NEW RESEARCH SHOWS MICROPLASTICS DAMAGE TO INTERNAL ORGANS

PAKISTAN EXPORTS EXCEED PRE-VIRUS LEVELS

INDIAN CCI SALES STAY IN THE SPOTLIGHT

US EXPORT SALES HINGE ON BEIJING

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

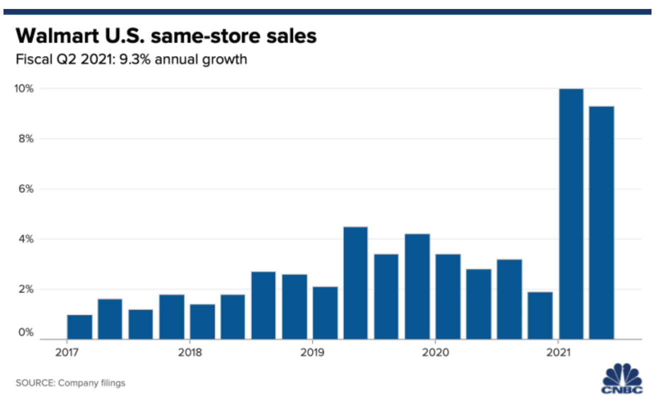
US BIG BOX RETAILERS' SALES SURGE WHILE APPAREL RETAILERS SUFFER

BAD NEWS FOR COTTON AS ENVIRONMENTAL MESSAGE NOT BEING TOLD

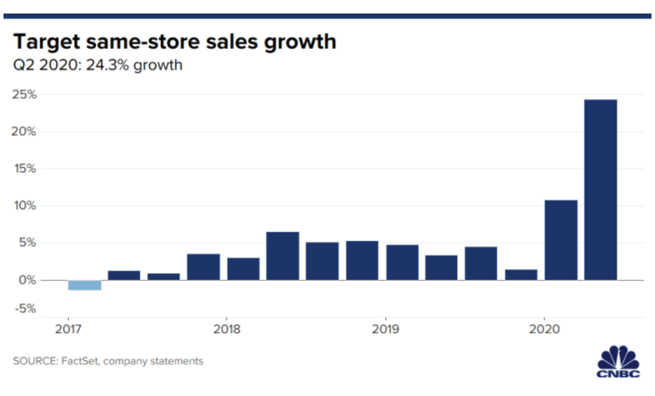
On Tuesday Walmart, the US's largest retailer, reported a robust 9.3% surge in same-store sales, while on the same day Kohls announced a 23% decline in revenue. These reports were followed by Wednesday's surprising retail results, which further showed the divide in US retail. Target reported record results, with same-store sales surging 24.3% and earning of a record 3.38 USD a share. This was far above expectations as revenue increased 24.9% to 18.42 billion USD in the latest quarter. Ecommerce sales increased by 700% as curbside pickup grew in popularity. The company reported that it picked up five billion USD in sales from other apparel and department stores. Apparel sales grew at double digit levels. Home improvement company, Lowes, saw sales grow 34%, with same-store sales expanding 35.1%. These results compared to those of T.J. Maxx, the large discount apparel chain, which experienced a decline in same-store sales of 3%, and the company lost a net 1.1 billion USD.

This stark contrast in sales tells the story well. The Wuhan Virus pandemic has shaken the US retail market to its core. It all began when the pandemic broke out and the US was unprepared and local governments seized control, which they were totally unprepared to manage. The local unqualified bureaucrats seized powers they were never given by the constitution and acted as the ultimate ruler and decided which stores could remain open and which ones had to close. They decided what was essential, and thus Walmart, Target, Costco, Amazon, Lowes, and Home Depot could remain open. The big four were the main source of food and other supplies for months, as the epidemic raged and cities were closed down. Today the consumer does not want to return to stores, but when they do they want a large store with the needed distancing and safety measures. Many of these measures are not easy for a smaller, apparel-only retailer to offer. Small businesses have limited space, which means consumers must stand in line even as traffic within the stores are limited. This is not well received. In addition, Ecommerce is surging, with Walmart reporting a 97% increase in online sales. They have won praise for reliable delivery and service. The Walmart or Amazon delivery service has become the excepted standard, as both offer free delivery and 1-2 day or same-day delivery. The smaller retailer has to charge a much higher fee and has a longer delivery period. Walmart said it spend 1.5 billion USD on preparing itself for the new virus reality. Who can match that?

The big four, which are also the top apparel retailers, have seen market shares surge, as for months they were the only shopping experience. Now, their Ecommerce and in-store safety measures have kept the consumer coming. All one has to do is visit the store or advertising to see that, for apparel, it is a return to the basics. Only Amazon has attempted to expand its offering of upper end apparel with new Luxury apparel brand offerings. The return to the basics and a new focus on athletic and leisure wear is very bad news for cotton. For the basics, it is the price offered by 33-35 cents polyester, and in the athletic and leisurewear it is years of little to no research on the use of cotton and an overall failure of the environmental message to be heard. We have brought this to the industry's attention but received limited support or action. China can no longer take all the blame for the continued fall in polyester price, as the US is a major contributor, ignoring environmental concerns and with a record number of new petrochemical plants coming online. Even the radical left and its Green New Deal have not dealt with the issue.

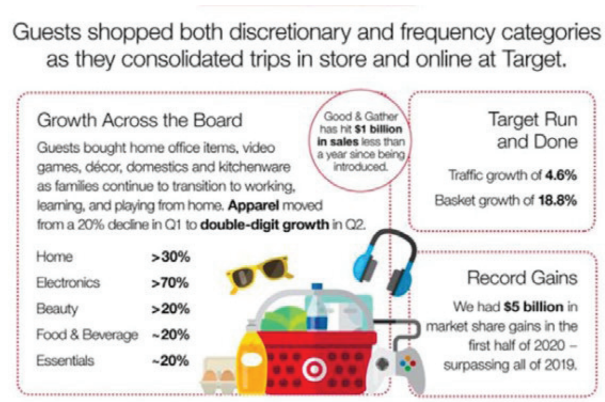


WalMart sales growth



Target same store sales growth

Target share price



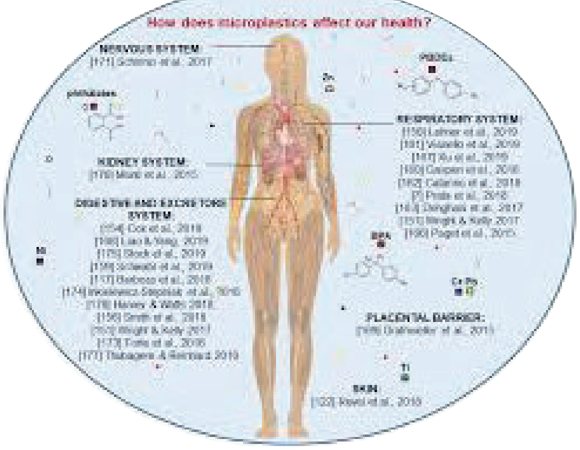
Target same day fulfillment

Apparel on sale

It is the cotton industry's job to address this issue with new legislative measures needed to make the man-made industry pay for the environmental cleanup that follows the flow of 33-34 cent polyester. This starts at the petrochemical level, where some have argued that if the EPA enforced its regulations the flood of massive new petrochemical plants now under construction in the US would be required to install expensive equipment that would make the plant uneconomical or force them to raise the price of the raw material by a substantial amount, thus leveling the playing field with cotton. This is something the cotton industry should work on and would find many allies. The battle starts in the basic apparel, which needs to force the price of the raw material chemicals used for plastic and polyester production to levels reflecting the true environmental cost of maintaining a clean production model. If this were done, "Cancer Alley" in Louisiana would not exist, and the world's largest petrochemical plant would not be under construction. On Wall Street, ESG investing is all the rage, which has taken the fossil fuel industry out of investment portfolios. However, the petrochemical complex is getting a free pass, even as Tesla is the rage. Saudi Arabia did announce it was canceling a 10 billion USD petrochemical plant in China due to poor economics.

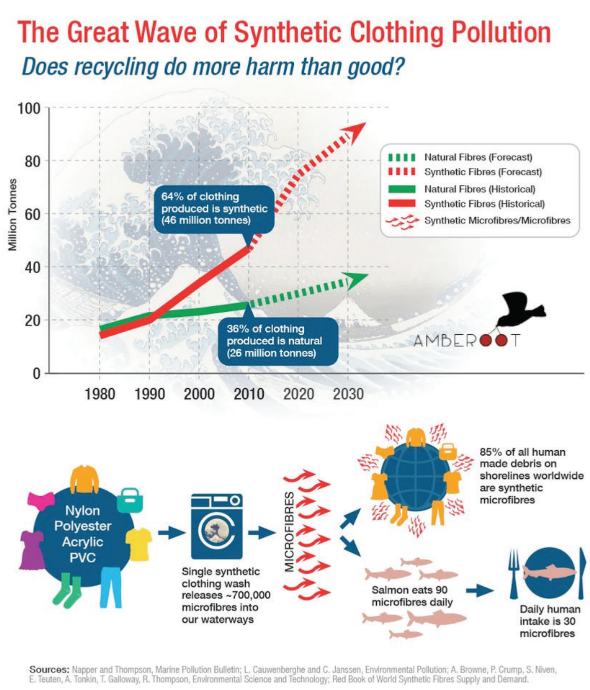
The consolidation at US retail is well underway, and many of the winners have already been chosen. For cotton, the first battle has to be in the basics. This will come by forcing a price equalization model on the man-made fiber industry and by addressing the flood of new US raw material production at what would be considered dumping prices if they were imported. The 3-4 USD polyester shirt or apparel items is back, and this will have a cost. Once the consumer is done with the garment in several months and after it has shed microfibers into water supplies and the air, which never biodegrade, it will go to landfill. It has no life at the discount liquidation chains as used apparel, and it will end up in landfills and incineration, both of which have issues and will cost local municipalities large sums of money. Cities are facing revenue stress and are laying off essential workers, while the plastic pollution continues to grow, adding more cost in the years to come. At the least, if the flow of cheap polyester is going to be allowed, it should bear the cost of the cleanup. Such equalization would aid in the switch to natural fibers where all this can be avoided. The focus needs to be against the flow of cheap polyester and also with the consumer.

NEW SHOCKING EVIDENCE THAT PLASTIC MICRO AND NANO FIBERS ACCUMULATE IN HUMAN ORGANS



Microplastics in the body

Cotton is surrounded by mistruths that have to be challenged. As an example, one index used by some brands and retailers has now called polyester the most sustainable fiber, a ridiculous made-up statement which has to be challenged. A shocking new study on plastic micro and nano fibers by researchers at Arizona State University was reported last week. The study reviewed the livers, lungs, spleen, and kidneys of test volunteers. For the first time, they discovered microplastics in human tissues and found that microplastic fibers had penetrated the food chain and water supply to the point they are accumulating in the human tissues. They were found to pass through the gastrointestinal tract and accumulate in the brain and body tissue. They discovered polycarbonate used in fabrics, polyethylene, and BPA in the samples. These have been shown to cause inflammation, infertility, cancer, and other health problems in animals. It remains to be seen how much coverage the study will receive given the power of the plastic and petrochemical industries and their ability to cover up such studies, so they never reach the public.



Such a finding illustrates the extent to which plastic pollution is penetrating the lives for people, even those working hard to avoid it. A polyester or man-made apparel item is known to shed microfibers each time it is worn and again when laundered, with the amount of shedding increasing with age. Natural fibers shed but then biodegrade, as they come directly from nature. Current consumers who have made Impossible Burger and Beyond Meat the hottest stocks in the food sector and Tesla the largest capitalized auto company in the world DO NOT KNOW THESE FACTS about man-made fibers. They have to be told, and once told in the right manner they will never buy a man-made fiber apparel items again nor trust the brands that sell them. Therefore, the cotton industry needs to act now, because in the absence of our message another group will hide the facts, spread another mistruth about cotton, and the consumer will never know. This is being done today in a high profile "Sustainability Index" in which no one polices their message regarding what it actually means or fact-checks their claims. The petrochemical industry has billions to spend and is extremely generous in supporting any group pushing polyester as sustainable. The cotton industry must challenge the lies head on and debunk their untruths. Several years from now, when they find they have some strange health issue that is linked to plastic micro or nano fibers that have accumulated in their system, the cotton industry will have lost a major opportunity, and one of our children or friends children will suffer something that could have been avoided.

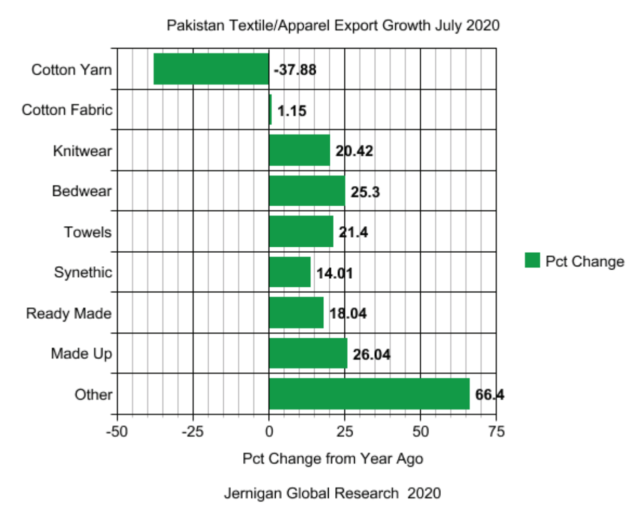
Aftermath of cheap polyester apparel

PAKISTAN TEXTILE AND APPAREL EXPORTS RETURN TO GROWTH

Cotton demand in Pakistan has picked up, and most mills report an improvement in orders, especially from European retailers. As brands and retailers diversify from China and attempt to limit risk to their supply chain in Xinjiang, Pakistan mills are benefiting from the switch in orders. Pakistan's total exports increased in July by more than 6% to two billion USD, with textile and apparel exports reaching 1.272 billion USD for a 14.4% year-on-year growth. This represents a very impressive rebound that is quite positive for cotton use. Double digit growth from a year ago was evident in all made-up and apparel exports. Cotton yarn exports reached only 28,448 tons or 60.523 million USD, which was a 37.88% decline from a year ago, and cotton fabric exports increased 1.15% to 149.38 million USD.

Knitwear apparel exports expanded 20.42% from a year ago to 315.7 million USD, and ready-made apparel exports grew 18% to 274.24 million USD. In made-ups, bed wear exports grew 25.3% from a year ago to 243.2 million USD, and towel exports grew 21.4% to 77.82 million USD. Other made-up exports expanded 26.4% to 60.85 million USD. Exports of tents, canvas, etc., surged 156% to 12.005 million USD. Synthetic textile exports increased 14% to 28.384 million USD. Other textile and apparel exports grew 66.4% to 48.75 million USD.

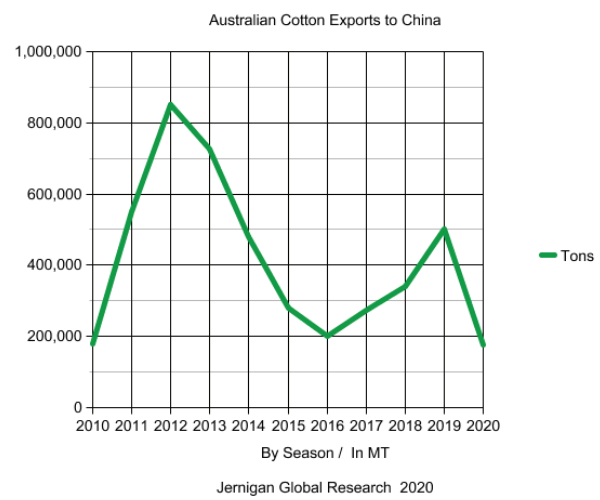
In July, Pakistan was the top shipping destination for Brazilian cotton and is now likely to be one of the top destinations for many months to come. Pakistan mills have been fairly active over the past week or so, taking up Brazilian 2019 crop recaps offered at attractive basis levels. In addition, Pakistan mills have taken up Argentine, low grade West African, Pima, and Egyptian and a small volume of aggressive priced US recaps. Recent heavy rains have caused concern regarding 2020/2021 crop prospects and may reduce the size of the domestic crop. Domestic prices are firm, with the spot rate near 60 cents a lb.



Brazilian offering catalogs carry a wide range of 2019 crop qualities with attractive basis levels. The most attractive offers appear to be in the off grades. Argentine is also offered at even more attractive basis levels. A Middling 1 1/8 is offered at even Dec, which compares to a US new crop GC 31-3-36 at 1400 points on and a Middling 1 1/8 E/MOT type at 1100-1200 points on. Middling 1 1/16 offers of Argentine are at 250-300 points off, which is over a 900-point discount to a US offer. SLM 1 1/16 Argentine sold at 550-600 points off ICE, as futures neared 65 cents again. West African styles also sold at the lowest basis levels in years, as ICE rallied. S or Strict Middling of Ivory Coast and other destinations sold at 300-400 on Dec. This break has been expected due to the building pressure for these growths to move. Last week's closing of the border in Mali due to a coup illustrates the level of risk for stocks held in the region. It is not clear how much of the Mali carryover is still in country or at Abidjan port. Tanzanian Middling 1 1/8 sold at 100 on Dec ICE as well. Aggressive ELS offers continue to draw business.

The recovery in orders suggests Pakistan will consume over 10 million bales in 2020/2021, which means it will again be a major part of world cotton trade with imports in excess of 3.75 million bales. At this stage, Brazil and Argentina will provide a large block of that import volume. US cotton is popular but is priced out of the market for volume at the moment.

WILL CHINESE DEMAND FOR AUSTRALIAN COTTON REBOUND IN 2020/2021?

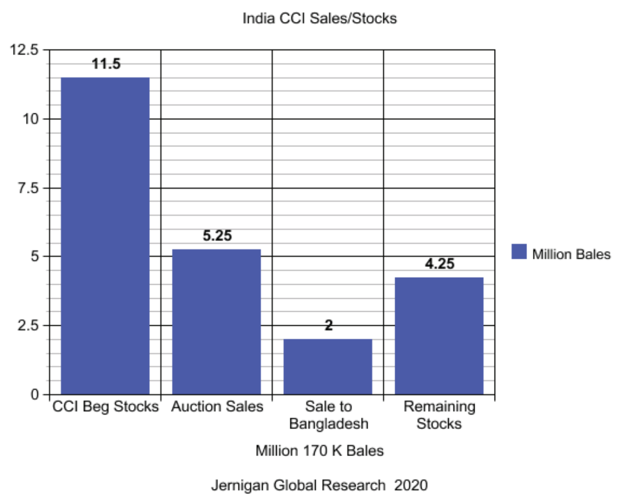


China purchased over two million bales from Australia in 2018/2019, illustrating the popularity of the growth. In China, Australia's excellent quality and very long staple allowed it to become popular for the high count 60s yarn and even higher. It was used to blend with US Pima, and it replaced Xinjiang ELS as a favorite of the higher count yarn spinners. The Wuhan Virus epidemic has resulted in a collapse in demand, as export orders fell and the Chinese domestic customer moved their buying habits downscale. China imports of Australian cotton in August-June reached only 168,886 tons or 775,946 bales, and a portion of those are in bonded warehouses. There is no evidence of these reduced sales being replaced by high grade US cotton. An approximate 60% drop in consumption appears to be in line with the reduced volume of ELS consumption during the same period. During the past 30 days, ELS demand has begun to improve, with fresh offtake of US Pima. A similar improvement in demand for Australian has been a bit slower but is emerging. The CFR basis for the longer staple lots has fallen about 1,000 points from the pre-virus levels, which has help demand improve.

Cotton yarn prices have not shown any improvement, which has kept spinners unwilling to boost inventories. Demand for the higher count yarns has remained weak as well. China's overall apparel exports have recovered somewhat from the lows. However, brands and retailers in both the US and Europe are relocating sourcing out of China. The concentration camps and forced labor issues are a serious concern in the US and expanding in Europe. Eastern China exporters are finding it difficult to provide proof that their supply chain is Xinjiang-free. The global luxury sector is also recovering much slower than in the basics, and Australian cotton is generally not used in the basic products in China. The improvement in the export that has occurred has been focused on the production of basic items.

Forward demand for the 2020/2021 Australian crop is weak, and most merchants continue to maintain the CFR basis at lofty premiums to the 2019/2020 crop offers and US and Brazilian offers. Brazilian 2020/2021 crop Middling 1 5/32 can be purchased at 500 points on March or May compared to 2100-2200 on for Australian. If you are replacing US Pima the premium can be justified, but in these Middling lots it will go into more middle products, which will allow the Brazilian to be used. The Brazilian Bahia crop has seen a major increase in staple length and offers of 1 3/16 are expected soon. One market that may hold promise for increased exports of Australian in the face of the weaker Chinese demand is Vietnam. 2019/2020 imports of Australian by Vietnam fell over 50% to only 62,432 tons. These imports may double in 2020/2021. Vietnam cotton use is holding strong, with increased cotton yarn exports to China, and apparel exports to the US have increased market share.

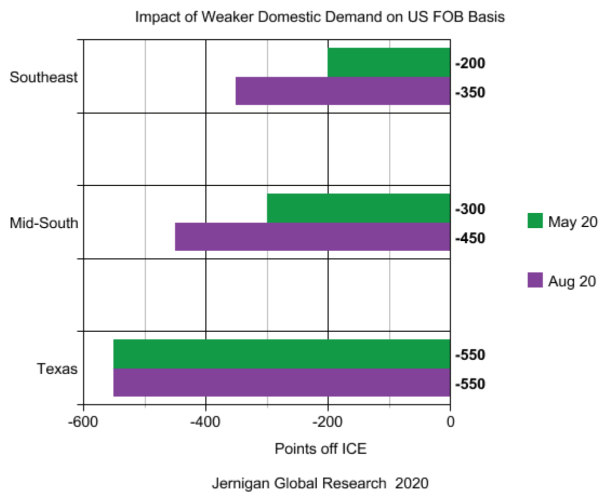
INDIAN COTTON PRICES ADVANCE AS THE CCI RAISES FLOOR PRICES



India's CCI has again raised its floor prices for its daily CCI auctions, and, as of August 21st, it has raised the floor price by 1,100-1500 Rupees per candy since it started the auctions. By August 19th, the ex gin yard cash price had continued to rally, with the Shankar-6 1 1/8 reaching 59.41 cents, which is sharply off the low for the season. Friday, the price had advanced further to 60.16 for a S-6 1 1/8. The Punjab J-34 price has reached 61.50 cents. These firmer spot prices have firmed the Indian export offering prices and added further confidence to the buying attitude of spinners. Adding to the support were news stories confirming that 1.5-2.0 million bales of CCI stocks will be sold to Bangladesh. This is a large volume and will equal more than 28% of the country's total import volume in 2020/2021. The sale will be to the Trading Corporation of Bangladesh, and 500,000-700,000 bales are expected to be shipped before September 30th, with balance after that. This arrangement, plus the CCI sales to international merchants of over 700,000-1.0 million and 1.0 million bales to traders, suggests that India will exceed the CAI export estimate of 5.0 million bales. Then, on Thursday, August 20th, the CCI sold an additional 1,236,400 bales as ICE futures rallied. The sales came from all states, but the largest block was from Telangana with 118,700 bales of 2019/2020 crop and 631,400 bales of 2018/2019 crop. The Shankar-6 sales from Gujarat sold at near 60 cents after the bulk discount followed by an additional 208,800 bales being sold on Friday at a 400-500 Rupee per candy increase in price. These large sales were to international merchants, traders, and mills, and the bulk of the sales were to traders and merchants. Total sales are now nearing 5.5 million bales.

Over the past week, sales of Indian CCI stocks have picked up from merchants and traders into export markets with China, Vietnam, Indonesia, and others. In May, India exported 26,864 tons of cotton with Bangladesh, China, and Indonesia the buyers. India also imported 19,540 tons made up of US and Egyptian. From August 2019 to May 2020, exports have totaled 552,498 tons, with Bangladesh and China the top markets. Private estimates indicate Indian cotton yarn exports in July rebounded to more than 100,000 bales. If this is true, it represents significant progress. April cotton yarn exports collapsed to only 18,026 tons but recovered to 57,540 tons in May. China and Bangladesh were the top destinations.

US FOB BASIS LEVELS TO GROWERS WIDEN AMID WEAK DOMESTIC DEMAND



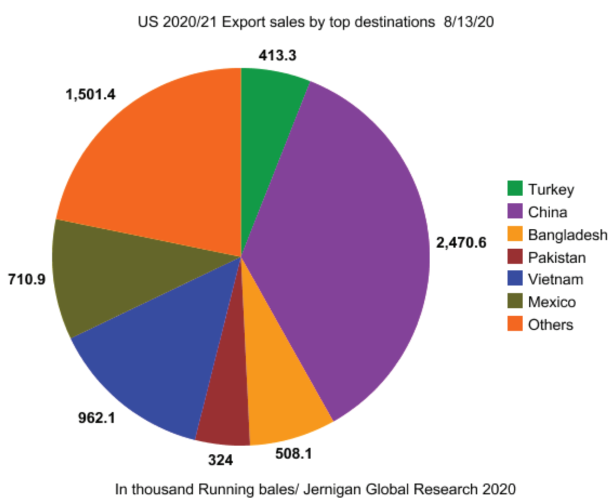
The US FOB basis, which plays a role in US growers selling price, is and has been under pressure, especially in the Southeastern Belt where it is normally the strongest. Two driving factors are behind the weakness. First is the collapse in domestic cotton consumption. The US industry has been very silent in attempting to address the need to re-shore the industry. US cotton consumption in 2019/2020 fell to the lowest level in history at 2.2 million bales. This shocking decline was accelerated by the Wuhan Virus and collapse in demand for yarn and fabric from the CAFTA-DR trade block. This trade block is the major consumer of US yarn and fabric, and it was hit first by the collapse in brand and retail orders and then by the virus. The pandemic led to large scale mandatory closures, and when companies were allowed to open it was only at reduced capacities to enforce social distancing. The region has very limited healthcare, and the government attempted to slow the spread to allow the companies to manage. The slow recovery of the region has meant US cotton spinning mills are only operating near 50% of the pre-Wuhan Virus level. In the Southeastern US, the FOB basis last week moved out to 350 points off October, a level not seen in years. In normal periods, a basis of 100-200 on was more common. Cotton in the region is located near the domestic spinners and also near the Savannah port. Today, the collapse of the US spinning industry is costing growers in the region about 25 USD a bale in basis alone. In the Mid-South, the FOB basis has also widened to 450 off October, which is also much wider than normal. The Texas basis, which is normally the widest, stands at 550 off for both West Texas and East Texas. This is actually a tighter basis than normally seen when the Southeast basis is at 350 off. That relationship would usually suggest a Texas basis of 750-800 off. The Texas basis has been supported by the large export sales of lower grade West Texas recaps, which earlier in the season enjoyed robust demand, and many of the sales are only now being shipped. The sharply lower 2020/2021 crop from the region is providing support as well.

Adding to the general basis pressure is the artificial level of ICE being influenced by the China/US Trade Agreement. Both futures price levels and CFR Asia basis levels for US are quite inflated. On a CFR basis, US cotton is one of the most expensive in the world. US export demand has collapsed as a result, except for the China Reserve purchases earlier, which continue to be shipped. A return to robust general US export demand or another large sale to the China reserve would improve export basis. However, growers in the Southeast region will likely have to get used to a much weaker regional FOB basis until and if the domestic consumption is revived.

The South Texas harvest is expanding, with 62,342 bales classed week and 99,345 bales for the season. The cotton classed so far is a mixture of mostly 31/41 color grades, 3-4 leaf, average staple 36.5, and average mike of 4.27.

OVER 35% OF US 2020/2021 EXPORT SALES ARE IN THE HANDS OF BEIJING

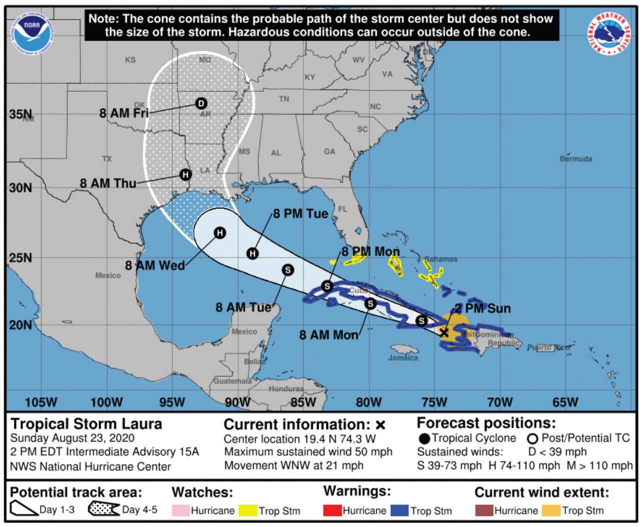
As we have expected, the Reserve is believed to have recently made additional purchases of US cotton, with these sales showing up in the weekly US export sales report indicating 56,800 running bales of upland sold to China. In addition, spinners purchased 2,600 running bales of Pima. Rumors were that additional purchases have occurred as well. Export shipments to China increased to 192,000 running bales of upland and 2,300 of Pima, and these sales are now past the cancelation point. The US currently has total 2020/2021 export sales to China of 2,470,900 running bales, which equals 35.86% of all US export sales. This obviously shows a significant reliance on Beijing. Up until now, China is clearly not playing political football with the Reserve's cotton purchases, and the level of shipments are impressive. On Friday, US Secretary of State Pompeo told the press that China had said it would complete the Phase I trade deal. US grain purchases did slow last week after 11 consecutive days of purchases. The increased flooding across south China does not suggest any let up in the pressure concerning the large-scale damages to the food crops.

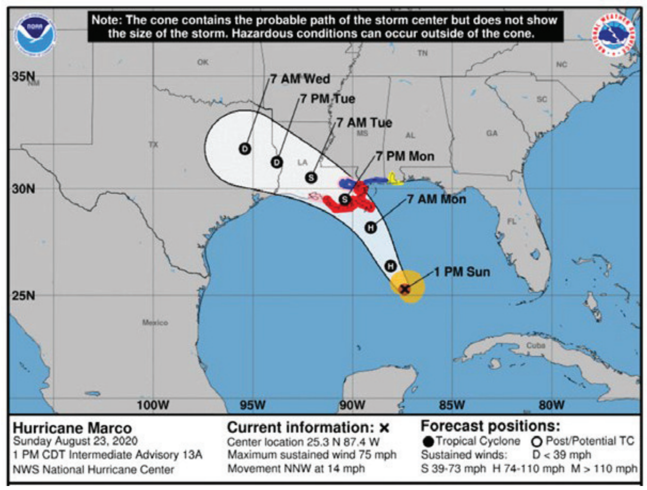


China has purchased 2,479,200 running bales of US upland since the week ending April 23rd. This would be approximately 53% of the million MT of purchases they had said in the press they were going to buy for the Reserve. The press statements did not say all the purchases would be US, and there was some discussion of buying Xinjiang and Brazilian. In USD terms, the total purchases in 2020, which can include earlier purchases by private mills and traders, suggest China has now bought nearly 1.1 billion USD of cotton that can be counted under the agreement. Thus, there is still room for additional purchases for shipment by year end, and the pace of shipments suggests the targets can be met. The problem is that no one knows the exact target for cotton nor the Reserve intentions. This is one of the problems with the agreement, as it gives tremendous market power to the Reserve and the traders who make the sales.

TWO TROPICAL STORMS BEAR DOWN ON US COTTON BELT

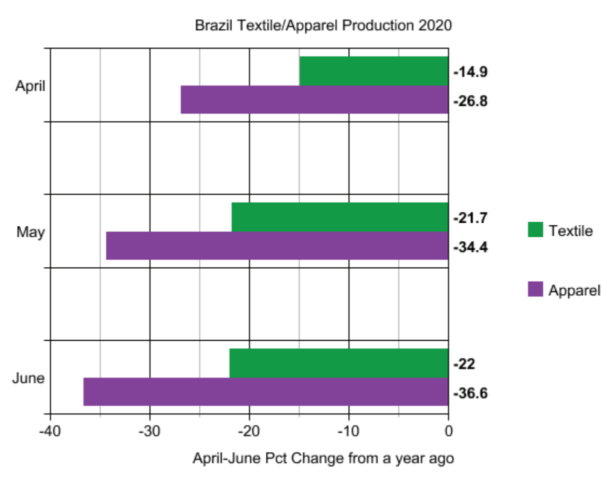
As someone said, 2020 is a year that the world would just as soon forget about, but that keeps on giving us new shocks and problems. As we finish this week, China's Three Gorges Dam is under enormous stress and could break, as record rains continue in China. Then, two tropical storms are expected to make landfall in the US next week within a few hours of each other along the Gulf Coast. Tropical storm Laura is expected make landfall near the Mississippi/Alabama border on Wednesday, while at the same time tropical storm 14 is expected to hit the Texas/Louisiana border region. Tropical storm 14 promises to bring rains and winds to the Upper Coastal Bend region of Texas, where the crop is open, and then Laura moves into the Mid-South and Southeastern belts. In these regions, the crop is only beginning to open, so the issues will be wind damage or flooding from heavy rains. These storms are not of large intensity, which has somewhat reduced concerns.





BRAZIL TEXTILE AND APPAREL OUTPUT REMAINS WEAK; REAL EXPERIENCES NEW WEAKNESS

Brazil's textile and apparel output remains weak. The June IBGE data on textile production was 22% below a year ago and down slightly from a 21.7% drop in May and a 14.9% decline in April. Apparel production fell 36.6% in June from a year ago, which showed further weakness from the 34.4% decline in May. In the January-June period, textile and apparel production declined 22% from year-ago levels, and more than 70,900 jobs were lost in the sector. The Industry asked the government for a change in the payment of electricity cost based on actual use instead of the current contracted level, for an extension of the Emergency Income Assistance program, and for a reduction in taxes. January-July textile and apparel imports fell 20.8% from a year earlier to 2.551 billion USD. China remained the top supplier at 1.533 billion USD, which was only a 13% decline, while India, Paraguay, and Vietnam were the other major suppliers. The largest decline occurred in textile imports, with imports of all man-made fiber products down sharply.



The ESLAQ Index of a 41-4-35 landed Sao Paulo continued to move higher, and on August 20th it reached 56.67. The incentive remains to export, as domestic demand is quite weak. The Real/USD exchange rate turned very weak and ended the week at 5.58886, which is not far from the record low. Brazilian cotton was again the featured growth last week across most markets. Brazilian cotton has been shipped afloat, which means no destination, and this has added to the pressure to move the stocks. Brazilian cotton in the bonded warehouses at Chinese ports also moved off in volume. CFR basis remained under pressure, as ICE futures returned to near 65 cents. New weakness in the African Franc Zone basis did provide competition for some business. Indian cotton is also increasingly offered in most major markets. The final import data for Vietnam for the 2019/2020 season revealed a major loss in market share for Brazilian, with imports of only 35,772 tons compared to 178,369 tons the previous year. The reason for the sharp fall is not clear. The pattern has continued, with Vietnam spinners in recent weeks focused on some higher priced US recaps and Indian styles instead of Brazilian. However, Vietnam spinners did return as buyers of Brazilian, with purchases of afloat offers.

ICE FUTURES AGAIN ATTEMPT TO MOVE HIGHER; CASH TRADE DOMINATED BY INDIAN AND OTHERS

ICE futures experienced another week of light volume and trade dominated by the High Frequency Trading systems and Algorithmic systems with a dash of September option influence. Daily volume ranged from only 12,499 to 22,770 contracts, which left little room for outside Trade paper. Light Trade selling did appear to enter the market Thursday and Friday, as some hedging of Indian CCI purchases occurred. The highlight of the week in the global cotton trade was not found in ICE futures or even Beijing but in India, where another round of heavy sales of CCI 2018/2019 and 2019/2020 stocks. The sales are occurring as cash prices move higher. Since the sales started, the average cash price of a Shankar-6 has rallied more than 400 points. Sales have now totaled over 5.5 million bales, and these sales plus the government's trade with Bangladesh mean the CCI has successfully moved over 60% of its stocks with ease, and with prices improving and not under pressure. Such sales volume is freeing up CCI capacity to buy the new crop when it starts to move. Prior to these sales, one of the challenges of the CCI was how would it buy 10-15 million bales of another 34 million or so-bale crop financially and logistically. Both of these have been answered as long as all the contracts for sales are fulfilled. The sales are to mills, Indian traders, and international merchants. Some of the international merchants appear to be using ICE futures cautiously to manage a portion of the risk, while all others are just long and carrying a lot of price risk.

The India market is full of stories as to what lies behind the willingness of traders and international merchants to carry such risk. In contrast, last week's attempts to sell African Franc Zone stocks from origin drew little

interest and few sales. The domination of Indian cotton trade by the CCI has reduced the volume of trade for all traders and merchants, and thus all have much interest in being able to trade those stocks to mills and for export. Moreover, the MSP for the new crop has been raised, which in theory means higher new crop prices if the CCI can successfully deploy resources and help the growers manage seed cotton moisture. It remains to be seen if there is a repeat of 2019/2020 or if the CCI is successful in managing an even larger volume and moisture levels. The moisture levels will depend on the weather, with most gins not having seed cotton dryers.

As we discussed in previous issues, the CCI stocks are higher quality and lower contamination, resulting in a greater acceptability with spinners in the major import markets. Each bale of Indian sold into an export market means a reduced volume of US, Brazilian, and Argentine. World trade is recovering, but the total volume will remain below normal. We are not at all sure how the Indian drama will play out, but it's been a while since the Trade has taken such a long position, which is generally unhedged due to the unreliability of ICE.

Besides the Indian trade, active sales of Brazilian, Argentine, West African, and East African styles sold into a host of markets. The rally in ICE is helping mills' willingness to increase inventories. However, they are doing so at near unchanged physical prices, as merchants cut the CFR basis. The largest feature last week was the willingness of some merchants to hit the bids and accept top grade West African styles at deep basis discounts. We have been expecting this feature to occur, as the pressure builds to move the unsold record stocks. Last week's coup in Mali and closing of borders shows this cotton needs to move out of the region for reasons due to risk. Overall, the support we have seen of physical CFR Asia prices in the low 60's and for lower grades in the upper 50's continues and was well illustrated last week. The US sales occurring outside China appear to be very aggressively priced low-grade recaps.

Not since the introduction of the US Marketing Loan has ICE futures detached themselves from physical trade. Nor has there ever been a US/China Trade Agreement that required China to purchase a block of US cotton. Despite the most difficult period in China-US relations, the trade agreement is holding for now and with it comes the support in ICE. So far, since the rally began off the lows, new China purchases have provided the needed support. The rally in ICE is providing support to global cotton prices, while CFR basis levels continue to weaken for non-US cotton. The actual selling price is holding steady. The higher ICE moves, the more confidence the spinner has in adding to his inventory at record low basis levels. The US is the world's largest exporter, and the China buying has removed the selling pressure from the US. This means all other exporters can move the needed volume easier. This appears to have given the buyers of the Indian stocks the confidence needed to carry large price risk. For the moment, the equilibrium is holding. If ICE is depending only on US grower and marketing groups, selling then moving higher is not an impossible task, as todays domestic basis levels are causing no rush of selling. Selling does pick up as Dec nears 65 cents. Overall, the outlook depends on the US/China trade agreement holding and the China Reserve making additional purchases of US cotton for shipment before year end. This is providing confidence to spinners to add to inventories at current physical price levels, allowing record movement of CCI stocks into private hands, and allowing the non-US growths to move in volume, all without new downward price movement. It is a balance, and much of it depends on Beijing.

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