CHINA REMAINS VERY ACTIVE IMPORT MARKET

TURKISH LIRA COLLAPSE CAUSES CONCERN FOR COTTON IMPORTS

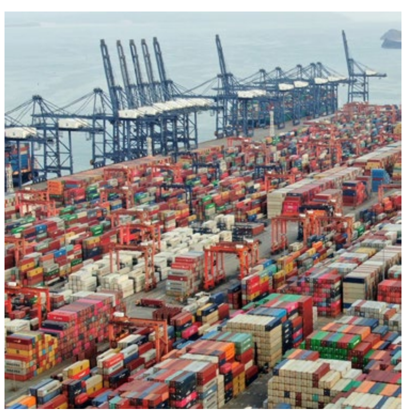
URBAN UNREST IN US REMAINS A MAJOR PROBLEM FOR APPAREL SALES

US CROP AREAS CONTINUE TO ENCOUNTER POOR HARVEST WEATHER

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

CHINA COTTON FIBER AND YARN IMPORTS CONTINUE TO EXPAND BOOSTING TRADE LEVELS

Qingdao Port, China



China imports of cotton fiber and yarn surged in September before the recent sharp rise in prices, with cotton fiber imports reaching 210,000 tons or 964,845 bales. This import volume was driven by the arrival of a large block of the US Reserve purchases amounting to 145,891 tons or 670,296 bales. Cotton yarn imports reached 180,000 tons, which is equal to more than 900,000 bales of cotton fiber. Such a brisk level of imports was driven by the revival of domestic demand and the attraction of cotton yarn imports, which enjoyed a price advantage over domestic yarns. Cotton yarn imports enjoy quota free status and at very small duty rates. A variety of trade agreements means several suppliers benefit from zero duty rates. Pakistan and Indian cotton yarn imports are quite popular and enjoy a price advantage in the open-end yarns, while domestic Chinese spinners have been focused on the Reserve lower grades which are expensive. The Pakistan open-end yarns are often made with imported cotton, which adds to the attraction. The largest volume of cotton yarn imports is coming from Vietnam and is made from US and Brazilian cotton. Actually, Vietnamese yarns are a very popular alternative to using US and Brazilian cotton without import quota and import duty. The use of cotton yarn imports also eliminates the Xinjiang cotton issue on export orders.

The surge in domestic cotton, yarn, and other fiber prices in October has not yet been replicated in international markets, which has triggered an acceleration of imports of both fiber and yarn. October and November imports are expected to show further growth. In cotton fiber, a major destocking of imported cotton held in bonded port warehouses has been underway with a large volume of US, Brazilian and Indian cotton selling to domestic spinners. Adding to the current demand is the gradual issuance of the sliding scale processing quotas, which will total 400,000 tons when fully released. The costs under these quotas are more expensive than the WTQ quota, but still some imported cotton offers are cheaper than domestic cotton. Indian new crop and CCI old crop offers both present a price advantage of over 10 cents a lb. for new crop offers from Indian shippers vs. the average new crop Xinjiang crop. The Indian offers are also longer staple at 1 1/8 to 1 5/32. The advantage for CCI offers drops to 8 cents or so. Brazilian Middling 1 1/8 has a 2-3 cent advantage, and US cotton is slightly more expensive. The quality of US or Brazilian cotton is an important issue for the users of the processing quota that will export the finished product. New interest in African Franc Zone high grades has been noted following the sharp appreciation in the Brazilian basis.

A sizeable volume of Brazilian, US, and Indian cotton has sold, either from the bonded warehouse or from origin. The offtake in imported cotton yarn has likely exceeded that of the fiber, as imported cotton yarn enjoys a price advantage from all major suppliers. Vietnam yarn imports are expected to hit a record during the next 90 days. Brisk sales of Pakistan, Indian, Uzbekistan, and some Indonesian yarns have been noted. 2020 cotton yarn imports appear likely to reach 1.9 MMT or more than 10 million bales of cotton. This, plus the cotton imports, will place China cotton fiber and yarn imports at over 19 million bales.

Cotton machine picking, Xinjiang

Cotton gin yard, Xinjiang

The current spread between the China average cash price and the international price is over 2,000 RMB a ton. The China premium reached over 2300 RMB a ton at one point, which was the highest since the summer of 2016. During the 2019/2020 season, the average difference between the China cash cotton price and the imported price after VAT and 1% import tax ranged from only 150 RMB a ton premium to a 900 RMB a ton premium. Given the level of Chinese free stocks, the volume of imported cotton and yarn is expected to reach the level required to bring the premium back below the 800 RMB limit set for the Reserve purchase auction of the 2020 Xinjiang crop to occur. The rally in domestic cotton prices and domestic yarn prices has now stalled, and the seed cotton price has retreated. Cotton prices have retreated off the highs but have found support from the unwillingness of Xinjiang ginners to sell below needed profitable margin levels.

The completion of harvest in southern Xinjiang has been delayed by a small outbreak of the Wuhan Virus. Last weekend an outbreak occurred in the Kashgar region of southern Xinjiang. The number of cases was small and traced back to a textile factory in Shufu County. A teenager who lives and works at the factory was allowed to visit her home every few weeks, and she was found with the virus. The factory is located in the heart of Uyghur farms and homes and is within 5-10 kilometers of five or more of the Uyghur concentration camps. This has raised fears of a larger infection in the camps. A massive testing effort was launched, and cotton gins in the Kashgar region have suspended operations. Also, roads and railways have been closed.

This will delay harvest completion. The entire city of Kashgar was locked down, and cotton warehouses in Bachu and Aksu have halted cotton transport by road. Picking of the cotton by hand has also been suspended. Adding to the drama around this outbreak is that the region has been a major focus of the clampdown and arrest of Uyghurs. Uyghur and Han Chinese farmers clashed in the region in 2015. The Uyghurs have been forced to clear fields and repair roads.

Xinjiang hand picked cotton – most expensive in world

The quality of the southern Xinjiang crop has been better than in the north, but there have been problems. Late last week, the temperature fell sharply in southern Xinjiang, and ginners reported a large increase in the seed cotton arrivals, with high moisture content and higher levels of contamination. Ginners have adjusted seed cotton prices, and some ginners are seeking big discounts for the high moisture levels. The restrictions placed on movements and a shortage of labor have resulted in some growers now switching to machine picking for harvest. The cost is greatly reduced. The total volume picked by machine in southern Xinjiang in 2020 will exceed 60 % for the first time. This will also reduce staple length of the crop. The shortage of high grade, long staple handpicked is showing up in the price. A 2129C, which is a premium mike SM 1 1/8, has reached 16,000-16,200 RMB a ton or 108.32-109.67 cents a lb. This makes a US GC 31-3-37 at 96 cents after VAT and 1% tax attractive. Australian would be a great substitute, but it is banned at the moment. A Cameroon Plebe 1 5/32 can be purchased at 89 cents under the WTO quota or 96 cents under the sliding scale processing quota. This explains the new offtake.

Ginners' margins in Xinjiang have been improved by a continued increase in cottonseed meal and oil prices. While overall harvest activity is advancing, progress is slow in the Eastern belt. As expected, Anhui has been impacted by the record wet season and now colder temperatures. The weather has been poor, the final bolls have not opened, and growers report other bolls are dark. The ginning outturn on the seed cotton is below expectations and so is quality. Yields are down to a range of 100-180 kilograms a Mu vs. 250 or more last year. Across the East in the area north of the Yangtze river, south of the Huanghai River is only 50% picked, with many bolls still green. We expect the Eastern cotton crop to be down sharply from last year with much lower quality. Current estimates for production outside of Xinjiang are near 525,000-550,000 tons or 2.5 million bales. If these estimates are trimmed by 30-40%, it may reduce total production levels. However, the increased seed cotton yield in Xinjiang could offset those losses.

TURKISH LIRA PLUNGES TO NEW RECORD LOW AMID EXPANDING POLICY ISSUES

The import of cotton has become more expensive in Lira terms as the Lira/US Dollar exchange rate plunged to a new record low, hitting 8.385 on October 29th. The Lira has collapsed against the USD over the past year as confidence in economic management has eroded. The Lira/USD in November 2019 stood at 5.6970, but by June 2020 it had fallen to 6.80. It has further declined since that date. During the last yea,r the Lira lost 43% of its value, which has caused problems for Turkish companies with US Dollar debt. The Central Bank is estimated to have spent 134 billion USD attempting to support the Lira over the last 18 months. Turkish companies are estimated to be holding 246 billion of debt in US dollars. Textile and apparel exporters have benefited as exports

Turkish Lira/US Dollar Exchange Rate

have expanded. Turkey, however, is a major importer of cotton. 2019/2020 imports reached a record, and 2020/2021 imports will be maintained due to the lower domestic crop. Import demand has been limited to small offtake of US, Brazilian, and Greek in recent weeks, with attention focused on the domestic crop as the Lira collapsed. The Lira weakness will hurt cotton production as the cost of inputs has risen due to the import of fertilizer and chemicals. Turkey canceled a net 40,400 running bales of US cotton purchases in the latest week.

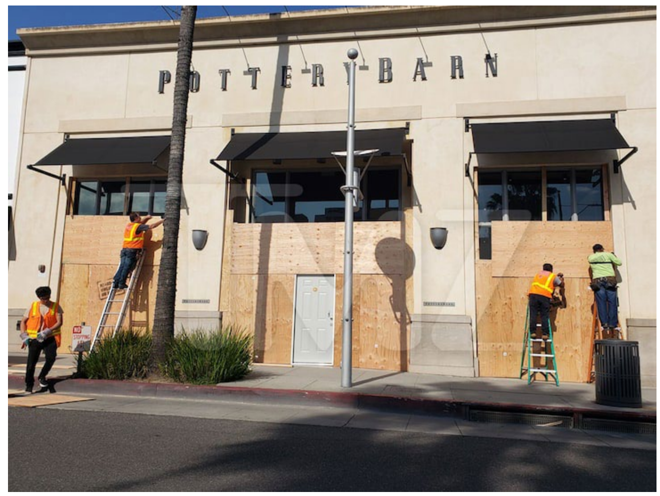
The Lira weakness is tied to a host of issues. Turkey is now at policy odds with several very important markets, as it appears President Erdogan is attempting to push the country into a new role globally. Its Middle East policy has put it in conflict with Saudi Arabia and UAE. Turkish apparel exports to both regions have encountered slow customs clearance. It is also playing a major role in the Libya conflict that is causing discord in relations. It is also a major player in the Nagorno-Karabakh conflict between Azerbaijan and Armenia. Turkey has stationed F-16s in Azerbaijan and threatened to use them against Armenia. Armenia is backed by Russia and has a defense treaty. This marks the second conflict in which Russia and Turkey are at odds. The US has attempted to work with Russia to broker a ceasefire and has attempted to get Turkey to pull back. Instead, President Erdogan issued a public challenge for the US to follow through on its threats to improve sanctions for its role in the conflict. It is not clear why Turkey would provoke the US when exports to the US are expanding and the US has attempted to manage the Turkish purchase of a Russian missile system that almost caused sanctions. Now, a new conflict has arisen with France. Despite being silent on the Xinjiang concentration camps in China, President Erdogan has confronted France on its crackdown on radical Muslim movements following murders in France. He has called for a boycott of French goods. He also compared the treatment of Muslims to the Jewish persecution in WW II and also issued insults toward President Macron of France that resulted in the recalling of the French Ambassador. France is one of the top apparel import markets in Europe, which in August imported 3.781 billion Euros of textiles and apparel. Turkey has been the 3rd or 4th largest supplier of textile and apparel imports.

The Saudi Arabia dispute has already resulted in a reduced flow of Turkish apparel exports, which will hurt Turkish suppliers. The wider disputes could accelerate the damage. The EU is a major market for exports, and Turkey has benefited from the need for brands and retailers to diversify from China. Turkish exporters also produce a wide variety of products and can meet most needs, including those of the higher end apparel. Thus, exporters are hoping that the conflicts with the EU can be worked out. The Libya conflict appears a major trouble spot.

The Lira weakness is limiting cotton import demand for the moment. Record 2019/2020 imports and the movement of the domestic crop will allow some room for imports to wait for stability before returning to the market in volume. The Turkish textile/apparel sector is on the brink of enjoying a major new expansion in orders. If the policy issues are controlled, then these expanded exports will allow the cotton imports to continue. On Friday, an earthquake hit the Izmir region, a very important cotton producing region, causing damage.

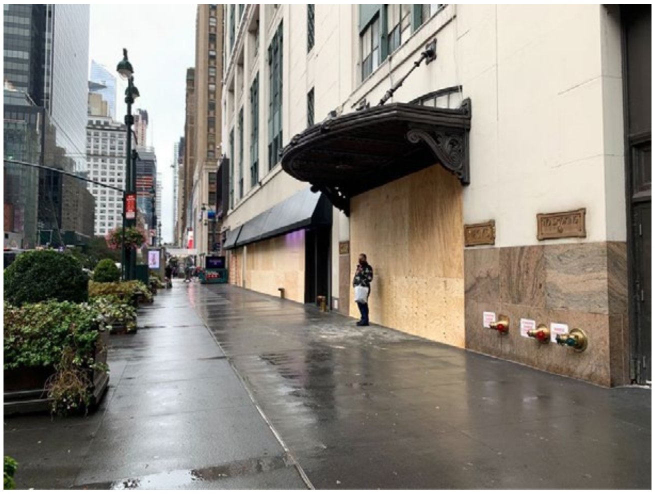
US URBAN UNREST A SERIOUS PROBLEM FOR RETAIL APPAREL

In our discussion last week regarding the impact of US urban unrest on apparel retail sales we talked only about the top markets. Unfortunately, the issue is not going away and is becoming a serious problem in the middle tier markets. One of these is the Philadelphia-Camden-Wilmington metro area. This region has a total GDP of 388 billion USD, making it larger than the entire country of Finland. In the global ranking of the top retail cities in 2019, it was ranked 18th. The region has now become a scene of great mismanagement of the virus outbreak and an even worse handling of the anarchist mob unrest that has followed. The city has allowed attacks on police and large-scale looting to occur. June apparel sales in the region were down over 25%, which followed a period with over a 50% reduction. While restrictions on businesses were excessive, a very liberal policy was allowed for protest and looting that have occurred by very organized criminal gangs posing as protesters. Major shopping areas and businesses were looted in the June unrest, and the activity has continued. Last week the city was again in chaos, as a new looting spree occurred along with a direct attack on police. A truck actually drove over a female officer. Prior to the riots, during the previous weekend the city reported 11 separate shooting instances. Again, law and order has been lacking, and the local city management has failed. The Philly metro area GDP could take over a 50 billion USD hit, which will have a lasting negative influence on apparel sales in the region. The fact is, the riots and unrest have been uncontrolled, and many retail stores have been completely looted and destroyed and may never re-open. The retailers fear that the police or the local government cannot protect their stores. The largest US retailers have removed all guns and equipment from area stores as a precaution. New concerns are emerging over whether insurance provisions will cover the destruction and looting. Many companies are adding clauses in the policies, which raises concerns over coverage.



Beverly Hills, California, Oct 30, 2020

Now, other areas, instead of preparing to stop any election unrest, appear to be preparing to allow it to occur. In a move that will cause further damage to the retail apparel sector, Los Angeles, California has ordered major retail companies to close ahead of the election on November 3rd and board up their businesses in preparation of new looting. This is occurring in several areas of the city, including the famous Rodeo Blvd., where all streets and businesses will be closed. Beverly Hills has hired a team of security guards that will begin to patrol on Halloween. All these areas have already endured extended closures, damage, and looting from earlier riots. This raises a host of questions for the second largest metro area in the US and further ads to the woes of the state of California. Los Angeles and the state of California have already endured a massive drop in apparel sales. California retail sales of apparel fell 53.7% in March, 97.2% in April, and 94.1% in May before recovering to fall 16% in June. Now, additional virus issues and new unrest threaten the recovery further. Los Angeles stores are currently operating at only 25% of capacity.



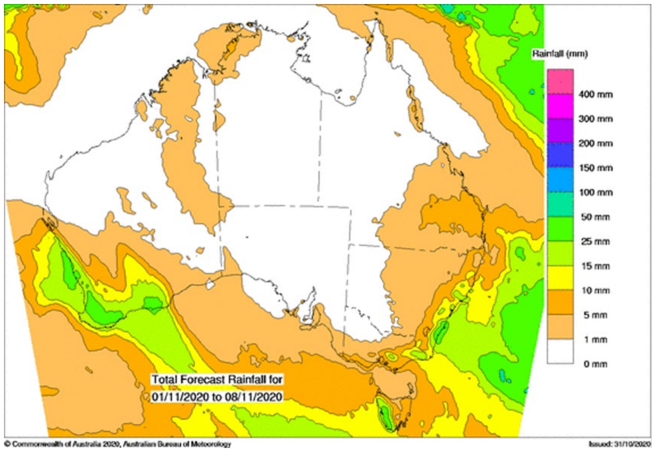
Macy's NYC flagship store, Oct 30,2020

Boarded up Macy's flagship store, NYC

The problems in the state of New York continue to grow, with the governor announcing a 14-day quarantine requirement for any visitor from 95% of the US. Such actions are accelerating the closure of some landmark retail stores. The key luxury retailers on Madison Avenue, 5th Avenue, and Soho have held phone conferences to prepare for new unrest near the election. On Friday, the famous Macy's iconic flagship store was boarded up. How much longer will many of the brands endure the losses occurring in New York with no increase in traffic? News reports Friday indicated the high-end luxury condo developments were hiring off-duty police with heavy armor to protect residences against the crime and looting. Many of the brands that have concentrated their stores in California and New York could be planning relocations to Miami, Nashville, Austin, and other more stable locations. Just last week, the boutique denim group, Snake Oil Provisions, which had its flagship store in Long Beach, California, announced it was opening its next store in Nashville, Tennessee, ending its consideration of New York City and Los Angeles. We expect to see a trend toward such changes in store plans, as New York City continues to lose its luster. Chicago has also announced new restrictions that will further damage their retail sector. Chicago remains a hotbed of lawlessness, as weekend violence remains a real issue.

SoHo shopping district, Oct 30, 2020

AUSTRALIAN RAINS BOOST CROP PROSPECTS: CFR BASIS STEADY

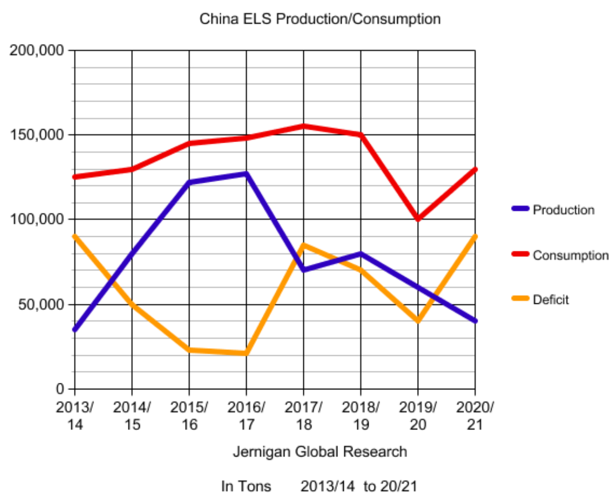


Several areas of the Australian cotton belt reported moderate rains which boosted on farm storage levels, flows into dams, and also boosted dryland crop prospects. By October 26th, Gunnedah in NSW had received 88 mm, Quirindi 109 mm, Narrabri 57 mm, and Moree 33mm. Other regions reported 15-40 mm. In Queensland, the cotton belt reported up to 71 mm at Biloela and 66 mm at Oakey. These rains and the arrival of La Nina suggest a much-improved outlook for 2021. The shock of China's embargo is passing, and the FOB basis and the CFR export basis have both stabilized. Cotton remains an attractive crop with the cash price for a 2021 reaching 550 Australian Dollars per bale, a level that some hedging occurred. Average irrigated yields can reach 12-15 bales per hectare, which make 550 attractive.

The rains are important, as dam levels in many areas remain very restricted. In Queensland, water levels in the Fairbairn, Kroombit and Leslie reservoirs are near empty. The dam levels in the border regions are critical at only near 15% of capacity. The Split Rock is at only 4.9% of capacity.

CFR basis for 2020 and 2021 crops have stabilized and now appear undervalued relative to US high grade offers which are becoming dearer as the weather worsens. Strict Middling 1 5/32 CFR levels are at 1500 to 1700 points on May 2021, while Middling 1 5/32 are at 1400-1500 points on. An US GC E/MOT 31-3-37 is now at 1350-1500 points on Dec, and Strict Middling offers are not easy to find. At these differentials, the Australian styles offer spinners real value. Overall, the sharp decline in the quality (color grade) of the last 40% or so of the harvested US crop suggests that a possible extreme tightness or shortage of high grades is coming in the US. This makes Australia a prime supplier of high grades for all non-Chinese markets. Quality issues in the 2020 Chinese crop and the improvement in demand in that market indicate that a quiet lifting of the embargo could occur as Chinese high yarn count spinners need supplies. Chinese ELS domestic prices have also soared to 145.10 cents a lb., which makes mixing with Australian 39-40 staple high grades a very attractive option. If the embargo is not lifted, the pressure on the small US supply will increase. These conditions suggest that the 2021 FOB and CFR basis has bottomed.

CHINA ELS COTTON SUBSIDY INCREASES TO 175 CENTS TARGET PRICE



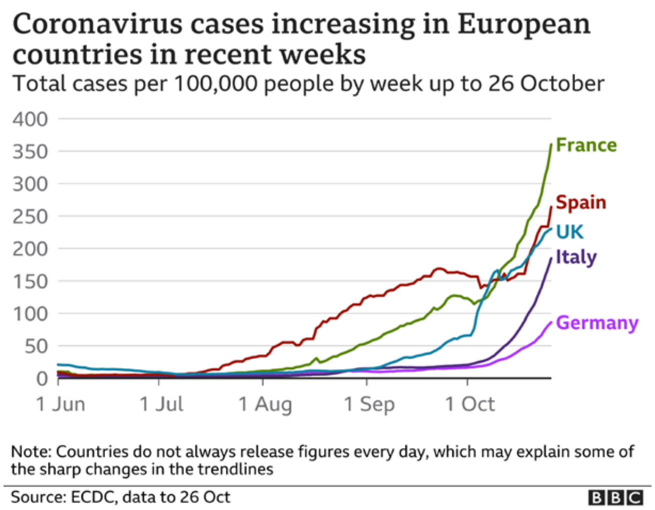
Money appears to be no object for Chinese policy makers when it comes to Xinjiang. The booming upland cotton seed price and yield improvement have made ELS cotton production in Xinjiang less profitable, with the price spread in 2020 between the handpicked upland and ELS narrowing to only a small margin. The ELS cotton seed price has been 8.6-8.8 compared to over 8 RMB a kg for the upland at some gins. ELS production in Awati County, the center of Chinese ELS production in 2020, is estimated at only 40,000 tons or 183,780 bales due to a 40% drop in acreage. The domestic price of ELS T137 has soared to 145 US cents a lb., which makes US Pima imports under the TRQ quota very attractive, especially considering the superior quality of Pima.

However, to boost production in 2021, the policy makers announced a new target price of 175 cents a lb. for ELS, 1.4 times the upland rate. Against this backdrop, acreage should recover some in 2021. ELS cotton production in China is small and thus so are the resources allocated to new seed cotton breeding and varieties. Yield advancement has lagged upland, which has made significant advancements that have impacted the profitability of ELS. ELS production in 2016/2017 reached 127,000 tons or 583,501 bales, but production has fallen every year since then. Another issue is the fact the crop is handpicked, which is very expensive and reduces profits.

ELS consumption in 2019/2020 plunged to only 100,000 tons or 454,000 bales, as the Wuhan Virus and the trade war damaged offtake. Consumption is rebounding and could reach 130,000 tons in 2020/2021, which will create a 90,000-ton or 413,505- bale deficit that will increase import demand. ELS imports declined in the second half of 2019/2020, which reduced mills stocks of US Pima and Giza. Increased purchases of US Pima have been occurring as consumption rebounds. The focus is on US Pima and not Egyptian, with 2020/2021 imports of US Pima expected to increase. US Pima is also much cheaper than domestic ELS.
Even the increased Target Price for ELS in 2021 will not likely increase ELS output much above the 50,000-ton level given the high profitability of upland and the improved yields and returns in 2020. This means if consumption continues to rebound then the production/consumption deficit could exceed 100,000 tons or more for the first time.

EUROPEAN CONSUMPTION REBOUND IN DOUBT AS SECOND VIRUS WAVE ACCELERATES

The European rebound in consumption of apparel at retail now appears in doubt due to the second wave of the Wuhan Virus that is causing serious problems in Europe. In the United Kingdom, which has the highest per capita offtake of apparel, the second wave of the virus has triggered very dramatic actions by the government of Boris Johnson. The UK has gone to the extreme of saying they will send police to break up holiday dinners that exceed the maximum number of people allowed to gather. UK deaths attributed to the virus have surged, and it is proving very difficult to control. Italy is now being hit hard by the second wave. Italy is reintroducing some of the harshest measures since May. Virus levels reached a new daily record. Violent protest broke out in Naples as the new measures were announced. Naples has been called a Red Zone, with no movement allowed in or out of the city. All non-essential businesses in Campania have been ordered to close. The death toll is nearing 40,000 people in Italy. The very important Lombardy region, which includes Milan, is now being hit hard.



Europe Second Wave Wuhan Virus

The markets went into shock last Wednesday when Germany, the largest economy in the EU, announced that it will require all restaurants, bars, and public entertainment to close for the entire month of November. At this stage retailers are being allowed to remain open. In Germany, the issue of Federalism is surfacing as different regions take additional measures. France, the second most important market in the European region for apparel consumption, announced October 28th that it will again enter a lockdown lasting through December 1st. The French restrictions will close bars and restaurants, and all people are required to stay home except for essential workers or for necessities. Belgium, the home of the EU headquarters, is the second hardest hit in the Union. Poland and the Czech Republic have been hard hit by the second wave and have announced new restrictions, and the healthcare sector is under major strain.

These conditions suggest that the European region is headed for a double dip recession. The European Union apparel market is near the same size as that of the US – at 247 billion USD in 2019. The new restrictions mean retail sales of apparel could fall near 50% in November from a year ago, which is not as bad as the 78.4% drop in April but far worse than the estimated 15-20% decline in October. November is a very important part of the holiday season and this indicates that retailers will have to depend much more on Ecommerce. This clampdown will leave retailers with a larger Christmas inventory than they expected and will probably reduce the confidence in first quarter order books. The retailers will face additional store closures and some further bankruptcies. This will impact the recovery in cotton demand in Turkey, Bangladesh, and Pakistan, all important suppliers to the EU. China is the top supplier and will be impacted as well.

The new virus restrictions sent European share values down sharply, with heavy losses noted.

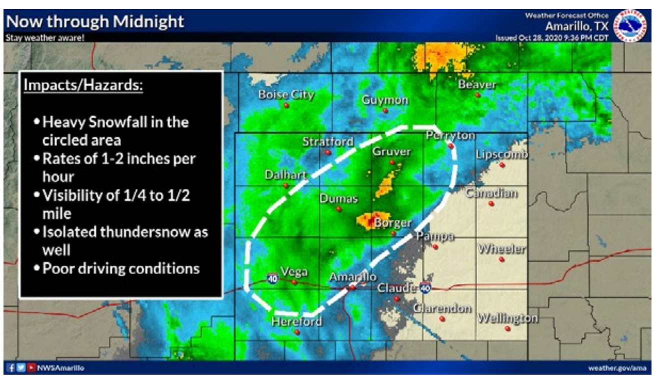
PAKISTAN REMAINS ACTIVE COTTON IMPORT MARKET

Pakistan mills were again very active last week, taking up a variety of styles. A reduced volume of Brazilian styles was sold, with a greater focus on US and West African Styles. The basis differential between a Brazilian Middling 1 1/8 and better and an African Franc Zone Strict Middling 1 1/8 has narrowed dramatically to some merchants offering Ivory Coast, Togo, and other top grades at a discount to Brazilian for the first time in 2020/2021. Some merchants have raised the Brazilian basis to very lofty levels, as their nearby stocks have been well sold. Benin and Burkina Faso styles have also sold. US recaps have been popular since the spread between Brazilian and US offers has now changed the dynamics back to US styles. This was illustrated by the large sales of US styles to Pakistan during the week ending October 22nd. Mexican lower grade recaps have also sold. Sudan Acala has sold, and East African sold in small volume.

Domestic prices have remained firm in a range of 71.75 to 78.17 cents a lb. with quality an ongoing concern. Mills have also asked the government to grant the duty-free import of cotton yarns. No mention has been made about a lifting of the embargo in trade in Indian cotton or yarn. Indian yarn would be the most economically viable for import. It is unclear what other yarns would offer mills an alternative cheaper than domestic yarns.

There is continued strong demand for US Pima and Giza 94. Pakistan's purchases of US Pima in 2020/2021 have already reached 39,000 running bales and also 22,895 bales of Egyptian ELS styles. It looks as though Pakistan's 2020/2021 ELS consumption will hit a record of 135,000 bales or more.

SNOW, RAIN, AND ICE POUND US COTTON STILL IN THE FIELD



The 2020 US cotton harvest continues to be disrupted by rains, snow, ice, and even tropical storms. Picking was well underway when the West Texas region was hit by a major cold front last week that stopped all harvest activity. Snow, sleet, and ice hit the region, and temperatures dropped below freezing. Before the cold front hit, the quality of the crop classed was excellent, with Strict Middling the dominant color grade and staple length between 1 3/32 and 1 1/8 with good mike and strength. Bark has been only a small problem. The winter weather conditions will impact both quality and yields. The first concern is that bark will become a problem on cotton stripped after the snow, causing considerable discounts for growers. Leaf content is also expected to increase to 3-4, and color grades will be reduced.

In the Mid-South, heavy rains again hit the cotton belt impacting open cotton as 30-50% of the crop in many areas was still in the field when last week's rains moved through. Prior to the rains, the average grade in the Mid-South had fallen to 41-3-37, and mike and strength was excellent. The US is going to have a very large volume of SLM 37-38 staple, premium mike cotton with excellent strength of 31-32. The Southeastern belt, where harvest continues to lag, was again hits with unwelcome rains as a result of tropical storm Zeta. Alabama had 60% of crop in the field and Georgia over 65% still in the field, with growers reporting yields lower than the USDA last survey.

Expectations are that the final US crop will be down sharply from the 17-million-bale level. The crop is late, and classings are running far behind the pace of the last two seasons. In addition to the expectations regarding the lower crop, there is a growing concern about the quality of the last 50% of the crop. The US faces a sizeable shortage of Strict Middling color grades, tightness in the Middling grade, and an abundance of 41 or strict low middling, long staple, high strength styles. The US classed 866,631 bales last week, and there was a problem with seed coat fragments in Florida and Georgia.

US FOB basis levels firmed last week – the Southeast basis firmed 75 points to 200 off Dec, the Mid-South basis firmed 75 points to 300 points off, and the Texas basis firmed 25 points to 550 points off for both West Texas and East Texas. The supply of cotton in the US is much tighter than implied by the USDA ending stock estimates. New crop electronic warehouse receipts on this date are the lowest in five years and suggest a much lower crop.

INDIA WEATHER IMPROVES; DOMESTIC PRICE RALLY STALLS

The monsoon is finally withdrawing, and the rains are now confined to the south, Tamil Nadu, Karnataka, and Andhra Pradesh. CCI is beginning to expand buying but remains limited by the high moisture content of seed cotton. The movement of seed cotton with high moisture content at discounts to the MSP has resulted in domestic cotton prices retreating. The Shankar-6 1 1/8 ex-gin is back near 68.75 cents a lb. This weakness has not stopped the CCI from raising floor prices in its auctions by 400 Rupee a candy. While the rains in Telangana have finally cleared out, the damage done is still being assessed. High moisture seed cotton prices have fallen to deep discounts to the MSP, and the quality of the lint from this seed cotton is poor and down sharply from a year ago.

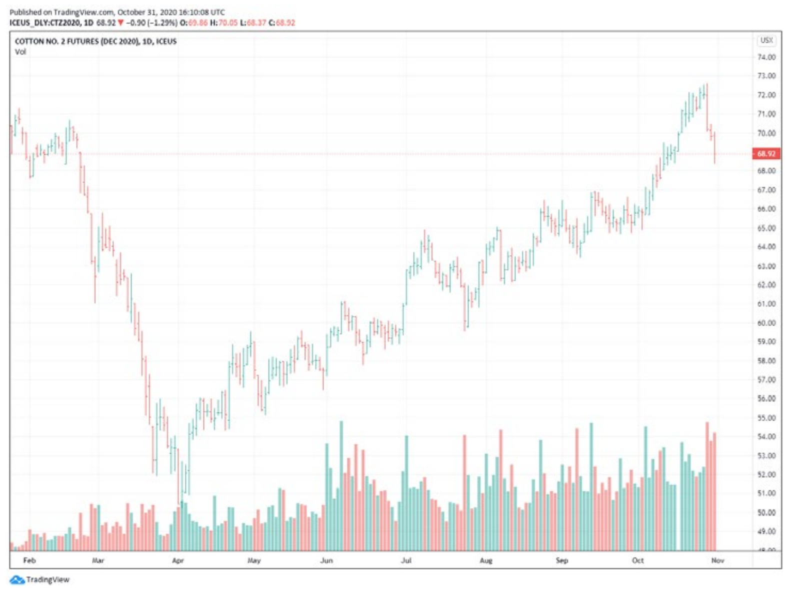
The price weakness has further aided the attraction of Indian styles for export. Chinese mills have purchased Indian styles that are at large discounts to domestic cotton landed the Chinese port after VAT and even under the sliding scale quotas. New crop Shankar-6 1 5/32 is being offered at over a 100-point discount to CCI 2019/2020 stocks of the same quality. Indian exporters continue to report a shortage of containers due to groundnuts and castor oil in Gujarat being given priority over cotton. Groundnut oil exports to China have surged. Cotton exports from Gujarat ports are popular and cheap to Asia; i.e., S-6 1 5/32 landed China from Gujarat is at near 72 cents before VAT and import tax. Bangladesh and Vietnam are also buyers of Indian styles.

BRAZILIAN COTTON BELT RAINS ARRIVE/CFR BASIS FIRM

Widespread rains have fallen across Mato Grosso, Goias and Mato Grosso Do Sol and are forecast to continue until November 5th, which is allowing the soybean crop to be planted. Mato Grosso IMEA has estimated cotton acreage at 1,012,058 hectares in Mato Grosso, which compares to 1,132,095 hectares last season. Production is estimated at 1,767,451 tons compared to 2,004,286 tons in 2019/2020. The IMEA also estimates that the cost of production has increased due to increased prices paid for fertilizer and chemicals. It pointed out that second crop corn has become more attractive than cotton. The CFR basis for shipment through the first quarter of 2021 remains firm at up to 950 points on Dec, and some offers are discounted to 750 points on. This puts Brazilian Middling 1 1/8 near par or at a premium to the most aggressive African Franc Zone Ivory Coast Manbo/s 1 1/8, which has caused offtake by some Chinese and Pakistani mills to switch to this origin. US E/MOT Middling 1 1/8 type offers were still offered at 1000 points on Dec.

The Real/USD exchange rate was weak last week at 5.78. The ESALQ Index of a 41-4-35 landed Sao Paulo reached 71.56 cents before retreating back to 70.94 cents by October 28th. Brazil retail sales in August posted 3.4% growth from February and 6.1% from a year ago thanks to sales of apparel and footwear that posted 30.5% growth from July and was down only 6.5% from a year ago. Brazil is experiencing improved conditions. In June, apparel sales fell 43.6% from a year ago but improved to a 31.5% decline from a year ago in July. A breakdown of total retail sales by state indicates very robust spending in the northern poor states where the welfare payments have aided the economy.

ICE COTTON RALLY ENCOUNTERS STIFF RESISTANCE NEAR 72.50

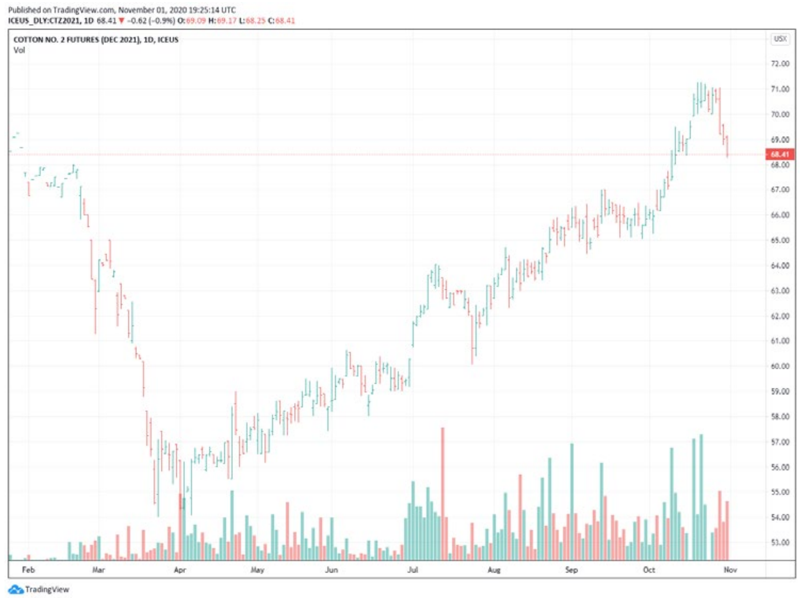


ICE futures experienced an expanded outside range session last Wednesday after posting a new high for the move at 72.60 in Dec. Shortly after making this high, Dec collapsed, falling 255 points before stabilizing just above 70 cents. Volume was heavy as the Algorithmic systema and High Frequency Traders all exploited a commodity-wide complex sell off by the Speculative Funds. This put its behavior out of line with most physical trade, but global equity markets tumbled 2.55 to 4.17% as fears of a second wave of Wuhan Virus shutdowns increased. Crude oil fell over 5% as demand fears reappeared. Europe is in the middle of a second-wave crisis which has resulted in much of the region announcing that stores will be closed for the month of November. The importance of this month in holiday shopping means the latest closures will have a significant impact on the final sales volume. The USD strengthened, and many emerging market currencies came under pressure. The damage done technically from the outside range reversal, then prices closing below that low, was not easy to overcome. The reversal comes at a time when the US production prospects continue to diminish, and the large US CFR basis premium has been eroded to the point US export sales are improving. US export sales were brisk for the week ending October 22nd even with large cancelations. It also has occurred as the US FOB basis has firmed. While the reversal was part of a broader speculative wave of selling across most commodities and equities, behind it was the fear of the economic damage done by a second wave of the Wuhan Virus in Europe and also the US. Europe announced shutdowns that suggest the possibility of a double dip recession that will damage apparel demand for the final quarter of 2020. In the US, cases are surging, and California, Chicago, and New York City continue their draconian measures, as unrest remains a problem in the Philadelphia metro area. As we discussed last week, these events are overshadowing the brisk offtake by China and Pakistan. One improvement over the March and April shutdowns is that, for now, retailers in many areas are allowed to remain open, and most have prepared for a much greater focus on eCommerce and are approaching inventory very cautiously. These conditions have somewhat slowed what would be a rapid recovery in demand as exhibited by the record 33.1% growth in the US third quarter GDP.

China's cotton prices stabilized, and the ZCE futures did not follow ICE lower as the Jan ZCE and the China Cash Cotton Index continued to find support near 14,500 RMB a ton or 97.44 cents. While the ZCE cotton futures were stable, cotton yarn futures and cash prices retreated slightly, as did polyester prices. The ICE setback continued to provide the incentive for offtake of imported US, Indian, African Franc Zone, and to a lesser extent Brazilian, as well as a wide mix of cotton yarns. China/US relations remained in the spotlight in the US election. The announcement was made by the US that arrests were made of Chinese Repatriation Squads operating in the US, which drew outrage from all sides of the political spectrum in the US.

The CFR basis levels remained firm and served to provide some support to ICE futures, as did On-Call price fixations. The ICE movement is linked to the expected increased anxiety over the US election and the second wave of the Wuhan Virus engulfing the two largest apparel consuming markets. The US election results will be important to cotton just as it is to the other key market. A period of chaos would raise fears to other countries using this period to attempt bold moves, which would unsettle the remaining confidence. Thus, extreme movements in ICE, along with other futures, are very possible during next week.

The outside range session followed by the close below the lows of that session has damaged the technical condition of ICE. A close above 70.05 in Dec is needed to stabilize the outlook, and the importance of this level was illustrated on Friday when it turned out to be the high. We had expected heavy resistance at the 72.50 level, and this is proving to be correct. The market's problem is the diminished demand outlook for the US and European markets and the unknown outcome of the US presidential election.



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@Globalej | @JerniganGlobal | Eddie Jernigan | Register for Research info@JerniganGlobal.com | ed.j@jernigancg.com | JerniganGlobal.com