CHINA RETAIL SALES OF APPAREL IN NOVEMBER OUTPACE USA

XINJIANG SLAVE LABOR DOMINATES EUROPEAN HEADLINES

CHINA COTTON, YARN, TEXTILE PRICES MOVE HIGHER

INDIA'S CCI SALES SURGE AS DISCOUNT EXPANDS

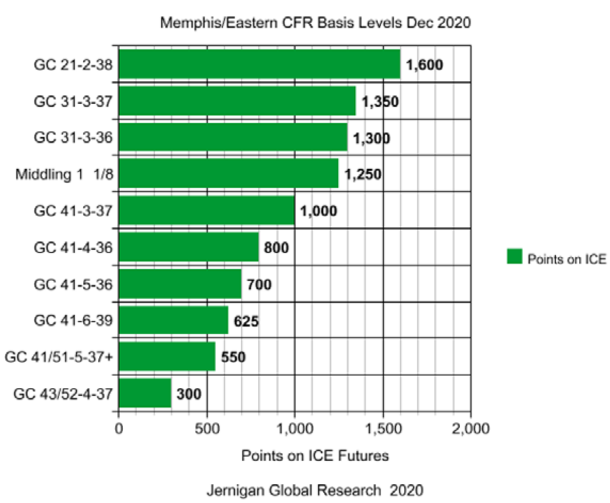
JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

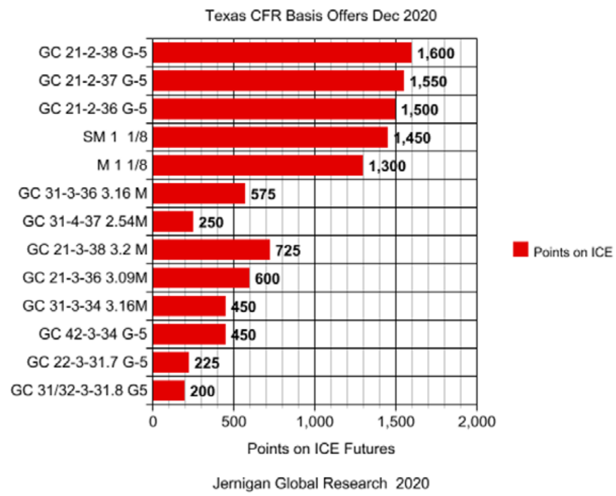
US EXPORT SALES CONTINUE NEAR RECORD AS DISCOUNT DRAWS BUYERS

We discussed in detail last week the perfect storm which had been created for the US to possibly sell out of its cotton Inventory. It began with the global mill inventory of cotton being at minimum levels that spinners uncovered and which we wrote about in detail in our November 30th issue. This coincided with an increase in demand throughout the cotton textile supply chain driven by fashion basics that allow spinners some flexibility concerning quality. At the same time, the 2020 US cotton crop had the best spinning features on record before harvest weather affected color grades and other features. The seed breeders have made great strides. The Memphis Eastern crop surpassed all records in fiber length, strength, and other features that far outpaced the SJV Acala crop in some features. The drawback is color grade and higher

leaf, but the discount this created resulted in a clamor for these qualities. In the Southeast, fiber length and mike were excellent, and only color grades pulled the crop down. Even the record seed coat fragments issue in three states has not stopped demand. In Texas, it was low mike and shorter staple caused by snow and other weather condition that damaged an 11/21-1/2 leaf crop. The discount that followed these conditions has stimulated record export sales across every major consuming market. The high-grade stocks that remain are in demand but are being forced to be rationed.

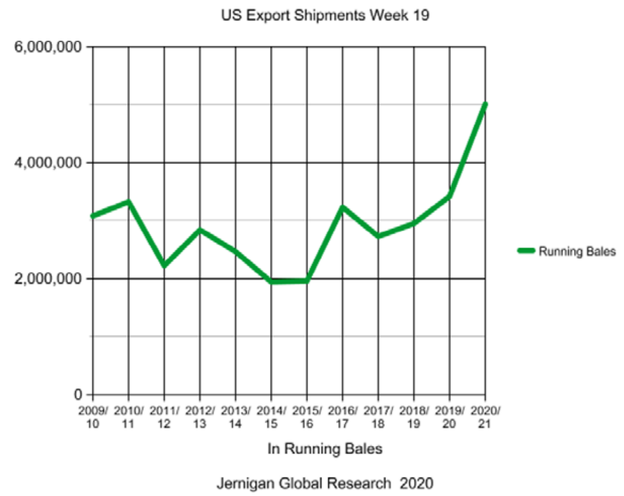
This was illustrated in the weekly export sales report for the week ending December 10th when 457,200 running bales of upland was sold for 2020/2021 shipment. The sales occurred to 16 markets led by a brisk 225,800 running bales to China, with this demand focused on spinners not the Reserve. China's domestic cotton prices moved higher last week, which continued the demand for cotton fiber and yarn imports. Pakistan was the second largest buyer at 93,400 running bales as cotton consumption in Pakistan has returned to pre virus levels. The record low crop means import demand. The discounted US styles are the most popular and are being taken up. Vietnam purchased 35,200 running bales and is actively taking up West African, Indian, and others. The non-discounted Brazilian Middling is still a value even at the firmer basis for first half 2021 shipment. Turkey has good inventories but still purchased 30,300 running bales of US, as mill utilization runs at 90% or more. The increased yarn demand from China resulted in Taiwan purchasing 14,100 running bales. Pima sales totaled 7,500 running bales with India the main buyer.

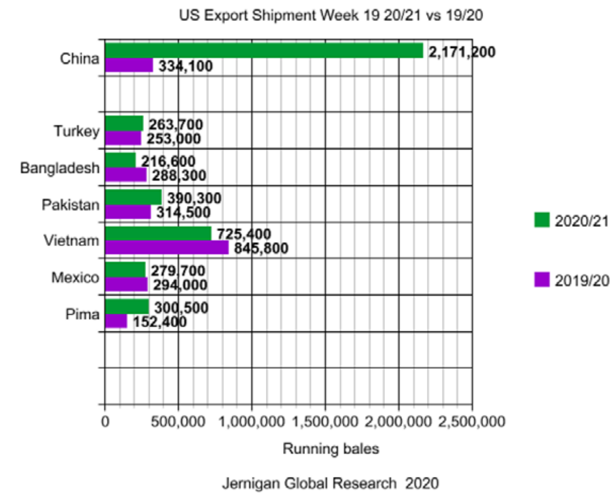




The focus remains on nearby shipments, and little to no forward coverage is occurring. 2021/2022 export sales totaled only 13,800 running bales. The demand uncertainty has created a lack of forward export coverage. Only 713,700 running bales of US cotton have been sold for 2021/2022 shipment, and Brazilian exporters also report a lack of forward sales past the March time period. The US faces a very tight pipeline developing as we enter the second half of 2021. New crop does not become available to ship until September and forward, and a smaller southern Mid-South or Southeast crop will only add to the lack of early volume. The US will also begin the 2021/2022 season with record low stocks of higher grades, which means merchants and coops are going to be reluctant to sell volume in these without making it a seller's option contract with Brazil or Australian as an option. The reality is another active hurricane season or wet fall would leave the US out of high grades until 2022/2023. Spinners should realize this is a risk, which makes the Australian 2021 crop so attractive given the basis spreads.

The export demand during the past four weeks for US cotton has been one of the broadest-based and heaviest on record, and it especially stands out because it occurred as the second wave of the Wuhan Virus has wreaked havoc in Europe and USA. The US has sold 1,456,500 running bales of upland and 55,300 of Pima all for shipment over the next few months, and 114,300 running bales of upland have been sold for 2021/2022 shipment. Export shipments, despite the issues with shortages of containers at inland points, have been brisk and now stand at 5,007,126 running bales. This is the heaviest volume in more than ten years and compares to only 3,426,329 running bales a year ago. The average shipments in the same period during the past ten years are only 2,709,500 running bales.

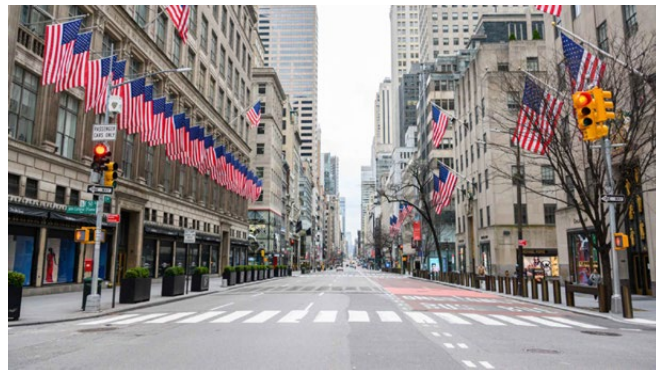




We previously discussed that US carryover levels for 2020/2021 will still be much tighter than the USDA estimate suggests. We believe US exports will reach at least 15.5 million bales and could challenge 16.0 MB. This level indicates that US ending stocks will be much tighter than forecast, and then export commitments for August, September and October before new crop moves in volume could put stocks at minimum levels for the pipeline. Again, the discount and the general spinning quality of the 2020 crop mean the US could commit its stocks before new crop arrives. The spinning qualities built into the seed varieties planted in 2020 in the US have added to the value of the crop in ways that have been truly surprising. The accomplishments of the seed breeders have proven legendary. A few years ago, a 39/40 Mid-South 33-34 strength, premium mike was one in a thousand bales, but this season it was 700 bales or more of those 1000 bales.

CHINA'S DOMESTIC APPAREL SALES FAR OUTPACE THAT OF THE US IN NOVEMBER AS US RETAIL CENTERS REMAIN IN DISARRAY

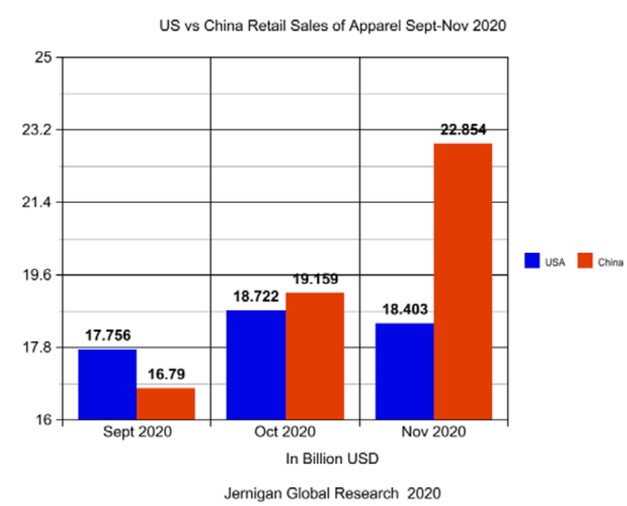
Crowed Shanghai mall



Empty streets of New York City

China's retail apparel sales in November reached 149.7 billion RMB or 22.854 billion USD which is a 4.6% year on year growth, but down from 12.22% growth in October. However, the sales data was impressive and showed why the world's brands and retailers have been flocking to this market. The November retail sales also showed 32.2% YOY growth in cosmetics sales, confirming what the brands have been saying. Gold, silver, and jewelry sales rose 24.8%. Total retail sales posted 5% year on year growth. The surprising November retail sales data came from the US where total sales rose 4.1% from a year ago, but apparel sales plunged 16.1% from a year ago to only 18.403 billion USD, unadjusted. This is a shocking number for the month before Christmas and also was even lower than October sales. Sales at department stores plunged 19% from a year ago. The consumer did spend on some items such as sporting goods which posted 19.6% growth. China surpassed the US apparel market in October and expanded the gap in November. While the NBS data has several questions, the facts on the ground back up the increase in sales. The indications are that the home textile market in China is also enjoying robust sales. Manufacturers of home textiles reported a large increase in orders, and many are increasing work schedules.

The collapse in US retail sales of apparel is driven by a host of factors, including the work from home movement, which is beginning to look like part of the new normal. The impact of the gross mismanagement by the mayors and governors of many of the largest metropolitan areas and states has been mind boggling and shows no sign of improving or ending, nor are any serious recall efforts underway. The mismanagement has destroyed the top ranked retail cities in the US, and the sharp decline in such areas as New York City, Chicago, Los Angeles, San Francisco, Seattle, Philadelphia, and others will be extremely difficult to turn around. In the case of California, it is the entire state that is a problem. The mayors and governor have done all they can to force small business to close, leaving the cities vacant. An entire way of life has been altered in many areas as unrest remains a significant issue and as many of the cities cut services, including police. NYC and Chicago are real problem zones. These US cities will fall out of the top global ranking as retail centers in 2020. Other cities have risen to fill the gap, with Austin, Texas, and Miami, Florida quickly rising to the front in apparel retailing.



These major metro areas are in various stages of lockdown just weeks before Christmas, which has set the stage for a sharp decline in holiday sales in December. During the earlier lockdown last spring, apparel sales in these areas plummeted. In New York state, apparel sales in May fell 98.3%, June 84.3%, and has continued in the double-digit declines since then. It is hard to understand the extent of the collapse in New York and the mismanagement that helped cause it. It is the week before Christmas, and the streets are nearly empty and the top luxury hotels, the Plaza. St Regis, Peninsula, and Mandarin Oriental are all closed. The New York tourism market is dead, and with it 70 billion USD or more in spending. It was reported last week that the few NYC hotels still open are offering prices that are down 86% from a year ago. For the New York City metro area with 1.7 trillion USD economy before 2020, this means a major impact on the US's total apparel sales. Each of these regions has not launched a single stimulus program to boost retail but instead each has maintained a heavy thumb on the operation of every retailer and asked Washington to bail them out. This management style contrasts with China where the major cities are much more run to promote jobs and economic activity, with all regions offering sizeable stimulus packages to increase retail spending,

Empty Michigan Ave., Chicago, amid crime/unrest

and it has worked. This was done while maintaining very tight control of any renewed virus outbreaks. The comparison between such cities as Shanghai and New York, Chicago, and Los Angles is quite sad.

Current January through November retail sales of apparel in the US stands at 166.088 billion USD, which is down an incredible 28.5%. This compares to China's sales of 165.648 billion USD, which is down only 7.7%. December sales will likely allow China to surpass the US on an annual basis for the first time in the total annual sales volume of apparel. The iconic US apparel brands are moving into the Chinese market. Levi Straus has opened a flagship store in Shanghai, and Wrangler offers its jeans online and is planning a store network. This strong performance by the Chinese consumer is felt throughout the entire textile and apparel supply chain. Global cotton use is improving, with a large part of the recover linked to increased Chinese cotton imports. A significant increase in cotton yarn import demand has revised consumption across all yarn exporters, including the lower tier in volume suppliers such as Indonesia, Taiwan, Thailand, and others. The major drag is linked to the sagging export orders from the US and to a lesser degree Europe.

The vaccine rollout in a record short time is a tribute to Operation Warp Speed by the Trump administration, which broke all records and surpassed all the efforts of China to beat the US to the market. The rollout will take time due to its requirements for below freezing storage, but it has raised hopes of a return to normal in 2022. However, the damage done to retailers suggests that another wave of closures will occur in 2021 due to the poor Christmas season. The poor management of the metro centers and the lack of any plan whatsoever to improve retail spending means recovery in these areas is unlikely well into 2021 and beyond.

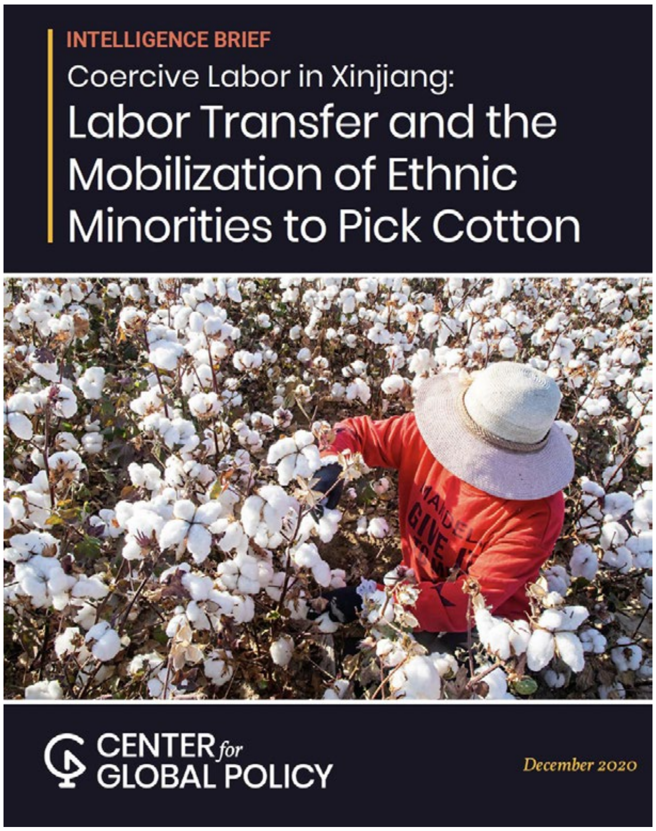
XINJIANG SLAVE LABOR ISSUE DRAWS LOTS OF PRESS FOR COTTON

Forced labor picking cotton in Xinjiang

Last week the British press all led with features on the use of slave labor in the picking of the Xinjiang cotton crop. *The Guardian, Daily Mail,* AFP News Agency, BBC and Reuters led with the feature based on a report by the Center for Global Policy. The US China Commission also promoted the report. The report did have a few points we would take issue with. First, the percentage of the crop machine picked was higher than they reported and reached a record of more of 70% in many areas in 2020. Second, far too much emphasis was placed on the role of Xinjiang cotton in the world since it can produce very high-quality cotton in some seasons, but overall, the focus is on yield not quality. It is still much shorter staple and lower strength than the US Memphis Eastern or Southeastern crops. The report said that it had documented that 573,000 Uyghurs and other minorities were forced to pick cotton in 2018. When the forced labor became a serious issue in 2017, we feared then it could tarnish the image of cotton. We now know that is a reality, as cotton has been in a public relations battle for some time regarding various policies and practices that are used across the developing world. The forced mobilization of citizens in Central Asia has been a trouble spot for years. In other regions, children picking in family units have drawn attention. The Better Cotton Initiative and Cotton Made in Africa both have helped address many of the problems. However, even the BCI found itself in Xinjiang when the problem broke out. The mass imprisonment of three million Uyghurs into camps that resemble the concentration camps of WW II and now a similar occurrence in Tibet are things the industry has never faced. The cotton industry has been slow to react. First, given China's role in the global industry and, second, the fact that the West simply finds it difficult to believe modern China would engage in such a practice. It has been sad to see the landmark accomplishments of the industry in Xinjiang tarnished with these barbaric and inhuman practices.

Today, actions to address the problem are unfairly focused on just cotton because it is easier to blame it. After all, Xinjiang's agriculture success is built on cotton, and cotton production has been at the heart of the Han Chinese immigration of farmers incentive package. Xinjiang cotton production is the most subsidized in the world, as is its giant textile and apparel complex. Currently, the only action being taken is directed at products made with Xinjiang PCC produced cotton or other Xinjiang products that can be directly traced back to the use of slave labor. This is a failure as it allows all factories producing Viscose fiber and man-made fiber or any of the various parts of the supply chain that is using the extensive, subsidized slave labor programs from the camps or other forced labor brigades a free pass. The government established a master plan to create a full supply chain for every aspect of textiles and apparel in Xinjiang. The plan has been executed with success, and massive new investments have occurred, even as the Western campaigns to stop the labor practices have been underway.

Only about a third or less of Xinjiang cotton is likely impacted by the slave labor, while 90% or more of the Xinjiang textile and apparel supply chain is involved in one way or another by the practices. Locally, there has been no effort to hide the effort under the cover of reeducation camps. After all, every minority in China is under assault today, and many are in prisons in other parts of China where they also offer slave labor. Chinese Christians have never been attacked in the way they are hunted down today. The West has ignored this flight, except for the efforts of the current US Sec of State, Mike Pompeo, who has been a human rights hero standing up these practices. The US has been the only country so far to launch some tough efforts. Even in the US, until the Withhold Order on XPCC cotton, the enforcement was very difficult for it put the burden on the CBP to prove the product came from slave labor. The attempt to shame brands and retailers into following the full boycott has been made difficult by their heavy involvement in the Chinese domestic

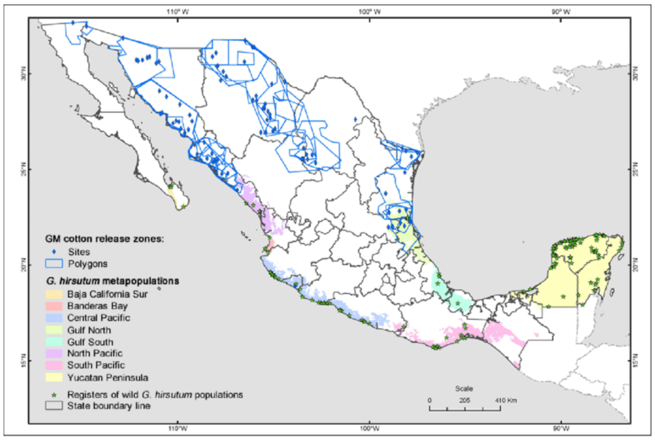


The report that confirmed the forced picking of cotton

market. As the result of the Wuhan Virus and extensive mismanagement by the local governments in the major US metro areas, the Chinese domestic apparel market is now the largest in the world and posting double digit growth in the fourth quarter. The Chinese market has been the one market, along with a few other areas in Asia, which has allowed many companies to reduce losses in 2020. Thus, few companies are going to endanger that success with any outward support of a boycott on Xinjiang products. They are changing their sourcing for cotton to Bangladesh, India, Pakistan, and Vietnam. In the Luxury sector, China may account for 40% of global sales in 2020.

To address the problem, the US and other countries need a focus that extends beyond just cotton. It simply does not work to single cotton out and allow Viscose fiber, polyester, nylon or any other textile and apparel product made with slave labor to enter the US market. The laws that prohibit this already exist. We are very concerned that the current efforts will do nothing but harm cotton consumption and allow for an even greater flow of man-made fiber and fabrics. The European Parliament-drafted proposal that is now working its way through the process would sanction Xinjiang officials for their use of slave labor. Chairman of the European Parliament's China Delegation and Co-Chair of the Inter-Parliamentary Alliance on China, Reinhard Bütikofer, stated, "The atrocities against the Uyghur ethnic minority in Xinjiang and rampant state-imposed forced labor are crimes against humanity." The European Parliament is calling on European companies to break off business relations with Chinese partners if they abet human rights violations. International corporations violate every ethical norm if they make profits off of the backs of forced/slave laborers." At the same time these words were being spoken, a draft China Investment treaty with the EU was approved.

MEXICAN 2019/2020 EXPORT OFFERS NOTED; WILL THIS MARK THE END AS GOVERNMENT LIMITS GM COTTON SEED?

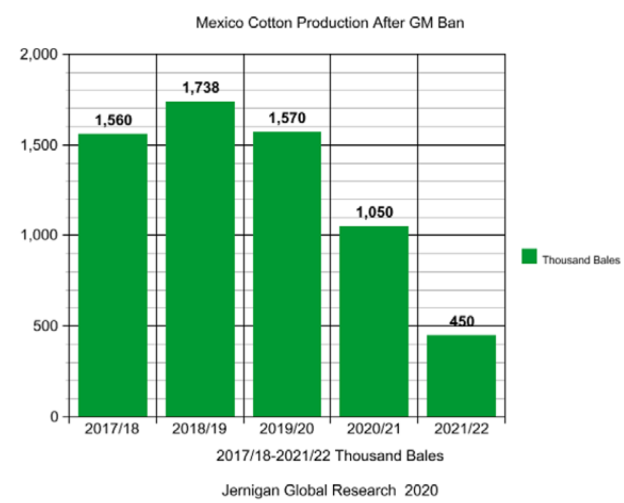


GM seed release zones before ban

The Mexican government has taken actions that have damaged the country's cotton industry. In a move not based on science, the SEMARNAT has limited the access to GM cotton seed. This policy in 2020 reduced the supply of cotton seed to old GM varieties and denied growers access to the latest seed technology. It is likely these actions will destroy the cotton industry. In 2019/2020, Mexico enjoyed a bumper crop of 1.661 million bales, which preceded a crop of over 1.7 million the year before. Growers planted new GM seed, which resulted in improved yields and the best quality crop on record. These crops were very popular in export markets because of the quality. The actions of the government on an industry which was gaining success and creating grower income is simply unbelievable and very hard to understand. It has also taken other measures which will harm agriculture production. As a result of these actions, cotton production in 2020/2021 plunged to only about a million bales and will likely fall further in 2021/2022 unless the sanctions are reversed.

The planted acreage fell sharply, and acreage in the main cotton belt, State of Chihuahua, fell to 100,000 hectares. The policies of SEMARNAT are very difficult to understand when the industry had been achieving very impressive yields of 7-8 bales a hectare on irrigated acreage. In Chihuahua, the soil has proven excellent for cotton, and agriculture production in the state exceeded three billion USD but will now decline. The smaller crop in 2020/2021 will move to export. Currently, the crop is offered at a discount, which has stimulated sales. Old crop 2019/2020 recaps have been selling during the past six months and are well sold. Pakistan has proven an active buyer because of the discount. Domestic demand in Mexico is very weak, and Mexican mills are well covered with forward coverage from the US.

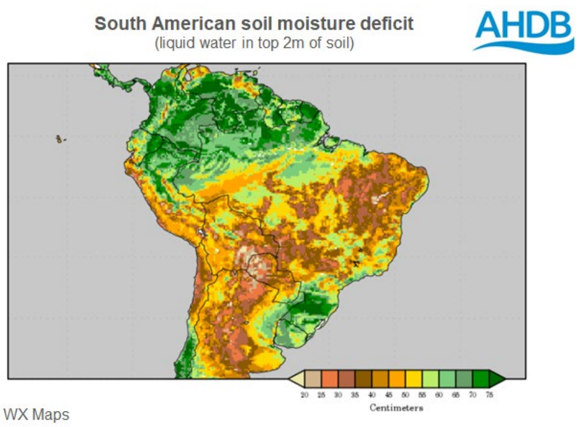
The virus outbreak and collapse in both domestic and



export demand left Mexican traders and merchants holding record cotton stocks when the 2020/2021 season began, estimated to be near a million bales. These stocks have been moving into export channels, and 2019/2020 and 2020/2021 crop are now offered for export. The volume of the longer staple, high grades has declined. An SM 36 is offered at 1000 points on March and a Middling at 875 points. Strict Low Middling 37 is offered at 785 points. Short staple discounted lots are also in circulation. We expect these lots to find a home due to the heavy demand for discounted lots. If the ban continues in 2021/2022, then acreage is

expected to fall to the point that exports will become nominal once the unsold stocks are depleted.
The ban on seed will remove 500,000 to 750,000 bales of high grade, long staple, machine picked cotton from global trade.

ARGENTINE CFR EXPORT BASIS FIRMS AS RAINS CONTINUE BELOW NORMAL



Source: WX Maps

Argentine rainfall across the cotton belt has continued below normal and is increasing concerns about the crop just planted. The weather outlook suggests rainfall the rest of December will continue this pattern, which is not easing concerns. December rainfall through the 19th has been only 20%-50% of normal, and exporters have raised the CFR new crop basis as a result. A Middling 35 is offered at 600 points on May, which is up about 100 points from a month ago and up sharply from earlier this year. Middling 34 is offered at 500 points on May, a level considered expensive for stripper cotton high in bark. A US Green Card 31-3-34 is offered at 650-750 points on March and an Argentine SLM 34 is offered at 400 on May. Planted acreage had been expected to match the record 500,000 hectares planted in 2019/2020. Domestic cotton use is weak, and growers, ginners, and merchants are holding large volumes of old crop because of the need to hedge against a currency devaluation. However, in the largest producing State of Chaco, only 122,400 hectares out of intentions of 213,135 hectares have been planted because of the lack of soil moisture. The official deadline to plant has passed, which means the acreage target is in doubt.

Argentine cotton was popular in Pakistan and other markets this year due to the heavy discount of the crop sold for export. Current offers are expensive, and spinners will focus on US lower grades instead.

CHINA VIOLATES WTO RULES IN AUSTRALIAN EMBARGO; WILL THE BODY BE ABLE TO ACT?

The WTO has worked brilliantly in allowing China to dominate markets worldwide as a result of their total lack of enforcement regarding China. The Trump administration threatened to withdraw and has effectively kept the organization weak, a strategy that has not stopped the massive attacks against the US that have moved through the organization. The US election results continue to be marred by the massive corruption in voting. The process of Biden being sworn in, however, continues to move forward as scheduled, despite he and his family being embroiled in issues involving past business dealing with China. The cabinet and administration personnel that Biden has proposed is very much focused in getting many of the Obama administration officials back together. These are Globalist, and many have been working for groups with deep relationships and commercial ties to China. The Obama team was the most pro-WTO administration on record. He has proposed Tom Vilsack as Agriculture Secretary, and it should be remembered that Tom was secretary when the US lost the cotton case against Brazil at the WTO. It not only agreed to gut much of the cotton program, it also paid Brazil millions of dollars. The case was a landmark moment for Brazil and laid the groundwork for the success of the industry as the US funds provided aid for organizations, training, classing, and export promotion. The US also was in a reduced competitive position in export markets, which allowed for Brazil's success. This is not to say that the Step 2 Program was fair or justified. The problem is that, while this case changed, the US cotton program China has been given a free pass to increase its cotton subsidies without any conflict or the issue being addressed at the WTO. What stands out about the loss by the US is the poor job the US did in attempting to defend cotton and the fact that cotton took a back seat in Washington throughout the remainder of the Obama term. At the same time, no major action has even been launched against the record subsidies paid by China in cotton and across the entire Xinjiang textile and apparel industry. The cotton industry of Xinjiang and their massive textile and apparel industry could not survive without the most elaborate subsidy scheme on earth. Yet silence at the WTO.

Australia has announced it is taking China's embargo against Australian barley and coal to the WTO for its violation. It also indicated that the other embargoed products would follow. China has already started posturing and ginning up its PR with statements that there is no official embargo, which is a lie. It remains to be seen if the WTO can recover and get a boost under a possible Biden administration. Again, the Biden team has been very reserved in its comments on China's actions against Australia. No reason is clear except the extensive relationships from the past and the heavy Wall Street Globalist support for Biden, which wants unfettered trade with China at all costs in order to secure a clear opening into the Chinese financial markets. A Goldman Sachs investment banker made headlines when he called investing in China the opportunity of a lifetime. Goldman, JP Morgan, Blackrock, Bank Of America, Vanguard, and others all have rolled out massive investment schemes for Chinese equities and bonds. At the same time, these banks are the lifeline for the massive IPO fundraising by the CCP companies in 2020.

Under these conditions and considering the length of time a WTO case takes, it remains to be seen if the Australian case moves forward and how the US supports it. China has not fulfilled the terms of the US Trade Agreement in full despite the large agriculture purchases that continue, and we have not heard a single word from the Biden team with only a few weeks left. Will Biden do anything? Will the Trump team have the ability to act on this amid all the other distractions?

Meanwhile, the Australian/China conflict continues to expand with little aid from the distracted US. The NDRC formally told utilities to buy non-Chinese coal last week. In addition, China has moved to set up a military base on Daru Island, Papua New Guinea, which is only a few miles off the Australian coast. China has been investing heavily in poor PNG to undermine Australia's influence and to get a strategic launching pad for any Australian actions. China-Australia trade in 2019 reached 190 billion USD, and the robust growth in raw materials earned the country the name "the lucky country." However, the easy export of raw material allowed the rest of the economy besides agriculture to move to a service economy with little manufacturing, leaving it very vulnerable to China's actions. Agriculture, just like coal and the raw materials, grew dependent on Chinese exports.

CHINESE COTTON YARN PRICES MOVE HIGHER ALLOWING FOR COTTON PRICES TO ADVANCE

Chinese spinners and others in the textile pipeline appeared last week to move somewhat off their strategy of maintaining little inventory. Spinners have been taking up domestic cotton, while weavers and knitters have been buying yarns. The motivation first appears to be the strong domestic market, but just as important are the outbreaks of the virus that occurred across much of China. Each seem contained, but it has raised fears that cotton and yarn transport could be impacted in the future by containment measures.

Mills want an inventory of cotton and yarn in their warehouse so their operations will not be impacted. During earlier outbreaks, China halted road transport in the regions, limiting cotton and yarn movement to rail. This causes bottlenecks that they want to avoid in the future. Up to now, the disruptions have been limited, which has allowed mills to accelerate their take up. The impact has been a small movement higher in cash cotton prices and also notable gains in the 30s and 40s count yarns.

Spinners have aggressively taken up the limited supply of Xinjiang Double 28 and Double 29 high grades, which pushed cash prices to near 14,900 RMB a ton or 103.18 cents a lb., with the higher quality PCC lots commanding 15,000 to 15,300 RMB a ton or 103.87 to 105.95 cents a lb. These prices helped the demand for imported high grades. The average cash price for a Middling 1 3/32 is nearing 103 cents a lb., including VAT. Heavy import demand is expected as the 2021 TRQ quota is allocated. Cotton continued to sell from bonded warehouse stocks last week, mostly US and Brazilian.

The Reserve purchase auctions remain suspended, because the price spread continues far above the limit set. The continued advancement in international prices and the Reserve purchases at prices over 20 cents a lb. below current levels have left spinners in a position to offer these stocks in the future to domestic mills at a profit.

The gains have increased into the polyester and man-made fiber complex as well. Cash polyester staple prices are moving back toward 40 cents a lb., and the May futures project even more gains. All the Chinese markets ended last week on their highs for the period. The Chinese Cash Cotton Index ended the week at 103 cents a lb., which still leaves the international price at a discount under the TRQ quota. ZCE cotton futures ended the week on the highs, with the lead May contract closing just below the 15,000 RMB a ton level, which is an important level. ZCE cotton yarn prices followed closing on their highs. The same was true in the PTA (polyester raw material) and polyester staple yarn futures.

New concerns have surfaced over expanding electricity shortages across the Chinese industrial heartland following the embargo on imports of Australian coal needed to feed the power plants. The economic results of China hubris actions have created a shortage of coal and also a surge in prices. In 2019, Australia provided 57% of all thermal coal imports and 40% of all coking coal imports used in steel making. Electricity shortages are now affecting manufacturing plants and have also resulted in residents being unable to heat their homes. In Zhejiang, a textile powerhouse as well as large man-made fiber region, residents have been instructed not to use heat until the temperature drops below 3 C or 37 F. In Henan, power has been cut to apartment buildings, leaving residents to climb 20-30 or more flights of stairs. Shaanxi and Jiangxi have also reported shortages. In Shanghai, the shopping malls and office towers have been instructed to switch off non-essential lights, and the city's light shows are suspended. Australian coal is of superior quality, and many plants cannot just switch to Russian or Indonesian lower grade coal.

INDIA'S CCI MAKES LARGE SALE TO TRADE AS PRICES ADVANCE

After a long period of unchanged prices, India's CCI has sold a large volume of 2020/2021 and 2019/2020 stocks to the Trade, with the demand led by international merchants. It appears the discount of Indian to the rising international prices stimulated the sales. The CCI on Wednesday sold 52,100 bales of 2020/2021 crop and 333,100 bales of 2019/2020 crop stocks. The new crop sales were dominated by

Shankar-6 and H-4 lots from Gujarat and Maharashtra. The 2019/2020 stocks included 211,300 bales from Telangana, with 195,000 bales of the 30 mm lots. As of December 17, the CCI and Maharashtra Federation has sold 1,021,954 bales of 2018/2019, 2019/2020, and 2020/21 crops. This is quite impressive and has occurred in a rising market. The management of the CCI has been remarkable, with record stocks moving without impacting global prices. At the same time, the CCI as of December 17 has purchased 5,575,090 bales of the 2020/2021 crop.

Merchants appear to have been successful in moving the Telangana long staple, higher grades to spinners with the price very attractive. The spot price of a Shankar-6 hit 73 cents Wednesday, with CCI prices at a premium of 1,000 Rupees per candy. The CCI is also adding a 1300 Rupees per candy premium for its new crop stocks.

Fears continue that the 2020/2021 crop will not meet expectations, and domestic prices are advancing despite the heavy new crop arrivals which are reaching 275,000 bales or more daily.

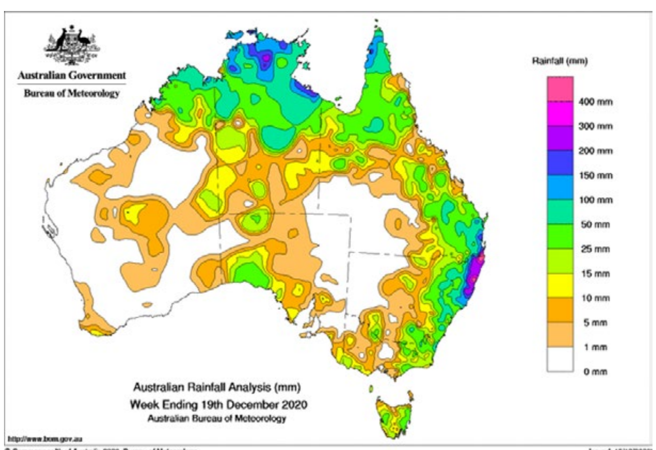
Indian export offers of new crop remain the cheapest in the world, with S-6 1 5/32 offered near even with March on a CFR basis and CCI stocks from 2019/2020 of the same grade near 125-200 points in March.

BRAZIL PLANTING ADVANCES SLOWLY AND CROP SIZE IS IN DOUBT

ABRAPA, Brazil's cotton grower's organization, estimates the 2021 crop at 2.4 MMT or only 11.026 million bales compared to the CONAB estimate of 2.76 MMT or 12.68 million bales. The erratic weather pattern continues to make an exact estimate difficult, and hefty corn prices continue to play a role. Planting of the cotton crop is near 10% complete and confined to the full season crops. Rainfall is forecast to increase in Mato Grosso from December 23rd forward, which will be very welcome.

December export shipments are reported as brisk and may set a new record. The spot price excitement has slowed, and the ESALQ Index of a 41-4-35 landed Sao Paulo on December 17th moved back to a discount to ICE at 74.44. The Real/USD exchange continued to strengthen, reaching 5.06-5.10 per USD.

BENEFICIAL RAINS FALL OVER PARTS OF AUSTRALIAN COTTON BELT



The storm we discussed last week brought the expected rains that extended into many of the cotton areas. The heaviest rains occurred in Queensland, where several areas have reported over 50 mm with good coverage on the eastern Darling Downs. Other regions received from 14 mm up to 53 mm. The border region of Gunnedah reported 58 mm. In NSW, rainfall was diminished as the showers extended inland. Northern NSW, near Moree, recorded 10-36 mm, while amounts dropped to 10 mm or less in the Riverina. More rain is forecast.

A major improvement in the FOB basis paid to farmers was noted last week even with the increase in futures and Australian dollar exchange rate. For the 2021 crop, the basis by the end of the week had reached 610 points on May 2021 futures, which reflected 50-70-point improvement for the week. The cash price hit 551 Australian dollars a bale. The 2022 crop basis ended the week at 550 points on May 2022 futures for a 55 AD a bale improvement. The 2023 crop basis posted the strongest gains, reaching 480 points on May 23 futures, which was a 200-point gain for the week. Overall, the Trade has come to the same conclusion we did some time ago that the Australian basis is undervalued, and Australia will have the largest supply of machine picked high grades in the world through 2021. The China trade embargo on cotton is foolish and has provided a major benefit to other spinning markets

ICE FUTURES ADVANCE, STIMULATING WIDESPREAD ORIGIN SELLING

ICE futures and Chinese cotton and yarn futures all moved higher last week, with the March ICE contract reaching over 77 cents, the highest level since April 2019. The gains followed continued brisk export business in US and other styles. The gains triggered selling from those origins that still are holding cotton. India's CCI concluded its largest volume of sales in months, and the African Franc Zone held several successful sales tenders as that region continues to unload 2019/2020 and 2020/2021 stocks. The US growers were very active, with heavy sales noted as cash prices reached the highest level of the season. Growers in Brazil continue to release 2019/2020 crop recaps but have not added to 2020/2021 sales in any volume due to the weather. Improved movement in China from gins to mills took place as prices firmed. Export trade was moderate before Thursday's sharp gains. Pakistan was active with discounted US lots, West African and Sudan Acala. Early in the week, Bangladesh took up small volume but then moved to the sidelines. Vietnam took US and West African. Chinese mills continued to take up US and Brazilian from bonded warehouse stocks.

China's domestic prices of cotton, yarn and man-made fiber all moved higher last week, but, for the first time, gains in international prices led the advance. China/US relations continued to move toward the strained level. Beijing clearly appears to be waiting out the clock and believes Biden will be sworn in. The Biden team will bring all the pro-Beijing Globalists back to power. The Trump team is moving aggressively to beef up US security to make it difficult for any future administration to undermine. The US announced placing China's largest chip maker on the Commerce Departments blacklist along with the major drone maker, DJI, which has been making significant inroads into the US. Other companies were also added. International efforts to address the slave labor camps in Xinjiang are expanding, which is increasing the order flow in Pakistan, India and other markets.

By Friday, activity had slowed as spinners were reluctant to follow the latest gains and many moved to the sidelines. Spinners' confidence in forward purchases amid the US and European lockdowns remains soft. The vaccine, which has proven to be one of the greatest accomplishments of the Trump administration, is rolling out in every state and offers needed hope for 2021. The turmoil in the US metro centers will not end anytime soon, and this is reshaping US retail. The streets of New York City, such as Fifth Avenue, are empty, but local Target and Walmart stores are reporting record sales. It's the same for Amazon. In Europe, every aspect of Christmas celebrations and shopping has been affected. Thus, the textile and apparel supply chain needs to see how the US/European market emerges from the second wave. For now, fashion basics are the products in vogue, and they are enjoying demand. Earlier in this edition we discussed the stark contrast between China and the US in retail sales of apparel. China will be the largest apparel market in the world in 2021.

ICE futures now have a speculative long position, which is nearing 70,000 net contracts. The record speculative long position occurred in January 2018 when the net long reached 108,778 contracts. Thus, the funds still have ample room to add to longs. However, the time spent with over 70,000 contracts suggests more two-sided action may occur. The rally has increased trade long positions in US, AFZ, and Indian styles, and this may begin to make it harder for the CFR basis to hold firm. At the same time, the brisk spinner demand that helped get the market to these levels is slowing. These conditions may allow for some stalling of the advance and a bit of two-sided action.

May the Season Bring You Health, Happiness & A Prosperous New Year

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