



CHINA BLACKOUTS  
BEGIN TO AFFECT YARN  
PRODUCTION



CHINESE DEMAND FOR  
HIGH COUNT YARNS  
STRONG



US GOES TO WTO TO  
FIGHT ENVIRONMENTAL  
DAMAGES



PAKISTAN TEXTILE/  
APPAREL EXPORTS POST  
GROWTH



# JERNIGAN GLOBAL

— KNOWLEDGE IS THE NEW CAPITAL —

COTTON DEMAND ROBUST AS PANDEMIC  
CHAOS EXPANDS IN USA/EUROPE

UNDER TRADE AGREEMENT US COTTON SALES  
TOP 2.4 BILLION



2020 will be remembered as the year that a record number of “Black and Red Swan Events” shook the world and challenged almost every concept of our belief system. The year began with the Red Swan “Wuhan Virus” that has caused the greatest economic loss to the global economy in history and has shaken the foundation of the West. This was followed by China’s total disregard for International Treaties, with it calling the 1997 Hong Kong Handover Agreement no longer valid followed by the destruction of the center of global capitalism as we knew it. Almost as shocking was the inability of the United Kingdom, once global



power, to do anything about it. This was followed by the outbreak of riots and unrest that have pushed many of the major US metro centers, along with gross mismanagement, into an irreversible spiral of decline. These events will remove the major US metro centers from their global roles and allow the accession of Shanghai and others. The year ended with the almost unthinkable, a major election fraud in the US in several states that has exposed additional flaws further shaking confidence. Despite all these calamities, the US and Global consumer has remained resilient and is turning to e-commerce. Cotton prices initially collapsed but then began to recover and have now returned to pre-Virus levels, despite the raging second wave that is causing more deaths than the first wave.

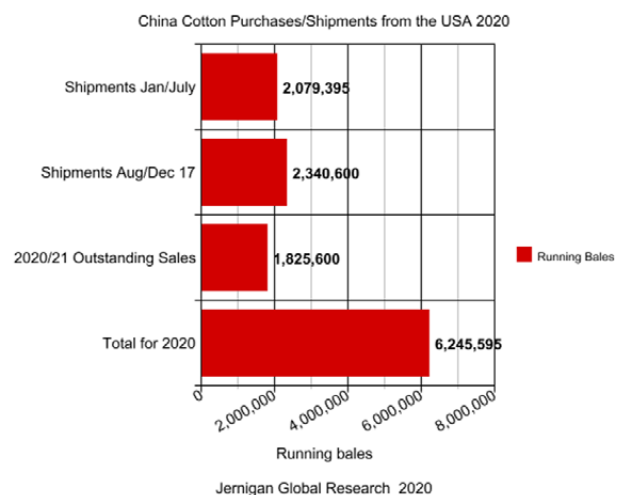
Christmas 2020 will be remembered for its departure from normal in most of the world outside of China. Europe has entered a lockdown that has made it difficult for any Christmas cheer, with many areas limiting family gatherings. A new, more deadly strain of the virus was discovered in the UK and another in South Africa. This resulted in new travel bans on flights from these countries. Many Europeans were attempting to flee before they went into effect. The severe lockdown in southern UK is estimated to cost 2.67 billion a week as all retailers of apparel and footwear were forced to close. The closures come after most stores have only been open two weeks since the November lockdown. The disorder these events cause to apparel retailing is yet not fully known. The important UK market has been among the hardest hit. It has had the dual disruptions of a lack of a Brexit deal until Dec 24. Then came the ban by Japan at Christmas of all inbound flights to halt the spread of the new strains.

The first consumer market to return to the pre-Virus level was China, where retail sales of apparel have now exceeded that of the US for the first time. The booming Chinese retail market has impacted global cotton trade, boosting imports of cotton fiber and yarn. Then, a return to basics has boosted lower quality cotton use across the markets. In addition, the slave labor and concentration camps in Xinjiang has increasingly turned the sourcing of cotton products to the non-Chinese exporters. This has resulted in increased orders for Pakistan, India, Vietnam, Turkey, Bangladesh, and others. The Chinese demand for cotton yarn imports has boosted cotton use in smaller markets such as Indonesia, Thailand, Taiwan, and others. After the experience of the Wuhan Virus, the major global spinners all first worked off cotton inventories and then moved to a minimum inventory position amid fears of another demand setback. As orders increased and conditions in these markets returned to Pre-Virus levels,

spinners have found themselves continuing to need to cover needs. Prices have generally been in an uptrend for much of the time since the lows were made, which has limited any spinners from starting to cover forward.



*US Trade Rep Robert Lighthizer negotiated the most successful trade agreement ever for US Cotton*



China has again played a major role in global trade in 2020, and a few numbers may shock you. First, the US China Trade agreement will go down as one of the greatest trade agreements ever accomplished with China. Bloomberg, which has a very anti-Trump stance, has given its reporting in any matter related to accomplishments a clear bias. Last week, it published a mockery of the accomplishments of Robert Lighthizer, the US trade representative that negotiated the trade agreement. The reporting was poor and clearly had no understanding of the accomplishments of the trade agreement. First, there are the tariffs collected under the agreement on Chinese imports. The import data shows that, in apparel, Chinese exporters have paid



the duties, not the US consumers, and have reduced the import price. For cotton, Lighthizer and his team have accomplished what would have been thought impossible a year ago. As of December 17, the US has shipped 4,419,995 running bales to China in 2020. In addition, an additional 1,825,600 running bales of US cotton has been sold to China and not yet shipped. It appears that, despite the brisk nature of the US Ag sales, China will not fulfill all the commitments. That can likely be blamed on the election. Overall, China has purchased near 2.4 billion USD worth of US cotton in 2020. Without the trade agreement, sales would likely have been 500 million or less. Trade Secretary Lighthizer, instead of being mocked, should be remembered for the great success he and his team accomplished and how he looked after US Agriculture and Cotton in particular.

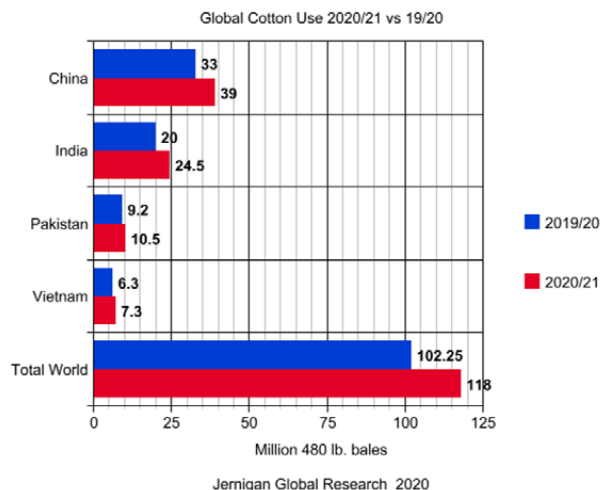
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US trade rep was part of the Reagan team, NY Times

Thus, as 2020 comes to an end and the second wave of the virus along with emerging new strains cause retail havoc for the Christmas Season in the US and Europe, cotton demand is still holding. Cotton prices retreated as the second wave of the Virus and the new restrictions in the UK, Europe, and US were announced, but soon found demand on the price weakness. In China, the Christmas week saw the ZCE futures retreat to a major discount to cash prices. Cash cotton yarn prices, however, rallied amid brisk demand from downstream buyers. This demand stimulated new Chinese mill offtake of imported US, Brazil, and other growths. In addition, import demand for higher grades has been stimulated by a continued decline in staple length and strength in the Xinjiang classing data. This means China will likely take all remaining US high grade supplies. The size of the Indian crop remains a concern and brisk sales from the CCI. It is buying new crop, and this means the movement of the crop is not a burden. In the machine picked styles, there is simply no basis pressure, and demand is evident for the Brazilian Middling styles, and the US lower grades are drawing record export sales. US

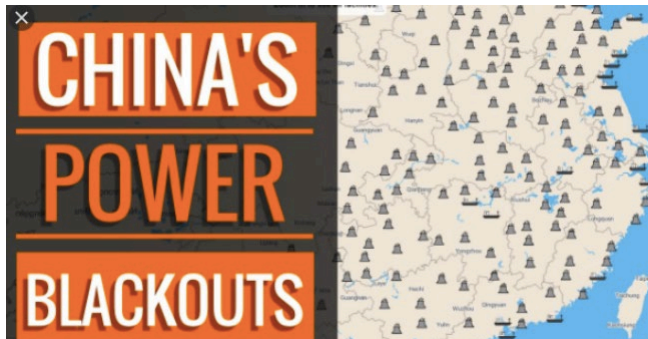
export sales for the week ending December 17 were again over 400k, with all major importers buying. US export sales in the last five weeks are now not far from two million bales. We expect the US will commit all stocks for shipment before new crop movement. The weather has added to concerns in Brazil, and the situation in the US suggests it will have the major machine picked available for much of 2021. This will allow for easier absorption of the African Franc Zone surplus.



These conditions have kept demand brisk as the year ends. The main driver, whether it is China, Vietnam, or Pakistan, is that the textile/apparel supply chain is empty, and all segments need some replenishment, which means the higher prices have moved themselves along through the pipeline and are easier to absorb. Yarn prices in China advanced last week, which is aiding yarn import demand and lint offtake. The excitement is missing because everyone is moving slowly and not having confidence of what the next string of order flow will look like. A year ago, these same conditions would be stimulating confidence in forward coverage. Today, the entire supply chain knows that what was once thought impossible can occur. For the US and Europe, it is very unclear what the other side of the pandemic will look like. What we do know is that somewhere down the pipeline the consumer will likely return for apparel. Last week, the Fashion Opinion feature in the Financial Times was titled "I Love My Clothes-I'm Just Not Buying Any." The focus was on the consumer focusing on home, food, drink, etc. during the lockdowns. After all, you only go out for essentials and then you are covered with a mask. The article went on to point out the desire to dress up was still there, just put-on hold. This very well may give us a hint of what lies ahead in late 2021 and beyond. For now, it is the lack of inventory that is helping to give us demand that is much more robust than what our daily reality would tell us.

# CHINA HIT WITH MASSIVE ELECTRICITY SHORTAGES: WILL IT IMPACT COTTON CONSUMPTION RECOVERY?

## OVER 150 MILLION PEOPLE LEFT IN THE COLD



*Power blackout, Guangdong*

China's domestic apparel market is the most robust in the world, and that has provided a major boost to the country's textile and apparel industry, with many operations running at 90% or more of capacity. The boom in operations has filtered down to the small and medium sized industries, which is providing a major economic boost. These robust conditions along with an overall booming industrial sector that has been lifted by the record trade surplus of November have increased electricity demand. At the same time, the hubris of the CCP Chinese leadership has continued to expand its illegal trade embargo against Australia to force it to submit to its will. The actions to intimidate Australia has been extended to China, forcing its puppet states under the Belt and Road in Africa to remove the mining rights of Australian Mining companies. The move to ban Chinese coal imports is having a major impact on the country's coal supply. In 2019, Australia supplied 57% of all Chinese thermal coal imports and 40% of all coking coal imports. Australian coal is also in much higher quality than the Indonesian, Russian, and other coal being attempted to be imported to replace Australian. In addition, many of the modern coal burning energy generating plants were built to burn only Australian coal and cannot make the switch without major adjustments in equipment. Chinese coal stocks have collapsed since the embargo, and power plants are reporting major shortages of coal.

This has all occurred when industrial production, not just in Textiles/Apparel but across the entire economy, has returned to full operations. In addition, its winter and heating needs are accelerating electricity requirements. This did not appear to be part of the consideration when Xi and his team decided to force Australia to buckle. Instead, it was hubris first and

the needs of the economy and people second. These events have triggered major moves to limit electric use and caused massive blackouts across the country, including in the industrial heartland. Guangdong province borders Hong Kong and has a GDP of 1.6 trillion USD, near the same as the NYC metro area prior to the Virus and the home to major textile and apparel companies. Last week, Guangdong without warning experienced a major power blackout. This included Shenzhen. The authorities announced that electricity



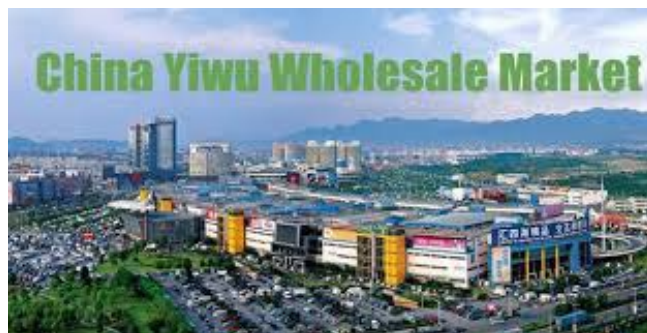
*Blackout cities*

consumption had been moved to a “war time state.” Guangdong experienced a power and water blackout caused by the failure of the power grid. Posts that appeared on social media showed total darkness and a shutoff of water supplies. Mobile phone networks also collapsed.

This has resulted in massive energy rationing in Guangdong, including all major cities. Most streetlights have been shut off at night, causing increased crime and accidents. Zhejiang is one of the major textile powerhouse provinces in China and is especially home to major man-made fiber operations. Zhejiang has been hit very hard by the blackouts and the rationing of electricity. In several cities, residents are not allowed to turn the heat on unless temperatures drop below 3 degrees C and must have a max heat of 15 degrees C. This has affected at least 150 million people or a number equal to 46% of the entire US population. Henan, another major textile area, has seen power cuts to business that included such detailed instructions as elevators can run only on the upper floors. The provinces of Shaanxi, Jiangxi, and even Inner Mongolia have been impacted.

The extreme nature of the shortages can be fully seen in Yiwu City in Zhejiang, which is home to a major commodity wholesale market that serves the world. It has over 75,000 companies that supply companies with small orders with trade over 11-12 billion USD annually. The city stores and factories have been hit by the

power blackouts that have forced the companies to buy diesel generators to supply the power needed to run the plants and keep the stores open. In Hunan, some factories have been required to cut operating hours.

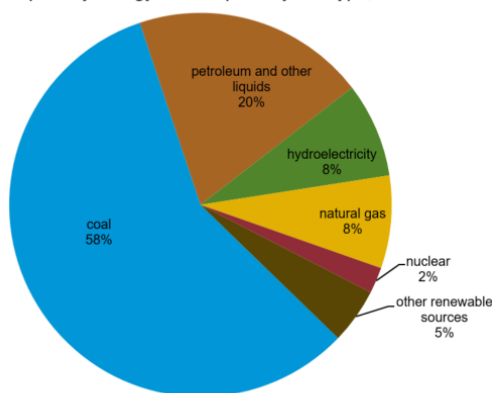


*Yiwu City in the dark*

It appears the Chinese press is attempting to limit any press coverage of the shortages and the impact. The largest impact is on the citizens, with at least 25% or more of China's population impacted. Even Shanghai has reduced lighting at shopping malls and other locations. China has stood out in its development for its heavy investment in the needed infrastructure for business. It has supplied the power grids, roads, and bridges, and built the modern port facilities that have given it a major advantage over all developing nations. In 2020, it will again draw heavy FDI that will depend on this infrastructure. Its heavy reliance on coal and the building of a record number of coal plants at the same time it pledges to reduce carbon emissions means that it depends on coal, and this means record imports for the near future. Thus, the ban on Australian coal, if it continues, will cause major problems and accelerate the power outages.

The first signs of the power cuts having an impact on textile production have surfaced in Zhejiang, Hunan, and Jiangsu. Spinners and fabric mills in these regions have been impacted and forced to cut production of both yarn and fabric. Mills have been unable to fill some orders as a result, which has increased the demand of cotton yarn imports. In addition, the same mills are concerned about how long the power cuts continue and their longer-term impact. If the cuts expand or are prolonged than cotton consumption overall will be impacted.

Figure 1. China total primary energy consumption by fuel type, 2019

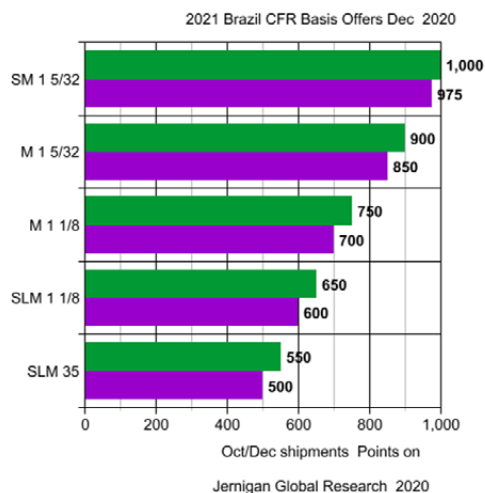


Source: BP Statistical Review of World Energy 2020  
Note: Total may not equal 100% because of independent rounding. Includes only commercial fuel sources and does not account for biomass used outside of power generation.

*China's source of power*



## BRAZIL CFR BASIS SHOWS SOME WEAKNESS NEARBY TIGHTNESS EASES



The tightness in nearby supplies has eased as farmers have sold 2020 recaps increasing the supply available to merchants. The last 90 days have been dominated by merchants rushing to full fill shipment orders, with December shipments likely to reach a record. As farmers unloaded recaps, merchant inventories have been rebuilt, and we are now beginning to see new offers emerge with a wider catalog of grades. A block of better grades is now available, which should be quite attractive to spinners given their discount to US Green Card High grades. Middling Plus 38 staple offers are at 975 points on March, Middling 38 at 925 points on, and Strict Middling 37 are offered at 975 points on March. These compare to a GC E/MOT 21-3-37 at 1500 points on March or higher. Middling 37 offers are at 825-900 points on March. The standard Middling 36 is offered at 750-850 points on March.

In the lower grades, SLM 38 is offered at 700 points on March, SLM 37 is offered at 650 points on March, and SLM 36 is offered at 600-700 points on March. These offers compare to the E/MOT GC 41-3-36, which is offered at 1000-1050 points on March. The premium comes from higher strength and better mike and the better consistency with the green card classings. Brazil will have a volume of 2020 crop to move over the next six months. Increased cautious offers of New Crop are now in circulation but drawing limited attention. 2021 SM 37 is offered at 1125 points on Dec 21, SM 36 is offered at 1000 points on, Middling 36 is offered at 950-975 points on Dec 21, and SLM 1 1/8 is offered at 850-875 points on Dec.

Brazilian styles moved in volume last week with China an active market. Sales occurred from both bonded warehouses and from origin. Attention remains on the weather; many models suggest rainfall in January will again become scattered in Central and Northern Brazil, which will raise concerns both over soybean yields and full season cotton. At this stage, soil moisture deficits for the second cotton crop cotton to be planted in late January and February remain a concern.

Global traders noted with interest EMBRAPA's forecast that 80-100 million hectares of degraded farmland could yet be converted to row crops. This, of course, has major ramifications for future cotton and soybean acreage. The Real/USD exchange rate weakened last week to 5.20. The ESALQ INDEX of a 41-43-35 has continued to decline and has moved to a discount to ICE ending 12/23 at 73.20. The retreat reflects the easing of the nearby tightness in supplies.

## CHINA ADJUSTS SLIDING SCALE IMPORT TAX FOR 2021

China has announced adjustments to the calculations of the sliding scale import tax for 2021. The adjustments are minor but are estimated to lower the cost of imported cotton by 300-400 RMB a ton or up to 2.77 cents a lb. at the current exchange rate and cotton import price. The government has also extended the

time for the usage of the 500,000 tons of sliding scale quota issued to the processing trade in late 2020 for cotton arriving by February 2021. The expectations are that a larger volume of sliding scale import quotas will be issued in 2021.

## CHINA DEMAND FOR HIGH COUNT YARNS EXPANDS/COTTON YARN IMPORT DEMAND MAINTAINED

Demand in China for the high count, higher quality cotton yarns has shown further improvement over the last several weeks, with 50/s and 60/s counts enjoying strong demand. The demand is tied to full order books through the first half of 2021. Spot prices of cotton yarns and grey goods did not decline last week when ZCE cotton futures declined early in the week, showing the resiliency of the market. Throughout the textile supply chain, strong demand has been noted for the spring, with the higher count yarns used in the lighter, thin high-quality fabric enjoying the strongest demand. The demand improvement has also extended down to the 32/s count and 40 count yarns. The improvement has increased purchases of US Pima and consumption of ELS cotton. Normally, Australian cotton would be used in these yarns, but mills face difficulties in getting these cottons through the embargo and



have been working through inventories. The Basis on the small supply of US longer staple high grades has shown improvement and are more expensive than Australian if normal duties were applied.

Strong demand is also noted for cotton yarn imports, November imports are believed to have reached 170,000 tons. Even with this large volume stocks of the 32/s and better count yarns are reported tight at the port warehouses. The rally over the last 10 days in domestic yarn prices has

further expanded the advantage of imported yarns to 800-1200 RMB a ton from 300-500 which is increasing demand. Good demand is also occurring in the lower count yarns where imports are replacing domestic yarns. The demand for imported yarns has also recd a boost from the power cuts in Zhejiang, Hunan and Jiangxi with buyers turning to imports.

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Making farmers lives better with a more equitable supply chain

**WHY COTTON?**  
Comes from Nature, Returns to Nature

Several months ago, we discussed how we thought cotton yarn import demand would be strong in the November and forward period. This is occurring and looks likely to continue through into the first quarter of 2021. The entire Chinese textile apparel chain is rebuilding inventory. The drive is brisk in spring order books, and the fear is that some areas will see transportation disrupted by a winter outbreak of the virus. When the virus is detected in an area, the authorities usually move to halt all road transport in the region, limiting movement to rail traffic. For companies throughout the supply chain, the experience of early 2020 suggests raw materials needed for industrial production will be distributed. This includes livestock

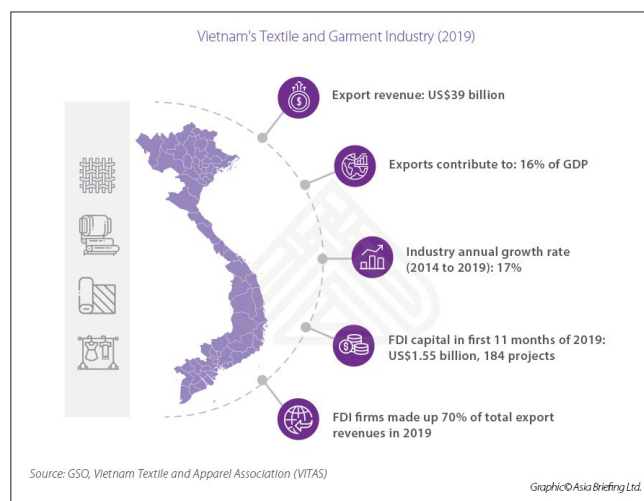
operations that are filling inventories with feed. Ginning in Xinjiang is expected to be completed in early January, and many ginners are operating at full capacity to finish ginning and to get the cotton shipped before an outbreak occurs. This is creating brisk movement of Xinjiang cotton, with the high grades selling briskly and with spinners paying extended premiums for the PCC higher quality ginned lots.

The cotton textile industry has been operating at its best levels in years since September and looks to move into 2021 in good condition, which should mean strong import demand for both fiber and yarns.

## VIETNAM EXPANDS BUYING TO USA/BRAZIL/INDIAN/AFZ

Vietnam cotton inventories remain light, which is keeping this origin active taking up a variety of styles for nearby shipment. November cotton imports reached 111,664 tons, which was up slightly from a year ago but nowhere near an inventory building level. What stood out was that Brazil styles were the top origin, replacing the US. This had been expected following the CFR basis advantage of Brazilian styles. Imports from Brazil in November reached 43,090 tons, which outpaced US imports of 36,732 tons. India imports expanded to 17,379 tons. August/November cotton imports have reached 435,335 tons, which compares to 408,826 tons the previous season.

August/November imports were focused on the same three styles. US was the top at 220,724 tons followed by Brazil at 109,032 tons and India at 44,561 tons. Imports of Argentine reached 10,470 tons after the Argentine basis discount expanded. In December, Vietnam mills have been active taking up US discounted styles, African Franc Zone, Brazilian, and Indian styles.

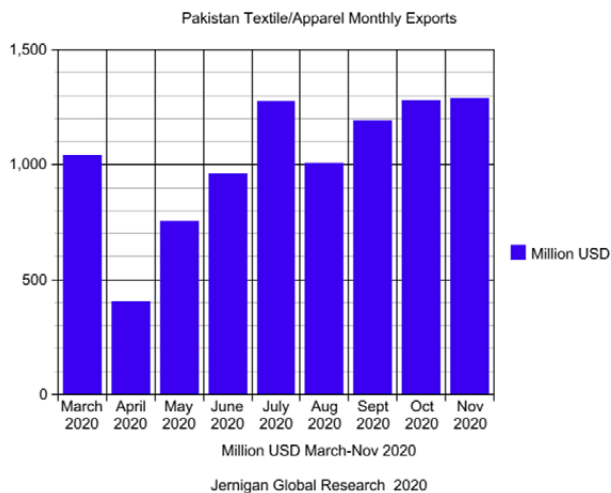


Vietnam exporters have been experiencing record cotton yarn export demand to China, and these sales are expected to continue well into the first quarter of 2021. Apparel exports are expanding to the USA. The only threat to the current robust conditions is the US investigation into Vietnam's currency policy. Vietnam has been named a currency manipulator by the US Treasury Dept 3 tier rules.

The rules have been laid out in a law, and the move was not a Trump Administration-motivated action. Switzerland was also named. Both countries meet the criteria and were required to be named. Vietnam is a communist-managed economy, and its exchange rate is managed by the state. Its biggest problem was that it spent nearly 5.1% of its GDP in Foreign Exchange intervention to weaken the Dong's value. The fear is that the designation will mean trouble for the booming relationship with the US. Apparel importers who fear a new tariff. Vietnam is now the second largest supplier of apparel to the US.



## PAKISTAN APPAREL/TEXTILE EXPORTS POST YEAR-ON-YEAR GROWTH IN NOVEMBER



The Pakistan Textile/Apparel industry is enjoying a robust period, with export demand now better than in the post-COVID-19 period. Brands and retailers are moving cotton product sourcing to the region

and Knitwear, and Made-Up exports are running near capacity. November Textile/Apparel exports reached 1.286 billion USD, which reflects 9.27% growth from a year ago. Knitwear exports expanded 27.75% from a year ago to 327.525 million USD, while Readymade Apparel exports expanded 3.43% to 258.88 million USD. Bedwear exports are booming at 238.619 million a 21.52% YOY growth, and Towel exports have expanded to 79.447 million USD, which reflected 21.52% growth. Other Made-Up exports expanded 16% to 66.339 million USD. Exports of other textile products has also shown growth.

Cotton consumption is near capacity and expected to remain at that level through much of 2021. The ban on trade with India means Pakistan will be a major cotton importer from all other exporters throughout 2021. Brisk demand is noted for any discounted styles. ELS consumption is also expanding, and imports of US Pima and Egyptian are also set for a record.

## US SEEKS TO HOLD CHINA ACCOUNTABLE FOR ITS LOOSE ENVIRONMENTAL STANDARDS AT WTO

Peter Navarro in his now famous work on the “China Price” pointed out that there were eight components of China’s price advantage. Labor at the time, 2006, was the largest advantage, but also included in the eight was the environmental advantage provided by China’s lack environmental laws and oversight. While the labor advantage has been reduced, the environmental advantage has remained a very important part that has actually expanded despite the Chinese efforts to clean up the worst industries. The lack of environmental controls has proven very important in Textile, with China now dominating the global dyeing and finishing industries as well as fabric production. The environmental damage done to local regions in China has been horrifying but has allowed Chinese companies to basically run many of the non-



Chinese companies out of business. Vietnam has a booming textile/apparel center, but its supply chain lacks a critical component – fabric production and dyeing and finishing. Chinese companies have made numerous requests to establish plants in Vietnam, but the local governments have denied permission, fearing a repeat of the environmental damage done in China.

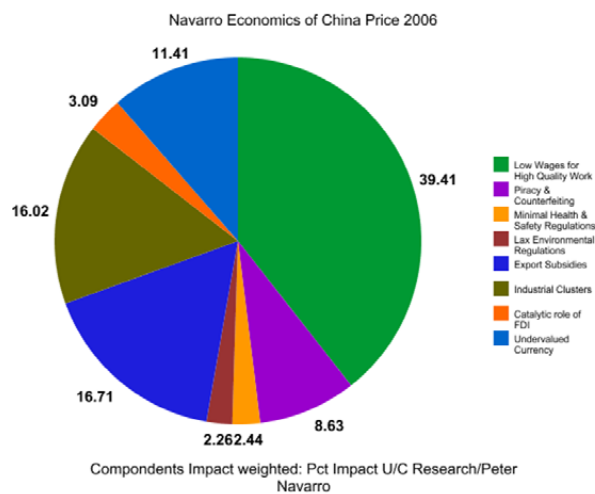
repeat of the environmental damage done in China.

The Fabric capacity of the US and Europe has been devastated by China. Any company setting up a fabric production or dyeing/finishing operation that meets US or European environmental codes faces a major price disadvantage against China. This is why the efforts to boost US PPE production have failed. Record PPE Fabric imports are occurring, with the China the primary source. We continue to point to the foolish

nature of the lack of a US or European plan and the national security risk associated with depending on imported PPE fabric. Again, China is the world's largest fabric producer of all types and dominates many lines almost completely. The China price and its eight components have simply driven the rest of the world out of business and prohibited new investments.

Peter Navarro's role in the Trump administration has been underreported. He is one of the most astute in the world on the price advantages offered by China and how they undercut any attempt to boost manufacturing anywhere else. The strong, almost narcissistic anti-Trump groups have not allowed the full advantages of the Navarro role to be felt as much as it should. As it appears the Trump Administration is ending, major efforts are being made to make it very difficult

for a pro-China Biden team to undermine the recent accomplishments. One of the efforts has finally worked its way into the US pushing for a change in WTO policy. The USA has now requested that the WTO treat a company's failure to uphold a basic environmental standard as a subsidy and to allow other countries impacted to apply countervailing duties to even the playing field. This is clearly an effort to finally address the environmental advantage enjoyed by China and will have a big long-term impact on textiles. The change is being made under a US push to advance sustainability goals through trade rules. This is 20+ years past due and could only now be presented as a result of the excellent work of Peter Navarro. If this can be fully implemented, the US, for example, could apply an environmental duty on any Chinese product that is not meeting the accepted international environmental standard. For fabric, the duty could be substantial.



The announced Biden team are all Pro-China, Pro-WTO, and were part of the Obama administration's strong WTO efforts that damaged the US across industries but, of course, allowed cheaper imports to flow into the US. For this group to back such a proposal will be a challenge. The same group is pushing for the Paris Climate accord, which gives the most polluting nations, including China, a free pass. The Paris Accord places the burden on the US, not China. The percent of the China Price that can be contributed to an environmental in fabric production could be as high as 25% or more of the price advantage. If a duty near that level could be applied, the ability to stimulate new investment in fabric production outside China would receive a major boost.

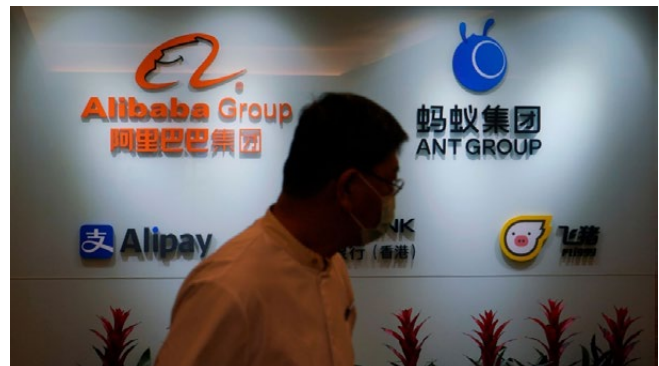
## ICE FUTURES STALL AS PANDEMIC SPREADS FURTHER RAISING NEW ECONOMIC CONCERNS

ICE futures last week experienced light volume but still illustrated the anxiety around the intensity of the second wave of the Wuhan Virus, with new, more deadly strains resulting in a wave of new travel restrictions and lockdowns. Even in China, new cases were reported in Beijing and people were instructed to not leave the capital. Overall, the reaction in ICE cotton futures was mild and had been expected following heavy movement from origin and a stalling of mill demand. China ZCE futures also showed similar reaction but recovered. In the case of the ZCE, it has been interesting to note that Chinese Physical cotton prices have steadily moved to a premium to futures. The May ZCE contract ended the week 14,845 RMB a ton or 102.80 cents, which was at a discount to physical prices that reached up to 15,500 RMB or 107.34 cents a lb. for the deliverable grade. It was also interesting to note that the spot Jan ZCE contract closed at a premium to May at 14,880, which reflects an invert for the first time. While the futures market reflected the emotion of the virus spreading, cash cotton yarn prices as well as Fiber prices moved steadily higher during the week. Overall, the weakness in ICE allowed active mill price fixations of on call positions and new physical sales.

Daily arrivals continued in India, with prices holding steady. Export offers of private ginned cotton remains the cheapest in the world and at 2-3 cents a lb. below CCI offers. CCI sales slowed, but CCI offering prices remain firm. CCI 2019/20 crop Middling 1 5/32 ended the week offered at 300 points on March, CFR. The African Franc Zone basis is showing some weakness as Merchant Long positions now begin to accumulate storage and carry risk at port warehouses. A large container ship last week was attacked outside a major port, illustrating the issues. Brazilian CFR basis levels

are again retreating from the recent highs and reaching levels where spinners are interested. Middling 1 5/32 and Middling 1 1/8 are at discounts to US by several cents. The weakness coincides with heavy farmer movement of 2019/2020 crop recaps which have boosted Merchant inventories. The focus of interest in US styles remains the discounted lots that dominate offering.

The importance of the Chinese apparel market was highlighted when Nike announced earnings that showed sales in Greater China were up 24% to 2.4 billion USD, while North American sales rose 1% to 4 billion. Concern is building over the latest moves by Xi to rein in the semi-private companies that have been the driver of the economy. The unpredictable actions of the XI government are being called the new “Red Swan.” Two months ago, the pending IPO of ANT financial was expected to be the largest IPO in the world, drawing all of Wall Street to participate with a valuation of 315 billion USD. China halted the IPO and then, over the Christmas weekend, announced the company must be reorganized and return to its payment’s roots. This is estimated to have destroyed 50% or more of the value of the company. It all appears part of the effort to rein in Jack Ma and the tech sector. This occurred despite Jack Ma being reported to have offered any part of ANT to the government that was needed for party purposes. Then came an investigation into Alibaba itself, adding further pain to the country’s most successful businessman. Alibaba shares have fallen 30% since the ANT IPO was called off, with 13% or more of the decline occurring when the investigation of the monopolistic practices of Alibaba were announced. In another development, Shandong Ruyi, the Chinese textile group that once attempted to dominate the industry, has defaulted on a billion RMB bond, and concern is over the pending default on other debt. Then, the state-owned fund that





had pledged to buy 26% of the company has pulled out of the agreement. The company debt is now trading cents on the dollar. The total lack of the rule of law and corporate governance in China is now highlighted. This is a concern as its apparel market takes on even more importance as the largest in the world as it enters 2021.

Overall, cotton prices appear to have pent up demand awaiting any correction in prices. On the other side, the next several weeks appear to have several emotional challenges to any return of spinners confidence that would allow them to expand coverage on price strength. The Wuhan Virus crisis is far from over. The

crisis expanded over the Christmas period in the US and Europe as well as much of the rest of the world. As hospitals reached capacity, new strains caused new anxiety, which prompted a return of travel bans, with Japan announcing that all inbound flights were halted. Even in China new outbreaks were reported in Beijing and other cities, and it is clear the people on the ground are preparing for new outbreaks. Then, in the US, several important dates are approaching that will add to the drama over the election fraud issues that assure some uncertainty. All this suggests cotton will continue to move in a two-sided pattern, with an upward bias with support on weakness.

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@Globalej



@JerniganGlobal



Eddie Jernigan



Register for Research  
info@JerniganGlobal.com



ed.j@jernigancg.com



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