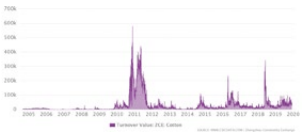

CHINESE COTTON FIBER & YARN RALLY STALLS

CHINA TEXTILE EXPORTS SURGE IN 2020

HEAVY MOVEMENT FROM ORIGIN WEIGHTS ON PRICES

US RETAIL SALES OF APPAREL PLUNGE 26.4% IN 2020

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KNOWLEDGE IS THE NEW CAPITAL

US ANNOUNCES TOTAL BAN ON ALL IMPORTS OF COTTON & TOMATO PRODUCTS FROM XINJIANG

UNITED KINGDOM & CANADA JOIN EFFORT

"Made in China does not just indicate a country of origin—it's a warning label"
– US Deputy of Homeland Security

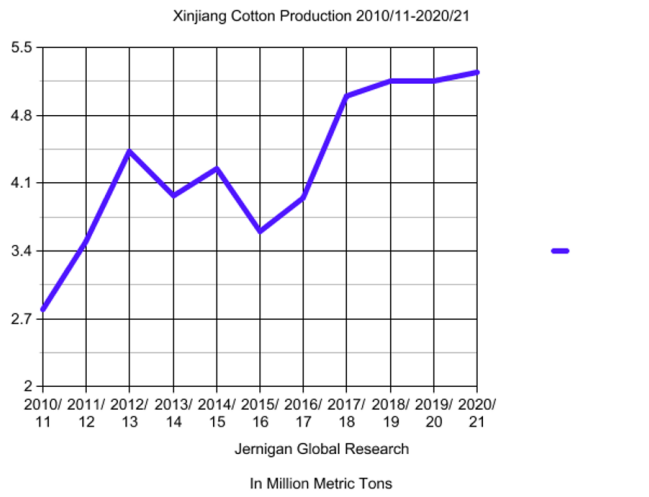
The US Customs and Border Protection (CPB) announced last week a total ban on all imports of cotton and tomato products from Xinjiang. The Deputy Secretary of Homeland Security made the announcement and made the statement, "Made in China does not just indicate a Country of Origin – it's a warning label," with regards to forced and slave labor made products. The announcement followed several days of new actions by the United Kingdom and Canada to halt imports from the slave labor factories of Xinjiang. It also ends a two year or more investigation and research into the labor situation in Xinjiang by the CBP. It also follows a host of actions against individual firms including the XPCC in December. Since the December

announcements, the CBP has seized 43 shipments of goods from China connected to the Xinjiang Production & Construction Corps worth two million USD. We discussed earlier what a total ban would mean. This ban has included all apparel and tomato products manufactured in other countries with Xinjiang-produced cotton, yarn, or fabric, and tomatoes. The CBP also confirmed it had the technology to test products to know where the cotton or tomatoes were grown.

This move comes as momentum had been building in Canada and the United Kingdom to take similar action. It is quite ironic that it also makes clear the divide with the EU, which just approved a new Investment Treaty with China and is taking no action on Xinjiang. For the US, cotton apparel sourcing from China peaked several years ago, and brands and retailers have been moving to other locations. However, in many cases the apparel is still made with Chinese fabric but is cut and sewn in a different country and carries a different label. In value terms, the US imports of cotton apparel from China peaked in 2010 with imports of 18.367 billion USD in cotton products, which included 14.702 billion USD of cotton apparel. The volume of imports also peaked the same year. Since that time the level of imports has declined, with a sharp drop in imports occurring since the trade war started. In 2018, the US imported 13.338 billion USD of all cotton products from China, and in the year ending in November 2020 it had collapsed to 6.146 billion USD.

Xinjiang is a major tomato producer

The switch in sourcing has followed two patterns; the first pattern began to occur in 2018 as the trade war

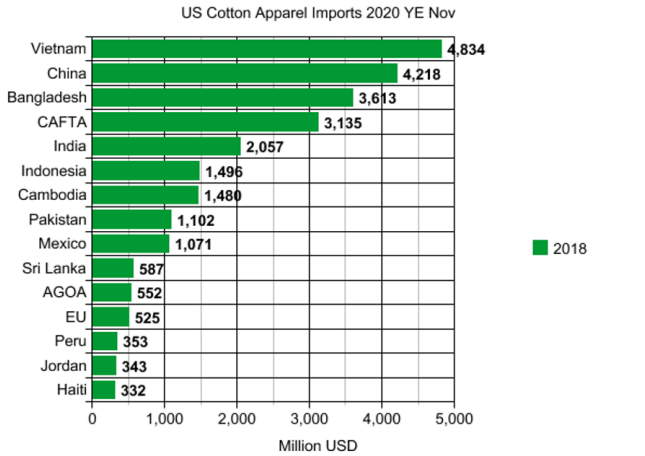


Xinjiang cotton production hit a record in 2020

accelerated. This pattern began by switching sourcing to Vietnam and several other cut and sew centers where the product was still made with Chinese fabric, sometimes at a cheaper price and with a different label, which avoided the China risk. In many locations, such as Cambodia, Jordan, and others, Chinese companies owned and ran the cut and sew operations. Two problems began to occur for this diversification. First, the CBP started checking for tariff avoidance by simply putting different labels on the product and transshipping through a second country. Second, the CBP increased their effort to halt the flow of any product made in Xinjiang with slave labor. The US already had a law that allowed products found to be made with slave labor to be embargoed, but it was a difficult and time-consuming task to work through the maze of the Chinese supply chain. A few high-profile cases, major efforts by some organizations, and lots of publicity began to cause brands and retailers to relocate to countries free of Chinese fabric and risk. As the US increased efforts in 2019, the movement out of China began to gain momentum. In 2020, there was major effort by many to clean up their supply chain and switch to locations that offered a complete supply chain.

While this should make the final break much less dramatic, it was only in the last six months that the switch began in a significant way to countries that produce their own fabric. The initial switch was to Vietnam. Vietnam in the year ending in November 2020 has replaced China as the top supplier of cotton apparel to the US. The issue for sourcing in Vietnam is that it produces only an estimated 25% of the fabric it uses in the cut and sew operations, while it imports over seven billion square meters of fabric annually, mostly from China. The country needs an estimated

30 billion USD of fixed asset investment in fabric production and dyeing and finishing. The primary potential investors are Chinese companies, which the Vietnamese government fears will not follow environmental protection guidelines. The good news is that Vietnam exports yarn to China and then reimports the fabric after it is dyed and finished. The numbers are staggering. In 2019, it exported an estimated 1.745 MMT of all yarns with 1.068 MMT estimated as cotton yarns. This means 5.88 million bales of cotton use are tied to their yarn exports. Vietnam is a major importer of US cotton as well as Brazilian, Indian, and many others. The key for the fabric imports will be to maintain some ability to request cotton fabric made from imported yarns. This appears to be already underway, with weavers exporting to Vietnam sourcing Vietnam yarns made with imported cotton. Very strong import demand from China for all imported yarns has occurred over the last few months. In the year to date through November, Vietnam shipped 4.834 billion USD of cotton apparel to the US compared to China's 4.218 billion. The value of Vietnamese shipments is down only 5.94%, while China's is down 47.22%.



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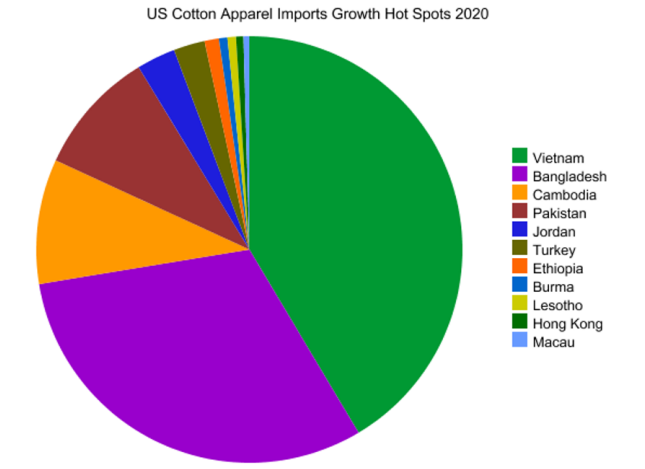

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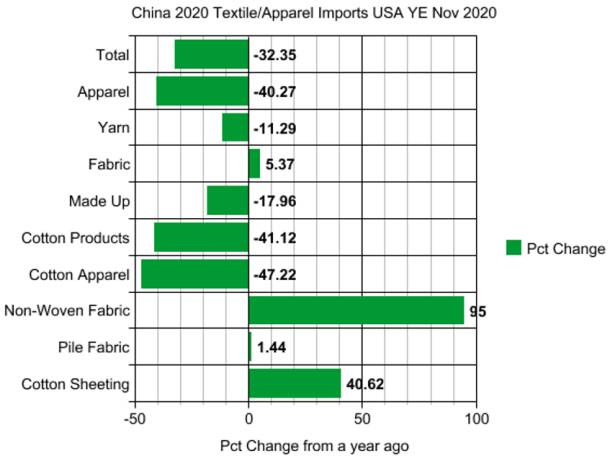
The problem lies for brands and retailers who have switched to sourcing in the cut and sew centers that produce no cotton yarn but instead depend on fabric imports. While India and others supply these countries, the supply is dominated by China. The number one problem is Cambodia, where in the year ending in November imports of cotton apparel from Cambodia into the US increased 4.06% in value terms to 1.480 billion USD. This means a large block of orders has been switched to Cambodia from China. Cambodia consumes no cotton and is a cut and sew center with Chinese companies the main investor and also supplier of fabric. Thus, these imports are at risk of being embargoed if the CBP test the apparel.



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We reviewed the January through November US import data for cotton apparel and products, and a sizeable shift has been underway as told by the aggregate total. A review of the largest volume products tells a clearer story. The important Women/Girls Cotton Trousers/ Slacks imports from China have plunged 48%, allowing Vietnam to become the top supplier. Some volume simply shifted to the cut and sew centers using Chinese fabric, with Cambodia again number one. With year-to-date volume up 7.7%, it is the fourth largest supplier. Imports from Jordan are up 3.34%. There was a sharp increase in imports from Ethiopia +13%, Burma +36%, and Tanzania +59.25%, all made with Chinese fabric. Then there appears to be the transshipments, as imports from Macau soared 572% to nearly 28 million USD. This is the theme in imports. Macau is expensive, and we find it difficult to believe that a legitimate cut and sew center is developing in this gambling center. As to a switch in this product group to locations that are benefiting cotton use, it was noted that increased sourcing from Bangladesh and Pakistan has occurred.

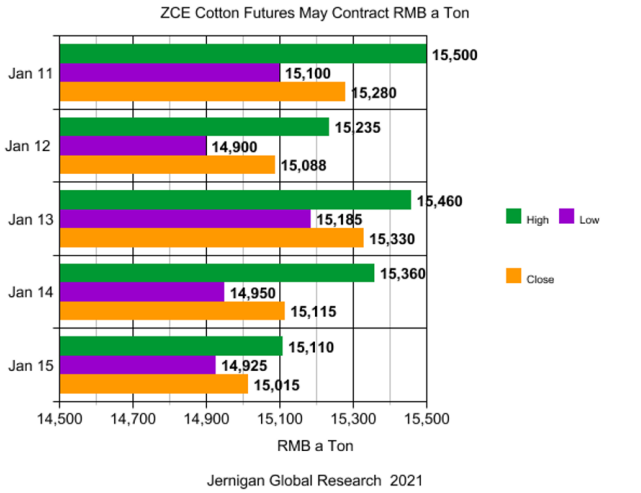
The same has occurred in Men/Boys Cotton Trousers,

with imports from China declining 51.44%, falling to the fourth supplier to the US. Here Bangladesh has become the top supplier and taken share from China, supplying over three times the volume of China. Orders have also switched to Vietnam, Pakistan, and Indonesia, which has aided cotton use in these regions. An increase in imports from CAFTA supplier Guatemala has also been benefiting US cotton. However, a sharp increase has been noted from the cheap low wage cut and sew center of Burma, which is mostly Chinese fabric. Imports are up 91.35%. Increased shipments from the AGOA exporters are also noted. Then we have the problem with a surge in imports from Macau.
Men/Boys Cotton Knit Shirts have seen US imports from China drop 48.5%, and the main cotton consuming regions to benefit were Vietnam, India, Bangladesh, Indonesia, and Turkey. The other switching occurred to the cut and sew centers. Cambodia was number one, but a large increase in volume was noted from the African exporters under the AGOA duty free entry. Large increases were noted from Tanzania, Madagascar, Lesotho, and Kenya. Increased shipments from Jordan and Burma also occurred. In a surprise, increased shipments were noted from Italy, as Chinese-run operations are now part of the Italian industry.

Women/Girls Knit Blouses is a large import group, and imports of cotton products from China has declined 46%. Vietnam is now the top supplier, but imports from Indonesia and the CAFTA suppliers of Guatemala and Nicaragua have been noted. Increased shipments from Pakistan have occurred as well as from Bangladesh. The cut and sew centers have also benefited, with imports from Cambodia up 14.5%, making it a key supplier. Imports from Ethiopia are up 91%. Transshipments from Hong Kong may be occurring, with imports up over 380%.

Overall, a trend is underway to increase the sourcing from the major cotton consuming exporters. However, a large block of the import volume is still exposed to China through the direct sourcing or via the cut and sew centers, which use Chinese fabric. A hard enforcement of the Xinjiang ban would mean serious problem for Cambodia and all their cut and sew centers. Brands and retailers will all face significant risk in maintaining a supply chain in these regions where they cannot be assured the cotton fabric is made from imported cotton or yarn.

CHINA DOMESTIC COTTON MARKET REACTS NEGATIVELY TO BAN



The Chinese domestic cotton futures and yarn market reacted negatively to the announcement of a total ban on imports of cotton apparel products, easing much of the excitement that has been prevailing. ZCE May cotton futures ran into resistance last week at 15,500 RMB a ton or 108.83 cents, which compared to a cash price of 106.18 cents on the same day. Cash prices for machine-picked Xinjiang T328 (base grade) has been running 15,200-15,800 RMB a ton. Mills have been restocking, and brisk movement of stocks out of Xinjiang has occurred. However, resistance has been evident in futures near the 15,500 RMB level as ginners actively hedge unsold inventories and certificate stocks for delivery. Certificated stocks have climbed to more than 2.9 million bales. The ZCE experienced weakness following Monday's highs as the first increased outbreaks of the Wuhan Virus resulted in a lockdown of over 28 million people. Futures dipped below 15,000 only to attempt the highs on Wednesday, but then came the announcement of the Xinjiang boycott which sent prices back for a retest of 15,000. Before Friday's late Arb session, the lead May contract ended the week down 3% for the period at 15,015 RMB or 105.43 cents a lb. The ZCE cotton yarn futures also faced heavy resistance at 22,488 RMB a ton and moved lower, also losing just over 3% for the period. Cash cotton yarn prices were steady. Man-made fiber prices were able to remain firmer with gains in PTA, cash polyester prices, and Viscose fiber prices. PTA and polyester futures closed near unchanged for the week.

Overall, demand for domestic cotton from the 2020 crop has been robust, with mills building inventories. The demand is driven by good nearby order books, the need to rebuild stocks ahead of possible virus closures of highways, and strong demand for cotton yarn. Most spinners report robust order books through March and April and are planning on running through the Spring Festival or not closing for as long as normal. In many areas, mills have begun to offer employees a bonus to not return home for the spring holiday but to stay at the plant in order to help control the spread of the virus, which has broken out again in several major cities. Cotton yarn inventories are the tightest in years, with many mills reporting they have been able to sell production as it is completed and not building any inventory of stocks.

The average unsold inventory of cotton yarn at spinning mills is estimated to be less than five days compared to 20-30 days at the same point during the last several seasons. This has been the source of the strong demand for both domestic and imported cotton. At the same time the yarn inventory is razor thin, spinners have been willing to rebuild cotton fiber inventories, which are now higher than a year ago. Virus transport concerns have also helped build inventory. Further downstream, the fabric mills have been building cotton yarn inventories that are now higher than a year ago, as they also wanted to have the needed stocks in case the virus disrupts transport. This allowed fabric mills to slow buying last week and halt the rapid advance in cotton yarn prices. Fabric mills also have larger fabric inventories.

From our discussions, the Xinjiang ban has cooled the cotton fiber and yarn market's bullish sentiment, with many now expecting heavy resistance to pushing prices above the recent highs in both fiber and yarn until after

the spring and New Year holiday. Most expect that spinners will be required to use a much larger volume of imported cotton or imported cotton yarn, which will affect cost. Not so much in yarn, but in cotton import quota limitations the higher cost of sliding scale quota could impact cost. Any higher cost of the supply chain would have to be passed on in export orders. This raises the questions of whether foreign buyers will pay. The fear is that if buyers balk the domestic producers will then focus on the domestic market instead of export, which would hurt profit margins and reduce prices. For now, it's an unknown, and a clearer picture should return after the holiday.

The polyester and man-made fiber is being affected by different dynamics. Robust PPE demand has driven reduced inventories and better consumption, which has allowed prices to advance. Polyester feedstock prices have also firmed as crude oil prices have rallied. China exports in December rose over 18%, and PPE exports broke all records. PPE exports in 2020 reached a record 53 billion USD and not just face masks but also gowns, etc. Textile exports in December hit 12.2909 billion USD, and total exports for the year reached 153.8394 billion USD for an increase of 29.2%. This has driven polyester and all man-made fiber consumption and created tight conditions in the sector as the market approached the spring holiday. Many polyester staple fiber plants are running strong, and many will not close for the Spring Festival or will reduce the normal holiday shutdowns. Many plants are also planning maintenance shutdowns, which has added to the tight supply. Cash polyester staple fiber prices have reached 6,250 RMB a ton or 43.40 cents. Recycled poly plants will suspend operations for the holiday. In Hebei, an important recycled polyester area, the virus surge has caused operations to be suspended. In some areas the electricity shortage has shut plants. Thus, tight conditions exist in the recycled polyester market.

CANADA'S AND UNITED KINGDOM'S EFFORTS TO BAN IMPORTS FROM XINJIANG WILL ALSO IMPACT OPERATIONS

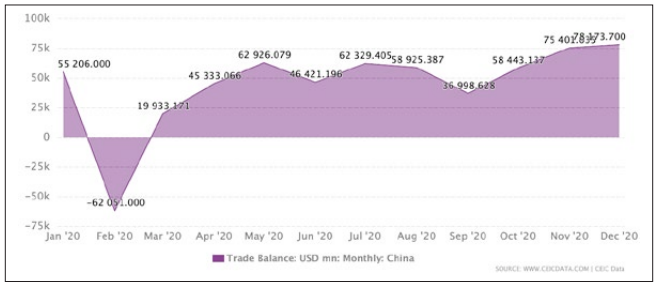
Canada joined the effort to halt imports of apparel from Xinjiang slave labor camps, and it is an important market with retail sales of apparel near 28 billion USD in 2019. It imports about 15 billion USD worth of apparel annually. China was the top supplier in 2019 with just over 36% of the market, with Bangladesh, Vietnam, Cambodia, and the EU the other main suppliers. China's market share is likely to erode in 2021 under the new restrictions. The UK is a much larger market, importing near 33 billion USD of apparel in 2019, with China the top supplier followed by Bangladesh, Turkey, and the EU. The UK has taken a totally different approach than the EU and has issued a major report criticizing the collapse of human rights in China and the situation in Xinjiang and Hong Kong. The UK is working on restricting imports from Xinjiang under the Modern Slavery Act. One of its largest apparel retailers, Marks & Spencer, has made a public pledge to halt any souring of apparel from Xinjiang.

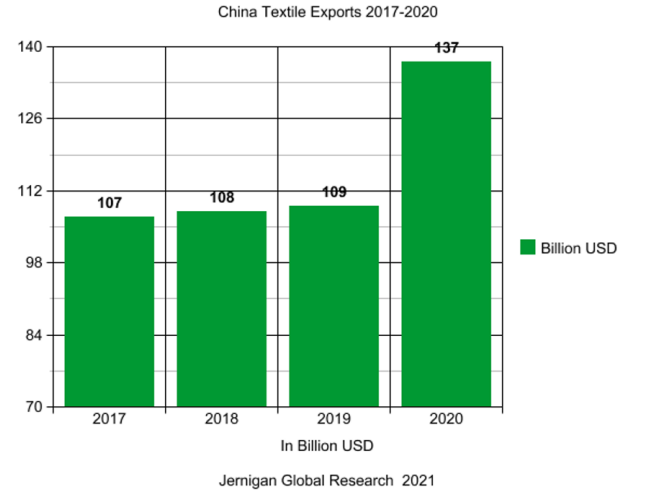
Thus, the combined impact of the US ban and the efforts of Canada and the UK will impact nearly 20 billion in potential cotton textile and apparel exports directly and also threaten a large volume of cotton fabric exports. This is only about 15% of the apparel exports. Chinese companies can avoid the loss of these exports by switching to the use of imported cotton yarn and cotton fiber, either through the increased consumption of fabric made with non-Chinese cotton in non-China locations or the increased import of cotton yarn and fabric. The bans will impact cotton trade.

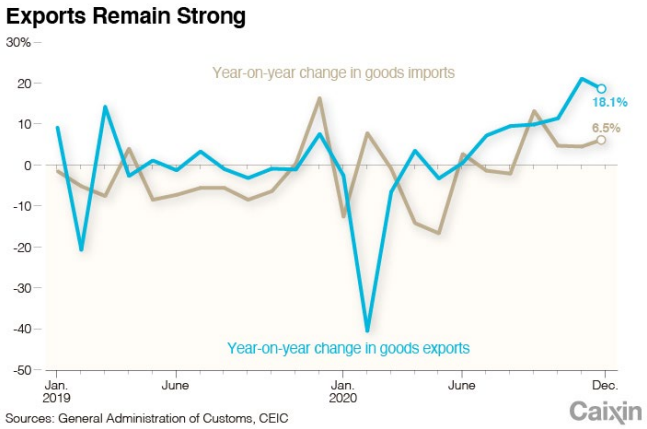
CHINA TRADE SURPLUS HITS A NEW RECORD IN DECEMBER AS EXPORTS SOAR 18.1%

CHINA EXPORTED 224 BILLION FACE MASKS IN MARCH-DECEMBER

China exports soared 18.1% in December to end the year strong. Its trade surplus in December was a mindboggling record 78 billion USD, which is larger than the entire GDP of Cambodia or Afghanistan. The number is simply shocking, as the world sent China the USD equivalent of the entire GDP of Cambodia in December in net income alone. This illustrates the greed that is prevailing, as companies in the home countries refuse to make the capital investment to improve living standards and pay living wages to their own citizens. The US leads the list as greed rules the corporate sector and as entire supply chains remain outsourced. The industry has battled every effort to force reshoring, leaving the US in a shocking position. The US trade deficit in December, according to Chinese Customs, stood at 29.97 billion USD. Almost 92 USD per person in the US was sent to China. Just for a few seconds think of the manufacturing infrastructure that could be put in place if the US invested 30 billion USD a month. For the year, the trade deficit will reach nearly 317 billion USD, meaning the US will have sent the equivalent of the GDP of South Africa or Finland to China in USD on a net basis. Gross imports stood at a surprising 451.8 billion USD. Again, the US paid China a USD amount equal to the entire GDP of Ireland. This all occurred as the US attempted to address the trade balance with a very successful trade agreement. However, almost every major US brand and retailer fought against any effort to re-shore to the US, as greed ruled the day. The EU posted a much lower trade deficit of 132.428 billion USD but was guilty of the same practices.





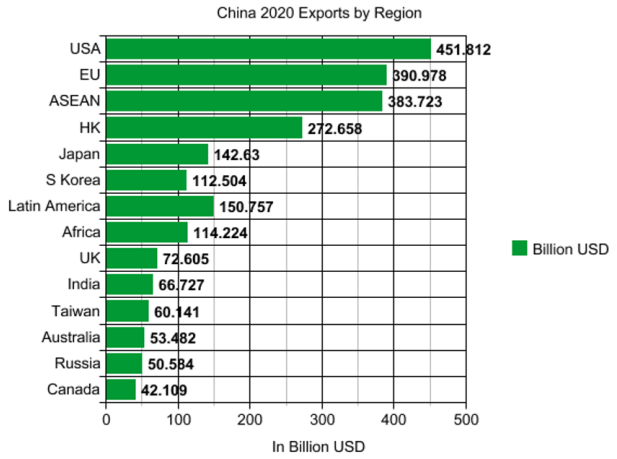


For the year, exports to the EU grew by 7.2%, US 8.4%, ASEAN region 7%, Canada 14.6%, Australia 11.2%, and UK 16.7%, while exports to Japan grew only .10% and only 1.8% to South Korea. Exports to India fell 10.5% and declined .50% to Latin America.

One of the greatest successes of 2020 for China was its record exports of PPE. After amazingly allowing the virus to cover the world, it supplied the PPE as it was attempted to be controlled. The General Administration of Customs told Bloomberg that China exported 224 billion facemasks from March-December which was enough to provide 40 masks for every man, woman, and child outside of China. This alone will create an environmental disaster, as these polyester- and plastic-based products end up in landfills and thrown in rivers, fields, etc., as is happening right now. The cost

of cleanup will exceed the cost of the products. The value of mask exports reached 53 billion USD, and 15.5 billion USD of other PPE equipment such as gowns were exported as well, along with a 31% YOY growth in medical equipment exports. If one did the math, the export of the virus has turned out to be quite profitable for China.

Moreover, we have the textile sector that has supplied the raw material, fabric for all the medical apparel and PPE equipment manufactured in other countries, such as the US. The US imported a record amount of fabric from China in 2020. In December, China exported 12.2909 billion USD of textiles, and for the year textile exports reached a record 153.8394 billion USD for growth of 29.2%. China benefited from having planned



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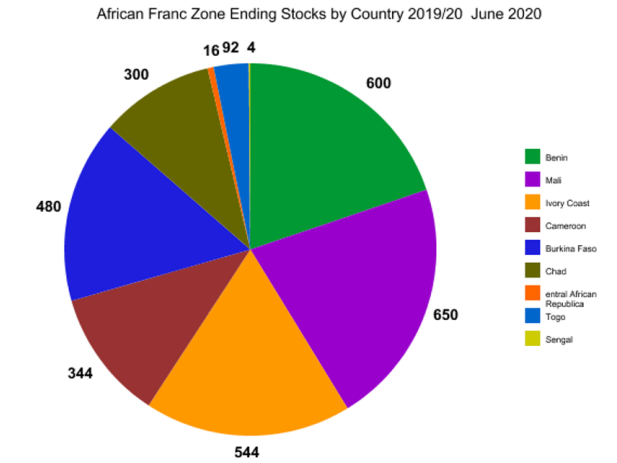
and executed the launch of a major PPE textile industry that was ready when the pandemic hit. The rest of the world had no plan, made no investment, remained unable to react, and instead just increased orders. Apparel exports in December reached 13.910 billion USD and totaled 137.382 billion USD for 2020, which reflected a 6.4% decline. China imported 1.209 billion of textiles and yarns in December and 13.781 billion for the year.

The environmental cost of this trade is not drawing the attention it should. Container shipping is breaking all records, using a record volume of fuel, and releasing record emissions, while record amounts of plastic waste are being disposed of by the shipping line crews, thus allowing massive plastic pollution in very remote areas along the trade routes. Massive port congestion was reported last week at the ports of Los Angeles, Rotterdam, Antwerp, Hamburg, and Felixstone, as container ships attempt to unload cargo from China. Friday it was reported that container shipping rates from China have reached 13,000 USD as compared to 2,000 not long ago for shipment before the Spring Festival. Someone is paying these costs. At what point will the US and Europe wake up to the fact that the true cost of the outsourcing is much more than the initial invoice price. Once environmental cost, shipping costs, and other expenditures are added, the outsourcing has been extremely costly. Then there is the national security risk of being focused on China so heavily. Just look at the current situation in Australia where trade built so heavily on China has proven to be a significant national and economic security issue.

ORIGIN SALES FROM INDIA, AFRICAN FRANC ZONE & OTHERS WEIGHT ON PRICES



In thousand 480 lb. bales Jernigan Global Research 2020

The movement in March ICE futures to 82 cents and the arrival of CFR Asia offering prices above 90 cents, in many cases, have triggered continued origin sales around the world from any producer holding inventories and also increased interest in selling forward some 2021/2022 production. When the Wuhan Virus was unleashed on the world in March, the entire global supply chain was unprepared. The chaos in the textile supply chain received lots of press, but not much has been said regarding what it did to the large producer groups and producers who had large unsold volumes of cotton on hand at the time. One of the largest holders of inventory was the African Franc Zone ginners, and marketing organizations that were holding large inventories of 2019/2020 crop and had only sold a limited amount of their 2021/2022 crop forward. Most

had paid high seed cotton prices and provided inputs to growers. They simply could not afford to panic and sell as prices collapsed. They made the unusual move of holding cotton at gins and in all available storage options. The strategy paid off. The AFZ origin selling groups have successfully held a large number of selling tenders as prices advanced. They now appear to have sold the 2019/2020 old crop stocks. They are advancing on 2020/2021 crop sales and have started the first new crop sales. These sales have placed merchants long the AFZ basis and made these styles competitive.

The CFR Asia basis for these styles is now at a discount to US and close to those of Brazilian while at a large premium to Indian. Middling 2019/2020 crop 1 1/8 offers range from 650 points on March for an Ivory Coast to 725 points on for a Mali. 2020/2021 crop is drawing a 100-point premium of more. 2020/2021 SM 1 1/8 is offered with the origin at the seller's option at 875 point on March and 900 on May.

While an impressive volume of AFZ has sold into Trade hands, it is India that is having the greatest influence as the CCI has depleted 2019/2020 stocks and the MSP has been replaced by spot prices from ginners at the top price for new crop. The spot price of a Shankar-6 1 1/8 ex gin has reached a new high for the season of 76.15 cents a lb., which exceeded the MSP and is allowing cotton to flow into Trade hands. Indian cotton remains the cheapest in the world, with Indian private exporters offering Shankar-6 1 5/32 at about 100 off March CFR Asia. This is at a 1000-point discount to Brazilian and also at a similar discount to an AFZ 1 5/32. 2020/2021 crop private offers of a S-6 1 1/8 to 1 5/32 SLM is at 200 points off March. New crop CCI ginned stocks offered from merchants are carrying a 300-400-point premium. 2019/2020 crop CCI Middling 1 5/32 is offered at 125-150 points on March, and a Middling 29.5-30.0 mm is offered at 200-250 points on March. The discount has been increased by the inability of Pakistani mills to buy Indian styles and a shortage of nearby 1% TRQ import quota in China. The burden of the Indian offers weighed on market sentiment last week.

In Brazil, nearly 200,000 bales are believed to have moved from growers to merchants over the last week, with the sales both on the BBM and private. The heaviest movement again occurred in the forward 2021/2022 crop, which accounted for 125,000 bales or more of the sales. The remainder of the business occurred from the old crop 2019/2020 and the current crop 2020/2021. Growers have cautiously sold the 2020/2021 crop due to weather concerns. The outlook for rains for the rest of January has improved, which is helping sales. Only 537,493 tons has been forward sold on the BBM out of a CONAB estimated crop of 2,651,400 tons. Brazil CFR Asia basis levels remained mostly unchanged last week.

In the US spot market prices hit the high for the season, triggering additional brisk movement of remaining stocks, which also added to merchant and coop long positions. Elsewhere around the world, a variety of smaller sales occurred from different regions. Sudan sold a large block of Acala. Overall, this movement provided additional Trade selling on ICE March and May futures.

ARGENTINA RECEIVES WELCOME RAINS WHILE RAIN PROSPECTS IMPROVE FOR BRAZIL

Last week brought beneficial rains to the Argentine cotton belt, with Chaco, Santa Fe, and Santiago del Estro all receiving 10-30 mm or more. The outlook favors additional rains for northern Argentina, which will aid the cotton acreage. As of the end of the year, planting had reached 400,000 hectares, which was about 100,000 hectares short

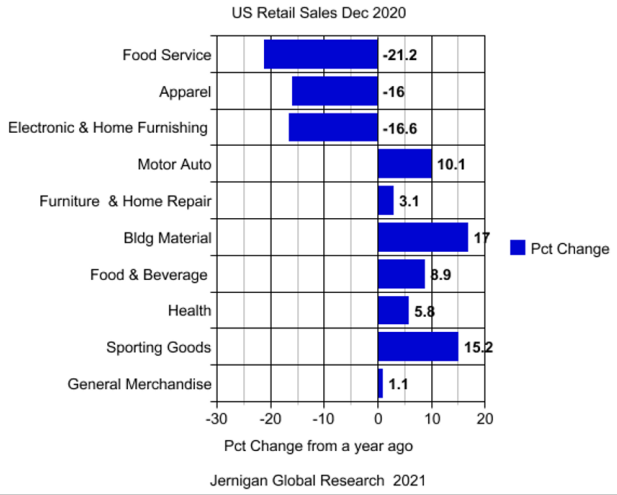
of intentions. It is past the planting date, but the rains may increase acreage. Confidence in the crop is improving, and a few export offers have been reintroduced. A SLM 1 1/16 is offered at 375 points CFR on July. Rain chances have also improved for much of the Brazilian cotton belt. Moderate rains are expected in Matopiba region, Mato Grosso ,

Goias, and MGDS.

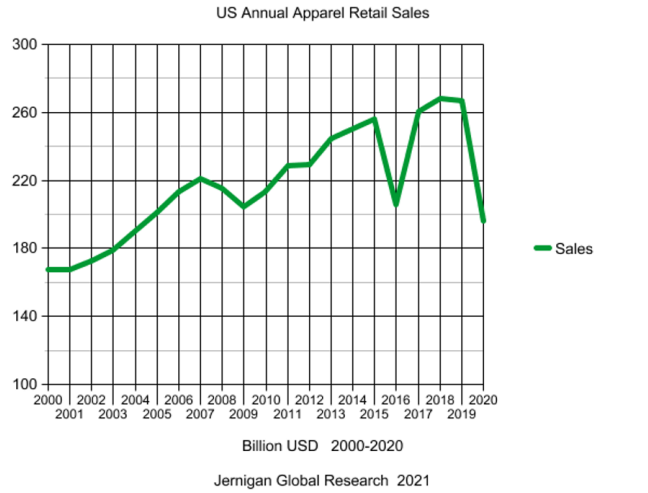
CONAB released its new crop estimates last week, and the cotton crop in Brazil was reduced 18,800 tons to 2,651,400 tons or 12.181 million bales, which remains about a million bales above private estimates. CONAB also is optimistic on the soybean crop.

December exports reached a record 370,456 tons or 1,702,060 bales. This is quite impressive since almost all is coming only from Santos port. The main destination was China, which took 152,753 tons. The other key buyers were Pakistan 67,195 tons, Vietnam 42,881 tons, Turkey 27,971 tons, Bangladesh 27,838 tons, and Indonesia 24,499 tons. Brazil CFR export basis levels remain unchanged. The ESALQ Index of spot 41-4-35 landed Sao Paulo posted large gains last week, reaching 84.74 cents after closing at 76.18 last Friday. The domestic corn price also surged last week to a new high of 16.20 USD per 60-kilogram bag, which is a gain of near 1.00 UDS for the week. Domestic soybean prices surged as well.

US APPAREL RETAIL SALES FALL 16% IN DECEMBER AND OFF A RECORD 26.4% FOR YEAR



2020 will long be remembered as the year of the Red Swan that destroyed the US retail apparel industry. Total US retail sales in December were weak at 540.9 billion USD, which was up only 2.9% from a year ago. December retail sales of apparel on a non-adjusted basis reached 30.360 billion USD, which represented a 16% year on year decline. We expected this decline since New York, California, and other important metro areas remained in lockdown. The management of many of the major US metro centers in 2020 has been a national disgrace and disaster due to their inept mayors and governors, which destroyed retail. For apparel, the market share of the big four retailers expanded while the rest of the market shrunk. Apparel was the worst performing segment of retail in December, except for food service. New York City was the largest US metro center in the US in 2019, but it collapsed in 2020, with the retail luxury apparel sector and fashion industry devastated. Total 2020 apparel retail sales in the US reached only 196.465 billion USD, a 26.4% decline, with the US market size falling below China for the first time. The management of the virus and its provision of stimulus for the retail sector in China's major cities stand in direct contrast to the failed management of New York, California, Washington, Illinois, and others.



USDA WASDE BRINGS LONG AWAITED REDUCTION IN THE US CROP

The USDA, in its January crop estimates and its final US crop estimate, lowered the size of the US crop by 996,000 bales to 14.95 million bales. The reduction came from the Southeast 225,000 bales, Mid-South 150,000 bales, and the Southwest 585,000 bales. The average US yield was reduced 25 lbs. to 825 lbs. The main surprise of the report was the length of time the USDA took to reduce the crop. It appears that the virus impacted survey and other work delayed the results. The USDA also lowered domestic use 100,000 bales and raised exports by 250,000 bales, which pulled US ending stocks down to 4.60 million bales.

The USDA made a number of changes in the world estimates that largely offset each other, with world ending stocks falling 1.203 million bales. World trade was increased for both 2019/2020 and 2020/2021. The most notable feature was the continued overestimation of Indian stocks, as we've discussed on numerous occasions.

ICE RALLY STALLS FOLLOWING HEAVY CROP MOVEMENT AND WEAKER CHINESE FUTURES

ICE futures reached a new contract high on Wednesday, January 13th briefly at 82.08 in March before closing lower. That resistance proved solid, and values ended the week just above Monday's outside range high. In reality, the market showed warning signs after the release of the USDA's much-reduced US crop forecast and reduced US ending stocks, with values rallying after the report but the gains were limited, especially given the excitement in the grain complex. Through Tuesday, the Funds were not net buyers in cotton but instead they were small net sellers according to the CFTC COT report. The Funds did appear to buy later in the week but did not commit to any sizeable volume. Speculative buying was noted in the out of the money May and July Calls. Futures faced a difficult time on any attempt to move back to the highs. First, crop movement continued from origin, which provided selling. Second, there was a reduction in the buying enthusiasm from China. This was true in new physical sales to Chinese spinners and also in the performance of the Chinese futures in both fiber and yarn. Chinese cash cotton prices stopped rallying last week, and the lead ZCE cotton contract faced very heavy selling at 15,500, which stopped any attempt to rally, with the ZCE cotton fiber and cotton yarn futures losing 3% for the week.

The ebbing of China's bullish enthusiasm we discussed in detail earlier was first linked to concerns over the emergence of the Wuhan Virus, which resulted in hard lockdowns of over 28 million people and is impacting the capital. These outbreaks are coming at a very crucial time, just before the largest holiday of the year, the Lunar New Year holiday. Shutdowns in this period will have serious economic impact and could change the upward momentum of domestic sales. The second effect came from the announcement of the total ban on US imports of cotton apparel made from Xinjiang cotton either in China or a third country. These events slowed the active restocking of cotton and cotton yarn that was underway. Chinese mills continued to inquire for imported cotton but were more price sensitive. The inability of the ZCE futures complex to follow ICE through 82 cents clearly was felt on ICE.

While export trade was active last week, mills were very cautious and did not chase the market higher when ICE rallied but instead only purchased when either basis or fixed prices were attractive. Chinese/US relations remain headed into very difficult waters. The departing Trump administration put in place a host of new measures to make it more difficult for a pro-

China Biden team to dismantle without damaging the US and appearing to cave to Beijing. The US added new state-owned firms to the blacklist of companies with ties to the Chinese military, with the shares of these companies falling sharply. The US also lifted all restrictions on interactions with Taiwan. The move to the blacklist included Xiaomi, which is the third largest phone manufacturer in the world. It appeared the Biden administration did stop a move to include Alibaba despite the fact that Jack Ma has disappeared. Chinese state media went as far as to print a letter to the founder of Starbucks asking that the company play a role in promoting US trade. It was clear by China's much-muted reaction to the recent policies that it expects the Biden team to soften the measures. The world is watching to see if it does. The new Biden administration's silence on the continued clampdown in Hong Kong, which included the movement of tycoon Jimmy Lai to a maximum-security facility in shackles for no other crime than standing up for the rights granted under the violated Handover Agreement, was noted.

Very limited interest continues from spinners in forward coverage, as confidence for the longer-term is lacking and offering prices are not providing much of an incentive despite the invert. ICE futures in the Dec 2021 and forward contracts are underpriced, but they are drawing limited buying since the Funds' buying remains in the front of the market. The speculative enthusiasm that is prevailing in the grain complex in the new crop futures is not evident in cotton. On Friday, the Dec 2021 contract traded only 1,231 contracts compared to over 20 times more volume in November soybeans and greater than 38 times more volume in December corn. The inability of ICE prices to stay competitive is linked to the lack of liquidity in those months and no commercial buying interest via forward export sales.

The market has one possible hope to move higher in the short-term, and that is new allocations to commodities and a fresh wave of Managed Funds buying. Absent of that, it appears we may be in for two side price action in the near-term. The Trade has a sizeable, long basis position, and more cotton can move in some locations if prices advance from here.

As we said last week, the merging of India's MSP and the market is moving volume into Trade hands. Indian cotton CFR basis levels are the cheapest in the world and should take business from US, West African, and Brazil in those markets that can use it. Mills are not very well covered, and this suggests continued demand on price declines. Thus, two-sided price action may be here for a while. The behavior of the Chinese market is important if it continues to be unable to move through 15,500 in the ZCE contract with interest in imported cotton likely slowing.

We are clearly moving into economic conditions that contain a host of unknown features. The possibility of inflation is the highest in many years, with the government stimulus widespread and the US introducing a new 1.9 trillion USD package full of features that would stimulate price pressure. At the same time, market speculation is reaching new levels never seen before, and the question is who is monitoring? It was reported that the daily volume in the largest US ETF that tracks Bitcoin has reached a billion USD in the first two weeks of 2021. Poshmark, an online marketplace for used apparel, experienced an IPO on Thursday with its shares up 140% with small traders driving the gains. So far, cotton and many other commodities have drawn only limited interest. It was interesting to note that an ETF that tracks corn futures was placing advertisements on Twitter last week seeking new investments. The tools are there for the massive speculation that has occurred in Bonds and Equities to flow into commodities if triggered. JP Morgan, which controls funds around the world and is a major player in China, issued a recommendation to buy Commodities/Sell Bonds increasing the allocation to 6% for Commodities in an idea portfolio. Ag markets do not have the liquidity to easily manage any massive inflow from the host of derivative products that Wall Street can conjuncture up. Just read about the host of speculative products that are open for energy futures. A Futures Exchange in the US has applied for NFL Football Futures to allow the online gambling companies to hedge. This should serve as a warning signal that the markets have lost their way.

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