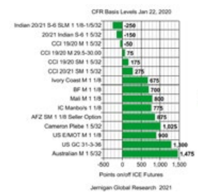
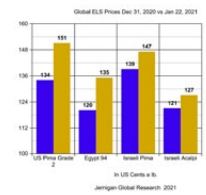


INDIAN CFR BASIS WEAKENS AS ICE RALLIES

BRISK DEMAND CONTINUES FROM PAKISTAN AS EXPORTS EXPAND

SOARING FREIGHT RATES BENEFIT TURKEY AS A SOURCING CENTER



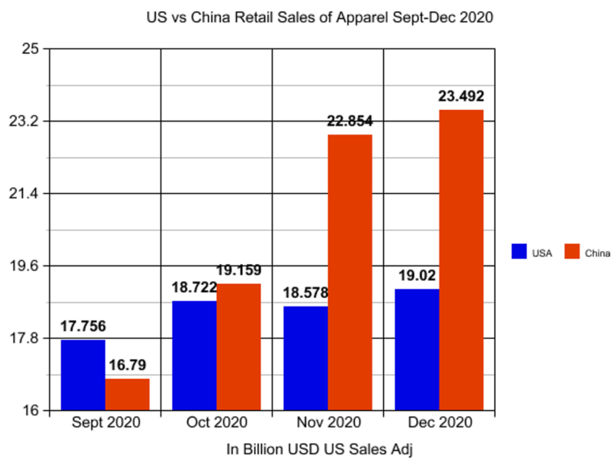
GLOBAL ELS PRICES MOVE SHARPLY HIGHER

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

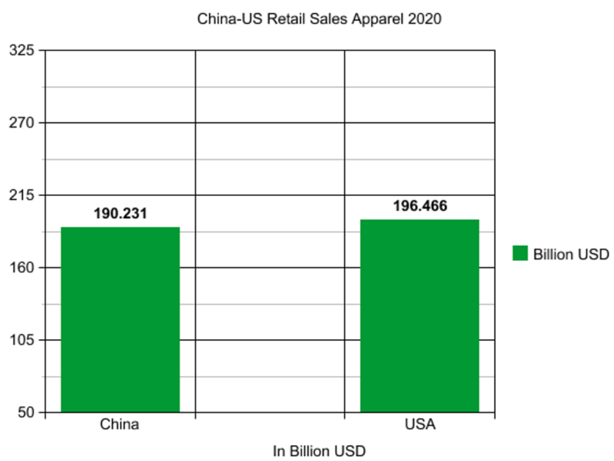
CHINA RETAIL SALES OF APPAREL WEAKEN IN DECEMBER

China's retail sales in December were generally softer than expected, posting 4.6% year on year growth. Apparel sales expanded only 3.8%, losing the momentum from the Singles Day excitement reaching 152.7 billion RMB or 23.492 billion USD. The weaker performance in December resulted in total 2020 apparel retail sales of 190.231 billion USD, which reflected a 6.6% YOY decline. This was short of expectations and resulted in China not replacing the US as the world's largest apparel market. US apparel sales in December, unadjusted, declined to 30.360 billion USD, which was a 16% YOY decline. Adjusted monthly sales for seasonal factors were 19.020 billion. Total sales for the year plunged 26.4% to 196.465 billion USD, which left the US as the largest market by a few billion. The reduced growth appeared to be due to consumers instead buying jewelry, which was up 11.6% or Cosmetics +9%. Overall, China's economy in 2020 grew at an annual rate of 2.3% after expanding 6.5% in the fourth quarter. The growth was impressive but did not come from domestic spending. China's consumption as a share of GDP fell 3%-4% in 2020. The growth was led by supply side measures fueled by state-owned investment. Fixed asset investment increased 2.9% in 2020. However, state-owned investment grew 5.3% vs. private owned at 1%. The average per capita expenditure on apparel

in 2020 was estimated at 1,238 RMB or 190.46 USD, which represented a 7.5% decline and was 5.8% of total disposable income. The domestic market remains robust as compared to Europe and the US, with apparel sales expanding, but the growth rate of October has not been maintained.



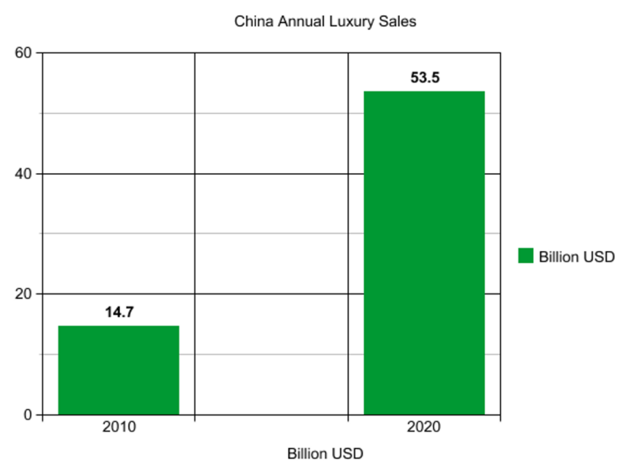
Jernigan Global Research 2020



Jernigan Global Research 2021

The lockdowns associated with the Wuhan Virus outbreak are causing a significant concern. Social media reports indicate that lockdowns are spreading but are not being made public. In addition, citizens are being taken to quarantine areas if tested positive. This is having an impact on apparel sales. It has surfaced that in the cities under lockdown food is in short supply and prices have surged 50% or more compared to areas not under lockdown. In Xinle City in Hebei, all supermarkets, grocery stores, and shops were ordered to close and people told to not leave their homes. This is a city of 517,000 people. Such measures will affect all economic activity, especially retail. The lockdowns are a real threat to the New Year holiday retail sales. The concern has reached the point that it was announced to be able to travel during the New Year holiday period all travelers will be required to have a negative virus test within seven days of travel. The Ministry of Transport said that it expects the number of travelers over the seven-day holiday will take 40% less trips than 2019. These conditions will obviously slow retail sales.

The luxury end of the market, however, was very strong. According to research by Bail &Co and TMall, the Chinese consumer spent 346 billion RMB on luxury products in 2020, which is robust 48% YOY growth. The percentage that went to luxury apparel was not released, but jewelry and leather goods were reported as the top sellers. This increased China's market share in luxury products to 20% of the global market. Since 2011, the luxury market has expanded from 100 billion RMB to the 346 billion spent in 2020. The main consumers are the millennial group, which is 320 million people. The emerging driver is Generation Z, which is at least 20 years old and numbers 80 million people. China's millennials exceed the total population of the US. Pravda, the French luxury brand, just announced sales for the second half of 2020, and it reported China's sales were up 52% from a year ago. The company has a major flagship store in Shanghai where it established Pravda Rong Zhai, a restored 1918 mansion once owned by a famous Shanghai family. The mansion hosts art exhibits and major events. In China, luxury is an experience.



Jernigan Global Research 2021

The success of China's luxury market is drawing new interest in the Chinese market from all the major brands, and we are increasingly seeing new lines introduced in Shanghai instead of Paris, Milan, or New York. All three locations remain in some stage of a lockdown due to the second wave of the virus.

Chanel fashion show on the Great Wall of China

Berluti, a luxury men's wear brand owned by Paris-based LVMH, announced it will open the Paris Fashion Week with a video while introducing its full line in March at a live, in-person show in Shanghai. Berluti is making a serious push into China, opening three new boutiques to add to its current line of ten stores. Two of those stores will be in the tech capital of Shenzhen and in Ningbo. China also has its own luxury fashion house, Shang Xia, which was started by a JV with Hermes. It has stores in Beijing, Shenzhen, and Paris. It also has shops in other retailers. It just opened a 2700 SF boutique in the Peninsula Hotel Beijing and just announced it will open a design hub in Europe. It opened a major flagship store in a French-style villa in Shanghai that dates back to 1912 in the Xin Tian Di neighborhood. The luxury brand's focus is on ready to wear, footwear, and tableware.

Morgan Stanley released a study that found that by 2030 the spending power of China's lower-tier cities will be 9.7 trillion USD. What makes this so surprising is the fact that it is equal to the GDP of Japan and Germany combined and close to the total GDP of China in 2015. In the Morgan Stanley study, they excluded the top first-tier cities and 26 second-tier cities. Luxury is booming in the second-tier cities such as Chengdu, which ranked first in the Vogue top ten growth fashion cities. Chengdu is now the third largest luxury market in China, and a series of reports and studies by Jing Daily reveals the reason why. It has the highest end malls in China, and the local millennials have a bling culture. They are said to dress head to toe in luxury brands, while even college students are reported to buy luxury goods on installment. One survey stated 80% of local consumers shopped for luxury goods for personal use. The city is also now known as a luxury shopping destination for people in the West. Chengdu is located in Sichuan. A world-renowned Italian designer chose the city for his first luxury apartment development in China, which has been followed by one in Beijing. The Tai Koo Li Shopping Zone is home to over 600 global luxury brands.

Prada Rong Zhai Mansion

Louis Vuitton Shanghai flagship-highest grossing store in world

Louis Vuitton Yanlord store Chengdu

The brands are spending big to have a Chengdu flagship. The Italian accessories brand Valextra opened a Chengdu boutique in Taikoo Li, creating a localized style centered on the shopfront being constructed of a solid wall instead of glass. Givenchy built a very unique shop based on a mixture of Western and Chinese temple designs. Total retail sales in 2019 reached 218 billion USD, which is an incredible 250%

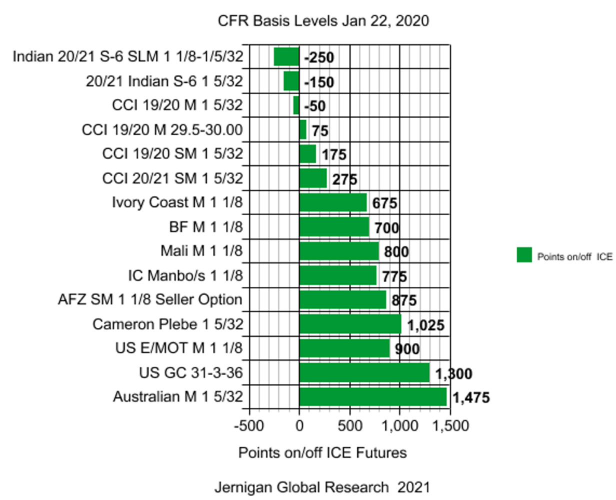
growth rate since 2010.

The boom in Chinese luxury products is helping demand for the high-end 100% cotton yarns and ELS cotton. Apparel is estimated to account for 16% of China's luxury market. Chinese spinners report that 60s and above count yarns are in extremely tight supply and are offered at very firm prices.

Fixed asset investments in textiles and apparel fell 6.9% in 2020 due to the impact of the virus. This does reflect the first reduction in investment in several years.

INDIAN CFR EXPORT BASIS WEAKENS AS MSP MEETS MARKET PRICE

Nearly 200,00 bales of new crop are now moving from Indian growers into ginners hands daily, and most of it is selling to private ginners as the local price now exceeds the MSP in many areas. The seed cotton price has reached 6,000 rupees a quintal in some areas as compared to the MSP of 5825 rupees for the top grade. In addition, the CCI has much higher moisture standards. The spot price of a S-6 1 1/8 and all other styles has slightly weakened from the highs due to the weight of crop movement. The spot price moved from 75.50-76.00 cents a lb. base a S-6 1 1/8 ex gin in Gujarat. Punjab J-34 is at 74.00-74.50 cents ex-gin early last week. The spot price did firm at the end of the week, with a S-6 1 1/8 reaching 76.50. The spot price has proven over the last 7-10 days to be unable to follow additional gains in ICE futures. This has weakened the CFR basis. Since December 31st, the average CFR basis for Indian cotton has weakened about 100-200 points. Indian export offers are the cheapest in the world and by a wider margin. This has extended the discount of Indian styles to all other growths, which has seen either only a small decline of basis or has strengthened as supplies tighten. On the basis Middling 1 1/8 type Indian is at a 600-700-point discount to Ivory Coast Bema. However, against Mali the discount is extended to 850 points. The most aggressive Indian quotes are coming from private Indian merchant and ginners that are offering a new crop S-6 1 5/32 at 100-175 off March CFR. A Cameroon Plebe 1 5/32 is at 1000-1050 points on March, which pushes the discount out to 1100-1200 points or more near the maximum levels, the most noted in recent years. West African is also a handpicked cotton, but there has been an effort by selling organizations to reduce contamination and improve quality, which has made it a growth of choice in Bangladesh and other markets. It remains to be seen if demand will switch back to Indian at these discounts. A lot of the African Franc Zone trading has been discounted lower grades not the top styles.



The discount of Indian to Brazilian in the standard Middling 1 1/8 has increased about 100-150 points since December 31st. A Middling 1 1/8 Indian from private ginners and merchants is offered at 950-point discount to the Brazilian. The discount to US E/MOT Middling 1 1/8 type offers is more than a 1,000 points discount. CCI 2019/20 crop offering prices have also seen the basis offered from some traders weaken, while some of the larger merchants are attempting to hold firm. The most aggressive CCI 2019/20 crop HVI classed Middling 1 5/32 is offered at -50-100 points off March, which is a -1,000 point or more discount to US E/MOT type offers of the same grade. Overall, the Indian CFR basis will change daily depending on ICE movement, strengthening when ICE is weaker and weakening on price strength.

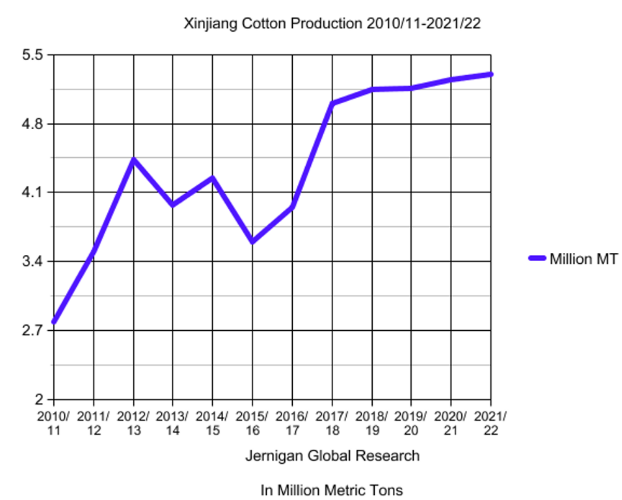
The CCI has now purchased 8.55 million bales of the 2020/2021 crop, and of that total it has sold 1.43 million bales. 2019/2020 unsold stocks have fallen to only 785,000 bales.

The Indian discount did draw new offtake over the past week from China, Vietnam, Bangladesh, Indonesia, Vietnam, and others. Chinese mills begin to receive 2021 TRQ import quotas last week. The November export data showed exports reached 133,036 tons, with 72,725 tons going to China. At the current discount of Indian, the price is attractive. August-November exports have reached 357,027 tons.

CHINA LIKELY TO EXPAND COTTON ACREAGE IN XINJIANG IN 2021/2022 DESPITE US BAN

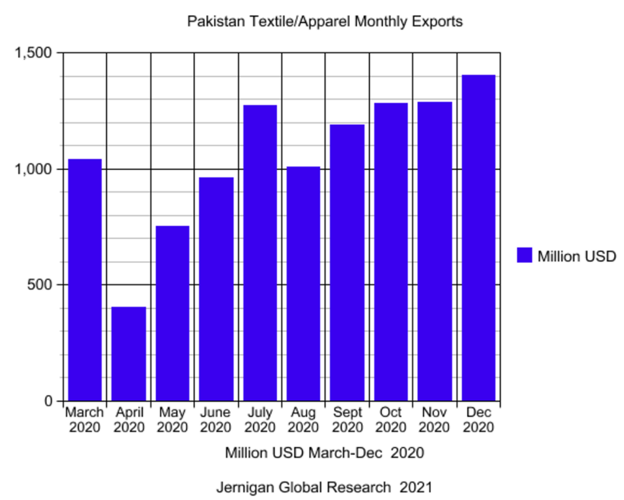
The ban by the US on imports from Xinjiang and the efforts by the UK and Canada, and now Australia, appear to not be influencing Chinese policy on Xinjiang and also not influencing grower planting attentions. It is unclear just how much if any media coverage in Xinjiang has been allowed concerning the US's and others' import bans. Xinjiang is under the tightest control on record, and any negative comment toward government policy receives no coverage. The regional Xinjiang Development and Reform Commission released its planting intentions survey for 2021/2022 cotton acreage, and it is reporting acreage will increase 1.45%. This comes as the net profit for corn and peppers is 2020 exceeded that of cotton. The Chinese Cotton Association completed its first grower survey of planting intentions, and it forecast total Chinese acreage would decline 2.2% to 2,987,836 hectares. Xinjiang acreage was expected to fall by .85%. Our belief is that acreage will expand, because the experience of 2020 for growers was the best on record. They had record yields in Xinjiang and were able to sell their seed cotton at sharply higher prices and were paid quickly.

Xinjiang reminds one of what the San Joaquin Valley region of California was once like, with many areas suited well for all types of fruit, vegetables, and other food production. The issue is just the transport cost



even when subsidized to the Eastern markets. Profits for most Xinjiang farmers for cotton in 2020 were a record due to improved yields, and seed cotton prices were sharply higher. On top of that, there is the target price subsidy and other subsidy programs offered. The use of mechanized picking was the highest on record, and this increased profits. The government launched widespread efforts to improve mechanism, increase yields, reduce cost, and aid the growers with all the issues associated with growing cotton in a desert. Major efforts have been launched to recycle the residual plastic mulch that has polluted the soil. Growers receive a subsidy of 20 RMB a month to recycle the mulch. Local coops purchased recycling plastic film recovery machines. In Yuli County alone, 300 large and small plastic mulch recycling machines are operating. A coop has been setup to take the recycled mulch collected and remanufacture it into drip irrigation products. A detailed calculation of the net profits for growers in 2020 for cotton showed gross income of 2,666 RMB a Mu or 6,190 USD a hectare. Total cost on contracted land, including the land fee, was 2,235 RMB a Mu or 5,190 USD. This left a profit of 431 RMB a Mu or 1,000.77 cents a hectare. In addition, they receive the target price subsidy and other perks. Total profit per hectare is about 1,857 USD. Thus, cotton is quite profitable. The Xinjiang subsidy scheme for cotton is one of the most extensive ever devised and has been successful in increasing cotton production. 2020 production hit a record. Output near 5.25-5.30 MMT is close to what many believe was the maximum level given the current water availability. The need for more water is behind the schemes to divert water from the border areas near India

PAKISTAN DEMAND FOR IMPORTED COTTON HOLDS AS EXPORTS CONTINUE TO INCREASE



December textile and apparel exports from Pakistan were quite strong at 1.401 billion USD for 22.72% YOY growth. This was a very impressive performance in which every segment performed well. Cotton yarn exports reached 39,320 tons, which was up 64.84% and worth 96.177 million USD. Cotton fabric exports rebounded to 161.838 million USD, which was only a 2.63% decline, and knitwear posted 28.5% growth at 342.086 million USD. Bed wear exports increased by 38.82% to 256.004 million USD. Towel exports totaled 83.009 million USD, a 34.02% growth rate. Tent and Canvas increased 51.64% to 12.238 million USD. Readymade garments grew 11.05% to 284.915 million USD, while made up exports grew 26.45% to 72.133 million USD. July-December 2020 textile and apparel exports increased 7.79% to 7.4425 billion USD.

As of January 15th, 2020/2021 crop arrivals reached only 5,493,138 million 155-kg bales. Total production is expected to be finalized near 5.75 million bales with an additional 500,000 bales of unofficial arrivals added to the total for total output of near 6.25 million 155-kg bales or only 4.449 million 480-lb. bales. Brisk import demand continued last week with US recaps remaining the most popular along with some Brazilian and West African discounted styles.

Attention is now turning to the lack of a stimulus program to incentivize farmers to plant cotton for 2021/2022. Sugar is in very short supply, and sugar cane competes for cotton acreage. Sugar cane yields have improved over the last few years and this, along with price, may result in farmers going with sugarcane. Cotton prices have been good in 2020/2021, but yields suffered due to the poor seed quality, which does not appear likely to change in 2021/2022. A failure to address the issues will mean record cotton imports, as cotton consumption is expected to further increase and as brands and retailers continue to switch from China.

BRAZILIAN RAINS IMPROVE BUT JANUARY RAINFALL STILL LIKELY BELOW NORMAL

When last week began, Brazilian growers in Mato Grosso had planted only 9.27% of the expected cotton acreage, with most of that being full season acreage. The soybean harvest has only reached 1.2% as the crop remains delayed. Rains have improved moisture levels, and more rain is forecast to finish January. While rainfall in the southern areas of the country has been excellent for boosting soybean prospects, in Mato Grosso the weather models suggest January rainfall in many areas will be only 30% - 60% of normal. The concerns remain over both the corn and cotton crops being planted late, as growers appear to be planning on planting the intended acreage of both. Regarding corn, the price is near a record and very profitable with growers having booked nearly 70% of the acreage. Brazil is a large country, and growers are converting sugar cane areas in the south to soybeans for the next crop 2021/2022. In Para and many of the northern frontier states, acreage is also being converted. Bahia has planted nearly 90% of all acreage with only a small amount of acreage left, which will be planted behind irrigated soybeans yet to be planted.

The IMEA in Mato Grosso still estimates that cotton acreage in the state will fall and forecasts production at 1,767,451 MT or 8.12 million bales, which would be down 16.7% from last year, with the largest drop in output occurring in the north. It also reported that growers have now sold 54.2% of the expected production for 2020/2021. In Bahia, rains are falling in the western areas, but fears are that January rainfall will also be below normal. In cents per lb., the ESALQ Index ended the week at 81.46 cents and the FOB Sao Paulo basis is also firm. Export demand remains steady, and now Chinese mills have received 2021 TRQ quota and are taking up Brazilian with some sales of the 2021/2022 crop occurring for fourth quarter shipment. Some merchants are attempting to play off the invert and offer for August shipment off July.

Brazil export shipments in January could match December, or perhaps exceed it. July-December exports have reached 1,288,083 tons or 5,918,097 bales. China has been the top market at 446,380 tons followed by Vietnam at 203,829 tons, Pakistan 185,132 tons, and Turkey 128,499 tons.

Argentina received additional heavy rains in the key cotton producing districts of Chaco and Santiago Del Estro. Final planted acreage estimates suggest a crop below 400,000 hectares has been planted, which is about 20% below intentions. Crop development has improved with the rains, and export offers are in circulation. November exports were brisk at 20,061 tons, which has pushed August-November exports to 94,257 tons or 433,064 bales. Pakistan has become the top market at 51,186 tons. The discounted Argentine offers are popular with open end mills. Middling 1 1/16 offers from old crop stocks are offered at 500-575 points on March, which is generally viewed as expensive compared to the US CFR basis.

EUROPE-CHINA FREIGHT RATE SURGE MAKING TURKEY ATTRACTIVE FOR SOURCING

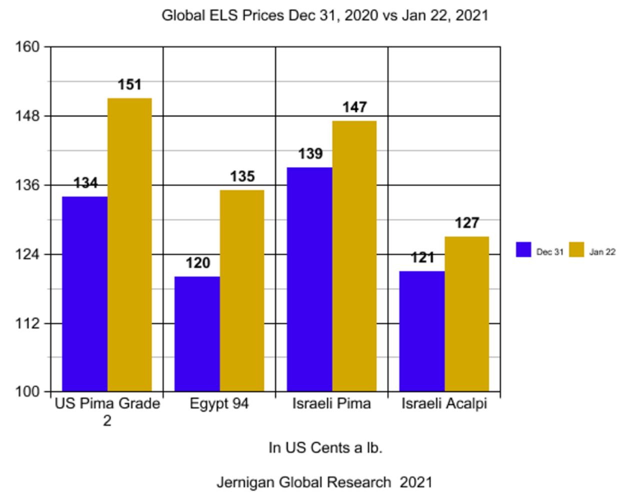
The *Financial Times* reported last week that the average China to Europe freight rate has surged 300% in the past eight weeks, hitting record highs as European imports see record volumes from China, as we discussed last week. A 40-foot container from China to northern Europe hit 9,000 USD compared to 2,000 in November. A serious shortage of containers is occurring in China with thousands of empty containers stranded in Europe. Europe has outsourced entire supply chains to China. The ports in Europe are also very congested and are experiencing long delays unloading. For many importers the increased cost and delays have wiped out all profits on the goods involved. This is causing many to rethink their sourcing. Turkey is a major benefactor due to its location, and it is also a full supply chain producer offering very high-quality fabrics and products. Turkey has a major strategic advantage, avoiding all the port delays and cost, and able to reach such distribution centers as Milan in only three days by truck. Turkish exporters can also offer European retailers just-in-time delivery due to the much shorter logistics.

Turkish cotton spinners and the full supply chains are operating near capacity with cotton use now at a record. We expect this to continue and that shipments to Europe will increase as capacity allows. Turkish exporters are also making headway, with increased market share in the US. Textile and apparel imports into the US from Turkey in the year ending in November reaching 1.782 billion USD, which reflects 5.73% growth. Made-Up exports are up 21% at 1.104 billion USD, with the majority of those man-made fiber. Cotton apparel sourcing is increasing, but it has been a slow process.

Turkey's textile exports for January-November has reached 10.465 billion USD, which is down only nominally from a year ago, while recent monthly exports have been above a year ago. Year to date apparel exports reached 13.853 billion USD. This is a stellar performance given the scope of the pandemic in Europe. Turkey's total exports hit a record in December of 17.85 billion USD. The data for textiles and apparel has not yet been released. Domestic retail sales have also been robust posting 11.9% growth in November, including 4% growth for textiles and apparel. October domestic apparel sales surged 10.4%.

Despite the record cotton imports of 2019/2020 and the steady volume in July–December, cotton demand is very strong. Over the last week, a large volume of E/MOT styles has sold along with Brazilian SLM/M 1 1/8. Some mills have also started to cover 2021/2022 Brazilian. In November, Turkey was the top destination for Greek exports with 25,279 tons shipped. 2021/2022 cotton imports are likely to reach a new record of 4.7 million bales or more.

GLOBAL ELS PRICES SURGE AS DEMAND TIGHTENS SUPPLY



During the height of the first wave of the Wuhan Virus global ELS demand collapsed and exporters moved aggressively to slash prices to stimulate demand. Demand has returned and is now very robust and will tighten supplies, with supplies from the major exporters now limited before 2022. In Egypt, where a small crop of near 250,000 bales is expected, export sales have already reached 55,903 tons or 256,846 bales. The sales are both new and old crop. Old crop stocks coming into the season were estimated at near 190,000 bales or 41,353 tons. Thus, supplies are tight and will likely get tighter. US Pima sales have been setting records and have now reached 619,600 running bales. This is larger than the 2020/2021 crop, and old crop stocks are now moving and being reduced. The USDA has raised export estimates to 750,000 bales.

The demand is being driven by an expansion in spinning outside of China. The top market for Egyptian sales is India at 33,058 tons followed by Pakistan. China has been only a very small buyer. For Pima it is also India that is now the largest buyer, and they are challenging China as the largest ELS spinner. India has purchased 235,100 running bales. ELS consumption has also increased in Vietnam, Pakistan, Peru, Bangladesh, and Turkey. We have seen expansion in the small markets of Europe and other regions. The demand is very broad-based, confirming it is consumer preferences driving it. Chinese demand is also strong with purchases of 122,200 running bales of US Pima.

The global virus lockdowns have resulted in strong growth in home sheeting and home textiles. Nothing feels likes a cotton high thread count sheet. The smaller brands manufacturing in the US have seen home bedding products sales surge. Both Egypt and US Supima have adopted the technology to stop counterfeiting, and this has increased demand. All the major retailers in the high-end products want to be able to protect against counterfeiting, which was a problem years ago.

The demand is pushing prices sharply higher; US Grade 2 Pima reached 151 cents, a 17-cent gain since December 31st. Egyptian 94 has gained 15 cents reaching 135 cents, while Israeli Pima has gained 8 cents and stands at 147 cents.

US CFR BASIS LEVELS CONTINUE TO BE ATTRACTIVE FOR BUYERS

The mixture of quality of the 2020 US crop is continuing to fuel export sales as export offers are at discounts. Cotlook has replaced its Greek offers with US E/MOT Middling 1 1/8 offers in the Cotlook A Index. It carries the CFR basis at an aggressive 900 points. Merchant offering sheets for this type offer are in a wide range from 900 up to 1300 points on March. SLM 1 1/8 type offers can be found as low as 700 points on. The type offers are at major discount to the Green Card offers that dominate merchant's offering sheets. The Green Card offers are based on HVI data, while the type offers allow a much broader understanding of what grades can be shipped. A 31-3-36 or Middling, 3 leaf, 1 1/8 Green Card is offered at 1300 to 1500 points on March. This would represent a record discount of the type offers in the Cotlook A Index.

Most of the lower and mixed grades are offered on Green Card terms. Discounts for a variety of issues are drawing significant buying interest from Pakistan, Turkey, Vietnam, and others. The long staple, high strength Memphis Territory crop remains in very high demand, with 41-4-39 down to 41-4-36 quite popular. We have said for several months that the discounts and the good underlying spinning features of the crop would result in the US likely committing its entire inventory before the arrival of new crop. Weekly export sales for the week ending January 14th illustrated this, as even with an absence of new China sales, net sales for 2020/2021 totaled 292,400 running bales. The main buyers were Vietnam, Pakistan, Turkey, Bangladesh, and Indonesia. 39,800 running bales were sold for 2021/2022 and 26,400 for 2022/2023. Pima sales were very brisk at 23,800 running bales.

Export shipments were brisk at 322,400 running bales of upland and 8,400 bales of Pima. Total US sales have reached 13,106,248 running bales with 28 weeks remaining in the season.

ICE FUTURES MAKE NEW HIGHS BUT FIND RESISTANCE, CHINESE FUTURES STALL

ICE futures posted a new contract high on Thursday, with March reaching 83.06 before retreating on Friday. One overriding negative influence was the sharp collapse in CME grains futures. Corn and soybeans posted sharp gains early Thursday. In corn, the gains were far below the January 13th highs and were mostly erased by the close. Friday brought sizeable losses, with prices down nearly 8% from their highs in the Dec contract. Nov soybeans behaved in a similar manner, losing over 7% from their January 15th highs. Adding to the resistance in cotton was the continued movement in cotton from origin in the US, Brazil, India, and other regions. The Chinese textile markets were a mixed affair for the week. The lead ZCE cotton contract closed Friday's regular session at 15,260 RMB a ton or 107.31 cents a lb. This was a 1.63% gain, but, in reality, the contract went nowhere, staying in the same price range as the previous week with the resistance at 15,500 still intact. The Cash Cotton Index gained less than a half a percent, ending the week at 106.32 cents a lb. The ZCE cotton yarn contract posted 1.7% gains for the week but remained in its range. Cash yarn prices were slightly higher in the higher yarn counts but with only small gains. The polyester and PTA futures posted small losses for the week. Viscose fiber surged 7.69% as that market posted a major recovery from three years in the doldrums.

We discussed last week that the market should become two-sided given the volume of cotton that is moving into Trade hands. We saw this but with a clear upward bias. Demand has been good over the last week, with Pakistan, Vietnam, Turkey, Indonesia, Bangladesh, and others taking up lots at various times. Chinese mills received their TRQ import quota and they were in the market at times, but the move to the highs slowed offtake. A couple of patterns appeared. First, as we discussed earlier this week, the Indian discount to US, African Franc Zone, and Brazilian reached a record for recent years. One reason for this is that Indian is shut out of the Pakistan market. The discount switched an increasing volume of buying in China, Bangladesh, Vietnam, Thailand, and others to Indian. Chinese demand for Indian in 2020/2021 will be at one of its highest levels ever. Chinese mills like Indian cotton and can manage it. African Franc Zone is moving in volume in a few markets. A few mills have moved to cover Brazilian new crop, but generally all business is focused on the February-July period. As we have pointed out several times, consumption levels are moving higher, and while the sanctions on Xinjiang imports have not influenced Chinese domestic policy, they are rapidly moving cotton apparel sourcing to other locations, which is providing a major stimulus to demand. While we have said this for some time, it has been greatly underestimated.

We discussed last week that the improved cotton use does not need some speculative driven price surge that would damage mills and disrupt the robust conditions. The brands and retailers that are left standing are in no mood to attempt to raise prices to customers. Such an approach is very unrealistic and damaging to the entire supply chain. The massive stimulus and record low or negative interest rates have unleashed liquidity, and the Funds are seeking some return, which is the driver in the very frothy US equity markets. Brands and retailers, by their reactions to the pandemic in March, have left behind a damaged supply chain and increased the woes of the cheapest cut/sew centers. Any attempt to force the supply chain to absorb the increased cost of cotton is wrong and will hurt their ability to source longer-term. The supply chain has not changed its asset light model and thus depends on the supply chain of Pakistan, India, and all the others. Against this backdrop, the entire supply chain would benefit from additional two-sided price action and a slow grind higher.

We, however, are very concerned about the potential for excessive speculation. We discussed this in detail last week, and there is simply no exchange or regulatory agency that has proven willing to contain the continued expansion of speculative derivative products. Last week, the Exchanges and Regulatory bodies were silent as the excessive speculation ruled. GameStop, a US retailer of games was the scene of a major battle between a Hedge Fund Short seller and the Robinhood online retail traders. Volume on Friday in this company exceeded 8 billion USD, as it shares hit 76 USD in a short squeeze and closed at 65. Its market cap has risen 300% since the end of the year. The agriculture markets, which lack the liquidity of the financial futures or equity markets, cannot handle such inflows without disruption. The conditions remain for speculative longs to squeeze the large Trade shorts. Last week in the cotton options, speculative players attempted to profit from such a squeeze. On Thursday, when new contract highs were made 1,000 July 95/100 Call spreads traded. On Wednesday, Call volume was heavy, with July and Dec out of the money Calls trading. The day before the Dec 110 Call traded at 100 points. These are all warning signals that the idea surfaced of a price squeeze. A lot has changed since 2008, and Algos presently rule the day and the thematic Hedge Funds that dominated then are now rare. However, the assets of Hedge Funds were a record at the start of the year at 3.6 trillion USD with a record inflow in the fourth quarter. These assets are seeking opportunity. But just to serve as a warning it should be noted that in 2008 the price squeeze occurred when the origin sellers were sold out and could provide no more selling. This occurs when all the 2020/2021 and older crop stocks have moved into trade hands. The point in 2008 was clear, but this year it is more difficult given the position of origin longs which held back stocks when prices collapsed and have been feeding these into this rally.

The CFTC report for the week ending January 19th was a bit surprising as it showed no speculative buying. The Managed Funds reduced longs slightly in the period, with 67,853 contracts net long. Even if they were buyers in the next two days, they have continued unwilling to push the position to the next level. A Managed Funds net long of 90,000 plus is required for any speculative bubble. The reversal in the grains may suggest that the Funds, as a unit, are going to be calmer in the short-term. After all the liquidity and the speculative fever in the equities it still offers more excitement. This will have to be monitored. This may allow cotton to continue to be two-sided, finding robust demand on a setback. Such a price pattern would be the most constructive outcome for consumption to continue to expand. It remains unclear where US/China relations are headed. On Friday, China was seeking a level summit with President Biden. However, Biden spent his first few days on social matters to please the left. It remains to be seen if a new softer tone on China occurs, as China expects. China was active last week, buying more US soybeans, wheat, sorghum, beef and pork. For the moment all is quiet.

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL
@Globalej @JerniganGlobal Eddie Jernigan Register for Research info@JerniganGlobal.com ed.j@jernigancg.com JerniganGlobal.com