XINJIANG PCC COTTON BAN SET TO IMPACT GLOBAL FABRIC TRADE

CHINA LAUNCHES VERBAL ATTACK ON AUSTRALIA RAISING NEW DOUBTS ON TRADE

BRAZIL COTTON EXPORTS REACH A RECORD IN NOVEMBER

COTTON DEMAND IMPROVES ON WEAKER PRICES AS ICE FALLS

JERNIGAN GLOBAL
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TURKEY'S DOMESTIC CONSUMPTION ON TRACK TO EXPAND IN 2020/2021

JUST IN TIME SUPPLIER REPLACES CHINA

Turkish Fashion Week

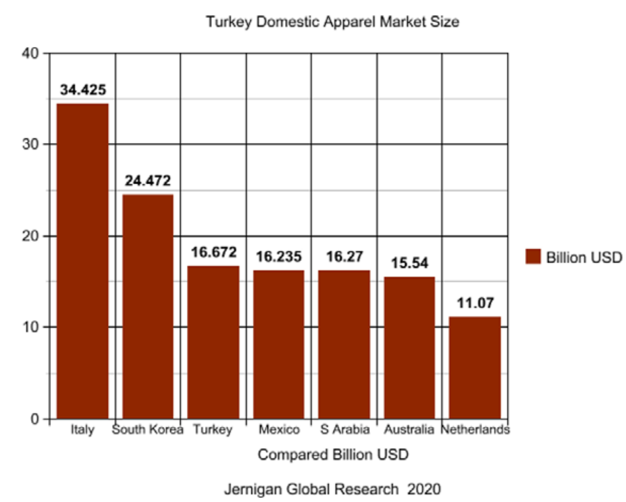
Turkey has emerged as a bright spot in the new world, post release of the Wuhan Virus. First, its domestic economy has managed to avoid the sharp contraction experienced across Europe. The Turkish GDP grew 15.6% quarter on quarter in the third quarter of 2020 and an impressive 6.7% year on year. This growth has allowed domestic apparel sales to hold up with the local economy. Total Domestic Retail sales have showed YOY growth for five consecutive months. Turkey's domestic Apparel market is estimated to have a value of 16.272 billion USD in 2020, which will mark a small increase over 2019, a feat no other European country will achieve. The domestic market is larger than Australia. For the country's textile and apparel sector, several factors appear to have driven 2020 exports to near a record. The recent performance has been very impressive. The second wave of the virus and the shutdowns across Europe will impact the final performance of 2020.

Turkey's overall total exports in Oct hit a record, and Apparel exports did as well. Turkey has been successful in boosting its exports of PPE. January/October PPE exports are up 220% at 694 million USD. While over 70% of apparel exports move to Europe, Turkish exports have shown growth to Iraq, UAE, Kazakhstan, Ukraine, Russia, and Israel. Exports to the Balkan countries are up sharply, reaching 747.7 million USD thru October. Textile exports are expanding to USA, Egypt, Bulgaria, and others.

Turkish designers move into the spotlight

The pandemic has changed sourcing for many brands and retailers in Europe. They no longer want to hold inventories. The Turkish companies have invested heavily in digitization, which allows for them to provide companies with a very short lead time. This has made Turkish exporters the top supplier for many groups with a very short lead time. Turkey is also one of the limited suppliers which has a fully integrated supply chain from fiber to finished product. Turkey's investment in quality production allows its companies to replace China for many brands. Turkey, as a bridge between Europe and the Middle East, has also stimulated new Turkish designers and made these markets major sources of growth. Iraq has emerged as a market almost equal to Italy.

Turkish designers major success in the Middle East

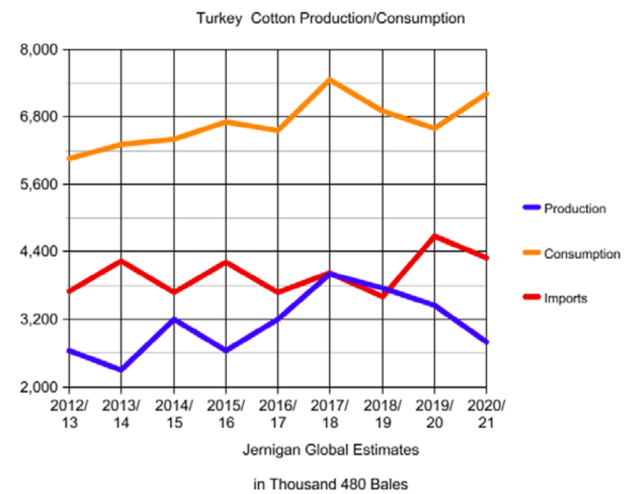


The booming exports that will show growth in the shrinking post-virus world and the strength in the domestic market have set the stage for cotton use in 2020/2021 to reach a record 7.0-7.2 million bales. Domestic production will provide only 2.87 million bales. The debate is over the level of imports needed following the record cotton imports of 2019/2020, which reached 4.071 Million bales. Carryover cotton inventories are estimated to have been near 2.1-2.2 million bales as compared to a normal 1.4 MB. We expect imports may be reduced to near 4.3 million bales. This will depend on price and basis levels. The expanded cotton use means larger inventories will be carried.

Turkish cotton imports in the August-October period reached 243,947 tons or 1,120,815 bales, which reflected 14% year on year growth. October imports reached 81,835 tons. The main suppliers were Brazil 21,256 tons, USA 15,438 tons, Central Asia 14,353, Greece 13,713, Mexico 5,970, and Syria 5,438 tons. Record cheap CFR basis levels contributed to the increased imports in the period.

Turkish spinners will have some flexibility in maintaining a hand-to-mouth buying strategy for some time. Whether or not price or basis opportunities present themselves will determine stock levels at the end of the 2020/2021 season. The Lira weakness also will play a role, as a firmer Lira would stimulate imports. Turkey's textile/apparel exports having the opportunity to expand to the US, the quality of apparel exports, and the efficiency of exporters all give Turkey a major opportunity in the US. In 2020, the increased exports to the US have been in manmade fiber textiles. It has been surprising that cotton apparel exports have continued to lag. Cotton and wool apparel both offer major growth potential.

The Cotton imports are expected to be dominated by Brazilian, Greek, US, and Central Asian. Most of the



Azerbaijan crop will move into Turkey. Indian, even with its higher freight cost, has stimulated some interest this season due to its discount. The second wave of the Wuhan Virus is again causing concerns. 32,736 new infections were reported on Friday, and the government ordered a full weekend lockdown, the first since May, which will curtail economic activity. Two other headwinds could impact trade. First is the US Defense Authorization bill that is expected to head to President Trump to sign. It includes sanctions on Turkey for the Russian Arms deal. The US has avoided placing these, but if the bill is signed it will force the move and bind the next president. In addition, EU relations are rocky with France and over the Greek dispute.

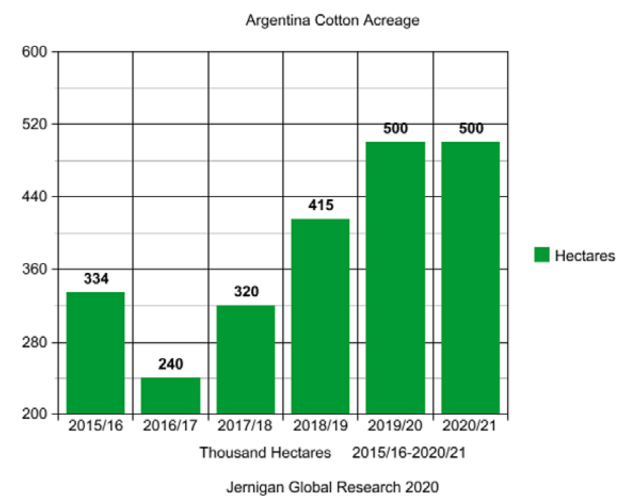
ARGENTINE COTTON BELT RECEIVES NEEDED RAINS/ PLANTING EXPANDS

Chaco cotton fields

The Argentine cotton belt located in the states of Chaco, Santiago Del Estro, and Northern Santa Fe received a round of beneficial rains starting around November 25 and extending till December 1. These rains were very welcome and will allow the cotton planting to now accelerate after being delayed by the drought. Additional rains have fallen, and the outlook for December has improved. 2021 crop export offers are in circulation at firm basis levels. Middling 1 3/32 is offered at 500 points on May 21 futures, and Middling 1 1/16 is offered at 400 points on May. SLM 1 3/32 is offered at 400 points on May, and a SLM 1 1/16 is offered at 300 on May. These basis levels reflect a major improvement off the levels that most of the 2020 crop sold at. A large block of the 2020 crop sold into Pakistan at very aggressive levels. The current offers are only at a slight discount to US offers.

Growers have been holding back 2021 crop sales as well as holding 2020 crops, expecting a major possible currency depreciation. The 2021 crop outlook is far more uncertain than last season as the La Nina weather pattern causes irregular rainfall. Chaco can experience wild swings in rainfall and weather extremes. Thus, more aggressive export offers may not be forthcoming until a greater confidence in production levels occurs. The current SLM 1 1/16 CFR Asia offering basis is approximately 400 points or more above levels where the 2020-crop moved. The Argentine crop is stripper-picked and is usually barky and requires a discount to move. The overall quality has improved in the last few seasons.

Local farmers still expect to plant 500,000 hectares.



This is near last year and a record. Growers are still

Chaco weather is very chaotic, 2019 floods

holding unsold 2020 crop as a hedge against a massive currency devaluation. The Peso/USD official rate continues to edge lower at 81.47, and the black-market rate is sharply below that level. The government just announced that exporters have only 15 days to convert the foreign exchange to pesos. The government has been accused of sending supporters into the soybean belt to slash the grain plastic silo bags in order to stimulate farmers to stop holding stocks.

US CUSTOMS/BORDER PROTECTION ISSUES MAJOR ACTION AGAINST XINJIANG PCC COTTON

In July, the US Treasury Department, OFAC placed sanctions under the Magnitsky Act on the Xinjiang Production & Construction Corps. It gave companies until September 30 to cut ties with the PCC. Companies requested additional time and were given until last week. The actions under the Magnitsky Act have major power. The results are now beginning to become evident. First, Sayari Research has found that 862,600 direct and indirect holdings of the PCC will be impacted by the sanctions. 2,144 are based in the USA, and 71 are US companies linked to the PCC within ten layers of direct ownership. It is really hard to understand just how large the PCC holding is and where they extend. They are very diverse in food, Agriculture, Construction, and Manufacturing and even have their own Venture Capital funds that invest. Under the Magnitsky Act, if a company trades with a PCC company it will be fined twice the value of the transaction or a minimum of 307,922 USD. This includes banks, etc.

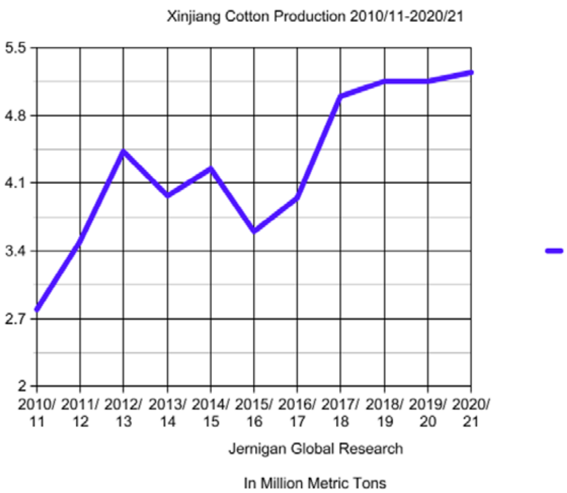
With the deadline now past the extension to cut ties, the current CBP and Treasury Dept is moving to inflict pain that will not be able to be undone in the future until compliance with the confirmed end of the practice of slave or forced labor as now practiced. The Customs and Border Protection on December 2 issued a Withhold and Release Order on all cotton and cotton products produced from PCC Cotton. The order had major teeth in that it was applied to all cotton textile/

apparel products, cottonseed oil, and paper products made with PCC produced Xinjiang cotton, regardless where the product is manufactured. This is a major problem for the global cut/sew industry. Up until now, all actions applied only to a product made in China.

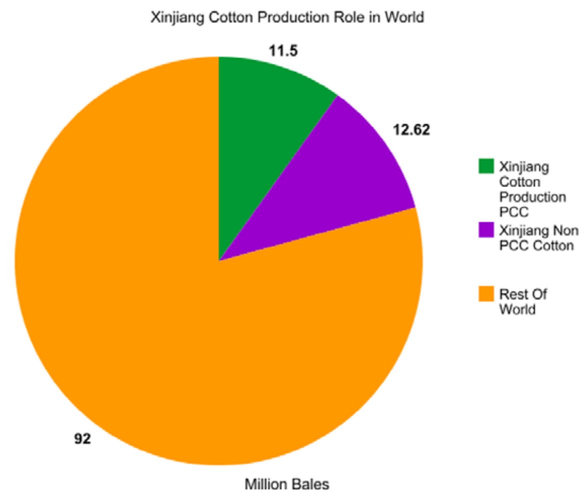
PCC modern farms

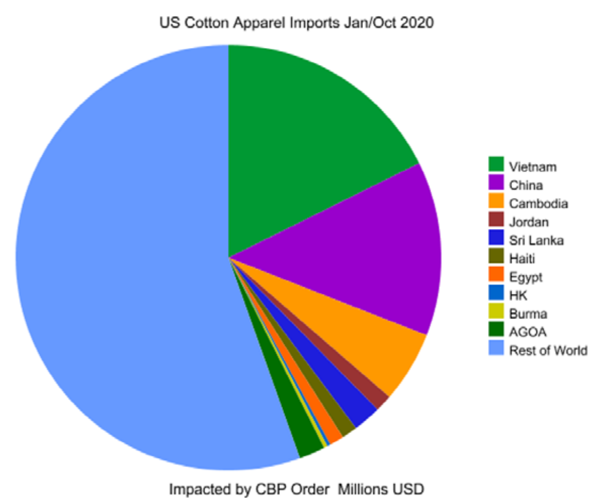
To understand the scope of the action, let's start with the PCC cotton production. The PCC controls over 17% of all the GDP of Xinjiang. It rules much of Northern Xinjiang, and it has been the driver behind the success of the Xinjiang cotton industry. The PCC farms are modern and have the highest yields and quality in China. Their yields are second only to Australia. Technology has been purchased from around the world, and its cotton is picked with the same John Deere Round Balers as in the USA, Brazil, or anywhere. As such, it produces near 2.5 MMT or more of cotton or near 11.5 million bales or more. This is nearly 48%

of all Xinjiang and nearly 10% of all global production. This has been done with record subsidies that have not yet drawn any WTO action. Let this sink in; one out of every ten bales of our beloved white fiber is under the control of the Xinjiang Production and Construction Corps, a Military/Industrial complex with over 800,000 companies worldwide. We have long feared that the extent of the Xinjiang production would affect global cotton use when major action was taken. The weakness in the actions is that, for now anyway, they give a pass to the manmade fiber products made with the same slave labor.



With that as a background, understand that China is the largest fabric producer in the world. The lack of environmental controls and subsidies started the investment, and then robust exports and a growing domestic market fueled it. Today, China controls world fabric production in every fiber and continues to expand. All the expansion in the other parts of the world has been limited by the lack of investment in fabric protection. Chinese companies have attempted to invest in new fabric capacity around the world. However, they have been unbale to expand production in many regions such as the hotspot Vietnam, for even the emerging market government feared these investments would result in the environmental destruction that has occurred in many of the fabric production clusters. This has focused much of the new, most advanced fabric production in China. Today, the supply chain of "spin the yarn outside of China, export the yarn, and then re-import the fabric" is popular as a result. The concentration is clear when you seek a high-quality cotton fabric at a price for the mass market. Against this backdrop, this order now impacts every company in the world buying Chinese cotton fabric. If the fabric was made in China, then over 42% of all bales of cotton were from a PCC farm if domestic cotton was used. Fabric manufacturers will face added cost and complexity in providing a separate supply chain of Non-PCC cotton-produced fabric. Then, a new problem lies ahead. In the US House and Senate, a move is underway to ban imports of all products made with any Xinjiang cotton or made in Xinjiang. The issues are in making such a ban enforceable, which is now underway. As a fabric manufacturer, would you invest in a non-PCC cotton supply chain only to find in the next six months a total ban on Xinjiang cotton is likely? This can be done simpler with a complete supply chain for the fabric made from imported cotton. The technology is available for this to be verified in the finished product.





Chinese fabric exports dominate the global supply chain. In Asia, Cambodia relies on almost 100% Chinese fabric. Its apparel exports to the US are about half cotton/half MMF. Cambodia is the 7th largest supplier to the US. Vietnam is the number two largest supplier to the US and fastest growing. It uses at least 50% Chinese fabric or more. Much of it is made from US cotton spun in Vietnam and sent to China for fabric and finishing and then re-exported. It will have to police and tighten this to exclude PCC or Xinjiang. Jordan is a major supplier to the US. 100% of all fabric is imported and 90% from China. Exports to USA were 1.8 billion USD in 2019. Sri Lanka supplies are near the same volume, with 100% imported fabric. It relies on Indian, but some Chinese is used. Egypt supplies 1.10 billion and expanding and has large Chinese investment and also uses Chinese fabric. The AGOA of African trade block supplies 1.45 billion duty free apparel to USA and 90% Chinese fabric. Haiti, which ships a billion USD worth of cheap apparel, uses 95% imported fabric and a large block comes from China. Thus, a major shakeup is in the works.

If customs stop a Jordan apparel product and test it and determine it is from Chinese cotton, then the investigation will advance. If it is PCC, the shipment is embargoed. All it takes for this to happen is one time and that supplier is out. The action of the CBP may be the biggest stimulus for a clear traceable supply chain ever launched. The burden it has to enforce is massive, but this initiative has bipartisan support and will not be reversed by a Biden Administration. Actually, he has promised to label the effort to imprison the Uyghurs as genocide.

The simple way for Chinese industry to adapt is to refine their supply chains for the domestic market, the world outside USA, and USA. The move to enforce against the product coming from any destination is the real game changer. When the volume imported from China, Vietnam, Jordan, Sri Lanka, Egypt, AGOA, etc. is collected, added up it becomes very serious. The loophole is that manmade fiber products were not included. They would be impacted if one of the Xinjiang wide bands are implemented as now proposed in the bills moving through Congress. We have been warning that this enforcement was coming for over two years. The progress is slow, and heavy resistance from the market has slowed the effort. However, now the tide of the public in the US is behind the moves and so are both aisles in Congress. This means the issues of enforcement and how to include manmade fibers will just take a little longer. Technology is advancing, and the ability to scan a garment to know if it came from Xinjiang cotton is achievable. US companies that have lobbied against these efforts are receiving increasingly bad press.

Against this backdrop, increased sourcing of cotton products in Bangladesh, Turkey, India, and Pakistan is very likely. A larger volume of quota and duty-free cotton imports into China will be demanded by the Industry and likely granted to allow its fabric producers to offer fabric from imported cotton.

BEIJING INSULTS AUSTRALIA & PM MORRISON DEMANDS APOLOGY

RECENT COTTON PURCHASES IN DOUBT

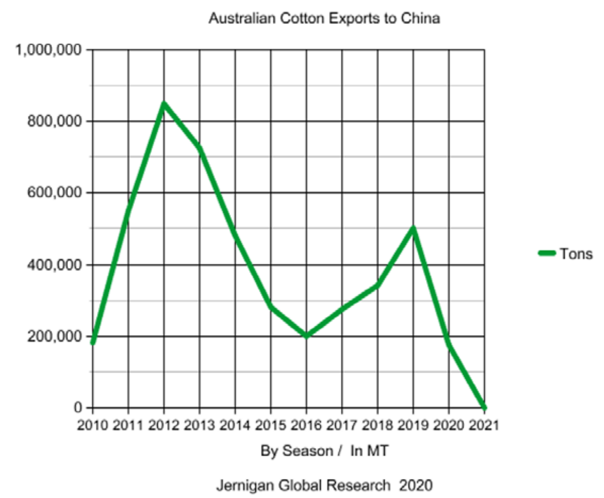
Last week, China pushed relations with Australia to a level hardly anyone can remember. The most shocking aspect is that the disturbing actions by Xi's CCP have occurred without any single action on the part of Australia. It would appear that Xi and his CCP team believed they owned Australia and could demand complete submission. This attitude appears linked back to the heyday of Chinese outward investment in Australia, and it continued expansion of imports of Australian raw materials and food. During the height of

the Chinese buying fury, the hubris of China became very clear. During the Obama years, China was doing as it wanted. Joe Hockey was just a few days into his role as Treasurer of Australia. He was in Bali at an APEC meeting, and his office was arranging a meeting with the Chinese Finance Minister. The Minister was Lou Jiwei, the former head of the Chinese Sovereign Wealth Fund who had been once called the 30th most powerful man on earth. He walked into the room with Hockey, shook hands, and then sat and lit a cigarette without asking permission. Without small talk, he said, "Why will you not allow me to buy Rio Tinto (Australia's largest Mine)?" Then he said, "Okay, I want to buy 15% of the shares of all the top Australian listed companies." Hockey again said no, and he went on to demand to buy shares in the Top Australian Banks. In an interview, Hockey laughed at the brazenness of the move. Another story about the brass threats of Chinese officials during the Turnbull administration also told the story well. Several major Chinese officials met with opposition Labor Party leaders seeking their support for a new extradition treaty with China. The Labor officials balked, and the Chinese officials threatened to organize Chinese/Australian citizens to vote against Labor candidates. That is a clear attempt to interfere in internal affairs.

During the buying spree, China became the largest foreign landowner and investor in Australia and also the largest foreign owner of Australian water rights. It reached the point at a Sydney event we attended during this period that even the bottled water came from China, because a Chinese group was sponsoring the event. For ten years, Australia allowed almost unbridled Chinese investment, sold passports in exchange for investment, allowed unchecked Chinese immigration and massive inflows of Chinese students for education fees, and allowed Chinese buying to push Sydney Real Estate prices to some of the most expensive in the world. During this heyday, the CEO of Shandong Ruyi (the giant textile group now in financial straits) purchased one of the most expensive homes in Sydney, all while maintaining Chinese citizenship and his CCP credentials. Xi has family members in Australia. His sister lives in Melbourne. A major scandal broke out in which Crown Casino was running junkets for rich Chinese officials that bypassed customs. We could go on. Amid such conditions, China friendship groups, backed by CCP, have set up massive operations in Oz, printed newspapers in Chinese, and done all they can to influence local officials. The tool of promising massive investment has been continued to be used, with a host of Australian groups selling out sovereignty for money. These conditions may explain why Xi and his team would think they owned the country and could demand it bow its domestic sovereignty to China's interests. After all, it took Chinese funds and China-owned land, business, water, resources and had millions of Chinese dual citizens still loyal to Beijing.

The same scenario unfolded in New Zealand but has had different results, as a socialist leader fully endorsed China. Thus, China thought it had developed the playbook. The Scott Morrison administration changed all that. He has led a revival of the Australian spirit and reasserted Australian sovereignty. The labor party, which was pro-Beijing, was defeated and continued on the back foot, which has given the government room to continue to seek to act as a sovereign nation. It began when Australia joined the West in seeking a full inquiry in the Wuhan Virus and where it originated. This began the spat, and then came a host of other measures. Last week, China took it to a new level when its Foreign Minister released a tweet with a doctored photo of an Australian Defense Force soldier with a knife to the throat of an Afghan child. The repulsive action followed an open Australian internal hearing on its soldiers in Afghanistan. China not only interfered in an internal affair, it insulted the nation of Australia with its insensitive and insulting tweet. PM Morrison demanded an apology and instead received additional childish insults in which Australia was referred to as evil. China's state-run newspaper called Scott Morrison "arrogant," while labeling Australia an "urban-rural fringe of Western civilization where gangsters roamed." Never has a nation used such words and actions over a trade dispute.

It is really shocking how China has reacted. The aggressive behavior comes after massive embargoes of Australian imports have caused major economic losses. The embargoes have violated the Free Trade Agreement and WTO. Nonetheless, China acts as if is above any adherence to any agreement. After all, the Obama Administration allowed it to violate the South China Sea agreement, and the UK did nothing when it suddenly called the Handover Agreement on Hong Kong null and void. It appears to believe its economic power gives it a free hand to level a heavy hand against any nation. At the same time this occurred last week, China announced it was building the largest dam in the world to halt the flow of crucial water into India and Bangladesh. Then it acted insulted when India reacted. And just to round out the week of Chinese hubris, the Chinese Academy of Science reported that the Wuhan Virus came from India where it originated in June of 2019.



These conditions give no Australian grower confidence in selling 2021 or 2022 crop to a Chinese state-owned trade house. The actions had no impact on the Australian FOB basis or CFR Asia basis. The continued strength in the US high grade basis has added to the attraction of the 2021 crop offers. Australian Strict Middling 38 offers are at 1725 points on May 21. This compares to the US E/MOT GC 21-2-37 at 1850 points on March. A small volume of Brazil Bahia Strict Middling 1 5/32 type is offered at 1075-1100 points on March. An Australian Middling 1 5/32 is offered at 1575 points on May. The increased interest in Indonesian yarns in China have begun to open the way for improved sales of Australian to Indonesia. Also, higher count spinners in Vietnam should show interest, given the appreciation in the US basis.

It is very unclear if the recent state-owned trading companies' purchases of Australian cotton will actually ship, or whether additional purchases will occur in the current atmosphere. Iron Ore, the largest export to China from Australia, continues to enter China as of this writing. China has to have this ore for its massive building and infrastructure projects. It could increase shipments from Brazil. Overall, China appears to be continuing to buy what is essential from Australia and then play games with what can be sourced elsewhere. The recent actions by China suggest that diplomatic relations will not be easy to repair without a wholesale change by China. We expect Australian growers and traders will also not be willing to bear the default burden of dealing with China in the season ahead. Thus, a different export season awaits.

XINJIANG NOVEMBER CLASSING RESULTS SHOW NO IMPROVEMENT IN QUALITY

A total of 3,219,800 tons of cotton has been classed in Xinjiang out of a crop of 5.1-5.25 MMT. The November classing results have shown no improvement, with the same problems in quality prevailing – shorter staple, lower strength and higher micronaire. 55.52% of the volume classed had a staple length of 28 MM, 19.26% had a staple length of 27 MM, and 1.14% had a staple length of 26 or lower. The much in demand longer stable supply is very limited. 21.73% reached 229 MM, which is less than half year ago levels. 2.32% reached 30 MM or longer. In strength, 76.9% of the crop had strength of 26 to 28.9 and 3.39% had strength of 25.9 or below. Only 18.29% had strength that reached 29.0 to 30.9, and 1.14% reached 31 or higher.

Over 90% were white color grades with 74% grade 3 or Middling. 10.6% reached grade 2 or Strict Middling. In Mike, 38.86% was B2 or 4.3-4.9, and 60.9% was C level. The Xinjiang industry is moving to correct the issues for future seasons. New seed varieties have been tested that are better quality and also higher yielding, which will attract growers. A major effort is also underway to reduce the contamination caused by the plastic mulch used. Some gins are also becoming proactive.They are providing the seed to plant and then paying a premium for the better-quality lint produced.

The Reserve suspended the auction to buy New Crop Xinjiang due to the premium to the international market exceeding the 800 RMB a ton ceiling.

BRAZIL EXPORTS RECORD VOLUME IN NOVEMBER/ LOCAL PRICE SOARS TO PREMIUM TO ICE

Brazil, as expected, exported a record volume of cotton in November, with exports reaching 333,000 tons or 1.53 million bales. Even larger volume would have shipped if capacity was available. The 2020/2021 season export volume has reached 920,000 tons or 4.226 million bales. Heavy shipments are expected in December as well. Local free stocks are tight. The local spot price of the ESALQ cotton index of a 41-4-35 landed Sao Paulo reached a high last week of 76.93 US cents a lb. The Real soared against the USD, reaching 5.1644. It is very unclear how much actual volume could be sold to the domestic mills at such a premium. Nonetheless, it illustrates the tightness and the lack of grower selling.

The Brazilian cotton belt remains in need of major rains. The forecast does suggest increased rainfall, but there is a debate over will it be enough to avoid stress on the first cotton set to be planted and enough to avoid major losses in Soybeans. Major rains will have to boost sub soil moisture before the second crop cotton is planted. December rainfall is crucial.

CFR export offers are maintained, and no increased selling interest from Merchants has been noted. As a result of the firm basis export, sales are limited. Some volume sold for First Quarter 21 shipment. For the moment, the US long staple, high strength, strict low middling and lower high leaf styles are taking a lot of the traditional business that might go to Brazil because of the discount.

US EXPORT SALES REMAIN BRISK/SHIPMENTS VERY LIGHT AS CONTAINER SHORTAGE CONTINUES

US export sales for the week ending November 26 totaled a brisk 277,900 running bales of upland and 7,900 of Pima. The largest buyers were Chinese mills, which took 130,800 running bales. The US shipped China 1,892,100 running bales of upland since Aug 1, and an additional 1,659,900 running bales of upland has been sold but is not shipped. Vietnam was the second largest buyer at 46,000 running bales followed by Pakistan as a buyer of 44,500 running bales. The other major buyers were Turkey 12,500, Indonesia 11,100, Malaysia 7,900, Bangladesh 5,900, and Mexico 6,000. 2021/2022 upland export sales totaled only 21,800 bales, with 15,400 sold to Vietnam and 6,400 to Mexico. The main buyer of Pima was Peru at 3,500 bales.

Export shipments were very slow at 180,800 running bales of Upland, of which 80,300 bales went to China. Shipments of Pima reached 27,600, with China and India dominating. The level of upland shipments remains a concern and is below the level needed to meet the USDA targets. The issue appears to the import surge in the US and a shortage of containers at inland locations. US export sales forward for 2021/2022 are very light at only 651,900 running bales of upland, with 140,500 of that sold to China.

DEMAND IMPROVES AS ICE FUTURES WEAKNESS PULLS INTERNATIONAL VALUES LOWER

ICE futures were the driver last week in pulling international prices lower. CFR basis levels held firm, and physical demand picked up. From the seller's side, Indian Domestic prices were weaker under the burden of continued record arrivals, and the CCI was unable to raise floor prices further. The ex-Gin yard price of a Shankar-6 returned to near 70 cents, and Indian new crop export offers retained their position as the cheapest in the world. This is in contrast to Brazil, where CFR basis levels remained firm and local spot price moved to its highest premium to ICE in years. Major weakness in the US dollar did not seem to play much of a role. Last week, we examined in detail the empty level of the global supply chain and the uncovered level of spinners. We also discussed that the uncertain level of demand also meant no spinners were in a rush to follow prices higher. ICE futures were simply on the defensive last week as the concerns over demand remained at the forefront and China/US relations appeared to grow more tense. Conditions were simply not conducive to the funds extending longs, with a weaker technical outlook a major concern. The high was made Monday and the low made Thursday, with Friday's close near the lows for the period. March lost 1.67 cents and spot Dec fell below 70 cents.

The weaker level did allow spinners to return to the market. First, a sharp rise in US Pima offering levels has increased the demand for Egyptian styles. In the week ending Nov 28, Egypt sold a brisk 3,797 tons of ELS, driven by non-Chinese demand. Chinese mills appeared to focus on Brazilian from the bonded warehouse stocks and African Franc Zone styles, which now have a competitive basis level. Vietnam was actively taking up African Franc Zone, US, Indian, Brazilian, and East African. Pakistan was moderately active taking up US discounted lots and African Franc Zone. Bangladesh appeared to be mainly focused on African Franc Zone for nearby. Brazilian sold into a few markets. As some Merchants maintained a competitive offer, others have raised basis levels that have switched to other growths.

China's domestic market was steady last week. First, in yarns, some weakness has been evident as of late in the higher count yarns. It's clear that the discount of imported yarns to domestic price levels has impacted demand and prices. Buying continued for Vietnam, Indonesian, Thailand, Malaysian, Uzbekistan, and other Central Asian yarns. Mills comment that the quality on the Central Asian 32/s and 40/s count yarns is good. ZCE cotton futures closed the week close to where they started the week, ending in the ARB session at 14,460 RMB a ton or 99.98 US cents a lb. Yarn futures closed lower for the week, and Polyester Staple futures higher. The certificated stocks on the ZCE increased last week, but the make-up is now much shorter staple than last year. The domestic basis for the better grades has appreciated. The much-in-demand "Double 28" quality is now at 500-700 RMB a ton on the January ZCE. This equals a 21/31 grade, the equivalent of a 41 lower strength is at 200-300 points on.

In the US, an additional 1,197,050 bales of upland were classed. In the Southeast, over 65% was color grade 41, and in the Mid-South over 70%. Texas remained the source for the 11/21 color grades. Low mike is an issue, however. We have already begun to see low mike high grade featured such as a 21-3-38 with 2.71 mike. The mixed quality, which all have discounts, is keeping US styles moving for export. The classing data continues to suggest a much lower US crop when the final counting is complete.

The lack of coverage by spinners and the empty pipeline are major supportive features, so is the Xinjiang PCC ban which will stimulate consumption in India, Pakistan, Bangladesh, and Vietnam. It also could boost import demand in China. The uncertain outlook for demand in the US especially remains a major concern. The pandemic shutdowns have expanded, with California and its once three trillion USD economy continuing to shrink as much of the state was hit with a stay-at-home order that matched that of March. Other states have done the same. These measures in March destroyed retail sales of apparel. This time, the measures have surely damaged the Christmas shopping season, with stores all facing strict restrictions that certainly make any symbol of normal seem very far away. If US retail sales of apparel suffer another 25-30% drop in December, the impact on the smaller retailers will be devastating. The move to E-commerce continues to expand market share of the top four US retail chains.

Jimmy Lai textile/media legend arrested in Hong Kong

China/US relations are growing worse by the day. The Biden team has been forced by events to reiterate that the tariffs will remain in place for now. The election remains unsettled, and new sanctions against China are coming daily. Amid the weakness in the US, China has made alarming moves against Taiwan. While Xi has praised Biden, the state media has called US Senators street level names as well as in Australia. The US congress has introduced a host of bills that will further make it impossible for any president to reverse course. Hong Kong last week experienced a very bad week. The media mogul Jimmy Lai was arrested and was not granted bail. Jimmy is the symbol of the Father of Freedom in Hong Kong. He escaped to Hong Kong as a child, worked his way through the textile mills, and founded Giordano Apparel, which today operates in 30 countries and has 2100 stores. He also went on to establish the Apple Daily, the most successful Chinese language publication in Hong Kong. He could have migrated anytime or given in to the demand of the CCP, as have almost all Hong Kong business tycoons. Instead, he was a vocal critic of the Handover Agreement violation and China's betrayal of the people of Hong Kong. In addition, several of the young Hong Kong freedom movement leaders were given harsh prison terms, as China moved to push Hong Kong into total submission. Meanwhile, the West has done little but offer words. The US has attempted some actions, but US investment banks continue to be the lead managers in the city for the massive IPO funding for CCP companies. Hong Kong just a short time ago was the center of Asian capitalism. The change in Hong Kong in a 24-month period proves that "Black Swan" events can change our world in seconds.

We see Physical Cotton prices as having good support on further weakness. ICE futures could move lower amid the breach of the uptrend and the growing stale long position, with a retest of the 68-70 area very possible. For the moment, the problem is the uncertain outlook for demand in the US and Europe that we have been extensively talking about for some time. China/US and China/West relations are a real concern, for the improved consumption outlook in China as well as global trade. A second year of a US/China trade agreement could provide major tightness to global stocks. Overall, global cotton stocks are much tighter than the USDA levels suggest, and exportable surplus is now being managed well.

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