BRAZIL CFR BASIS CONTINUES TO FIRM AS HIGH GRADE TIGHTNESS EXPANDS

CHINA FACES HIGH GRADE SHORTAGE

ETHIOPIA CIVIL WAR THREATENS SOURCING HOTSPOT

ICE FUTURES UNDER PRESSURE FROM CONSUMPTION CONCERNS

JERNIGAN GLOBAL

KNOWLEDGE IS THE NEW CAPITAL

CONCERNS OVER APPAREL DEMAND IN EUROPE AND US PROVIDE CHALLENGES FOR ADVANCING COTTON PRICES

Luxury Retailers in US Continue to Have Boarded Up Stores

Mink extermination in Denmark

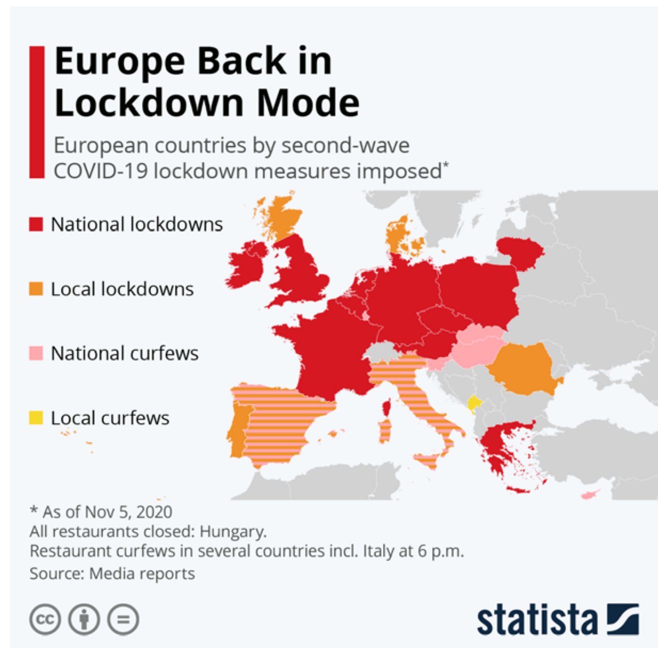
We were a bit taken back last week when we got a call from one of our apparel brand clients that is normally far removed from cotton asking us, “What is behind the shortage in cotton”? The surprise of the question took a while to work through, having felt like cotton has had to deal with a Wuhan Virus-induced bear market for most of 2020. When we were able to stand back and look at the behavior of cotton prices as an observer, we recognized that from the perspective of a shorter 6-8-month window, cotton has posted some major gains since its April lows. First, ICE futures at the recent highs of 72.60 had gained 45.27% off the lows, and for buyers of Brazilian cotton the basis has soared 350% off its lows. Second, you had the October bull market in China. These ingredients raised hopes in the cotton Trade that, now that prices were back to above the pre virus levels and demand was returning, we could soon resume some sort of normalcy. This brought hope the discount of the international values to Chinese prices might trigger demand to push prices even higher, with ICE levels of above 80 cents dreamed by a few. We have been cautious, fearing that the impact of the second wave of the virus in Europe

and the unrest in the US would undermine confidence as new risk surfaced from the US election. During the past week, those fears have only increased, and those optimistic hopes have faded. Two major impediments to demand have moved back to the forefront, which is affecting retailers' and brands' placement of orders, advancing the prospect of some displacement of existing orders, and influencing the confidence of spinners in adding to inventories at the new level of cotton prices.

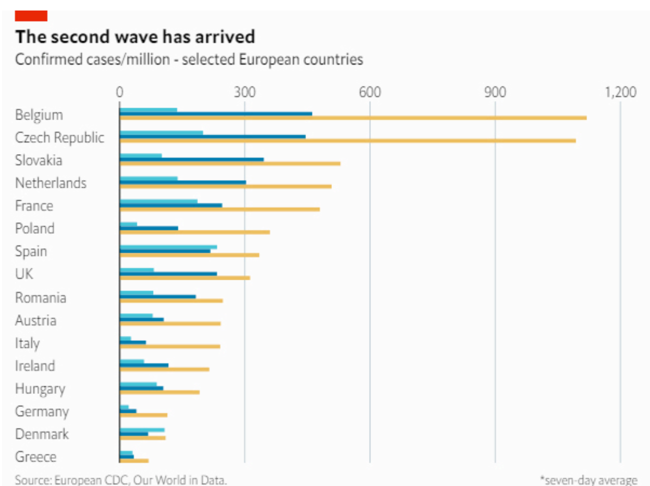
The first event is the second wave of the Wuhan Virus that is presently sweeping Europe, India, the US, and other regions. The impact on Europe will lower Christmas sales of apparel, cause a new round of losses for many retailers, and raise questions on future orders. The virus concerns advanced to a new level in Denmark, where the virus mutated after it was passed to minks and then back to humans. Denmark is the largest producer of minks in the world, and the government has launched a program to kill 17 million minks, which will destroy the industry. The fear is that this could impact the vaccines in development, which is adding new concerns and worries. The various European governments have all announced some form of shutdowns, most of which will last the entire month of November. In the UK, the largest apparel market in Europe, the shutdown will last until December 2nd, with the closure of all nonessential retail outlets. Even larger gatherings in homes are banned. The UK chain Springboard has revised its UK holiday forecast, saying it expects foot traffic to be down 62% and earnings to fall 32.7%. The large apparel group Primark estimates it will loss 375 million British Pounds from the lockdown in just seven countries. The previous lockdown of nonessential businesses was estimated to have cost British retailers alone 1.6 billion BP or 2.16 billion USD a week in lost sales. The EU economy is now projected to contract 2.3% in the first quarter, compared to growth of 12.7% in the third quarter. This is terrible news for an apparel market as large as that of the US.

If a new 30-day shutdown was not enough to destroy hopes of a rebound in EU Christmas sales, now there are new terrorist attacks. Last week, Austria was hit by multiple attacks, which followed the attacks in France. The virus is also experiencing a significant new wave in India. The second wave in the US reached the point 100,000 new cases noted on Thursday, adding fears of an impact on the rebound in sales. The second influence on demand is the continued unrest and lack of law and order in the major US metro centers and the chaos associated with the 2020 US presidential election.

The US election is still sorting out the results, and



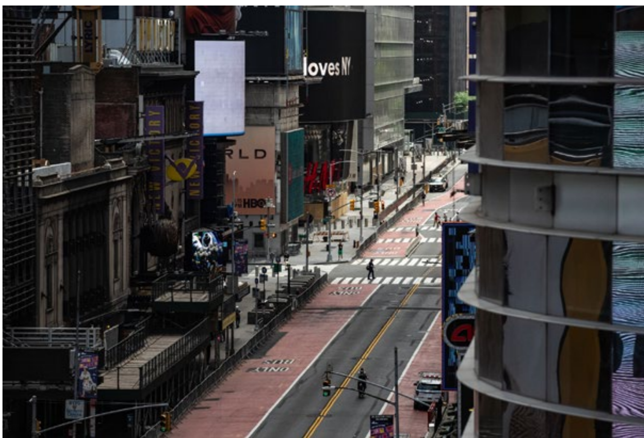
European lockdown



Wuhan Virus by European country

the major US retail centers of Los Angeles, New York City, Boston, Chicago, Portland and Washington DC have seen their population show no signs of rising up against the failed economic policies that have destroyed their retail commerce, and most other businesses. These areas again voted for the left and have further imperiled their futures. These large metro areas ended last week faced with thousands of boarded up retail stores, as the municipal and state governments appeared to accept rioting, looting, and lawlessness as a new normal, resulting in these areas falling from First World status. The front page of the iconic fashion publication Women's Wear Daily (WWD) on Wednesday said it all with a photo (we are showing here) of the Ralph Lauren store in the once fashionable SOHO district

of New York City boarded up with graffiti painted on it quoting Ronald Reagan. We can only imagine the sadness that President Reagan would be expressing from the dramatic turn of events that has reduced once great US cities into Third World-like regimes. In a previous issue, we discussed how these cities, which were ranked as the top retail spots in the world in 2019, would not likely make the list in 2020 and 2021. The rising star was Miami, and in contrast with the named cities that all voted to continue with the left policies and a lack of law and order, Miami, one of the best run cities in the US, increased its support for law and order and pro-business policies, thus had no boarded up store fronts or extra police presence.



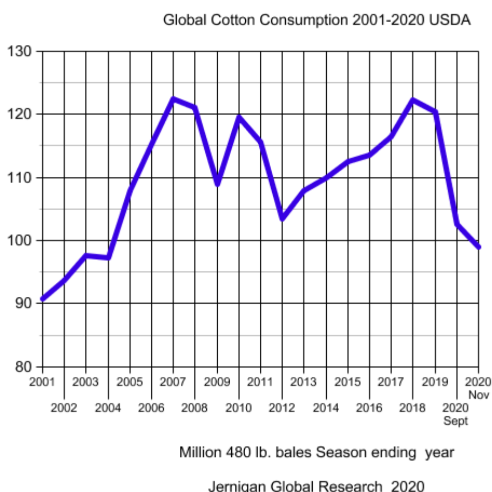
Empty Manhattan

Bergdorf Goodman flagship NYC, November 20

The painful photo of the boarded-up Ralph Lauren store in SOHO illustrates the toll the policies of New York City and the other poorly managed cities are having on the major US brands. Ralph Lauren is one of the top fashion brands in the world, and its sales have suffered. The question is just how long the brands and retailer can endure the damage done to their images and sales by focusing their stores in these high-risk areas. It is clear for many areas that tourists are not going to return to the pre-2020 levels until new administration with a focus on law and order return. Investments have stopped, and the problems are mounting. New York announced last week it was deploying National Guard to airports to force a 14-day quarantine on visitors from 95% of the USA. Can you imagine such an event for a former tourist Mecca. These key metro areas of the US on Tuesday and Wednesday last week resembled a city in a war zone, conditions that provided no casual relaxing atmosphere for shopping. Shopping in these areas was designed to be an experience, highlighting leisurely shopping and relaxed lunches and dinners, all around creating an atmosphere for spending on luxury items. The WWD presented the scene in New York's major shopping districts, Prada, Valentino, and Bulgari stores were boarded up over both the windows and exterior of the store. A row of New York City police officers lined up in front of the landmark Bergdorf Goodman store on Fifth Avenue and its men's store across the street. Another group of police officers and vehicles guarded the Louis Vuitton store and other major brands. Saks was reported to be spending a 1,000 USD an hour on security. Despite all the security, Antifa mobs and others held demonstrations in Bill DeBlasio's NYC and threatened the public chanting death to America. The Fashion Capital of the World is no more.

In Los Angeles, as we reported last week, stores in the major fashion districts were boarded up, and police helicopters were reported hovering above. Portland, Oregon, which truly resembles a war zone, declared a state of emergency. Other retailers across the US reported added security. As we have outlined in detail, these areas all combined are a large part of the US GDP and apparel spending. These conditions are taking a significant toll on retailers' orders and confidence in the future. Adding to the drama in the US was the election chaos that saw several of the poorly run states descend into a Banana Republic as vote counts became extremely questionable, with the final results tainted and promising much chaos in the future. Against this backdrop, consumer confidence is taking a blow and the 2020 holiday season has lots of unknowns for retailers. Then there is the issue of Biden's statement that his solution to a second wave is to shut down and lockdown the economy despite the economic toll and losses. The US election results will also play a role in future sourcing decisions. A Biden win is viewed as pro-China, which may result in all the tariffs being removed on Chinese imports. This is already being pushed by the Wall Street backers of Biden who are seeking a return to the pre-Trump trading environment.

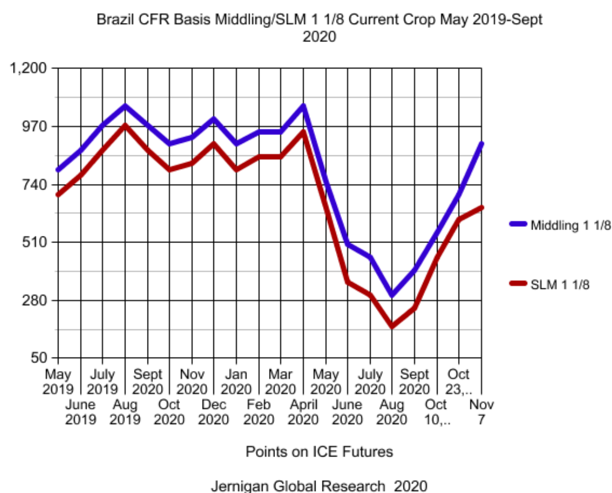
Normally all these developments this far up the supply chain would not be felt in cotton, but the pandemic has dramatically changed the supply chain. Spinners in March were caught with large inventories, and weavers, knitters, and cut/sew operations experienced losses that many may never recover from. Demand had begun to come back, and rather robust conditions had developed in many of the key spinning markets. However, the developments in the US and Europe have raised fears that some orders may get cancelled or delayed. It also has dashed hopes for a robust start to 2021. Pakistan, India, Vietnam, and other markets have been winners in the changing sourcing patterns. The long-term success of this shift will be endangered by a Biden win, which is adding to concerns over longer-term cotton commitments. These conditions have caused us to revise down Global Cotton use for 2020/2021 to 99 million bales, a 3.56 million-bales reduction from our September estimate.



A removal of the Chinese tariffs would suggest an end to the China/US trade agreement, and it is hard to imagine an agreement without the tariffs or threats of tariffs. For cotton, an end to the agreement has large consequences for the 2021/2022 season. Without the agreement, China's Reserve purchases of imported cotton would likely be made on the cheapest price between the US and Brazil. It will also mean that, instead of the US beginning with 4-5 million-bale cotton sales that could be expected to China, all US exports will have to compete on price. This will result in a price battle as the world deals with final surpluses now overhanging markets. One can only speculate how much lower world prices could have fallen in 2020 if the China/US trade agreement were not in place. These events have, for now, eroded an already weakened level of confidence spinners have had in forward orders and also assured all mills will approach commitments with no need to chase higher prices. This change in attitude will impact ICE futures, physical prices, and CFR basis levels. It could undermine some of the confidence the Trade has had on holding the large volume of unsold CCI stocks or certainly adding to them. The Indian Trade and international Trade, up to now, has had unprecedented confidence in taking up the CCI stocks and maintaining such inventories. This has allowed the CCI to make sales and continue to raise the floor price. It remains to be seen if this will continue amid more uncertain downstream demand.

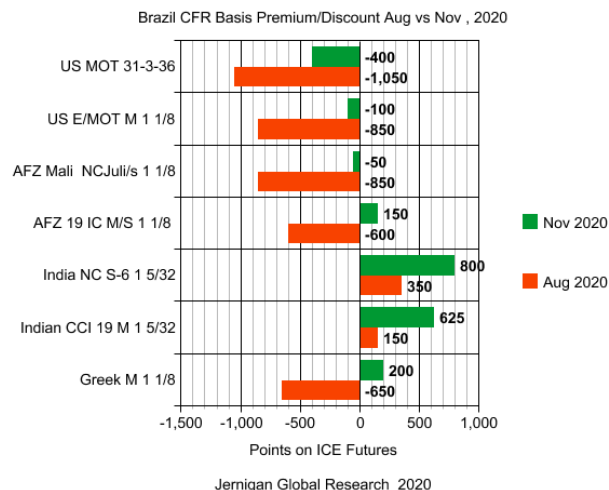
BRAZILIAN BASIS STRENGTH CHANGES COTTON TRADE DYNAMICS

The dramatic rise in the CFR export basis of Brazilian cotton has changed global trade dynamics and also now playing a role in stimulating new export offtake of US cotton. Brazilian cotton has dominated all non-Chinese import markets since July as China's Reserve purchases pushed US CFR basis levels to extremes and moved ICE futures to record premiums to physical prices. Brazil, after producing two back-to-back record crops, has had to export cotton in 2020 in volume, despite the Wuhan Virus outbreak and the China Reserve's exclusive focus on US styles under the trade agreement. The virus impact on demand from March to June made conditions very difficult for Brazilian exporters who faced the drama of having to move stocks amid no viable storage options and the



need to convert stocks to cash. This turned exporters into aggressive sellers in every non-Chinese market. The Chinese mills grew very quiet, due to demand concerns, with the only Chinese demand coming from the Reserve, which meant exporters were seeking bids for any volume and then hitting the bid. As the major import markets outside of China began to recover, led by Pakistan, Brazilian styles undercut all other growths once quality is taken into consideration. Even Indian, with its record stocks, was never able to reach a discount that turned business away from Brazil. The Brazilian exporters' aggressive behavior reached a peak in August when merchants appeared to begin to finally balance positions. By mid-October, merchants' offers were much firmer, and during the last half of the month the CFR basis soared as it appears merchants have booked the maximum shipping capacity for November through at least February.

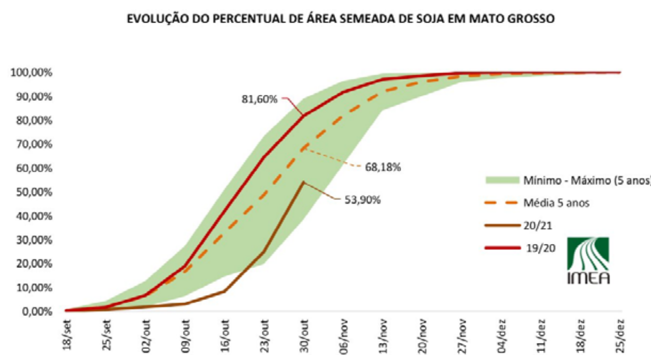
Brazil cotton export shipments are known only after they are shipped. Thus, no one knows for sure the exact position of merchants and traders, and the final ginning of the crop is still underway. We do know that the 2020/2021 soybean crop went in several weeks later than last year, so the second crop cotton will be later and could face issues due to a lack of final rains. For two seasons all has gone near perfectly, and record yields occurred. New risk is inserted this season, and also acreage prospects have been trimmed somewhat as corn prices soared to records. All this suggests that, for the moment, exporters are no longer feeling the heat to sell volume and are willing to wait and see for a time. Adding to the drama is the fact that the world has a surplus of cotton but not of machine-picked Middling 1 1/8 and longer staple grades, which have been pushed into tightness by the Reserve purchases and the sharp fall in the color grades of the US crop. Brazil is the natural alternative to the US for supply as harvest is normally void of rain. The CFR basis movement has had several years of relative stability. The CFR basis for a Middling 1 1/8 ranged from a dull 950 to 1050 points on the nearby ICE futures for nearly nine months coming into April 2020. As China moved to purchase several million bales of US cotton, which firmed the ICE futures prices despite the very poor demand outside China, the CFR basis began to fall, and it would aggressively decline for the next four months when Brazilian exporters attempted to rid themselves of the record 2019 crop stocks before the ginning of the record 2020 crop. This all occurred as mill demand was timid and slow to recover. Exporters received some aid from the much smaller than expected Pakistan domestic crop, which, along with a recovery in exports, stimulated widespread import demand. Brazilian 2019 crop recaps and the popular Middling 1 1/8 and SLM 1 1/8 sold in volume. After volume offtake, the CFR basis experienced a blow off bottom at 200-300 on for a Middling 1 1/8 and 150 points for a SLM 1 1/8.



Once the major shippers begin to withdraw offers or raise basis levels, the recovery occurred quickly, as Brazilian had reached a record discount to US, Australian, and Greek offers. As mill demand continued, the basis quickly improved, and in about a 60-day period it was almost back to April levels out of many shippers. The rapid narrowing of the discount of Brazilian styles turned most export demand back to West African, Greek, and US styles. China demand appeared from October forward, with the sales volume quickly appearing to absorb the remaining Brazilian export capacity for the period ending before the February 2021 quota deadlines. A large volume of Brazilian sold from the China port warehouse stocks through last week, and those supplies are also now tight, which turned attention to US and Indian stocks. Mill demand has also slowed outside China amid the price gains in ICE futures and the basis. Brazilian exporters are now likely to have a better understanding of their unsold balances by the end of the year when the ginning is completed. Thus, these styles may yet be offered in volume. Even with shipments at extreme levels, ending stocks remain sizeable. The ESALQ Index of a 41-4-35 landed Sao Paulo reflects the new tightness in unsold stocks for nearby as it soared to a premium to Dec ICE after trading at deep discounts less than 30 days ago. On Friday, the Index surged to a near a 500-point premium to Dec ICE. This spread has rallied 15 cents since the lows.

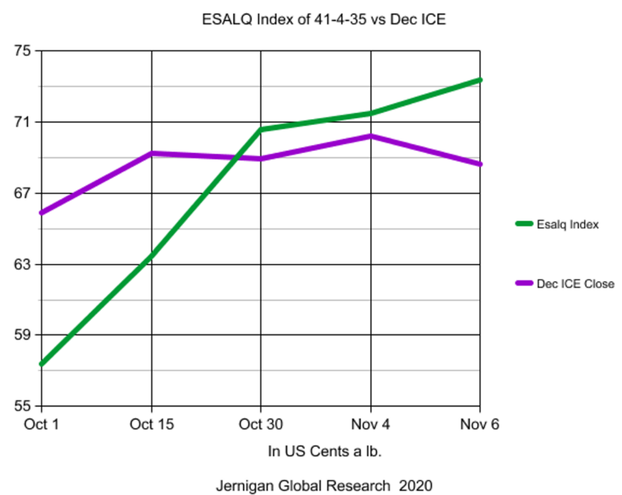
Brazil's export shipments of cotton in September reached 158,900 tons. October shipments were much lower than expected at only 178,681 tons, which is down sharply from shipments in October 2019 of 288,149 tons. November shipments should increase to records as exporters move to fill outstanding contracts.

The changed basis levels have changed the focus of trade in Pakistan to US and West African styles, including some Greek, for volume sales. The African Franc Zone hand-picked styles have always had a loyal following in Pakistan when basis differentials allow. In August, Brazilian Middling 1 1/8 was at a 600 point or more discount to an Aggressive offered Ivory Coast Manbo/s 1 1/8. Today, it has moved to a 100-200-point premium, thus triggering the attention to the Ivory Coast style. In August, a Greek Middling 1 1/8 was at a 650 premium to a Brazilian, and today the Brazilian is at a 150-point premium. Therefore, the Brazilian basis strength has allowed the export surplus of the African Franc Zone and Greek exporters to begin to be dealt with. For US exporters it has added to the potential for a further tightening of stocks.



Planting progress soybeans, Mato Grosso

Brazilian exporters will return as they still have some volume of the 2020 crop to move and the 2021 crop is unsold. Merchants are long the basis in this crop through forward sales and input barters, but very little has been sold, forward sales have come to an end, following the March Wuhan Virus outbreak. This means that Brazilian exporters should return with volume to sell for the second and forward quarters of 2021. Exporters are likely to face a different environment for Middling 1 1/8 and better grades. These are going to be needed to replace the supply that is not going to be available from the US. The Real/USD exchange rate reached 5.3775 on Friday, reflecting a 5.65% appreciation over the last week.



CERTIFIED FARMER
F
GIVE-BACK
FIELD to CLOSET
A RESPONSIBLE CHOICE FOR BRANDS, RETAILERS & MANUFACTURERS
Making farmers lives better with a more equitable supply chain
WHY COTTON?
Comes from Nature, Returns to Nature

BEIJING CONTINUES IN ITS ATTEMPT TO MAKE AUSTRALIA SUBMIT TO ITS WILL

China bans timber imports from Queensland

It has become clear that neither the rule of law nor the confines of a trade agreement will prevent the CCP of China from using trade to drive its foreign policy. As seen in the continued wooing of US Wall Street interest, where the desire for earnings and share prices overshadows all national interest, Beijing believes that Australian exporters will exert political influence on Canberra to force it to buckle to China's will regarding foreign policy and trade. Therefore, last week it confirmed the solid boycott of all Australian cotton except at a 40% duty. It then abruptly banned all imports of timber from Queensland and Barley exports from another major Australian exporter. Shipments of Australian rock oysters were stopped over the weekend at the port. China also halted imports of Australian copper concentrate and copper ore, followed by a halt to sugar imports.

All these actions are coming despite a Free Trade Agreement with China that stimulated 240 billion Australian dollars, 171 billion US dollars, in trade. China's actions seem to suggest the Free Trade Agreement and the WTO rules mean nothing. China has used the WTO entry to dominate the world across pretty much all industries but does not honor the protections given to other countries. This is happening as Beijing continues to interfere in Australia's internal domestic affairs by using funds and investments to influence Chinese-born Australian citizens to remain loyal to Beijing or cause a sellout of other domestic politics, such as occurred in Victoria. These are making for some difficult times for Australian farmers and exporters.

Major China spy ring uncovered in Australia

THE AUSTRALIAN

WWW.THEAUSTRALIAN.COM.AU | FOR THE INFORMED AUSTRALIAN

Henry Ergas

We cannot allow Covid to destroy our freedoms

HORNET BACK IN HIS NEST

... as Tim Tszyu dares to dream big

BEYOND THE CITY

Tapping into the wealth of our regions

PREMIER ANDREWS DECLINED ADVICE FROM SECURITY AGENCIES ON CHINA DEALS

Eyes wide shut on spy threat

Focus on gesture was Dan's mistake

You can take your terrorist back: NZ

Major China influence in Victoria from disgraced Premier

Rains have continued during the last week but have been more isolated and focused on New South Wales. It remains to be seen how dryland acreage has been affected by the last round of rainfall. 2021 crop FOB basis levels have been steady, and there is no real change in the CFR basis levels. 2021 crop SM 1 5/32 is offered at 1675 points on, which is well priced with no US quality in that style offered at all, and SM 38 staple is offered at a 50-point premium. These are well priced. The world faces a major tightness in the longer staple

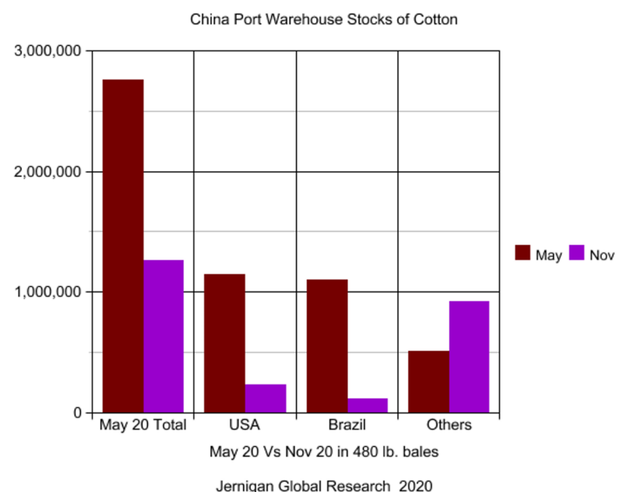
machine picked upland Strict Middling color grades. These are perfect for blending with ELS and are offered at a 500-point discount to where they would be in a period of robust Chinese demand. US 31, 2/3 leaf in the 37 and up staple length will be much reduced. The US is going to have an abundance of 41 and below long staple 36, 37, 38 grades but very limited Strict Middling and above.

The embargo may open the door for some Vietnamese, South Korean, and Indonesian higher count spinners to increase purchases of Australian and then export the yarn to China. We have not heard of any discussion of extending the embargo to yarns from Australian cotton from third country suppliers. This could help revive the Indonesian spinning sector.

CHINA SUPPLY OF HIGH GRADE, LONGER STAPLE STOCKS HEADED FOR TIGHTNESS

The China Cotton Association (CCA) released its new Cotton Quality Differentials, and they increased the premiums for strength, especially in the 30, 31, 32 levels. The base strength is 28, and the premium for a 32 is 900 RMB a ton or 6.09 cents a lb. This compares to the USDA 2020 CCC loan base of a 26 strength, with only a 45-point premium for a 32 and discounts that start at 25.9. The CCA schedule is putting the emphasis on strength, which is very important in yarns. The base staple is 28 or 1 3/32, and the premium for a 29 staple is 200 RMB a ton or about 1.35 cents a lb. The CCA increased its discounts for short staple, with a 26 staple carrying an 850 RMB, or 5.75 cents, discount and a 25 staple 1450 RMB, 9.8 cents a lb. The color grade was 31 or Middling for a base with small premiums for Strict and Good Middling. The CCA also increased its mike discounts.

The consumption of cotton and man-made fiber has improved since the October National Day holidays, and most cotton spinners now have little unsold cotton yarn inventories, which improved the financial health of the sector. As China closed for the National Day holidays, many Chinese spinners had high inventories of unsold cotton yarn which many estimated to equal 1 to 2 months of normal sales. These stocks were a sizeable drain on cash flow. The sharp run up in cotton yarn prices, which exceeded more than 16% at one point, allowed spinners to completely liquidate these inventories. Today, most spinners have little to no inventory and are approaching business cautiously. Orders are reported as steady from both domestic customers and for export. Downstream conditions are also much better, with much improved fabric sales noted. The Chinese domestic market is expanding, and an increase in orders for winter apparel in large volume has occurred as domestic forecasts are for the coldest winter in decades. Weavers are reporting good orders. The home textile market is also hot with good orders. Most mills are booked for the first quarter and have good first quarter orders. The second and forward quarters of 2021 are open. It appears the entire supply chain is being managed in a way to avoid being caught with large inventories if something happens. This also indicates inventories are lean, and any pickup in orders will be felt through the entire supply chain from yarn to cut/sew. Many exporters are focusing much more on the domestic market. In the Guangzhou, processing trade zone orders for the domestic market are up over 30% in the last quarter. Alibaba 1688, which is a domestic trade wholesale market, has been launched.



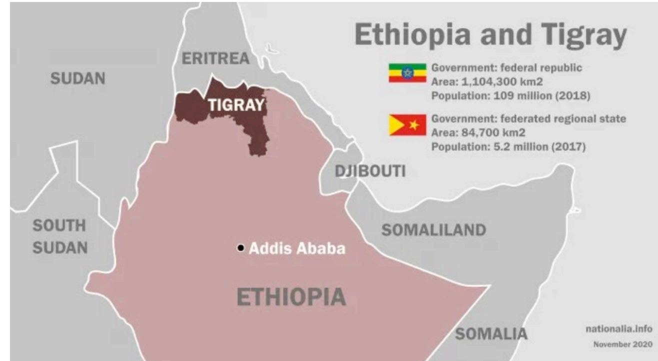
The recent increase in sales of US, Brazilian, Indian, and all bonded warehouse stocks has reduced these stocks to levels in which they need to be replenished with high-grade imports. The embargo on Australian imports means other growths are needed to fill the normally large shipments of the Australian crop into consignment stocks. Australian exporters, especially the bankrupt Chinese exporters, have in recent years shipped large volumes of stocks to the bonded warehouses where they would find retail offtake. With an embargo on these shipments, this will not occur in 2021, which will create the need for US high grades that may not be available until the 2021/2022 crop. The reduced staple length of the record 2020 Xinjiang crop and the higher mike and lower strength means that Chinese demand for longer stable high grades will increase in 2021. If the Reserve is able to purchase its target of 500,000 tons of Xinjiang better grades, it will further tighten the supply. Spinners are already covering in 2020 Brazilian higher grades even at the firm basis as a result.

The final period of harvest has seen no real improvement in quality, and the weather has likely added to the problems. In some areas the Wuhan Virus reemergence has resulted in gins unable to acquire cotton as normal from farmers. Farmers have been allowed to continue to harvest the seed cotton, but many appear to have turned to using mechanical picking. The seed cotton is being stored in the field. It is allowed to be transported to the gin. Ginners are traveling to the farms and buying the seed cotton with a payment deposit for later shipment. The seed cotton is thus exposed to the weather, and quality will likely fall. The supply of handpicked cotton is set to be the smallest on record, as an increasing volume of the crop is machine picked. A major improvement in the machine picking practices has been noted. The shorter supply caused the premium of the handpicked lint to increase and is now quite expensive at over a 1000 RMB a ton or more.

China's ZCE cotton futures experienced a quiet week, with the January contract holding near 14,200 RMB, as did the China Cash Cotton Index at a slight premium. The ZCE contract is facing a much tighter supply of certificated stocks for delivery, and at the 14,000-14,500 RMB level it has found value for commercial buyers. Moreover, Xinjiang ginners need 15,000 RMB or more to be able to hedge on the contract and certificate for delivery. The warehouse receipts for delivery have continued to fall with only a few additions. A sizeable portion of the 2020 Xinjiang crop will not qualify for delivery, which is unlike last year when certifications reached record levels. The ZCE contract is trading near par with cash prices, which means that it is difficult to break the prices without new cash price weakness. Last week, when ICE futures suffered a sharp correction of over 450 points off the high, the ZCE contract did not follow the weakness. On Monday, when Dec ICE hit a low of 68.06, the discount of the Dec ICE contract hit 29.67 cents a lb., which was very near the record discount that occurred on October 19th at 30.43 cents. These discounts appeared to trigger offtake in US styles. The average discount of ICE in August and September was 20-23 cents and only 14-18 cents in the April-July period. This shows a new incentive for spinners to turn to imported styles. Dec ICE rebounded swiftly off this discount, correcting over 300 points in 24 hours, reflecting the value proposition. It is the discount of the international values and the caution of yarn buyers to accumulate inventory at these prices that has limited the ability of the ZCE cotton fiber and yarn prices to rally to new highs. The ZCE cotton yarn contract has been under pressure since the October 19th highs, falling over 10.0% compared to a 7% decline in the ZCE cotton futures. The more thinly traded yarn futures contracts decline has outpaced the retreat in cash yarn prices.

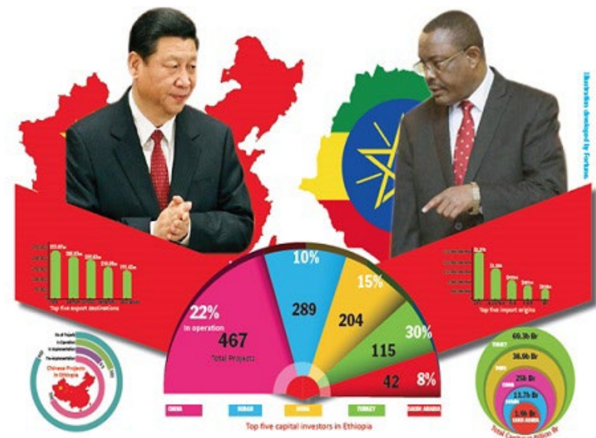
By Friday, the concern over European and US demand appeared to weight on ZCE cotton, yarn, PTA, and polyester futures, with all closing at their lowest levels of the week. The excessive premium of the ZCE to ICE is hurting overall ZCE price levels. Just as spinners outside Chinese spinners have been approaching business cautiously after the large price gains. Overall, continued pressure on ICE will make it difficult for ZCE price levels to hold. We suspect a large number of ginners may be holding expensive lint ginned from very high-priced seed cotton that is unsold, and the weakness in ICE impacts confidence.

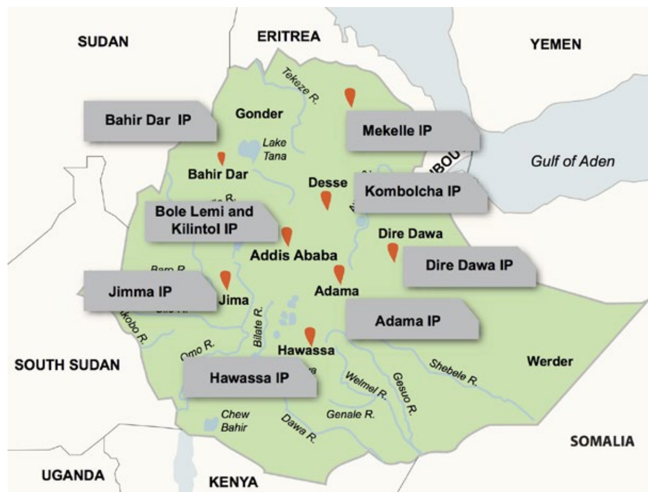
CIVIL WAR BREAKS OUT IN NEW SOURCING HOTSPOT OF ETHIOPIA



Ethiopia has been a go-to location to find cheap labor and avoid any Chinese/US trade friction. The US is the major export market for its textile and apparel exports, along with Europe. In September 2020, US imports of textiles and apparel were up 32.2% at 23.83 million USD, and YTD imports are up 12.16% at 165.687 million USD despite the pandemic. Ethiopia is a client state of China under Belt and Road and has drawn billions of USD in investments. Over four billion USD flowed in during the two-year period ending in 2018 alone. China has put in place much of its infrastructure, building dams, electric grids, and transmission lines, roads, and industrial zones. Chinese companies have built Addis Ababa, the capital city, and its skyscrapers. The exact funding from all sources is not made public but will exceed 10 billion USD or more. China investment in manufacturing has focused on textiles and apparel, with several industrial parks established that have drawn significant investment from Chinese textile and apparel companies and also those from Turkey, India, Bangladesh, and even the US. The draw is the Chinese infrastructure and the cheap labor, which starts at a rate of 16 USD a day. The largest industrial textile and apparel parks are in the center of the country not far from the capital. A major Chinese investment in a rail line from the capital to the Djibouti port cost an estimated four billion, with sizeable losses as it remains underutilized. But it does make exports much cheaper. A major Chinese owned industrial park also opened in the northern state of Tigray. Mekelle Industrial Park was built by the Chinese Communication Construction Company, which is the major builder on the Belt and Road. It was built in 2017 and drew investment from Chinese, Indian, and other groups. Exports have to travel south to meet the railway for transport to Djibouti, and the roads are rough.

This industrial park is now caught in the region where civil war broke out last week, and attempts to reach the park failed as internet and electricity has been cut to the state of Tigray. Tigray has been in a power struggle with the central government for some time. The Tigray regional government army forces attacked a central government army base in the region in an attempt to capture arms. It has also been organizing a rebel army. The Tigray Peoples Liberation Army controls Tigray state which is located on the border with Eritrea. The central government has also accused it of attacks on the ruling ethnic groups, including a large-scale massacre near the capital. The central government sent soldiers to quell the situation and major fighting broke out. For now, the fighting has only disrupted the Mekelle Industrial Park. The fighting has, however, reduced confidence in new investments. The Chinese have been attempting to scale back but face hurdles with their outstanding loans. If the fighting spreads south, then all textile and apparel exports will be impacted.





Ethiopia industrial parks

These conditions suggest that Ethiopia as a sourcing option will receive reduced focus. Ethiopia has drawn interest in cotton production and building of a complete supply chain. Some investment has been made but nothing too large.

ICE FUTURES END WEEK ON DEFENSIVE AS DEMAND CONCERNS INCREASE

ICE futures behavior last week appeared to reflect the new mood of great concern over demand, which we previously discussed in detail. The market, as we have discussed several times, has been dealing with the impact of the expanded second wave of the Wuhan virus, which accelerated last week as it jumped to minks and caused the mass destruction of 17 million minks, raising real fears over mutation. The second wave is continuing in India and hit 100,000 new cases in the US on Thursday. Then came the unrest in key metro areas and its impact on retail sales, which was joined by the impact on consumer confidence in the US by the further descent into Banana Republic politics in many of the same states. This weakened confidence in the US Dollar, not in the normally bullish inflationary way but more as a barometer of faith in the US. At the same time, the Chinese Yuan/USD saw the RMB soar to near its high for the year as it was seen as the winner of the chaos. Dec ICE closed very near its lows for the week and is not far from experiencing a full breakdown of the uptrend that has been in place for over 20 cents.

US export sales during the week were more broad-based, as the impact of the surge in the Brazilian CFR basis was felt. However, it has appeared for a couple of weeks now that the rebound in prices had reached the point that some old sales could be washed out without any cost, allowing spinners to clean up outstanding orders. This was illustrated in the large widespread cancellations. This is not surprising, as the record carry forward in sales left some volume of troublesome sales that needed a solution. An over 22-cent rally off the lows is a good spot to clean these up. This has added to the resistance at 72.50.

Expectations are growing that the US crop will fall below 16.5 million bales, and the quality is declining. In Georgia, the second largest cotton producing state, 77% of the crop graded 41 and below color grade and 26.8% below 41, and in Alabama 61.7% graded 41 and below. The three states most affected by the hurricanes, Georgia, Florida, and Alabama, are having a seed coat fragment issue in the cotton on a small percentage of the crop. The US classed over a million bales last week,

and harvest is advancing. The US is set to have a record supply of 41 and below long staple cotton from the Mid-South and Southeast crops. This is increasing the pressure on the CFR basis in these styles. A 41-4-36 Green Card is selling for near 800 points, and a 41-4-37, 41-4-38 and 41-4-39 are also offered. 42s is common as well. This has been increasing the certification of old crop 41 longer staple for delivery against the futures. We discussed some time ago that conditions were perfect for the premiums on the futures to draw these styles. Certificated stocks have increased to 66,898 bales which, adding the pressure of the rolling of the Index Funds, has widened the December/March spread.

We expect spinners to approach forward coverage with a bit more caution and with a greater emphasis on CFR basis levels. As discussed earlier, the changing basis levels have made Brazilian styles very expensive, with Indian and West African now the most competitive. In machine-picked, Greek and US are attractive. The USDA will issue its next production and world supply demand estimates on November 10th, and much attention will be on the US production estimate. This could help stabilize prices if the cut is large enough and gets some help from the world estimates. The technical performance of ICE is very negative. It did recapture the 70.05 level but failed to hold it. The technical outlook suggests a larger break to 65 is possible. A lot of the price relationships are distorted for the moment. If ICE moves lower, it should pull the ZCE futures lower, but if it doesn't and the premium increases, that should stimulate new export sales. Then, you have the raging bull market in corn and soybeans that has cotton far underpriced, so large changes in acreage will occur. All this against a still very unsettled US political climate, which will add to the volatility. Another dynamic that is reflecting the smaller US crop and poorer quality is another firming of the FOB basis. The average FOB basis in the Southeast and Mid-South firmed 75 points last week to only 125 off Dec in the Southeast, which is the strongest basis since the virus outbreak. The Mid South is at 225 off and Texas is at 525 off. The clearest feature is the tightness in machine-picked longer staple supplies, which should further firm the CFR basis and also aid Australia in finding non-Chinese demand. The next 1-2 weeks will contain lots of uncertainly as the US election calamity plays out. The outcome will be important to cotton.

Jernigan Commodities Global, LLC and its offer of services, whether given orally or in writing or in electronic form, has been prepared for information purposes only. This newsletter may contain statements, opinions, estimates and projections provided in respect of future periods. Such statements, opinions, estimates and projections reflect various assumptions concerning future results, which may or may not prove to be correct. As a result, no representation, warranty or undertaking, expressed or implied, is or will be made or given in relation to the accuracy of any such statement made in this brochure. In particular, but without limitation, no representation or warranty, is given as to the achievement or reasonableness of future projections or the assumptions underlying them, management targets, valuation, opinions, prospects and returns, if any. Consequently the recipient of this newsletter must make their own investigations and must satisfy themselves as to the particular needs of the recipient and seek professional independent advice. Jernigan Commodities Global, LLC disclaims all liability at law and in equity from any and all damages, loss, claims, liability, costs and expenses of whatever nature arising directly or indirectly out of any act, omission or decision made by the recipient in reliance upon this brochure or any statements made by any director, officer, employee or agent of Jernigan Commodities Global, LLC.