XINJIANG SLAVE LABOR IN SPOTLIGHT AS EU TREATY SIGNED

RISE OF CHINA SECOND TIER FASHION CITIES LEAVE US METRO AREAS BEHIND

CHINA FAILS TO COMPLETE TERMS OF US TRADE AGREEMENT

GLOBAL COTTON PRICES END YEAR AT THEIR HIGHS

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

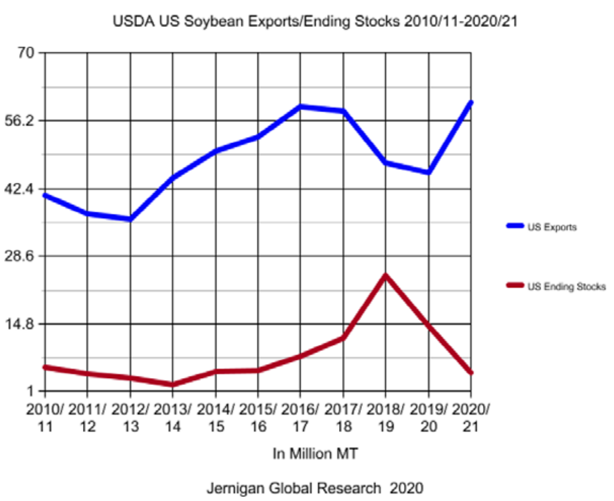
US SOYBEAN PRICES SOAR AND STOCK LEVELS SHRINK; HOW WILL COTTON ACREAGE HOLD UP?

Global soybean prices are in a major bull market, with CME futures reaching over 13.00 USD a bushel and November 2021 exceeding 11.00 USD. The tightness is increasing as US soybean shipments reach record levels and stocks appear set to possibly trigger imports before new crop arrives. Brazil and Argentina are dealing with a La Nina, and weather forecasts are suggesting some disappointment in output is likely. This past week, soybean harvesting in northern Mato Grosso occurred amid very dry conditions, and the entire Mato Grosso, Goias, and northeast Brazil look dry and hot until January 3rd, adding further concern. The models then promise rain, which they have done several times. For cotton, the northern Mato Grosso early soybean harvest is being followed by cotton planting in dry soils that will require rain. In Argentina, the cotton areas received some rainfall last week, but it is way past the normal planting window. We all know that the life of a bull market in agriculture crops can quickly die as farmers worldwide respond and a record

March 2020 CME Soybean Futures

new crop follows. Recently Brazil's EMBRAPA said the country has 80-100 million hectares of degraded pastureland that could be converted to row crops without any additional rainforest destruction. This should serve as a reminder of what lies in reserve as prices climb.

Many of the grain experts we respect expect the USDA soybean exports for 2020/2021, which are estimated at a record 59.87 MMT, to be exceeded. This then makes the projected ending stocks of only 4.763 MMT quite tight. The record was 2.54 MMT in 2013/2014, with much lower exports. This is one of the drivers in the attention to Brazil and the importance of January rainfall. For cotton, the events in soybeans have three key influences. First, the bulk of the 2021 cotton crop in Brazil is the second crop and should be planted in the next 45 days. They need good rains, while the small first crop is stressed and needs rain. Thus, the 2021 crop size, which has already been scaled down to near 11 million bales by some, is far from assured. Second, planted acreage in Argentina will likely not meet expectations, resulting in a smaller crop. Finally, an 11 USD November 2021 futures and good basis levels mean that in the US Mid-South and Southeast growers will plant soybeans, and in Texas Sorghum-Milo, & Corn prices are more attractive than cotton. For the year, soybeans price gained 39.5% and corn prices are up 24.8%.



Against this backdrop, you have the heavy 2020 US export sales of cotton, and we have said and will say again we expect the US could commit its entire inventory before new crop arrives. In high grades, the supply will experience record tightness, so a smaller US crop has no cushion from large stocks. ICE futures for the 2021/2022 season is suffering from massive illiquidity. The ICE contract and the management by ICE continues to do the US and global trade a large disservice in its management of the contract. The contract has remained unchanged since purchased by ICE over 13 years ago, with no money being spent on encouraging Trade use or expanding use by the global Trade. As such, the contract has simply been left on its own to draw whatever volume it can, which means the Speculative Funds and High Frequency Trades and Algorithmic traders rule the contract. They react to outside paper and focus their volume on the contract month, which draws the most outside paper. This has meant the back two crop year strips do not reflect any real value. Some groups trade the spreads. Thus, the first crop year draws some volume while the second strip draws none. Total Open Interest in the 2020/2021 futures on December 30th was 30,400 contracts or 3 million bales. The 2021/2022 crop strip of futures has an Open Interest of only 943 contracts or 94,300 bales. These OI levels mean the contracts are not representative of a valid forward outlook. Therefore, the ICE contract is lacking in many important features.

November 2021 CME Soybean Futures

Dec 2021 CME Dec Corn Futures

Without a true indicator of value, how can cotton prices compete with soybeans for US acreage? The current December 2021 and forward contracts appear undervalued and offer US growers no valid hedging levels compared to soybeans. As a result, US growers are likely to book forward and plant soybeans wherever possible. This is likely to be the most severe in the Mid-South where the land has been prepared over the past several years to rotate between cotton and grains. The region is the most productive cotton acreage in the US, which is a mixture of rain grown and irrigated. Yields can reach near 7 bales a hectare, challenging Brazil. Acreage losses here, therefore, have a significant impact on US production and on the supply of long staple, high grades. The Mid-South currently produces 38-40 staple and 33 strength styles equal to Australian, when the weather permits. During the last major bull market in soybeans, Mid-South cotton acreage dropped to 988,000 acres compared to 2020 acreage of 1,772,000 acres. A loss of 900,000 acres would reduce the US crop by more than 2.3 million bales.

In the Southeast, cotton acreage could drop by 500,000 acres or more, which would take approximately an additional million bales out of production. Then you have the debate over how much Texas acreage will switch to sorghum. If planted acreage drops to 8.0 million and harvested is 7.6 million, with an average yield of 875 you come up with 13.854 million bales. Nine million planted acres raised the production possibilities to 15.585 million bales. The US has a solid role in global trade, which suggests 14 million bales or so of exports can be achieved easily. You can see US cotton is in a battle for acreage, and it appears even the inefficient ICE futures realized that fact on Wednesday, December 30th when the Dec 2021 and Dec 2022 posted similar gains as spot March, as a few traders awakened to the underpriced nature of these months.

Cotton has lagged soybeans as the world has taken comfort from bloated USDA and ICAC stock levels, which we have discussed a number of times. Crops have been overestimated and consumption underestimated. Only in the last 30-60 days has the world began to realize the consequences of this and what a return to pre-Wuhan Virus consumption levels means. This is being made possible by a switch in cotton apparel sourcing to outside China and a booming domestic Chinese apparel market. The robust Chinese domestic market has provided a cushion for any reduction in exports to the US or other markets, as has an increase in exports to Central Asia. The world's machine picked cotton balance sheet is tight and in for a battle for acreage in both the US and Brazil.

Overall in the US, Dec 2021 futures need to move above 80-82 cents to begin to win acreage and also to draw a strong basis. In Texas, water will be the issue. The basis for Milo in Texas and Oklahoma is drawing a basis of 30 cents or more a bushel on Dec corn. At these prices, 85 cents cotton is needed.

XINJIANG SLAVE LABOR FACTORIES IDENTIFIED IN ALL MAJOR COTTON AREAS

SHOCKING GROWTH IN FACTORIES CONTINUED IN 2020

EU TURNS THE OTHER CHEEK AND APPROVES INVESTMENT TREATY

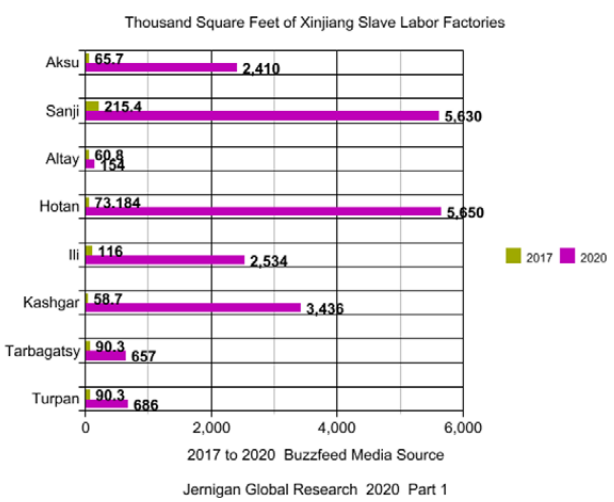
The issue of slave labor throughout China's industrial complex is now front and center following extensive research that shows the location of the factories and the expansion. Without any doubt, China reeducation programs for Uyghurs, Kazh, Tibet, and other minorities have involved forcing these people into prison camps where they are being indoctrinated with CCP propaganda and forced to work in factories, many of which are apparel cut/sew plants. Workers are also sent to other locations in China where they join Chinese Christians that have been imprisoned and forced to work as well. For the first time, the evidence cannot credibly be denied, and looking the other way is no longer a defense. Brave groups such as Buzzfeed, Australia's Strategic Policy Institute, and others have risked lives to document the scale and extent to which the salve labor camps and factories in Xinjiang have become intertwined. Others have documented the use of the less skilled prisoners in hand picking of the Xinjiang cotton. It remains to be seen how corporate leaders will justify this inhumane reality while they shout loudly for civil rights in the US.

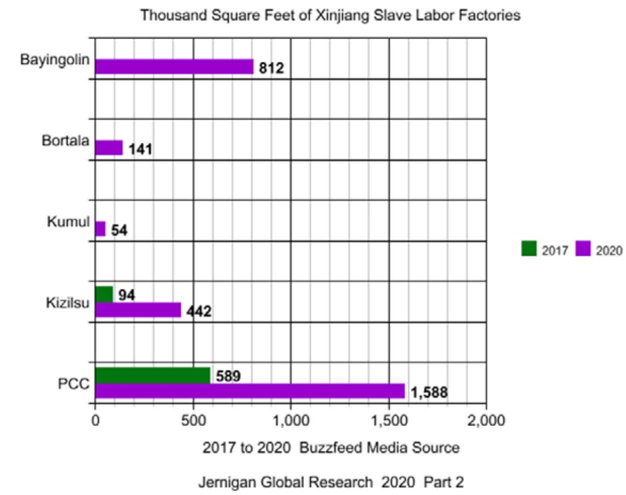
It is clear that the China under Xi Jinping has become a very different place then under Deng, and what the progressive leaders envisioned. It is so sad to see the great economic accomplishments of China tainted with this issue which at the end of the day provides no real economic advantage. For Xi and his team, it is likely measured in the stability of Xinjiang and the attempt to eradicate the Uyghur/Tibet cultures and identification.

Last week, the Fair Labor Association, an international multi stakeholder group, for the first time ever took a stand to call for a total ban on all sourcing from Xinjiang and recommended the banning of all imports. Many of the world's top brands and retailers are in this group, including those with large Chinese sales.

Camps at Nilka, Google Earth, Buzzfeed

Their action followed an in-depth report by BuzzFeed News that provides a deep inside look at the Xinjiang prison camp factories and includes interviews with escaped workers. It was quite ironic that this news broke the week the EU announced a major trade and investment treaty with China that included a pledge to end slave labor. This ended any hope of the EU joining the US in a serious effort to stop the Xinjiang genocide. There must have been a huge outbreak of laughter in Beijing as the treaty was approved the very week the undeniable evidence was released. It was also passed during a week of further abuse of Hong Kong citizens. The sad fact that stands out is that the workers' only crime was that they were Chinese citizens of Uyghur, Kazakh, or Tibetan descent. Economic class was no protection, as documents show business owners were taken from their businesses and imprisoned. So much for the fantasy that they are reeducating illiterate workers. The minority population is separated from families, put in camps with shackles attached to the feet in many cases, forced to listen to CCP indoctrination material, speeches of Xi Jinping, and to learn Chinese. Many are locked in small cubicles and forced to sew apparel. Using Google Earth photos, Buzzfeed has been able to show the construction of the factories and their acceleration from 2017 through 2020 by region. The factories are located in long rectangular buildings with a bright roof, normally red or blue, and are only a few feet from the camp dormitories. Over 21 million square feet of factories have been identified, with substantial building taking place in 2018/2019. 1500 Chinese companies were identified near the factories using the labor and running the plants. Most equipment is new. The Australian research group added that 27 factories in nine provinces outside Xinjiang were receiving train loads of the slave labor for use.





The leading area where the slave labor factories are located is the cotton-producing center of Aksu where in 2017 there was an estimated 65,692 square feet of factories that had grown by the end of 2020 to an estimated 2,409,800 square feet. This shocking growth helps explain the booming textile apparel parks in the region that use the very cheap labor. China's aging labor force and dropping birth rate means factories in Eastern China are forced to pay higher wages and benefits, and they are still experiencing a shortage of workers. In Xinjiang, the slave labor camps solve such issues with a large and almost free pool of workers. The government provides factories huge subsidies to locate in these regions. Another major cotton district, Hotan, in 2017 had only 73,184 square feet of prison factories, but by the end of this year it was 5,650,101 square feet. Kashgar now has 3,432,791 square feet of prison factories, and even in Turpan, where temperatures reach more than 45c in the summer and extreme cold in the winter, there are 686,862 square feet of prison factories. The Production and Construction Corps was identified as having 1,588,963 square feet of prison factories. In Nilka County, the report showed there were new factories built as late as May and November 2020, so all the efforts to sanction or embargo seem to be having no affect.

Much of the output from these prison factories appears to be moving into the domestic market and for exports to Central Asia and Europe. Exports by train are booming, and there has been no real effort to stop the growth into those markets, including the Middle East, which is strange given the fact the Uyghurs are Muslim. For now, it appears the US and Australia are about the only allies of the China's ethnic and religious minorities. China is losing market share in the sourcing of cotton apparel in these two markets to Pakistan, Vietnam, Bangladesh, India, and others. This may be a permanent trend. However, if the rapid growth of the China's domestic apparel market continues, it will take all pressure off the need to export. Chinese apparel exporters in recent weeks have actually halted longer-term export contracts because of the soaring freight cost. Shipping rates for a 40-foot container from China to the US are at record high levels, while rates from China to Europe are up 300%. The Port of Los Angeles handled 94% more containers last week than a year ago, with long delays in unloading. This all hurts the profitability of exporting apparel to the USA. The import prices suggest the Chinese exporter also bears the cost of the tariffs. Companies are therefore turning to the domestic market. The importance of this shift means cotton use in Pakistan, India, Bangladesh, Vietnam, Turkey, and other regions can increase in notable volume, even with weaker consumer demand and even as the same cotton use in China is increasing.

CHINA-MADE, SIX-ROW ROUND BALE COTTON PICKERS UNVEILED IN XINJIANG

China MFG Round Bale Cotton Picker

US-built John Deere round bale cotton pickers have dominated the machine-picked market in recent years as their success made them the envy of the world. One feature that stands out is the market share these pickers have achieved in Xinjiang and the fact that Chinese manufacturers have been unable to copy these machines. There are seven manufacturers of cotton pickers in China, and those pickers were made for the Chinese market. Those models are smaller, able to turn around in a smaller area, and adapted to deal with the plastic mulch issue. In December, the China Railway Heavy Industry group released its latest model 4MZD-6 in Xinjiang, which is six-row picker with the round bale storage feature and many other technology advancements. The company sold 167 units. It also announced that it planned to export these to the Central Asian cotton belt, which still depends on hand picking. It appears this company rolled out its first-round bale model in 2018. The company has an office in the US, but we have heard nothing of exports as the US market is for heavy construction machinery. This state-owned company is part of the second largest construction group in the world.

Shandong Swan Cotton Industrial is a maker of a variety of gin equipment and dominates this market. It also makes cotton pickers. The catalog includes a small cotton picker for small plots that just collects the lint and then unloads it in small batches. The top model is a six-row picker with a round bale feature. These machines are offered on Alibaba ranging in price of as low as 28,000 USD for the smallest model and up to

BOSHIRAN Cotton Picker Mfg Xinjiang

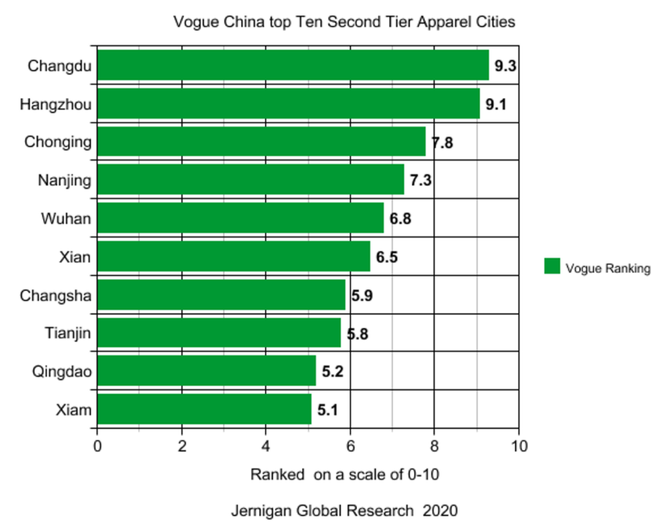
770,000 USD for the round bale picker. In Xinjiang, the Xinjiang Boshiran Intelligent Agriculture Company was formed in 2009 and makes a picker for that market. It also makes spraying equipment, planters, drones, and recycling machines for the mulch. The cotton pickers come in 3-, 5-, and 6-row models but do not include round bales packing. The company has two factories, in Shaya County and Wusu.

The advancements being made suggest the industry is getting ready to challenge John Deere's domination. The US sanctions on the PCC will also make direct exports of US equipment more difficult.

THE RISE OF CHINA'S DOMESTIC APPAREL MARKET; 12 CITIES NAMED IN VOGUE 2020 INDEX

CHINA CITIES RISE IN IMPORTANCE TO REPLACE TROUBLED US METRO CENTERS

As the US cities once ranked as the leading centers for fashion have lost their luster due to the virus, gross government mismanagement, and political unrest, Chinese cities are rising to new roles in global fashion. *Vogue China* developed a Fashion Index of China's rising non-first tier cities for the fashion industry. Unlike the US where the local governments have done nothing to support their retail sector or the apparel industry, many Chinese cities have made it a priority to support retail, the fashion sector, textile, apparel, and design industries. *Vogue* named 12 cities as the rising stars of fashion – Chengdu, Chongqing, Xian, Shenyang, Hangzhou, Wuhan, Nanjing, Changsha, Xiamen, Tianjin, Qingdao, and Dalian. The top city was Chengdu, which is a city of over 14 million with a GDP of 300 billion USD, which places it near par with Norway. It is the capital of Sichuan, which is home to 80 million or more people. It has attracted massive investment in modern malls, such as the New Century Global Center in Tianfu, which has the largest floor space of any building in the world. The city has attracted investment from all the major Hong Kong developers, and all major luxury brands are available throughout the city.



Its style is reported to be from the vibrant local youth culture. The city is located 2,000 kilometers from Shanghai and has its own style and culture. The city is now believed to be in the top 20 cities globally in apparel consumption, moving ahead of many US cities

in 2020. Chinese designers and brands have become very popular. 2019 retail sales in the city totaled 114 billion USD, a new record. The #2 ranked city was Hangzhou, which drew praise for its creative human capital and business potential. Hangzhou has a GDP of 275 billion USD and is the capital of the textile powerhouse of Zhenjiang. Its overall retail sales have doubled during the past five years and it is home to an online fashion event on Alibaba. The city established Fashion Town in 2015, and the area now has 1450 fashion companies, designers, and brands. The third ranked city was Chongqing, with a GDP of 425 billion USD, larger than Chile. The city is famous for its historical sites and spicy food. On social media it has become known as a major influencer city. Chongqing consumers are known to love emulating celebrities and KOLs' outfits on social media.

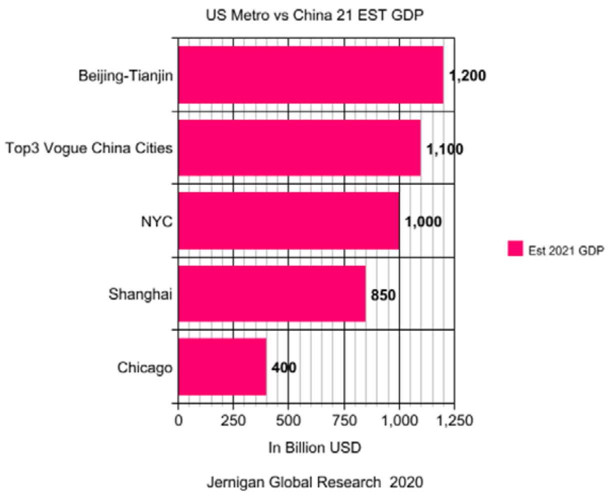
Chinese street style

US FASHION CAPITAL DESCENDS INTO CHAOS AS YEAR ENDS

Christmas week attacks on Fifth Ave., NYC

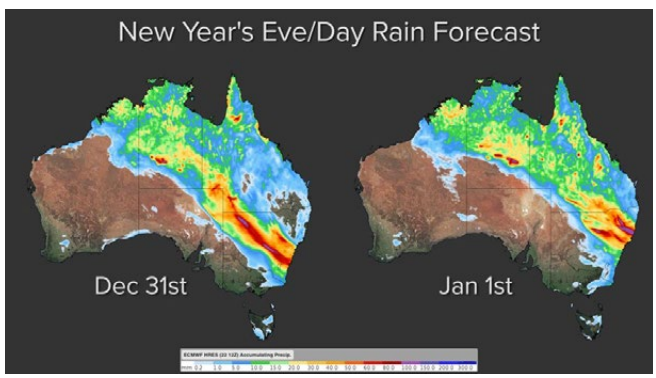
New York City is quickly becoming a shadow of its former self. Shanghai has stepped up to take the title from NYC as the fashion capital of the world, as NYC descends further into chaos. The world was shocked last week when, in the heart of the once pristine luxury shopping district on 5th Avenue, total chaos erupted and the police were nowhere to be seen. What made the event shocking was the fact that it was captured on video in its entirety and made the rounds on social media. A gang of hoodlum teenagers roamed 5th Avenue on bikes and scooters and began attacking traffic, damaging cars and an SUV, causing a great deal of stress to drivers and passengers. The event added to the anxiety of the shoppers or others who dared venture into the shopping areas. This event follows a surge in crime and shootings across the city.

The New York Post last week highlighted another problem, illegal venders taking over the streets, damaging any stores that remained open, and adding to the risk and dangers of shopping. It reported that 90% of the vendors were not licensed and were selling food, live crabs, fake designer products, clothes, etc. Many spoke limited English. The live seafood was not inspected and found to contain contamination when inspected. No enforcement of laws or attempt to correct the situation was made. Bloomberg reported that foot traffic was down more than 70% in many key areas such as Times Square, and that Fifth Avenue had turned into a ghost town. A record number of ground-floor stores are vacant from Madison Ave and Fifth Avenue to SoHo.



The impact of these conditions on US apparel sales remains a significant drag, and yet no one does anything about it. The failed mayor of NYC, instead of attempting to restore order and improve retail conditions, is again threatening a new total shutdown as the city is empty on New Year's Eve. The NYC metro area had a GDP of 1.7 trillion USD in 2019, but in 2020 it will fall sharply. This means that NYC will fall behind several metro areas in China and could even fall below the Beijing-Tianjin metro area for the first time.

MAJOR RAINS BOOST AUSTRALIAN CROP PROSPECTS



The Christmas/New Year period brought a bit of the "Big Wet" back to parts of the Australian cotton belt. Some areas experienced high winds and hail, but dryland cotton in many areas received very beneficial rains, while irrigated acreage also benefitted with on-farm storage receiving a boost as well as increased flows into the dams. The week ending December 28th saw light rains in Queensland's cotton areas, with the northern Emerald area reporting 22 mm to 83 mm. In the south coast area, Biloela recorded 28 mm, and on the Darlings Downs from 5 mm-14 mm fell. The heaviest rains occurred in New South Wales, where the border region with 13,000-15,000 hectares planted received 21 mm. Moree in the Gwydir reported 50 mm. As the systems moved south, heavy rains fell in the Namoi Valley, with Wee Waa receiving 97 mm, Narrabri 68 mm, and Gunnedah 77 mm. To the west, Bourke received 36 mm and Collarenebri recorded 54 mm. The rainfall diminished as the system moved into the Southern Valleys where 1-20 mm was recorded. The hope is the flow will increase into the Keepit, Copeton, Split Rock, and Pindari dams. The rains continued throughout last week. The rainfall in the period that followed was lighter thru January 1, with mostly 20 MM or less. Rain remained in the forecast through much of this week.

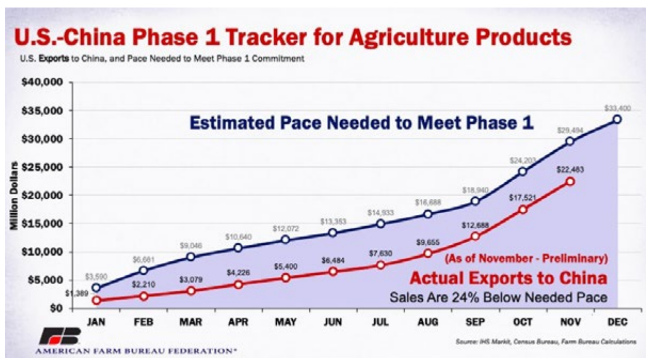
US SPOT TRADE VERY ACTIVE, FOB BASIS WEAKENS

Last week's holiday period was active in the US as growers moved to liquidate 2020 crop recaps and as spot prices reached their highest level of the year. For growers, the once unprofitable cotton crop has turned into an economic winner as the value of a GC 31-3-36 hit 79.47 on Wednesday in the Southeast. In West Texas, growers with a high-grade GC 31-3-36 received a 550-point premium over the base grade of a 41/4/34. These prices have made cotton a profitable crop and allowed some growers to improve returns. The data suggests growers were very poorly sold either individually or through marketing coops when prices plunged to the lows. Sales did not begin in any volume until prices were well recovered. The offsetting factor has been the discounts because of quality. In the Mid-South, the premium for staple of 37 or longer is 200 points over the base for a 41-color grade and a 50 premium for the higher strength. This helped maintain returns, even if the staple and strength premium is much undervalued. In Texas, the big loser for growers is low mike, which at 3.4 the discount starts at 575 and increases to 1200 for a 2.7-2.9.

The general FOB basis has weakened about 25 points over the last week as movement increased. In the Southeast, it's 175 points off, while in the Mid-South it's 300 off, and in Texas it's 500 points off. Those are still strong levels given the level of futures. The US classed 730,003 running bales during the week ending December 24th (released December 28th), and several features stood out. In the Mid-South, color grades were better than expected for this late in the season, with 25% or more of the cotton classed reaching Middling. In the Southeast, 44.5% of the Georgia crop was marked for seed coat fragments. In West Texas, a major problem with bark is occurring at Abilene and Lubbock classing offices, and low mike is a major issue, with 19.8% at Abilene, 23.8% at Lamesa, and 48.6% of the cotton classed at Lubbock having a mike of 3.4 and below.

US EXPORT SALES REMAIN BRISK/CHINA FAILS TO MEET ALL TRADE AGREEMENT REQUIREMENTS

2020 was a very successful year for US agriculture exports to China, as cotton, soybeans, corn, sorghum, wheat, beef, and pork all sold in volume. For cotton, it was the most successful trade agreement in history. Yet, regarding the letter of the agreement, China has failed to meet all the purchase requirements.



A second year of the agreement for 2021 would mean another booming year for US exports and prices even higher with some larger crops. So, why is no one discussing? The Biden team has also been silent, and his supporters want less trade friction with China despite the human rights issues and the destruction of Hong Kong.

The agriculture portion of the agreement is the closest to being fulfilled. As of November, the American Farm Bureau estimated China had purchased 22.483 billion USD of the 33.4 billion USD requirement. Sales during the week ending December 24th included wheat, sorghum, cotton, soybeans, beef, and pork. In the non-agriculture products, the short fall will be much higher. The misinformation about purchases continues, with *Bloomberg*, as part of their bias against the Trump administration, publishing much lower estimates, including a substantially incorrect estimate for cotton. The error was pointed out, but no correction was forthcoming. The question is why China appeared to slow purchases as the US election occurred. It appears that sales slowed the moment the media called the election for Biden, despite the vote issues. Biden and his team have a long history of being pro-China, and many have worked for Chinese groups or companies. At the same time, the preoccupation of the Trump administration with the election and the focus on installing a host of measures against Beijing resulted in little time to discuss the Trade Agreement, and the agriculture media has been silent on the subject. Why they are silent is very unclear given the tightness in US corn, soybeans, sorghum, and now cotton stocks.

It is clear that China will not fulfill the agreement, so what will be the reaction of the US? China has violated several agreements in 2020 under Xi, and no one has done anything. First came the Hong Kong Handover Agreement and no real actions from the UK. Then came the Australian Free Trade Agreement, which Australia is attempting to address but needs US help, and the end-of-the-year failure to meet all the requirements of the US Trade Agreement. If the Biden team assumes office, then the most pro-Beijing trade team in history will have the reins. The same group did nothing when China violated the agreement with the US to not militarize the South China Sea. The US trade deficit with China will increase in December, and the interest of big business and Wall Street, which backed Biden, will be pushing for reduced conflict and more trade with China, which will allow them to expand operations in China. China knows how to play this perfectly with the 2020 opening of the financial markets, which have drawn in the major US banks. Will China be given a soft pass with some negotiation and lots of talk that the agreement was not fulfilled because of the Wuhan Virus pandemic? After all, the agreement does have some acts of god conditions. China then commits to the second year of the agreement with lots of fanfare. The outcome of this is important to cotton and US agriculture. Remember that the US has sold over 6.2 million bales of cotton to China in 2020, which was made possible by Perdue, Lighthizer and their team.

As the year ended, China showed its hubris to the world. In Hong Kong, a Beijing puppet court denied the bail of Jimmy Lai and sent him back to prison on New Year's Day with comments from Beijing stating he should not have been released on bail, and he might be sent to the mainland. This mockery of justice and their statement was almost as if Beijing dared the US to do something. They knew the UK was powerless, and the EU had just signed a new investment treaty in the face of the Xinjiang concentration camps and the assault on Hong Kong. Then, a Christmas attack and arrest of Christians attempting to worship in their homes was reported. Agreements seem to be fluid with Xi and his team.

US exports during the week ending December 24th were quite brisk at a net 287,900 running bales of upland and 15,300 of Pima for 2020/2021 shipment. Again, the buyers included almost every major importing country, led by Vietnam and Pakistan. The discount of the 2020 crop is drawing buyers from every market, even though ICE has climbed to new highs and a softening in the Brazilian basis has slowed the momentum slightly. Vietnam was the top buyer at 82,600 running bales of upland, followed by 51,200 bales to Pakistan. The other key buyers were China 43,700 bales, Turkey 29,700, Indonesia 22,400, South Korea 10,700, Thailand 10,200, Mexico 10,000, Bangladesh 8,800, and Taiwan 7,900 bales. Many of the buyers have extremely low inventories since reducing cotton purchases by a third or more over the past six months, so now, with a pickup in consumption, coverage is required. The top buyers for Pima were India 7,600 bales, Vietnam 2,200 bales, and China 1,600 bales.

US export shipments were strong at 275,100 running bales of upland and 15,500 of Pima. US export sales now stand at 11,938,700 running bales or 12.247 million 480-lb. bales. Over 31 weeks remain in the season, and if the average weekly sales drop 50% then the US sales will reach 16.9 million bales. Thus, if the current pace of sales continues, the US will sell out. As we discussed earlier, the current condition of the demand structure means the world will need all the remaining US stocks.

ICE ENDS YEAR ON ITS HIGHS AMID GROWING TIGHTNESS IN STOCKS

Despite the economic destruction caused across the globe by the Wuhan Virus, the grain and cotton sectors ended the year with strong performances. For cotton, the lead contract gained 13.2%, which is a stellar performance for an industrial commodity during a global economic contraction. The role of the China/US Trade Agreement and the large purchases for the Reserve that removed excess US stocks from world trade played a key role in these gains. Despite this fact, there has been very little comment regarding the successful work of the US team in protecting cotton. March futures ended the final session of the year at 78.12, just off its highs for the year. The Chinese ZCE contract ended the year at 15,085 RMB a ton, or 104.78 cents a lb. at the daily exchange rate. This was up only marginally from where it started trading in 2020 but was up over 37% from its Wuhan Virus lows. Chinese cash yarn prices ended the year on their highs. Since Dec 21, cash 32s carded and combed yarns have gained 5.9%-6.6%, while the 40s combed gained 8.5%, as compared to a 2% gain in cash cotton prices. This is one of the few times in which yarns led the gains, which is helping to maintain demand for cotton and yarn imports. This same yarn strength occurred in other markets, such as Pakistan. Chinese man-made fiber cash and derivative markets also ended the year on a firm note. Cash polyester staple moved above 40 cents a lb., and the futures suggests higher prices. Viscose fiber also saw some improvement in demand.

Mill demand was good last week despite the price levels. As we have said, the pipeline is empty, and improved consumption is expanding demand in the smaller markets. Pakistan was active last week taking up US styles, West African, and a small volume of Brazilian. Most of the smaller origins offering discounts have been sold out. Bangladesh, Indonesia, Vietnam, and others are in the market as well. Many mills need cotton for nearby, and a logistical rush is likely in the first quarter. We expect greater attention to soon turn back to Brazil where the basis is more attractive, as the short-term price squeeze has ended. The ESALQ Index returned to a near 450-point discount to ICE.

The broader demand horizon still has lots of clouds, as the virus rages through the US and Europe. However, as we discussed earlier, China's robust domestic market and the increase of cotton apparel orders across the non-Chinese manufacturing centers have set up a strong demand outlook for the first half of 2021, with hopes that overall broader demand will begin to improve in the second half of the year. The bull market in the grain complex means cotton has competition for acreage, and expansion in 2021/2022 could be very difficult in the machine-picked markets. We also know an increase in the two largest cotton producers, China and India, will be limited. In China, water limitations suggest Xinjiang is near its limit, and India faces weather risk. Without new seed technology and improved farming practices, they face an uphill battle to increase production beyond a certain level. Against this backdrop, we expect higher prices in 2021 and believe the 2021/2022 and 2022/2023 crop prices are underpriced. The greatest risk to the much-improved outlook is the Hubris of Xi's China. As it continues, it will reach a point not far away that will make normal relations and trade impossible. This will cause great economic pain for its expanding domestic apparel market and cotton export trade. We hope this point will not be reached.

We would like to wish you and your family a happy, healthy and prosperous new year.

We pray that 2021 will bring much improved conditions for all.

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