a travel restriction on travelers from several southern states, reporting they had to quarantine for 14 days upon arrival in

the tri-state region. Strangely, California, which also has seen a surge in the virus outbreak, was not in the restrictions, which led to some speculation of political motivations. Nonetheless, the restrictions will have a lasting effect on domestic tourism. The impact of the virus on international travel is far from over. Europe, as it reopened, banned US citizens because of the new outbreak. The US reported 39,907 new cases on June 25th, and the US has threatened to counter with a similar ban. This is reducing the prospects of a revival in tourism retail sales of apparel well into 2021, which means big problems for the luxury sector.

The weakness in the apparel luxury sector is now evident in a sharp drop in orders for the top-quality apparel, which has reduced demand for 60s and above count yarns. This impacted the demand for Pima, Egyptian, Australian, and US top grades. Total consumption of these yarns may be off as much as 30-40% for the next 12 months. US Pima exports will fall way short of USDA estimates of 600,000 bales, likely to reach no more than 500,000 bales. This will place 2019/2020 carryover at a hefty 387,000 bales, and



2020/2021 exports will also be affected. This weakness is already evident in the lack of any improvement in demand, as the open end and lower count yarn sector shows some improvement. Some merchants have begun to privately offer heavy discounts for offtake.



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WHY COTTON?

Comes from Nature, Returns to Nature

TURKEY'S DOMESTIC CONSUMPTION BEGINS TO RECOVER



Leading Turkish fashion retailer

Turkey's economy grew 4.5% in the first quarter of 2020, which is helping the country recover from the virus shock that hit in the second quarter. Household spending increased 5.1%. The spinning sector reports orders for yarn are much better than prevailed 30 days ago, but well below post-virus levels. Just as in China, the recovery is being led by the open end spinners that are enjoying better demand. Domestic demand for apparel and a slow return of export orders are helping the sector to improve. The domestic Turkish economy will be one of the least affected in the world by the Wuhan Virus. The spinners have gradually returned to the market and have canceled only a small volume of contracts. Recent offtake has heavily focused on Brazilian 2019 crop and Argentine styles. A record low CFR basis makes these styles attractive and is being used to replace US cotton, which has become uncompetitive. This has opened up an important sales opportunity for Brazil.

CHINA/US TRADE AGREEMENT IS FLAWED AS MARKETS REMAIN AT THE WHIMS OF BEIJING

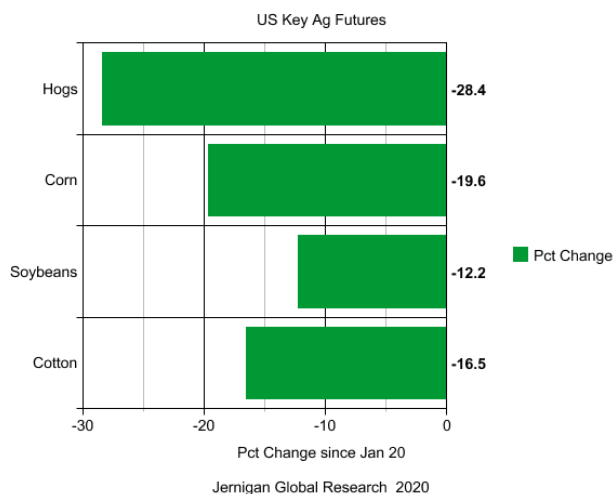
Remember the January excitement over the China/US trade deal and its implications for commodity prices? Well, the market was wrong. The Chinese were given a key tool, with sole discretion as to when they would buy, and they were given the power to use that inside information to play with the markets at will. At the time the Chinese delegation traveled to Washington to sign the deal, they knew the Wuhan Virus was already killing people in Wuhan and other locations, and they were silent. The deal allowed China to prevent new tariffs and allowed them cover to launch a major PPE purchasing scheme as the world remained blind to what was coming. Then came the worst global pandemic since the Spanish flu, which was unleashed by Chinese travelers as they arrived



around the world. Now we are entering July, which is past the halfway point in the first year of the trade agreement, and the major US Ag markets are all sharply lower than their January levels. The Chinese made big promises and then gave the world the virus that destroyed demand. They then entered the US markets for small volumes of some products and much larger volume for others. Pork, which was expected to be the main benefactor, has sold increased volumes, but that has not offset a devastated

restaurant trade. Dec Hog futures are down 28.5% from the January levels. Soybeans are down 12.3% from January, which is the best performance. Dec Corn posted a new low on Friday and is off 19.6% from January. Dec cotton, even after the rally off the lows,

is still off 16.5% from the January levels. The US cotton purchases by China now hold the US export sales for 2020/2021 hostage, and the whims of Beijing can be brutal. While all the attention has been on drawing China to rebuild its reserves at very low cotton prices, the US has ignored the continued collapse of the Domestic Cotton Spinning Industry, with no industry effort to switch focus to a value add. No lesson has been learned from attempting to play to the whims of Beijing over the last 20+ years. Friday, Beijing reminded the US that the agreement, as all Chinese agreements, was optional for compliance, as it said that if the US crossed the “red line” the deal would be in jeopardy.



INDIAN NEW CROP PLANTING EXPANDS WHILE IMPORTS FROM CHINA EMBARGOED

At midnight on June 23rd, all Indian customs offices posted a notice stating all imported containers and air shipments from China were banned, and that any located at customs would be embargoed. This follows China's aggressive attack on Indian soldiers in the disputed border region. US intelligence reports indicated a top Chinese PLA general ordered his troops to attack the Indian base in the Galwan River area. 20 Indian soldiers were killed, along with 40 Chinese soldiers. Sources were quoted as saying the Chinese wanted to teach India a lesson and make a statement illustrating Chinese power. The attack created outrage in India and led to the halt in Chinese imports, while it helped create a lot of anti-China feeling across India. What makes the attack even worse was that a group of Indian officers were lured to the Chinese camp to discuss peace. Instead, they were attacked, which triggered the engagement. The entire build up on the border and the new hostilities appear to be a part of a broader strategy



Indian Customs

by China to expand control across different parts of the world. China has continued a rather bizarre expansion strategy, claiming islands in the South China Sea and fostering aggression against Taiwan. At this stage, China has been quiet, erasing the skirmish from social media, and has not made a formal statement regarding a halt to Indian imports. The conflict will likely affect both cotton fiber and yarn exports to China. India exported approximately 13,000 tons of cotton yarn in May, as exports have been falling in recent months. If China does block Indian cotton imports it will mean

exporters will be shut out of two of the most important export markets, China, and Pakistan.

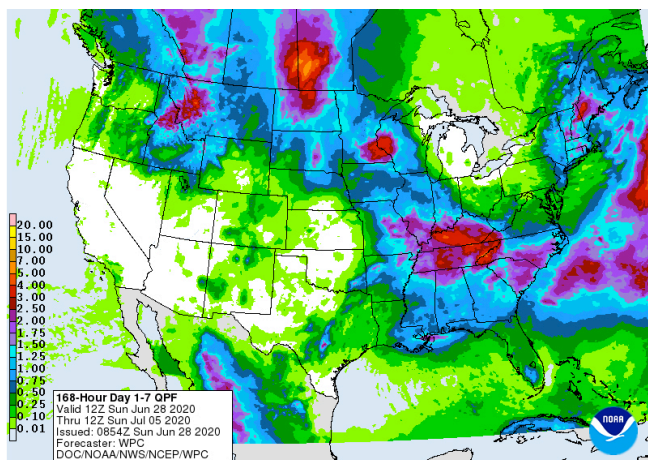
The 2020 Indian monsoon has advanced, and planting is rapidly expanding. In Gujarat, the Sardar Sarover Dam is at its highest level in five years, and water for irrigation has been released to Saurashtra (the state's largest cotton area), Kutch, and North Gujarat. As

of June 22nd, a total of 1,166,814 hectares had been planted to cotton in the state. The extended forecast has heavy rains covering most of the Indian cotton belt as we enter July. In Punjab, cotton acreage has now reached 501,000 hectares, which is the most in several years. As of June 18th, a total of 2,878,000 hectares had been planted, which is far ahead of last year's pace. The early performance of the monsoon has allowed early planting and the crop to get off to a strong start.

The Indian CFR export basis has been steady recently, with offers now on or off Dec futures, which offers reduced volatility. The S-6 1 1/8 offers are at 100 off Dec, and the S-6 1 1/8 are at 125 off Dec. The Rupee/USD exchange rate stands at 75.65, but some banks have forecast it could weaken to 80 as the economy

contracts. Bloomberg forecast the Indian GDP would shrink 10% in fiscal year 2020. The Indian Rupee has been the weakest Asian currency in 2020, and the Taiwan Dollar has been the strongest. This would, of course, increase the competitive discounts of Indian cotton for export. India is currently the center of attention for ELS exporters and East African exporters, with both offering very aggressive prices into this market. India is a very important market for both US Pima and Egyptian styles. India is the largest importer of US Pima, replacing China, with 2019/2020 purchases of 182,000 bales. However, 48,000 bales of those sales remain unshipped as a result of them being done at much higher prices and being based on the pre-virus demand.

USA: WEST TEXAS RECEIVES SCATTERED SHOWERS; LOWER US PLANTING INTENTIONS EXPECTED



Large areas of the West Texas region received limited rainfall, with a few areas receiving 1-2 inches during this past week. The Rolling Plains, which contains over 900,000 acres of dryland, received the best coverage.

Large pockets of High Plains acreage need a major rain, including the mixed irrigated acreage north of Lubbock, which is usually high yielding. The extended 7-day forecast has very limited moisture for the region. Attention is turning to the June USDA Planting Intentions Report. March intentions were 13.7 million acres, but the survey was completed before the virus outbreak. The NCC February survey indicated intentions to plant 12.98 million acres, but now expectations are that intentions declined, and planted acreage has fallen sharply to the 12.5 million-acre range. The June report has a high degree of volatility due to the issue of prevented and failed acreage. US planted acreage in the 2016 to 2019 period ranged from 10.07 to 14.10 million acres. A 12.5 million planted acreage with a 10% abandonment and 875 lb. average yield places the crop at 20.5 million bales. This provides a barometer to the impact of acreage levels. The West Texas region remains the key to abandonment.

ICE VOLUME AND OPEN INTEREST FALL AS CFR BASIS LEVELS COLLAPSE

ICE futures remained in its own world last week, as the July price squeeze was completed amid the largest global carryover of stocks outside of China on record. The July/Dec spread peaked on June 23rd, reaching 369 points July premium. This was the session prior to the First Notice Day, which occurred on June 24th, with Open Interest in July at 5,694 contracts

before the session began. 2,746 contracts traded with 2,694 of those occurring in the July/Dec spread. 2,526 contracts of Exchange for Physical transactions also occurred, which meant some group exited their July position. Open Interest fell to 1031 contracts as First Notice Day arrived. 171 notices were issued with trade groups on both sides. Volume overall fell to only 13,076

contracts in futures on the 24th, which was the lowest volume in two years. The excitement in July was over by First Notice Day, with the spread contracting. An additional 53 notices were issued on June 25th. Friday's session indicated that a few tagalong weak longs exited July, with it falling sharply in thin volume, and the July/Dec spread narrowed in to 70 points. Total Open Interest by the start of the June 25th trading had fallen to 158,981 contracts as compared to year-ago levels of 175,691 contracts and down 38.57% from 2018 levels of 258,821 contracts. Open Interest in Dec has fallen sharply, as the hedging of non-US growths has been reduced. Option Open Interest is also down more than 20% from a year ago.

The failure of the ICE contract to be an effective risk management tool is expanding. The algorithmic systems are not true market makers, nor are the HFT systems. Open interest in the forward months is pathetic and shocking, with little open interest past Dec 2021. The delivery system has made the market fail to rarely reflect carrying charges. The market is almost flat through the entire price curb. The Chinese ZCE futures are a more efficient tool for commercial trade than ICE. They actively manage the contract with commercial interest in mind, and some carrying charges are reflected, and the price curve is not flat.

In the real-world, CFR basis levels have continued their collapse, with many basis levels moving to new lows last week, led by Brazilian, Mexican, and East African growths. We have been discussing for weeks our expectation that CFR basis levels would fall sharply, as the burden of carrying record ending stocks outside of China would weight on the market. Indian CFR basis levels have stabilized, as they were rolled to Dec, and domestic prices held unchanged. Growers appear to be focused on new crop planting and are not panicking to sell seed cotton. As discussed earlier, Brazilian styles are now in the spotlight and are dominating trade around the world, outside the China Reserve. The reason for this is the willingness of merchants to discount the basis to stimulate offtake. The weakness in the basis has extended to 2020 and 2021 crop, and the discount to US styles has now reached record levels. The ability to buy a 2019 crop Brazilian Middling 1 1/8 at 500 points or more below US is resulting in all business focusing on Brazilian. This was illustrated in the US weekly export sales report, which was almost exclusively sales to the Reserve. While the China Reserve purchases have boosted US export sales, the CFR basis distortion and the squeeze in ICE have endangered US sales to all other key markets. 2019/2020 US export sales to Vietnam stand at 3.708 million running bales, but 2020/2021 sales will switch to Brazil until US/Brazil

CFR basis differentials return to normal. The US has 2019/2020 sales to Pakistan of 2.1282 million bales. However, 2020/2021 sales have already switched to Brazil, Argentina, Mexican, and East African styles. The same has occurred in Turkey, which purchased 1.775 million bales of US styles in 2019/2020. The US also has a large volume of 2019/2020 export sales outstanding, which will be carried into 2020/2021.

The East African 2019/2020 crop is smaller but needs to move. Export offers are presently very aggressive. Tanzanian Middling 1 1/8 is offered at 300 points on Dec for immediate shipment, and Zambian is offered at the same level. This has attracted buying to Pakistan, Argentina, and Mexican, which has also been aggressively offered. The first cracks in the CFR basis for African Franc Zone 2019 crop have appeared, with Ivory Coast Manbo/s 1 5/32 offered as low as 1100 points on Dec. This is approximately 200 points below most offers but still at a record premium over Brazilian. The Ivory Coast Cotton Ginning Association reported that only 20% of the 2019 crop has been shipped, which suggests stocks of 775,000 bales, a level never carried before. Such unsold stocks mean considerable cash flow problems for all parties.

Against this backdrop, we expect CFR basis levels to continue to be under pressure. The lack of pressure from the US remains focused on the success of shipping the Reserve sales to China, and for sales to continue. The US has 2,714,300 running bales of sales to China for 2019/2020 and 2020/2021 unshipped. These sales and future sales remain tied to the bizarre world of US/China relations. China continues to make only token purchases and no large purchases of the required commercial products. Moreover, as with all other agreements signed by the Xi Jining China, it is viewing fulfillment as optional. On Friday, the Chinese government warned the US that if it crossed a "redline" the trade deal could be in doubt. How can an agreement have meaning when it is subject to the latest whim of Xi? Any confirmed end to the trade deal would mean the unshipped US sales are in doubt. The volume would mean serious problems for US exporters. It would likely suggest the US CFR basis would face major pressure, as would ICE futures. The trade deal has made US Agriculture even more trapped in the spiral of Beijing whims, and cotton is at the forefront of that.

China's own ZCE cotton futures did not move higher with ICE last week and have shown strong resistance to moving above the 12,000 RMB a ton level. This is related to the inability of cotton yarn prices to reflect any increase. As we previously discussed, the focus of the limited demand is now in the lower count yarns,

and even the lower counts stocks are an issue, and mills are running far below capacity, about 50% in most cases.

Global retail is facing major headwinds, especially in the US. Nike, one of the top brands in the US, China, and Europe, reported last week a fourth quarter loss of 790 million USD, and that it was holding 7.4 billion USD of inventory, which was up 31% from a year ago. It also stated it canceled fall and holiday factory orders equal to 30% of the expected volume. H&M increased the number of stores it plans to close to 170. US retailer Nordstrom, a premier luxury retailer, announced it is laying off 25% of its staff. Texas and Florida announced a halt to the economic reopening amid an increase in

new virus cases. It remains our opinion that the forecast for the global recovery will be slower than that by USDA, leaving cotton stocks in a burdensome condition well into 2020/2021.

The low Open Interest of the ICE futures, which includes not only lower Trade positions but a much smaller than normal speculative position, leaves it in a position to be influenced by any external event that triggers either new Trade or speculative paper to enter the market. A near perfect consolidating wedge has formed, adding to next technical movement. From a demand standpoint, we continue to favor a downside breakdown, but these are strange times.

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