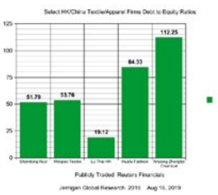
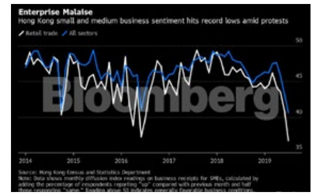


CHINESE TEXTILE/ APPAREL COMPANIES DEBT LOAD A CONCERN

HONG KONG STABILITY KEY TO CAPITAL FOR CHINA

BRAZIL CFR/FOB BASIS LEVELS REMAIN FIRM AMID LOWER QUALITY



PRICE OUTLOOK TIED TO HONG KONG

Jernigan Global

Knowledge Is The New Capital

Another Black Swan Event Impacts Global Supply Chains

HONG KONG AT THE EDGE OF THE ABYSS; WILL CHINESE PARAMILITARY TROOPS ENTER? US LINKS HONG KONG TO TRADE

Last week, Hong Kong took center stage of world trade and the US trade talks when China massed military forces just a few miles from the Hong Kong border, and President Trump requested a personal meeting with Xi Jinping on Hong Kong. At the same time, US Senators called for a range of actions if China intervenes in Hong Kong, with the most aggressive coming from Senators Marco Rubio and Tom Cotton. US National Security Advisor John Bolton issued a warning to China that a violent reaction to the Hong Kong protest would draw dramatic actions from the USA. Hong Kong has emerged as the latest Black Swan event to shake world markets. The escalating events in Hong Kong were no more than a low single digit possibility only a few months ago. Videos of military units building in Shenzhen near the bridge to Hong Kong set off new concern and prompted a Tweet from President Trump calling for Xi to meet with the Hong Kong protestors. Meanwhile, the economic impact of the unrest continues to take a toll on both the Hong Kong and Chinese economy. The Hong Kong government announced a 19.1 billion Hong Kong dollar (2.43 billion USD) economic stimulus. Chinese companies have been forced to delay IPO's on the Hong Kong exchange. The issuance of USD bonds and merger activity has also been delayed. The volume of IPO's has fallen sharply in 2019. The Hang Sang Stock Index has declined by nearly 12% so far this year, and Hong Kong real estate prices are falling.

Textile and apparel executives have been postponing trips to Hong Kong, and many plans from the US are now fairly limited following the takeover of the Hong Kong airport at various times by protestors. The issue of how the Hong Kong unrest will be managed by China appeared to enter a new stage last week when the US for the first time appeared to link the issue to trade talks. The US issued its final list of products that will be impacted by the 10% tariffs that will take effect Sept 1. Several electronic products were delayed until December 15th, while most apparel items will encounter a 10% tariff on September 1st.

Retail sales of luxury goods in Hong Kong have plummeted, as consumers stayed off the street and stores closed. Hong Kong also plays a major role in global luxury trade, and that has also been impacted. The full extent is not yet known, but sales have been impacted. Hong Kong accounts for 5%-10% of global luxury sales, due to its importance to the Asian shopper. A Bloomberg survey of the major brands revealed the extent of Hong Kong's role in this category. For Swatch, it represents 10% of all sales, for Burberry its 9%, Hermes 8%, Kering 7.5%, LVMH 6%, and Prada 6%. Hong Kong also has the third highest per capita spending on apparel in the world, behind only the UAE and Norway. Tourist numbers have also plunged, and China has started checking the phones of Chinese visitors returning from Hong Kong. It is unclear what the impact has been for the large textile groups headquartered in Hong Kong with manufacturing on the mainland. A bit of unease appears to exist, but operations continue without known interruptions. Any business that has shown support for the protestors is drawing the wrath of Beijing. Pilots of Cathy Pacific Airline, headquartered in Hong Kong, are in support of the protest, which has resulted in Beijing barring those pilots from flying to the mainland. Then, on Friday, the CEO of the company was forced to step down, sparking widespread concern over China attempting to bring financial pressure on the business of Hong Kong to force the protestors to stop. Coach and Givenchy both had to issue apologies for referring to Hong Kong and Taiwan as separate countries. Beijing has gone so far as to condemn t-shirts that have been printed, including a Hong Kong t-shirt available on Amazon.

- "Halt trade negotiations with Beijing
- Sanction senior Chinese Communist Party officials
- Revoke the U.S. visas of Party leaders and their families
- Curtail student visas for Chinese nationals
- Demand the expulsion of Chinese officials from leadership positions in international organizations
- Revise the Hong Kong Policy Act

US Senator Tom Cotton if China intervenes in Hong Kong Protest

Actions of the Chinese Govt. against Hong Kong is a cautionary lesson for anyone thinking about a deal with them. They signed a deal promising autonomy & democracy. They will agree to anything to get a deal. But they have no intention of keeping those promises. Marco Rubio US Senator

Now that Hong Kong has returned to the motherland's embrace for 20 years, the Sino-British Joint Declaration as a historical document no longer has any practical significance, and is not all binding for the Central Govt. management over Hong Kong

China Foreign Ministry

It is almost unimaginable that the debate today centers around Hong Kong, until recently the financial center of Asia. Hong Kong's role in the global cotton and textile and apparel trade has been central to China's growth as the world's leading exporter. The world's designers, apparel manufacturers, and really the entire global industry trusted Hong Kong in its role as the intermediary between East and West. Hong Kong is the headquarters for some of the largest apparel and textile manufacturing groups in the world. TAL Apparel is one of the oldest apparel companies in the world and was founded in Hong Kong, where it has its global headquarters. Global brand Esprit is also headquartered in Hong Kong, and its shares trade on the Hong Kong exchange, where they closed a near 52-week low on Friday. Hong Kong is also home to Esquel, one of the largest shirt makers in the world known worldwide for their high-quality cotton products. These companies all operate with extensive plants on the mainland.

Hong Kong has been one of the important centers of global capitalism, due to a strong rule of law. The US grants Hong Kong special status under the 1992 Hong Kong Policy Act that allows the semi-autonomous territory to be treated as a non-sovereign entity, distinct from China for trade and economic matters under US law. Hong Kong was guaranteed its civil liberties would be protected for 50 years after its handover from the UK to China in 1997 under the "one country, two systems" framework. It is 2019, and the special status was agreed to last until 2047. However, under Xi Jinping it has been under increasing threat, as Beijing has adapted a heavy-handed strategy toward Hong Kong and shown disregard for the agreed-upon terms of the 1997 treaty. The importance of Hong Kong to the global cotton industry appeared to take on new importance, as it also became intertwined in the US/China trade war. Threats from the US side, from both Republicans and Democrats, meant that military or police clampdown on protest would have lasting implication on US relations with China. Senator Marco Rubio has introduced a bill to strengthen the Hong Kong Policy act with human rights requirements. The bill has widespread support.

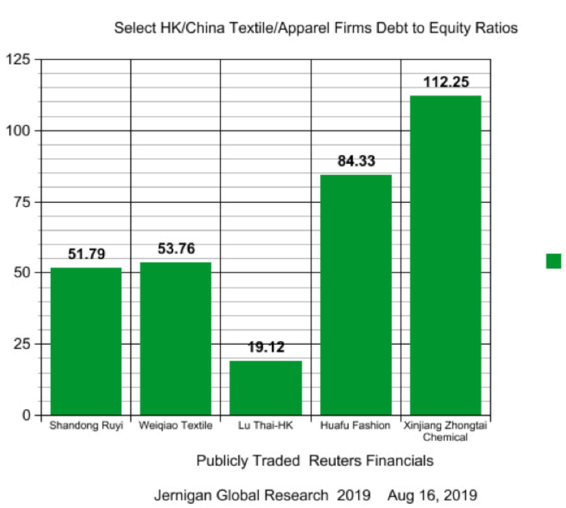
For cotton trade, it may now hold the key to any short-term trade agreements with Beijing. How China handles Hong Kong will also play a significant role in textile and apparel sourcing in the future. If the decision is made to pull sourcing and design teams out of Hong Kong, it will permanently reduce China's role in sourcing. The second area of concern is the role Hong Kong capital markets play in providing capital for China's textile, apparel, and petrochemical companies. The shares of most of these companies are at 52-week or all-time lows. There appears zero appetite for additional shares or debt from these groups in today's atmosphere. Many of these groups have massive debt loads, and it is unclear how conditions will allow that debt to be serviced.

China's large textile and apparel groups also have been on a global investment spree that included acquisitions as well as record investment in Belt and Road projects and domestic Fixed Asset Investment. The largest of these is the Shandong Ruyi Group, which began as a state-owned company and eventually listed its shares. It then issued additional shares in companies it purchased, creating a global network. At the root of its growth is its largest shareholder, the Chinese government. This meant it had almost unlimited access to loans and capital. This allowed it, up to the first half of 2018, to acquire a global portfolio of brands such as Gieves & Hawkes, Bally, The French SMCP group, Lycra, and British Aquascutum. It also made massive investments in the Belt & Road countries, including the new textile and apparel sourcing hotspot, Ethiopia. In Australia, it acquired Cubbie Station, the largest cotton farm in Australia and owner of the largest water irrigation allocations. Its chairman, Yafu Qiu, made headlines in 2013 when he purchased a 33 million Australian dollar home in Sydney. He is listed in Forbes top Chinese Billionaires.

The buying spree ended suddenly in early 2018, when it appeared Beijing halted its ability to increase its loans or to get USD out of China. An earlier acquisition of a British small brand was made, with additional payments due in 2019, but these payments have been delayed, with the company stating it was unable to get USD out of China. The global buying and investment spree appeared to have been halted by Beijing without much prior notice. In the US, the company signed a much-hyped MOU in Arkansas that was touted by the Arkansas Governor to establish a million-bales cotton spinning plant in Forrest City, Arkansas. This would have been the largest investment in new capacity cotton spinning since the industry's contraction began, and it would also have reflected a 25% increase in US cotton consumption. Moreover, it suggested the company had much bigger plans in mind. They would focus on the full supply chain, not just cotton spinning, and there was no ready market for new US yarn production. The announcement drew lots of attention, and the hope was that it was the start of major Chinese investment in the US textile sector. Two years later nothing has happened, and the MOU appears dead. During this same period the company announced other MOU's in Africa as part of the Belt and Road that included an MOU worth billions of USD in Nigeria to build a complete supply chain, from cotton production to cut and sew. Nigeria lacks infrastructure and a strong textile industry and has significant corruption issues, and such a project was very early in any development scheme. This MOU has so far not been transferred into an active project.

Shandong Ruyi's buying spree has left it with a large amount of debt. According to the financial documents it filed with Shenzhen Exchange, its cash flow fell sharply in the first quarter of 2019. In the third and fourth quarters of 2018, it showed a positive net cash flow. However, from the fourth quarter of 2018, net cash flow for the quarter plunged from over 150 million to a 200 million negative cash flow in the first quarter of 2019. At the end of the first quarter of 2019, the company had a debt to equity ratio of 51.79, which suggests it will face great difficulty repaying its debt. To put this measurement in perspective, Levi has a debt to equity ratio of .57. Weiqiao Textile, one of the largest cotton spinners in China, is listed on the Hong Kong exchange, and its share price has been in a steady decline, hitting a new record low Friday at 1.91 HKD a share. Its debt to equity ratio is 53.76.

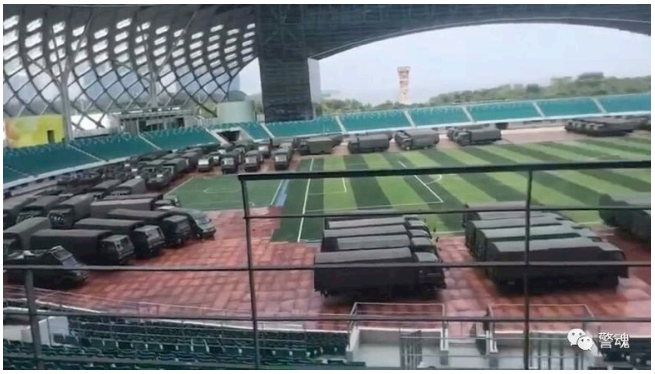
Weiqiao Textile Share Price HKSE



Lu Thai, another major Chinese textile and apparel group with operations in Vietnam, is also traded on the Hong Kong exchange, and on Friday its shares also closed at 52-week lows, losing about a third their value. It has a debt to equity ratio of 19.12. Huafu Fashion is listed on the Shenzhen Exchange, and has a debt to equity ratio of 84.33. It is the owner of the world's largest colored yarn spinning plant located in Xinjiang, and has appeared in the press as using forced labor from the Xinjiang camps. Xinjiang Zhongtai Chemical is another listed textile group focused on Viscose fiber and other man-made fiber production and yarn spinning, as well as cotton. It has ties to the Xinjiang Production and Construction Corps, and it has a joint venture with the PCC in a cotton textile operation in Tajikistan. It is listed on the Shenzhen exchange and also witnessed its shares close near 52-week lows on Friday, losing over 50% of its value during the past 12 months. They have a debt to equity ratio of 112.25.

Many of these companies have a common thread. All have deep roots to the state, which raises several questions. In Xinjiang, the Production and Construction Corps has formed some of the largest companies in the world. The Xinjiang Construction Engineering Corp is a subsidiary that has gone public and is now listed as a Fortune 500 company. It is the largest construction company in the world. The PCC has many listed subsidiaries in agriculture and textiles. The PCC itself rules a large block of northern Xinjiang and is the largest cotton producer and ginner in China.

The debt to equity ratios of these companies indicates they will need to raise considerably more capital in this downturn, or liquidate assets. This would normally be done in Hong Kong, either through new share issuance, US dollar, or RMB bond issuance, but at the current time this activity is at a standstill. If not resolved correctly, the ability to do this will be in jeopardy. The importance of Hong Kong's role in the economy of China and Asia should not be underestimated. The GDP of Hong Kong in 2018 was nearly 342 billion USD, slightly larger than Singapore, having grown rapidly from 228.64 billion in 2010. Growth has slowed since the unrest of 2014, and the 2019 events may bring growth to a halt. In 2017, Hong Kong was the 7th largest trader in the world, with 3.2% of all world trade, exceeding that of the UK and South Korea. Global FDI inflows into Hong Kong reached 112 billion USD in 2018. The third largest in the world, it compares to 142 billion in China. The Hong Kong equity markets represent 5.2 trillion USD in value, which illustrates the economics at stake if confidence in Hong Kong continues to erode.

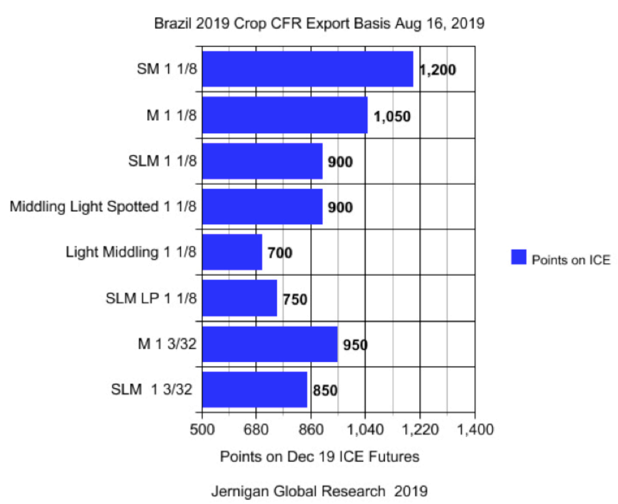


Chinese Troops at sports stadium across the border from Hong Kong, Aug 16

The ability of the large Chinese groups to manage and service their debt will be critical to the global textile and apparel sector. These companies have been the largest investors in textile and apparel operations around the world. Their slowdown in expansion, or even contraction, will create a considerable void, as their halt to expansion in the US did. This begs the question of who will fill their space, as the global supply chains move out of China. Indian investment may be a real possibility, as several large Indian groups receive increased orders from the main brands and retailers.

For the moment, the ability to restore confidence both in and outside of China is now crucial to the next major development, and Hong Kong will play a critical role in this. The question is when will Hong Kong reach the tipping point.

BRAZIL FOB AND CFR BASIS LEVELS REMAIN FIRM AS CROP MOVEMENT INCREASES



Early demand for the record 2019 Brazilian crop has been good, with the domestic industry being forced to cover on a hand-to-mouth basis, and heavy export sales absorbing the remainder of the movement. The ESALQ cotton price index of a 41-4-35 landed Sao Paulo has been in a steady downtrend over the past 60 days but has maintained a premium to ICE futures. The index hit a new seasonal low last week of 60.81, and closed on August 15th at 61.51, narrowing its premium to nearby ICE to 150-175 points. The tightness of free stocks has supported the FOB Santos basis, which stood at 300-350 point on Dec ICE. There was limited selling interest, with some offers at 450-500 point on Dec. Up until now there has been no selling pressure from growers, who entered harvest well sold to the Trade, either through cash or barter deals. BBM sales for 913,534 tons (4,197,232 bales) have been registered by growers. This compares to an expected crop of at least 12 million bales. Not all forward sales are recorded on the BBM, and in many years the BBM sales represented about 60% of the crop. If applied to this season, it would suggest about 50% of the 2019 crop has been forward-sold by growers. Smaller farmers have also bartered a sizeable volume to input companies, and this cotton has not yet been delivered.

The early movement of ginned cotton is focused on the delivery of forward contracts, which has limited the price pressure, as very limited unsold stocks have moved. That should begin to change as we move into September, when many of the deliveries are completed. Some new sales occurred last week on currency grounds as the Real fell to 4.0518 following the collapse in the Argentine Peso against the USD. The Real closed the week at 4.0038. The Argentine Peso collapsed last week following a major loss by Marci, falling to a new record low of 61.9987 before closing the week at 54.80. Some selling of Argentine cotton also occurred following the Peso collapse.

2019 Crop Brazilian sold into several markets last week, as international trade remains dominated by US and Brazilian styles. The quality of the 2019 crop has been mixed up to this point, with a larger-than-expected portion of the early crop 1 3/32 staple, shorter than the 1 1/8-1 5/32 which came from Bahia last year. Color grades have also been mixed, with an increased volume of Strict Low Middling and of higher mike. One major shipper is now offering no higher than Middling 1 1/8 with a full catalog 1 3/32 staple offers. The volume of Strict Low Middling, Low Middling, and Low Middling Light Spotted has also increased. Middling 1 1/8 offers are in a range of 850-1050 points on Dec, with some offers now including 4.0-5.2 mike offering. The increased lower qualities are due, in part, to the much larger volume of the second crop being produced by first-time cotton growers. The one international merchant that had been offering SM 1 5/32 and SM 1 1/8 has withdrawn these offers and are now only offering Middling 1 1/8 and lower qualities. A few offers of SM 1 1/8 can still be found. In summary, the record 2019 crop will not repeat the excellent quality of the 2018 crop.

Growers have now registered 517,057 tons (2.375 million bales) of forward sales of the 2020 crop on the BBM. The FOB 2020 crop basis ended last week at 300 on Dec 2020 bid, with most grower offers at 500 points on. The CFR forward 2020 crop basis remains steady, with Middling 1 1/8 offers ranging from 800 to 1050 points on Dec 2020.

CHINESE BONDED WAREHOUSE STOCKS REMAIN AT RECORD LEVELS AND UNSOLD

Moving stocks to China's bonded warehouses has become a very important way in which international merchants and traders have been able to meet the just-in-time demand of Chinese spinners. Qingdao Port in Shandong is one of the top ten ports in the world, the 4th largest container port in China, and the 2nd largest foreign trade port. Approximately half of all cotton imports enter China via the port. Qingdao has an extensive network of bonded warehouses used to store a host of commodities, where a commodity is stored in an approved warehouse in a special customs area before the payment of duties and VAT. Once the commodity is purchased by a Chinese customer, it can be quickly processed and delivered. This practice has been popular for cotton, since it allowed Merchants to provide their Chinese customers just-in-time delivery. During the periods of robust cotton import demand, the practice was used extensively by mills and merchants alike. Once the cotton is shipped to a bonded warehouse in the port, it is quite expensive to move it out to another port. Therefore, the cotton becomes generally committed to be sold in China. Only in a few rare instances have conditions changed so dramatically that cotton had to be moved.

Unsold port stocks at Qingdao are near 350-400,000 tons, which is believed to be capacity. The second port used to store imported cotton is Zhangiagang in Jiangsu, a smaller river port within a free trade zone. Unsold port stocks today have reached a new record of more than 80,000 tons, which reflects more than a 30,000-ton increase during the past 30 days. Brazilian cotton has been moving in, along with US and other growths. Today, the stock is made up of US, Uzbekistan, Indian, Brazil, and Australian cotton. Australian 2019 crop moved into China's bonded warehouses in July, as Australia shipped a total of 52,196 tons to China that month.
The unsold port stocks should be used to meet the first wave of any nearby import demand. Traders face large losses on these inventories, as prices have fallen sharply since the stock began to accumulate.

USDA WASDE RAISES US CROP WHILE LOWERING CHINESE COTTON CONSUMPTION

The USDA WASDE report for cotton has become more of a periphery focus than the main driver of prices now that the markets react much quicker to demand developments that are mainly recorded by the USDA after the fact. For other crops, the WASDE has created a host of controversies, with estimates that shocked the Trade. In corn, the USDA forecast that the US had planted 90 million acres ,and an additional 11.2 million acres had been prevented from planting. And, despite the extreme late planting average, yields were only 7 lbs. a bushel below last year. For cotton, the report contained nothing surprising, with the US planting 13.9 million acres and 12.49 million expected to be harvested. Average yields were raised 10 lbs. per acre to 855 lbs. The FSA said 490,058 acres of upland and 22,649 acres of Pima had been prevented from being planted. The total reported acreage by the FSA was 13.282 million acres, as compared to the USDA's 13.9 acres. The FSA does not cover acreage not enrolled in the cotton program, and the two estimates narrow their differences as the season advances. The USDA placed production at 22.52 million bales for a 516,000-bale increase.

The USDA raised ending stocks for 2018/2019 to 5.25 million bales following the lower export estimates, while leaving 2019/2020 exports at 17.20 million bales. This is a very unrealistic estimate based on the size of the crop. We expect exports will face difficulty exceeding 14.5 million bales. The current USDA estimates for ending stocks is 7.2 million bales. When adjusted for the lower exports, ending stock increase to 9.9 million bales.

The USDA lowered world consumption by 1.195 million bales, which placed consumption at 123.07 million bales. Chinese consumption was lowered by 500,000 bales to 40 million bales for 2019/2020, and 2018/2019 use was estimated at 39.5 million bales. Overall, we continue to expect a steady reduction in Chinese consumption estimates to below 35 million bales for 2019/2020, which remains significantly below the August USDA estimate. Global ending stocks for 2019/2020 were raised 2.036 million bales.

CHINA'S MAN-MADE FIBER PRICES CONTINUE UNDER PRESSURE

China's man-made fiber industry is in crisis, and the issue is related to both demand weakness and massive overcapacity. Annual capacity has been expanding at an annual rate of 4.7% to 5.8% since 2013, and additional new capacity is projected to come online in 2020. The new investment has been driven by a host of companies, including some of the largest groups in China. Sinopec, China Petroleum and Chemical Company, is the largest petrochemical group in China and the world. Sinopec is majority owned by the state. The China State Asset Corp owns 90% of the shares outstanding on the Hong Kong Stock Exchange. This explains how the company has experienced such growth and continued to expand capacity. The company has also been supported by investments from Blackrock Asset Management. The poor performance of the entire petrochemical complex has driven its Hong Kong shares to a 52-week low. Share price is down 43% from its 52-week high. The same is true for most of the other smaller producers that are publicly traded either in China or Hong Kong.

Today, the average price of polyester staple fiber is at a record low of 45.40-46.40 US cents a lb., and too much capacity and weak demand is a major issue. Virgin polyester plants are suspending operations in hopes of stemming the slide in prices. Average operating rates have dropped to only about 50-60%. Downstream fabric mills have large inventories and continue to experience weak demand. Capital costs are becoming a serious problem, and credit is extremely difficult to obtain. The devaluation of the RMB against the USD has added to the anxiety of traders holding unsold inventories of imported cotton yarns. Most domestically produced cotton yarns are now cheaper than imported cotton yarns. Viscose fiber prices have also again come under pressure.

INDIAN MONSOON AGAIN HEAVY IN GUJARAT

2019 August monsoon rain floods India

Gujarat floods 2019

India has now planted 11,873,350 hectares as of August 1st, which represents a 358,700-hectare increase for the last week. 2,469,600 hectares has been planted in Gujarat and 4,281,500 hectares in Maharashtra. The monsoon was active last week, with heavy rains in Gujarat bringing seasonal rainfall in Gujarat, and the Saurashtra and Kutch districts all above normal. Saurashtra has now received seasonal rainfall 23% above normal. Seasonal rainfall outside the Northern Zone is now above normal in all but the Marathwada district of Maharashtra, where rainfall is currently 24% below normal.

Some flood damage has been reported in Gujarat, with the heaviest damage occurring in the eastern areas of the state where cotton acreage is small. Indian merchants have begun to offer new crop into area export markets, but prices are uncompetitive at 8-9 cents premium to the Cotlook A Index.

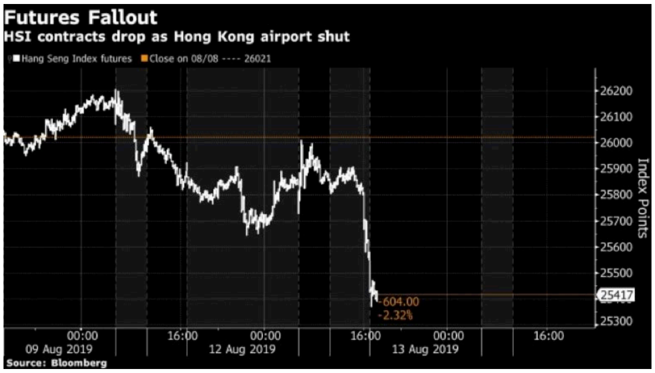
ICE FUTURES FIND SUPPORT AND DRIFT HIGHER

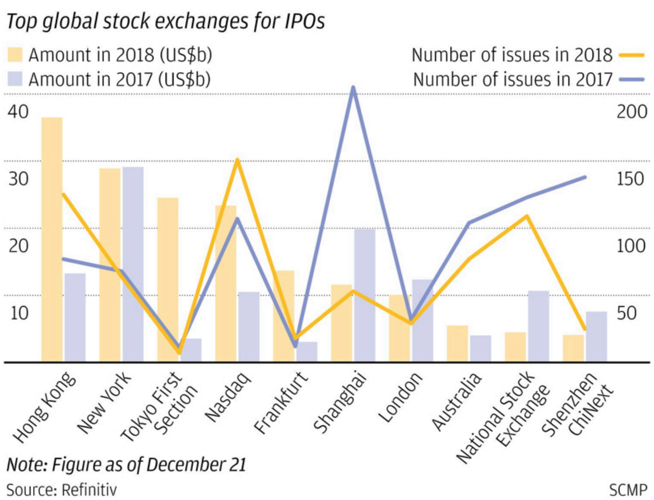
ICE futures found support last week from active export trade, fixations, and from light speculative support. The Trade emerged as the best seller via futures, options, and swaps. The market appeared to reach a bit of equilibrium. Cotton has suffered the greatest loss of the agriculture commodities since the China/US trade war began in June 2018. Those losses have allowed prices to discount much of the impact of the trade dispute and the feared global recession, which we warned of in our July monthly. Dr. Nouriel Roubini is an American economist, professor at NYU, and chairman of Roubini Macro Associates, an economic consulting firm. Roubini became famous for his Black Swan economic theory. The Black Swan theory, or theory of Black Swan events, is a metaphor that describes an event that comes as a surprise, has a significant effect, and is often inappropriately rationalized after the fact with the benefit of hindsight. The theory gained prominence after Roubini correctly forecast the global financial crisis of 2008/2009. Roubini defines a Black Swan event as meeting three features. First, it is an outlier since it lies outside the realm of reasonable expectations, because nothing in the past can convincingly point to its possibility. Second, it results in extreme outcomes. And third, despite its outlier status, human nature makes us concoct explanations after the fact for its occurrence as a means of making it explainable and predictable. He forecast two possible Black Swan events that could impact the global economy over the next year.

Dr. Roubini currently forecasts that we are now experiencing an end to 30 years of globalization, and that this will have a significant impact on supply chains around the world. He is not alone in this prediction. He is joined by Michael O'Sullivan, a Princeton professor, investment banker, and author of "The Levelling," who has also made the same call citing income inequality, domination of multinationals, and dispersion of supply chains as the drivers for the end of globalization. The reason this is of such concern to economists is the fact that the world economy is not prepared for it, as global equity prices, led by the US, reached a record, all-time high in the first week of July. The move to negative rates across much of the world has added to the anxiety and raised fears of deflation. The reason an end to globalization raises such fears is what has happened in the past when it has occurred. A major de-globalization event occurred almost 100 years ago in the wake of World War I that was associated with rising geopolitical tensions, financial imbalances, rising inequalities, ecological concerns, and growing populism. History has shown globalization is not linear but can reverse, and the outcome has often been correlated with wars and poverty.

Since that time, additional events that were forecast by Dr. Roubini have become reality. The fear of a global recession and its effect on the US was the prevailing feature of global markets last week. The most surprising feature was the rather bizarre negative yields that prevail across Europe and Japan. The 10-year Swiss bond is now yielding a -1.18%, German -.69%, France -.46, and Japan -.34%. Collectively an estimated 17 trillion USD of global government bonds are now producing negative yields. Against this backdrop, Argentina entered a new crisis following a primary election that saw the ruling party lose in a landslide. Argentine assets collapsed, the Peso fell to a new record low of 61.998 per USD, compared to last Friday's close of 45.234, ending the week at 54.80. The Peso has lost 45.48% of its value against the USD. Argentina equity markets crashed and pulled other regional currencies and equity markets with it. These conditions raised new fears that the slowdown would come to the US ,despite the current strong economy.

Adding to the fears is a China/US trade war that is far from being resolved, and the arrival of a new Black Swan event - Hong Kong. We see the events unfolding in Hong Kong as holding most of the keys to the future of the current price equilibrium. The world is a dramatically different place than on June 1, 2018. A survey of the views of the US and Australian populations has seen a positive view of China turn to an extremely negative view since that time. In the US, the willingness to take a hard stance now rests with many of the Democrat opponents for president, such as Senator Elizabeth Warren, and Republican Senators Marco Rubio and Tom Cotton. Thus, after the 14 months since the trade war began, Trump has moved from being the hawk to more a dove than many opponents. He appears to have been forced into bringing Hong Kong into the trade discussion. We see an aggressive clampdown in Hong Kong as changing everything on a permanent basis. It will have significant ramifications for the Chinese and Asian economies by cutting off the flow of capital into China, it will accelerate the move to force Chinese companies to delist in the US, and it will impede the growth of major Chinese companies that use Hong Kong for capital. Shanghai, for all its glory, will not replace Hong Kong, because it lacks the rule of law. As to trade, with any deal dead and more tariffs or embargos likely, US cotton will not move into China. This could trigger the last wave down in global cotton prices, as Chinese textiles suffer another downward adjustment and confidence is further undermined. Adding to the risk of Hong Kong are the new threats from Beijing over the US arms sale to Taiwan. As of today, they appears to be no change to the hubris of Beijing, despite the cost so far.





U.S. Senator Marco Rubio Statement on Hong Kong
August 16, 2019

U.S. Senator Marco Rubio (R-FL) today issued the following statement on the Chinese government and Communist Party's escalating threats of violence against Hong Kong:

"The U.S. must make clear that China will face swift and severe consequences if Beijing carries out its threats of a violent crackdown with People's Armed Police forces that are being pre-positioned near the city. The administration should make clear that China would not be able to retain the advantages that Hong Kong provides Beijing, including by revoking Hong Kong's special status under U.S. law, restricting China's use of capital markets and access to currency funding through Hong Kong banks, and imposing *Global Magnitsky* Act sanctions and other measures against Chinese officials and their interests.

"In light of recent actions, I am working to strengthen the bipartisan *Hong Kong Human and Democracy Act* that I introduced with Senators Cardin, Risch, and Menendez. I call on the Senate to act quickly on the important bill. Beijing should know its escalating threats of violence against Hong Kong underscore why U.S. lawmakers in both parties must continue to reassess how we do business with China, how to respond more assertively to China's atrocities in Xinjiang, and how to strengthen further support for Taiwan.

"The Chinese government and party elites have used Hong Kong to circumvent export controls, access international capital markets, and launder money that fuels corruption abroad. Elite families also hide their wealth and family members there as insurance against intra-party conflict. Beijing must now choose between fully honoring its commitment to Hong Kong's autonomy or suffering swift and severe consequences for its aggression."

Economic freedom rankings of Asia-Pacific countries/regions in 2019

Ranking within Asia-Pacific		Global ranking 2018	Global ranking 2019	Ranking within Asia-Pacific		Global ranking 2018	Global ranking 2019
1	Hong Kong	1	1	6	Malaysia	22	22
2	Singapore	2	2	7	South Korea	27	29
3	New Zealand	3	3	8	Japan	30	30
4	Australia	5	5	9	Macau	34	34
5	Taiwan	13	10	10	Thailand	53	43

Source: Heritage Foundation

A great deal of risk remains in the hands of the Trade. Presently, there is a reduced urgency to sell. However, the selling pressure will increase by November in Brazil and as the 10 month CCC loan clock starts in the US.

Then there is the issue of the two million bales or so of unshipped 2018/2019 US export sales, which have no risk coverage. Overall, we are cautious and are focused on Hong Kong for the next indication of direction. Our thought and prayers go out to our many old friends in Hong Kong and all its people, hoping their rights will be respected and a peaceful outcome can be achieved.

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