PAKISTAN COTTON CONSUMPTION ROBUST

WALMART MAKES NEW COMMITMENT TO INDIAN SOURCING

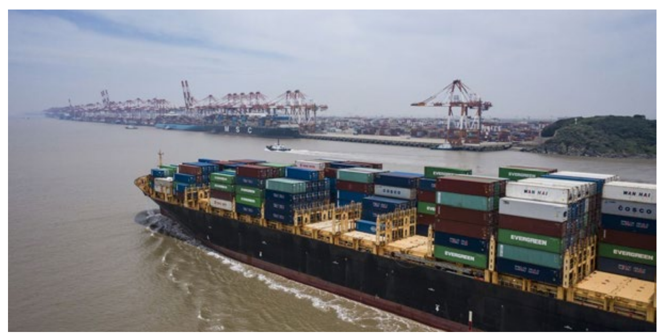
US EXPORTS GAIN MOMENTUM ON DISCOUNTS

CONAB PLACES 19/20 COTTON CROP AT 13.791 MB

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

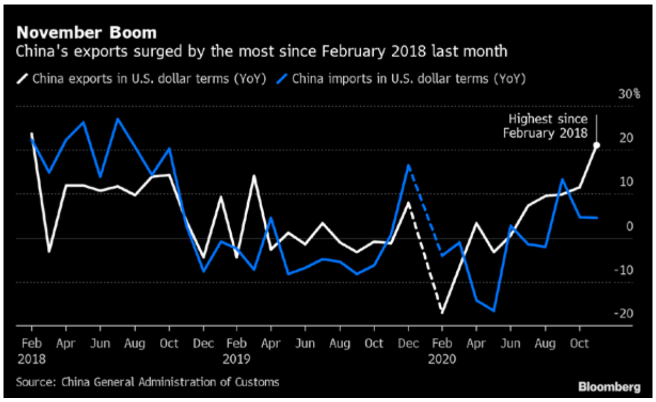
CHINA MARKETS RECEIVE BOOST FROM NOVEMBER EXPORT PERFORMANCE

RECORD TRADE SURPLUS IN NOV

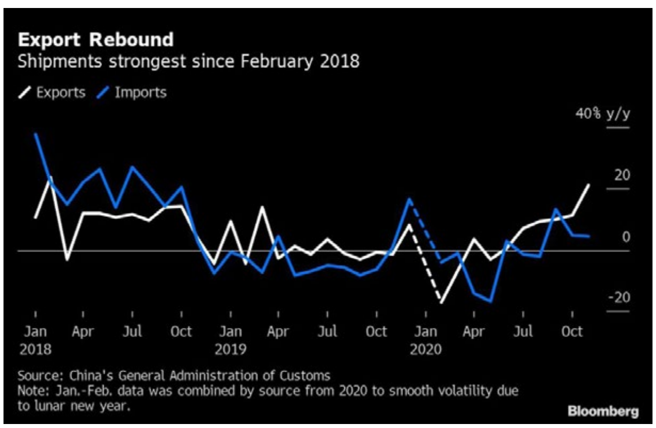


For all the talk of decoupling, the world turned to China to refill its supply chains and for PPE supplies, pushing November exports up 21.1% to a shocking 268.07 billion USD. Imports increased 4.5% to 192.650 billion, providing a record trade surplus of 75.43 billion USD. China's business model of importing raw material and exporting value-added products worked better than ever in November as the West, devasted by the impact of the Wuhan Virus, turned to China to boost inventories and for the needed PPE. The export growth was widespread; exports to the US increased by 46.1%, which outpaced the export growth to the EU of 25.9% or 5.6% to Japan. The US, in spite of all the talk, has not rebuilt its supply chains as the greed for margins continued to halt any reshoring programs. In Europe, the largest export markets were

Germany, Netherlands, France, and Italy, while the UK remained quite robust as well. The textile sector remained a significant growth engine as China remains the premier supplier of all PPE fabric and products to the world. Textile exports in November reached 12.039 billion USD. To put this in perspective, that is over nine times the volume of apparel exports from Bangladesh in November and showed 22% YOY growth. January-November cumulative textile exports are up 31% year on year at 108.124 billion USD, and exports of medical equipment in the same period are up 42.5%.

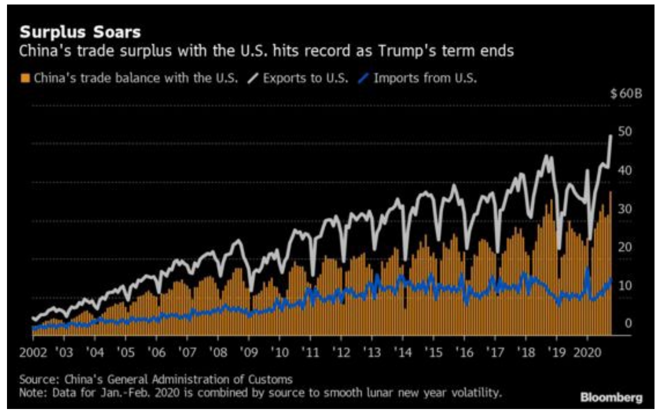


China export surge

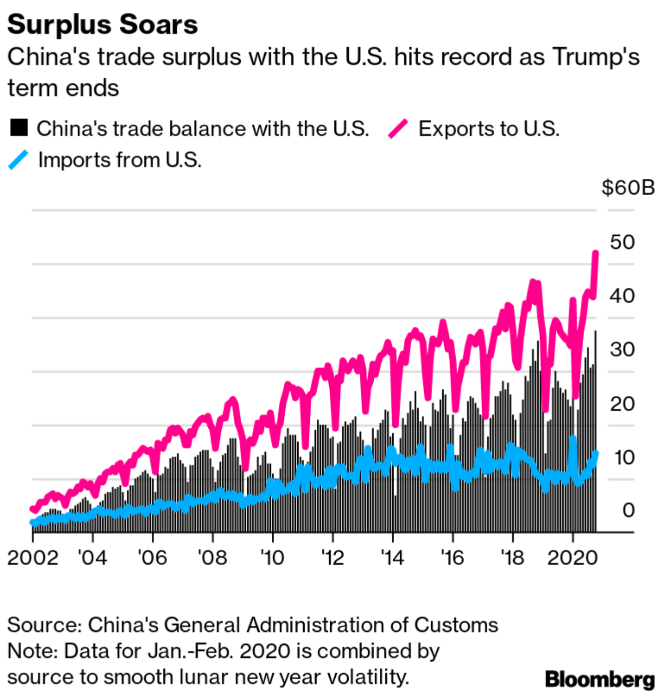


China record surplus

These surprising export statistics show that the US is especially in crisis regarding manufacturing. All the tariffs have not created any significant investments because the entire establishment has fought against every effort to remove them, believing that will be accomplished in the future. At the same record pace, new investments by US investment banks in China have assured the establishment they will use all power to undermine any effort to halt Chinese imports. It is very distressing that there has been no real effort to rebuild the US supply chains in any meaningful way. In personal protective equipment, the US found itself in crisis when the pandemic hit, and today it remains in crisis as the domestic PPE industry is forced to rely on imported raw material. Just as we pointed out in the September import data, October data showed the same situation with US textile imports soaring 28.5% from a year ago to 4.944 billion USD. This creates a number of questions and none that can be answered. The US has been all talk and no action, leaving the US unprepared for the next crisis or any decoupling from China. The US is importing nearly the value of the entire US cotton crop monthly in textiles, and that is not even taking into consideration the apparel imports.

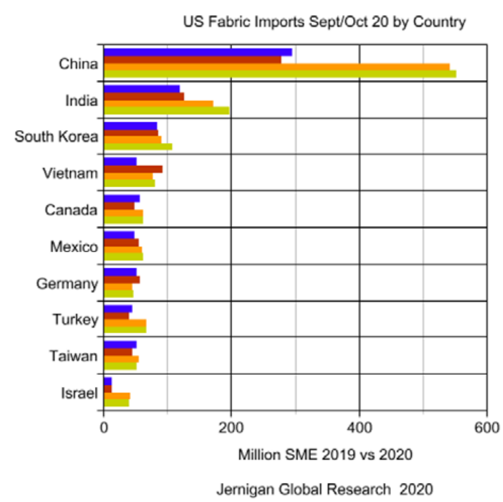


Trade surplus with USA hits record



US record trade surplus chart

At the heart of the problem is a lack of any coordinated support program for companies to make the investment to re-shore and the undermining of any effort by the same crowd that advocated China's entry into the WTO, and the wholesale gutting of most major manufacturing supply chains in the US. Again, the retail lobbying groups have joined with both Republicans and Democrats to today ask US Trade Rep. Lightizer to remove tariffs on Chinese imports of PPE and other needed supplies. It is simply greed and no forethought that drives such actions. No company is going to invest in US production of the key raw materials needed for PPE or any major fabric construction if such an attitude is winning in Washington. How could they risk having duty free imports from subsidized or slave labor-driven Chinese companies undercutting them? The lobbying to push for the exemptions has reached excessive levels, with the groups saying that US businesses need the reductions to survive. At the end of the day the groups doing the lobbying and pushing at the heartstrings of Congress represent importers, and they want the cheapest source of product. We have not seen any lobbying by these groups to support the campaign to enforce anti-slave labor or actions against Chinese human rights violations in Hong Kong. Several Congress members have signed the letter for removal and have failed the domestic industry once again.



US fabric imports in October grew 48.5% in volume, reaching a new record of 1.552 billion SME with a value of a record 605.6 million USD. The US remains locked into seeking their supply first from China. An unbelievable 553 million SME or about a third of all October imports came from China, a 97.89% increase year on year. Cotton fabric imports provide no relief to the shame, rising 56.9% to 183.6 million SME for a market share of only 11.82%. If that market share is not a call to action, I am not sure what is. The fabric imports alone represent a more than four million-bales equivalent in cotton use monthly. If one assumed a reasonable target after a sizeable investment in research, logistics, etc., and a reshoring effort in which cotton could achieve a 45% market share, that would mean 12 million bales of domestic cotton consumption from this segment alone.

Due to an absence of domestic suppliers in most fabrics, the growth outside of China expanded. Imports from India were up 54.97%, South Korea +25.55%, Canada +29.9%, Mexico +15.42%, Turkey +64.25%, and Taiwan +15.15%. Germany and Vietnam were also suppliers in reduced volume. The strongest growth continued from Israel, which saw imports surge 205.11 %. Israel's industry has been a major leader in protective apparel and medical apparel. They were the first years ago to have an antimicrobial treatment especially for cotton. The question remains if the small nation of Israel can have such success, why the US continues with no master plan or support mechanism for their industry. The US imported 11.7 million USD of fabric from Israel in October, which followed a record 14.2 million USD of imports in September. Total textile and apparel imports from Israel have reached 214.284 million USD through October. Cotton products accounted for 41.464 million USD, which reflects 44.98% growth. Non-apparel imports reached 33.829 million. Non-apparel man-made fiber imports are up 33% at 83.824 million USD, while silk and vegetable non-apparel imports are up 26% at 72.197 million USD. Israel has a large tech industry that has extended to medical apparel, along with major research support from universities. The US/Israel Free Trade Agreement allows duty free imports into the US market. Despite all this, no effort has been organized to replicate Israel's success in the US through joint ventures or other programs.

RMB/USD exchange rate major appreciation

China apparel exports in November reached 12.550 billion USD, while year to date exports are down 7.2% at 133.190 billion USD. China remains the top supplier of apparel to the US but has lost market share. In October, imports into the US reached 1.8085 billion USD, an 11% decline. However, in volume terms, imports rose 11.2%. This confirmed that Chinese prices have been lowered to allow for the increased duties. In comparison, imports from Pakistan increased 31% in value and 27.4% in volume, indicating no price pressure. China export growth in November increased 9.5% to South Korea, Taiwan +18.1%, Australia +22.6%, and exports to ASEAN rose 8.8%.

China's robust export performance in November provided a boost to the domestic textile market with gains noted in ZCE cotton futures and cotton yarn futures and strong gains in the PTA (polyester raw material) and polyester staple futures. Cash yarn prices also posted small gains. The performance spread over into the IPOs of Chinese companies. JD Health went public in Hong Kong, raising 3.5 billion USD, and its shares soared 75% as trading opened and its IPO was heavily oversubscribed. The excitement was not impacted by China's heavy-handed measures in Hong Kong, where HSBC began to seize bank accounts of opposition officials. China toy maker, Pop Mart, also launched an IPO in Hong Kong last week, and the excitement for the Chinese consumer company was strong as its stock doubled and the company reached an evaluation of 14 billion USD. The host of new sanctions or actions by the US against Chinese individuals or companies or even the removal of eight state-owned companies from the FTSE Russell Index's had no impact.

INDIA CROP DOUBTS REMAIN DESPITE THE HEAVY ARRIVALS

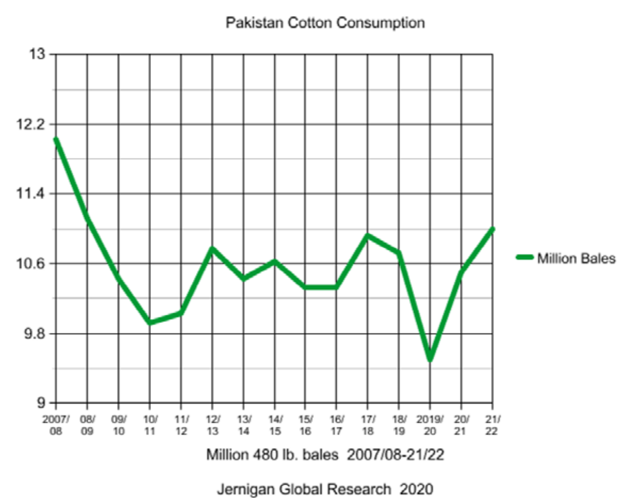
India's excessive wet season and the lack of the most advanced seed technology has had a major impact on India's 2020/2021 production. In Gujarat, the state government has now raised the fear that average yields have been reduced 15% from pink bollworm infections. The affected region includes the cotton heartland of Saurashtra. In the heaviest impacted areas, growers have abandoned any attempt to harvest a third time. The CCI continued to procure aggressively with 3,832,259 million bales procured as of December 5th. Cotton movement in the country has been impacted by the strikes over the agriculture reforms that have disrupted transport. There has not been a great deal of transparency concerning the new laws passed in September regarding farmer marketing. It appears the fear is that the laws that are said to open up trade could threaten the MSP system which has long been used to guarantee farmers a profit for their crop. Any discussion about the MSP can cause riots and protest. India faces a serious crisis – how to reform the agriculture sector in such a way as to encourage efficiency, modernize farming practices, and lower the cost of production. The sector has heavy state involvement, which stifles innovation and competition. Cotton yields in some areas, such as Maharashtra, are some of the lowest in the world, and no amount of MSP is going to pull farmers out of poverty when real reform and larger plots with a tripling of yields is needed. The farmer constituency is a powerful political block, and the government is prone to allocate large sums of money any time the sector has a problem. However, the efficiency of those distributions can be an issue, and it never solves the longer-term problem. We are not at all sure how these new laws will be implemented. The MSP for cotton has been working well for the support of prices, and that success unlikely to be altered.

By the end of last week, the CFR basis for Indian styles had turned weaker following the gains on ICE. New crop S-6 SM 1 5/32 offers from Indian shippers fell to even March, and S-6 SLM 1 5/32 offers were at 350 off March. CCI stocks maintained the premium, with Middling 1 5/32 offered at 150 points on March compared to 300 on earlier in the week. CCI Middling 29.5-30.0 mm was offered at 200-225 points on March. At the weaker basis levels, some demand occurred in Bangladesh and Vietnam. The ex-gin price of a S-6 1 1/8 was back near 71 cents as the week ended.

Walmart announced a new major sourcing directive for India. It has pledged to increase its sourcing of a host of products from India, including apparel and home textiles. It has made an additional new investment in Flipkart and will use its sourcing platform, Samarth, to buy from Indian companies. It has also launched a

grassroots supplier development program, Vriddhi, with a target of empowering 50,000 new Indian companies to supply the company. This was very good news for the expansion of Indian cotton use and also shows the growing importance of the Indian market. The Indian government has also announced a major plan to stimulate new investment in manufacturing. Sixteen new international electronics manufacturing companies have announced plans to set up factories in India under the scheme. The program includes a five-year subsidy scheme if the company meets targets. The challenge is for India to draw the investment in the electronic components, not to depend on imported parts that serve limited purpose.

PAKISTAN COTTON USE ROBUST AS DEMAND HOLDS



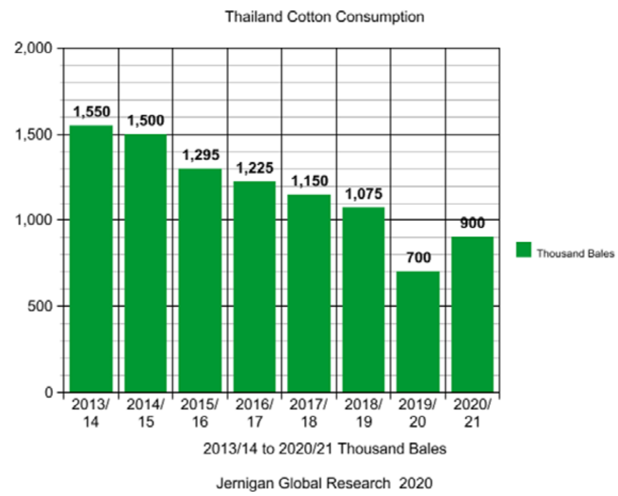
Pakistani spinners appear set to take up much of the world exportable surplus of mixed to lower quality cotton as its textile sector remains strong and operating near capacity. Even cotton yarn export sales to China have shown healthy growth in recent weeks as its lower count yarns undercut local production.

Yarn prices have firmed, which has provided a further incentive for spinners to continue to cover import needs in any discounted lots, with US longer staple, low grades very popular. The government of Pakistan also gave the sector a boost by releasing long withheld tax rebates. As of November 30th, total 2020 crop domestic deliveries reached only 4.648 million USD, which indicates the domestic crop will amount to only 4.5 million or less 480-lb. bales, which means record imports of five million bales. Approximately half of that volume has been purchased, which suggests an additional 2.5 million bales will be needed through the end of the 2020/2021 season. We expect US discounted lots to be in brisk demand at the current basis levels.

Pakistan's cotton use is also set to increase as brands and retailers seek to further switch apparel sourcing in cotton products from China because of the Xinjiang PCC withhold order. We expect Pakistan's cotton apparel sourcing to receive a big increase, much of which may come from a move out of sourcing in Cambodia, which sources 98% of its fabric from

China. Pakistan has higher labor cost but is still very competitive and offer brands and retailers a secure supply chain that is 100% free of Xinjiang PCC cotton. Pakistan has the potential to increase cotton apparel exports to the US market by 300-400 million USD, which will increase cotton use.

INCREASED COTTON YARN EXPORTS TO CHINA FINALLY BOOST THAILAND COTTON USE



Thailand has suffered serious economic losses from the Wuhan Virus pandemic. First, its domestic economy suffered a major contraction due to the collapse of tourism, and then the domestic industries suffered from a loss of export orders and a lockdown affecting workers. Textiles yarn production has fallen sharply, with August-October cotton yarn production down 28% from a year ago, cotton blended yarn production off 44%, and synthetic yarn output fell 29%. Mills found themselves with heavy cotton yarn inventories as the pandemic broke out and have been running down inventories for the last several months. Cotton textile exports collapsed during the year. Cotton yarn exports fell by over 70% in August and September, which followed reduced exports in 2019/20. Cotton fabric exports also collapsed, however, cotton yarn imports in August and September continue to flow in, with imports up 3.8% at 5,915 tons with India and Vietnam the main suppliers. Steady imports of cotton fabric were noted in the same period from India and China while January through September apparel exports is down 8.5%.

Cotton consumption has suffered and fallen to one of

the lowest levels in years, as illustrated by the collapse in cotton imports. August-October cotton imports fell to only 26,967 tons, which is down sharply from year-ago levels of 37,686 tons and less than half that during the same period in 2018/2019. We now believe cotton consumption has bottomed and will show notable improvement in 2021. First, the entire textile supply chain is empty, cotton inventories are bare, and so is yarn. Second, Thailand is seeing a revival in cotton yarn import demand from Chinese buyers after several months of absence. Thailand in past seasons exported 15-20,000 tons of cotton yarn, mainly to China but also South Korea and Japan. 2021 exports may again reach that level. This alone could jump cotton use over 100,000 bales. Cotton fabric export is also likely to see a major improvement as brands switch from Chinese fabric. Cotton use in 2019/2020 fell to only 700,000 bales compared to 1.2 million bales in past season. We expect consumption in the second half of 2020/2021 to begin to recover and 2021/2022 to reach 900,000 bales or more. The increased cotton yarn import demand from China is also boosting consumption in Indonesia, Taiwan, and Central Asia.

US EXPORT MOMENTUM SUGGESTS HIGHER THAN EXPECTED EXPORTS IN 2020/2021

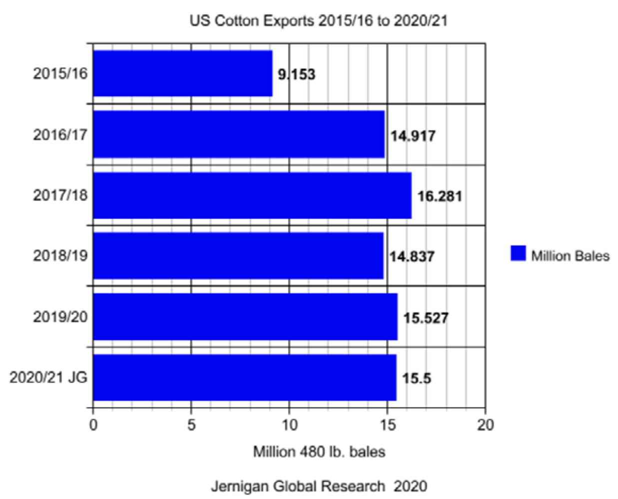
During the week ending December 3rd, the US sold an impressive 403,000 net running bales of upland for 2020/21 shipment. The sales were noteworthy from several standpoints. No purchases by the China Reserve dominated the sales, sales were noted to different markets, all major consuming countries were buyers, and the sales came when the high-grade CFR basis is at its highest level in years. The broader reason for the demand is, first, as we discussed in detail a few weeks ago, the global textile apparel chain is empty, and this applies to cotton inventories. Mills are not well covered for the first quarter of 2021 and have no coverage for later in the season. Second, consumption in most locations of the major importers is back to near pre-virus levels. Third, the discount of international values to China's domestic prices has driven demand for cotton yarn imports as we expected and also continued to stimulate offtake of import styles.

One impact of the pandemic has been a return to basics in apparel. The accelerated growth in the US of the top four retailers that were deemed essential and their focus on basic apparel and leisure wear has increased the demand for the lower count yarns. This has resulted in an increase in demand for off grade, cheaper priced cotton, which has been driven not just by price but more on value. The value was found in recaps of the 2019 Brazilian crop, which was absorbed as the CFR basis plunged to record low levels. With that volume now gone, the US harvest has provided the next value feature. There are two major value segments concerning the US crop. First is the Mid-South and Southeast very long staple, 36-37-38-39, high strength 30+, premium mike, lower color grade and high leaf crop. The second is the Texas 11/21 color grade, mixed staple, low mike but moderate strength crop. These combinations are providing bargains for spinners. Thus, in the week ending December 3rd these styles were taken up.

Despite all the congestion and container shortage problems at the US ports for export, US export shipments during the period reached an impressive 323,200 running bales of upland and 26,400 running bales of Pima. This gives the industry hope that the problems will not stop 2020/2021 export movement. Memphis Territory and Southeast experienced their best crop on record before the hurricanes brought rains and winds that changed some features. The crop is averaging 38 and higher staple and a record percentage will be 40 or longer. Strength is 31 or higher for the most part and premium mike. However, color grade suffered from the rain falling to 41 or lower on a large portion of the crop and 4 and 5 leaf. This is providing some unique discounted export offers and a few of note; 41-6-39, 4.25 mike, 31.8 GST at 300 points on March, a 41-4-38, 4.40 mike and 30.8 GST at 600 on March, and a 42/52-4-36.7, premium mike and 30.4 GST at 650 on March. These compare to Indian CCI offers that have near the same leaf but are a better color grade, and an aggressive take up of these lots is being noted.

In Texas, where weather has been at extremes, Strict Middling offers dominate. At Lamesa, more than 88% of the crop is classed 11/21. While the color grade is excellent with low leaf, the mike is low on a very large block due to the snow and weather. A 31-3-36, 3.37 mike with a 32 GST is offered at 575 points on March, a 21-3-38, 3.2 mike and 32 GST is offered at 725 points on, and a 21-3-36.8, 2.89 mike with 29 GST is offered at 425 points on March. Staple has been all over the board, with a larger than expected volume of short staple.

The US is already in a position where it has to ration the Green Card 31-3-36 and better grades, and the top Memphis Territory grades are already on par with Australian, which should limit non-Chinese demand. If the China embargo on Australian cotton holds and the state trading companies also become barred from purchases (until now they have purchased some volume), this will turn Chinese buyers to the US. Beijing's attack on Australia is increasing, and the trade

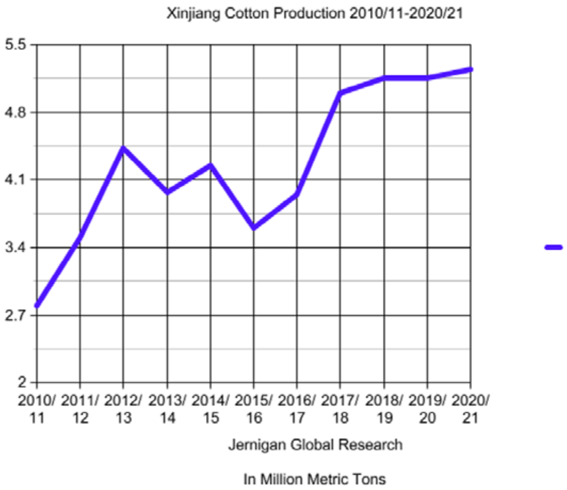


embargoes are expanding. Both sides now indicate they will not review the Free Trade Agreement following Beijing's clear violation. Thus, Chinese mills need high grade, longer staple, and the remaining US supply could easily be absorbed. US high grade stocks will not be replenished until November 2021 at the earliest, and the extent of that supply will depend on weather.

The discounts of the US crop are now driving export sales. We have come to the conclusion that the US could possibly sell out these stocks for shipment through 2021. The USDA finally lowered the US crop to 15.95 million bales and raised exports 400,000 to 15 MB, which put the US carryout at 5.7 MB. If exports are adjusted 500,000 bales higher from new sales and say 250,000 bales higher from an adjustment of shipments higher to align with the Commerce Department, then US stocks fall to 4.95 million bales. The wild card is the China/US Trade Agreement. The election uncertainty continues, which has sidelined much of any discussion of what happens if it remains in place in 2021. and China feels obligated to fulfill their commitments. With a 37.4 billion USD US trade deficit in November alone, how much of an obligation is it to continue to buy agriculture products which you will need anyway? We have no idea what China/US relations hold, especially if the Biden administration is sworn in, but a valid 2021 trade deal would mean a reset on January 1st for cotton purchases. Throw 3-4 million additional bales of exports into the 2021 calendar year, and that means very tight US stocks even with new crop added to the supply by December 31, 2021. One remaining caveat is China will not fulfill the 2020 requirements to the letter of the agreement for all products unless massive year end purchases are made. How will this be managed, and will a Trump team or Biden team handle the discussion?

The lower quality of the US and discounts which follows is coinciding with the renewed demand in the basics that need to and can consume the discounted cotton. These conditions have created the perfect storm for US exports.

XINJIANG HAS BUMPER CROP IN 2020

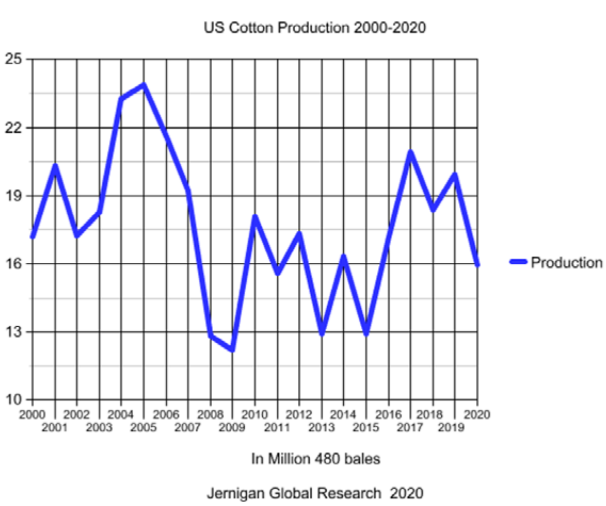


The unrelenting support that the Chinese government continues to pour into Xinjiang for the benefit of the agriculture sector is pushing output higher. 2020 wheat, corn, autumn crops, and cotton production all increased. Indications are that agriculture production is reaching its peak unless new water supplies are introduced. This is what is likely behind the move to divert water from Indian rivers in the border region to Xinjiang. Water demand in Xinjiang has surged, not just from agriculture production but also from the industrialization of the region. The CCA reported that cotton production reached a record 5.224 MMT or just over 24 million bales. The state data reported the average farm yield in cotton increased 4.3 kg of lint per Mu or about 142.2 lbs. a hectare. The average yield reached 123 kg of lint per MU, which equaled approximately 8.47 bales per hectare. Wheat production increased 336,000 hectares, corn 374,000 tons and autumn grain output rose 243,000 tons.

The percentage of the 2020 crop that was handpicked reached a record low, and many growers are now ready to move to 100% machine picking. While the overall quality of the crop is lower, the quality of the machine picked as compared to the handpicked has narrowed. Early in the season, the premium for handpicked surged to about 1 RMB a kilogram. However, by the end the premium had narrowed to .50 of a RMB premium. New improved domestic pickers were used this season that improved quality, and a larger volume of the imported John Deere pickers was used, especially on the PCC farms. In the important Shaya County, 80% of the crop was machine picked.

The size of the Eastern cotton crop declined in 2020 and is set to fall sharply in 2021 due to grower's unhappiness with their returns and the continued problem with weather. One survey of planting intentions shows a 10.3% drop in 2021 acreage. Overall, the government plan to move Eastern cotton production to Xinjiang has worked as planned, and the industry in the traditional heartland is becoming a minor player. This is accelerating the decline as the number of gins shrink and investment in new equipment is lacking. Growers face less demand for seed cotton, and returns are nowhere near those of Xinjiang. The East operates under a different subsidy scheme.

USDA LOWERS US CROP BUT WHY DID IT TAKE SO LONG?



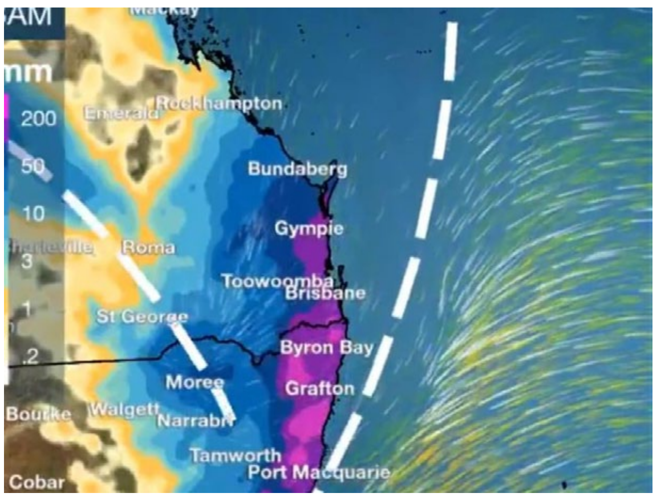
In its December estimates, the USDA reduced the US cotton crop by 1.143 million bales, far exceeding what had been expected. The question is why it took so long for the reduction. The yield reports and classing data suggested reductions at least 30 to 60 days earlier. This delay follows what appears to be more and more delays in the USDA leading the way in estimates. Instead, they have become followers. This has been true in exports and demand for some time. It is the objective yield survey report delay that appears odd. For soybeans, the USDA's estimate in December of exports and ending stocks was much different in trade estimates, which were far higher exports and lower stocks. In cotton, the Indian estimates change monthly and remain out of line with India and the trade despite several consultations between India and USDA. The

USDA lowered world ending stocks by 3.915 million bales, but we have said for some time world stocks were overestimated on paper. In this age of major change, it should be noted that the USDA estimates remain the most respected in the world, and the group needs more support, reform, and additional funding in the future to correct these issues.

The average US yield was lowered 61 lbs. per acre to 850 lbs., which pulled the US crop down to 15.95 million bales. The reduction primarily came from Texas at 900,000 bales and 180,000 bales from the Southeast.

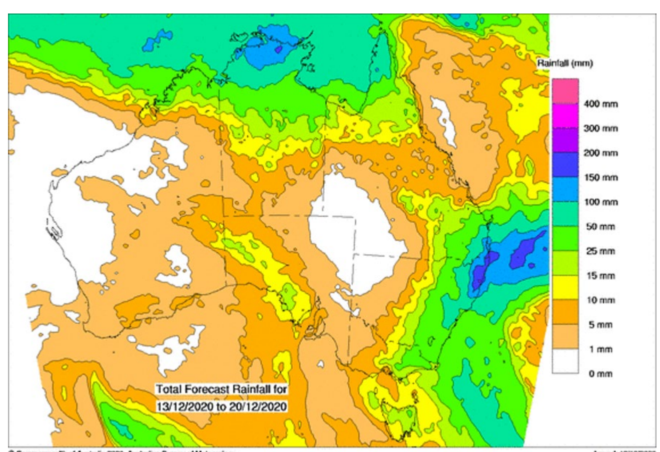
The US export estimate was raised following a month of brisk sales to 15.0 MB, which pulled US carryover down to 5.7 MB. Global production was reduced by 2.209 million bales, and outside of the US the main changes were a 500,000 bales reduction in India and the same in Pakistan. Increases were noted in Central Asia and Argentina, offset by losses in African Franc Zone and Australia. Global cotton use was raised 1.575 MB with India raised 1.0 MB, China by 500,000 bales, and Pakistan 200,000 bales. Other minor adjustments were noted. Global stocks were reduced 3.915 million bales.

AUSTRALIAN COTTON BELT FACES FREAK STORM THAT COULD BRING RAINS



The Australian cotton belt experienced a monster weather event during the weekend. The weather was concentrated on the coast but will extend rains inland into some of the cotton areas. The highest seas levels on record are expected in Southern Queensland and extreme Northern NSW. Major wind gusts are also expected. The heaviest rains will occur near the coast where 200 mm could fall. However, notable rains are expected in the Darling Downs reaching St George and Roma. The NSW border area should see rains extending to Narrabri and Walgett. Over the next week, rains should cover much of the traditional SE Queensland and NSW cotton belt. The crop is planted, and the rains will be welcome as long as hail or major flooding do not occur. Even in the context of the extremes of Australian weather, this storm appears a major event. As we go to press, the storm has produced some 20 MM rains in the Eastern Darling Downs.

Australia's cotton exports in the August-October period reached 57,453 tons or 263,968 bales, nearly half the 2020 crop. This is down sharply from 140,675 tons a year earlier and 302,370 tons two years ago. Despite the bankruptcy of the Chinese merchant and the defaults, 71% of the exports went to China. The conflict between China and Australia moved into further conflict last week as Beijing continued to press the country to submit. The Australian/China Free Trade Agreement, which has been violated by China, was due to be reviewed in December on its 5th anniversary. Both countries have indicated that will not happen, and the agreement is in shatters after Beijing simply stopped honoring it, similar to what it did with the Hong Kong Handover Agreement. China last week banned beef imports from another Queensland firm, and some lamb exports are suspended. The press was reporting that China is now threating to ban Australian wheat. In addition, for the first time, wool is being mentioned. China takes 70% of all Australian wool exports and also has built up a dominant position as the major wool spinner in the world, with 80% or



more market share in many products. Other products were discussed as well. The one missing was iron ore, which is needed by China. On Friday, China's Dalian iron ore futures surged 10% to an all-time record high as demand remains robust. Australia is now accounting for 60% of all iron ore, and this keeps China buying despite the trade talk.

FOB basis levels were steady last week, with the Australian dollar continuing to appreciate and reached 75.65 on Friday. CFR basis levels across Asia were also steady.

CONAB PLACES 2019/2020 CROP AT NEW RECORD OF 13.791 MB

Brazil's CONAB placed the 2019/2020 cotton crop at 3,001,600 tons, or 13.791 million bales, which is a new record. This came from 1,665,600 hectares and represents an average record yield of 8.2765 bales per hectare, a record for a more than 85% rain-grown crop. This illustrates just how productive the region is when the rainfall patterns are in sync. The 2020/2021 crop was lowered 67,000 tons to 2,670,200 tons or 12.27 million bales, and the acreage was estimated at 1,530,000 hectares. Bahia production was placed at 455,300 tons, which compared to 596,700 tons last season. Exports in 2020/2021 are estimated at 2,010,000 tons, which is a record and above the level of 2019/2020 but below the ANEA estimate of 2,075,000 tons or 9.534 million bales.

In November, China was the top destination for Brazil's record cotton exports with shipments of 144,443 tons or 663,643 bales. Vietnam was the second largest at 49,144 tons, followed by shipments of 47,256 tons to Pakistan. Bangladesh took 23,957 bales and Turkey 21,870 tons, while Indonesia was a buyer of 21,230 tons. Export offtake over the last week was limited when ICE futures moved higher.

The most aggressive Brazilian offers appear in China, where a block of shipments from Bahia, which are longer staple, are offered to arrive before the end of the year. In other markets, some merchants have increased basis levels to sizeable premiums to the Chinese market, because outside the afloat shipments other supplies are much tighter. This has led to rather wide range of offers. For example, the standard Middling 1 1/8 offers range from 750 to 1025 points on March and May. In most qualities the range is about 200 points in offers. The Real/USD exchange rate ended the week at 5.016, its strongest level since June.

US CLASSES HEAVIEST VOLUME OF YEAR; QUALITY ISSUES STAND OUT

The US classed 1,215,365 running bales of upland and 42,567 bales of Pima in the week ending December 10th. A total of 10,549,021 running bales have been classed, and over 70% of the crop is now classed. The prevailing quality issues all continued and stood out. In the Mid-South, the lower color grade and leaf continues to be the issue. The Mid-South set records for some features. More than 75% of the combined Arkansas, Louisiana, Mississippi, and Missouri crops have a staple length of 38 or longer, and 20% of the crop reached 40 or longer staple. This exceeds the average for the California Acala crop of 37.42. Over 27% of the Arkansas crop has a strength of 32 or higher and all have fallen into the premium mike range for the most part.

In the Southeast, over 70% of what was classed had a color grade of 41 or lower, and mike and strength is excellent. Three states had a major problem with seed coat fragments. 35% of the volume classed during the week in Alabama, 67.6% in Florida, and 62.2% in Georgia all were marked as Level 1 seed fragments. In Texas, the issue continued to be low mike and shorter staple. The average mike for the week was only 3.75 and 37.5% had mike below 3.5. The average staple length was 35.66, with a shocking 26.3% with a staple length of 1 1/16 or shorter. The quality problems are creating discounted cotton that is in demand for export.

ICE FUTURES STALL AS THEY NEAR 75 CENTS

Last week ICE futures experienced a bit of excitement following the WASDE release, but otherwise it was a dull affair as the market lacked one key ingredient for an exciting bull market, mill demand that follows the market higher. Heavy US grower sales were also noted. The COT report for the week ending Tuesday showed massive trade support as heavy Swap and Index Fund selling was joined by light speculative selling. The Trade covered shorts into the selling as new export sales were stimulated. The general lack of excitement is rooted in the global textile and apparel markets which remain plagued by a lack of confidence. In the US, retailers face a Christmas season unlike any before with many of the major US retail economic hotspots facing a disaster. We have discussed this numerous times but have yet to see any other attempts to point out the negative effects these developments are having on the apparel market. The New York City metro area is facing a catastrophe and no change in direction, with new lockdowns announced Friday. This NYC metro region, before it was destroyed by mismanagement and the virus, had a GDP greater than one fifth that of Japan. Florida is now being called Wall Street South as the major Wall Street groups began to pull out of NYC. The big names are moving, and a November/December drop of 50% in retail apparel sales is possible. The streets are near empty, many businesses are closed, and indoor dinning is again banned. While business is collapsing, demonstrations were again noted on the empty streets Friday night.

The entire three trillion USD economy of California is facing some of the same issues, with a lockdown and companies and people leaving. The great Elon Musk confirmed this week he is Texas bound. Oracle officially moved its global headquarters from California to Texas. We are not at all sure, but the rush to the Red states is leaving two very different US economic zones. The impact on retail is accelerating online, and there's the further consolidation of sales into the top four retailers that can manage the chaos. Such conditions are keeping order books nimble and no forward bookings except for basics. In Europe, the UK, which was the largest apparel consumer, faces the impact of a no deal on the Brexit and an economy reeling from extensive virus shutdowns. Paris and other parts of France have been rocked with ongoing riots that are not drawing attention in the US but unsettling confidence. Thus, order flow for apparel is steady at best and again not forward. The vaccine rollout is raising hopes but also lots of anxiety to due to the unknown. With all of this, Mckinsey, Bain, and others in their 2021 apparel outlook are calling for a revival but not until the end of 2021. Thus, the remainder of 2020 and first half of 2021 hold more trouble. We mention all this to highlight the mood of the spinner at the beginning of the supply chain. Their order books for the nearby are good and they are operating back at high capacities in the major consuming markets, but they have no confidence of what lies ahead. Cotton inventories are lean, and they are uncovered and thus the recent fresh waves of demand. That demand is for what are considered bargain buys that fit into their orders for much of the basics. The spinner is not feeling the need to chase market gains. They will accept them slowly over time, but there is no panic or rush. The next part of the supply chain, the Yarn market, has not yet shown any willingness to push prices higher or build inventories.

China has the most robust domestic demand followed by a few Asian markets. Last week its cotton futures posted small gains and cash prices held firm. However, after an opening rally, yarn markets lost their enthusiasm in moving back to the October highs. Demand is good from China's domestic retailers. However, order books for exporters are plagued by the conditions in the US and Europe. The earlier pick up is seen in the large shipments arriving in these markets now, but after the first quarter of 21 orders slow. The virus epidemic and the lack of any major reshoring has left demand for PPE fabrics very strong, which has benefited polyester prices. Overall, Chinese mills are running well, have low inventories of cotton, and also little stocks of unsold yarn and feel comfortable with keeping it lean. The discount of international values to domestic prices continues, which has kept demand for cotton and yarns flowing. The major limit for cotton business remains the lack of allocations of 2021 TRQ quotas.

Amid these conditions, we continue to see major support for physical cotton prices on any weakness which has occurred ahead of a deeper break of the uptrend which did not occur. The US has the potential to tighten its balance sheet due to the demand for the discounted lots. Overall, ICE may experience an increase in volatility from here. However, we expect prices can work their way higher. The next supply burden is some increased export sales of Indian, which are at sizeable discounts, and the CCI is unable to raise floor prices further until more sales occur. Brazil will have some volume to sell once the logistics clear up and the farmer starts to sell again. Nothing appears in the mix to see real pressure except some movements in the CFR basis. The most positive aspect is that the mills are uncovered and inventories very lean, and against that you have a discounted US crop that offers values and record tightness in high grades. All said, all the major exporters have their focus, and a battle over price is not needed. It is the spinners that are looking for bargains and who will take them up when they appear. We have said for some time that the global balance sheet was not as burdensome as the paper estimates said, and this is now being borne out. The 2021/2022 and further price curves are undervalued not just for US styles but for any growth. The uncertainty with the ongoing Hubris of China is our largest concern for the market. Actions that stimulate new trade conflict or threaten the China/US trade agreement are a real worry.

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