CHINA DOMESTIC APPAREL CONSUMPTION SET TO COLLAPSE

CORONAVIRUS SHOWS NO SIGNS OF BEING CONTAINED

NON-CHINESE COTTON DEMAND HOLDS FOR NOW

ICE FUTURES COLLAPSE AS FEARS EXPAND

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KNOWLEDGE IS THE NEW CAPITAL

WHO DECLARES GLOBAL HEALTH EMERGENCY: CHINA PARALYZED BY CORONAVIRUS

CHINA EXPERIENCES A "CHERNOBYL MOMENT"

Xindaruifa shopping mall, Yangzhu

Empty highway, Hubei

The Coronavirus outbreak in China is not under control, and China has been ineffective in dealing with the crisis as it spreads around the world. The World Health Organization late Thursday called it an international health crisis. The social media reports coming out of China last week, which indicated thousands more people are infected than what the government's totals show, has proven to be true.
China is virtually paralyzed, as cities such as Shanghai have become ghost towns, with ports, small businesses and banks closed. All major retailers have announced the closing of stores, including apparel retailers. Sales during the traditional Chinese New Year were simply a disaster. A video of the reaction to the extremely poor sales by a Guangzhou shop owner illustrated the economic losses. The video, captured by a passerby,

showed an impeccably prepared flower shop with a perfect display of beautiful flowers. The shop owner used a metal rod in a frantic episode of completely smashing his beautiful display. The video went viral as a sign of the rage many small business owners are feeling. People in the countryside are in panic as fears of the virus spread, with cities walling themselves off and with others self-quarantining any suspected person. The shortage of crucial supplies continued as the government attempts to mandate the production of additional supplies. Travel across China has slowly ground to halt, with high-speed rail lines stopped due to no passengers. Refunds for more than 32 million railway tickets were reported in the first 96 hours of the holiday.

China appeared to have no control of the Virus as we ended last weekend. On Sat (February 1) Hubei alone officially reported 45 new deaths and 1,347 cases. Huanggang in Hubei, a city of 7.4 million people that is the same size as London, issued a directive for all residents to stay home. Only one family member will be allowed to travel outside the home once a week to buy essentials. This certainly puts to bed the level of economic activity that is occurring, with no shopping and no manufacturing or even little service economy. Such economic cost will be mind-boggling.

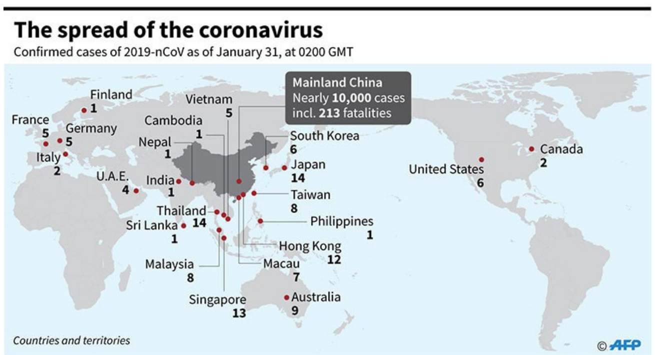
Xu Zhihua,CEO of sportswear brand Peak,wrote on his Weibo account: "The whole society has come to a standstill with almost zero consumption."He worries that a lot of small- and medium-size companies won't be able to pay back their loans. "Then the whole economy will be finished!" *– Weibo Social Media*

The impact on global apparel brands is only beginning to surface. Levi's announced late Thursday that it was shutting half of its stores in China, and Uniqlo earlier announced it was closing its Chinese stores. A comment on the Chinese social media platform Weibo told the story well. Xu Zhihua, CEO of sportswear brand Peak, wrote on his Weibo account, "The whole society has come to a standstill with almost zero consumption." He worries that a lot of small and medium sized companies won't be able to pay back their loans, "Then the whole economy will be finished!"

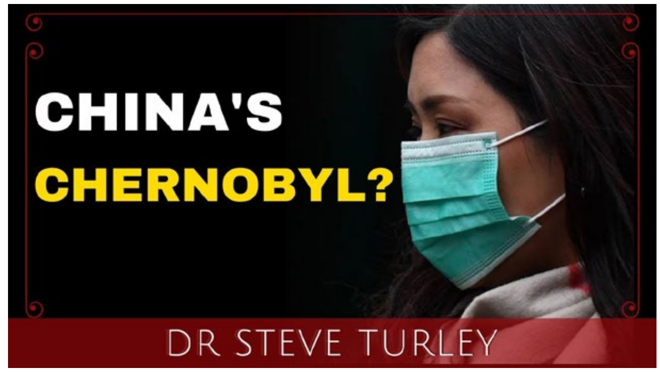
Major manufacturing hubs have announced they will extend their shutdowns for at least another week. The shutdowns were expanding as last week ended, indicating the crisis was nowhere near being under control. The inadequate and inept Chinese healthcare system was on full display both domestically and internationally. Shortages of beds, medicine, and trained health care professionals produced scenes of people dying due to lack of proper treatment. Many now estimate that the official infected and death tolls are far underreported, as morgues were overwhelmed with crematoriums working around the clock, and with many bodies never officially tested. Almost every possible business has been impacted with people worried even about ordering food and instead choosing to buy local groceries. The disaster spread to Hong Kong as mainland citizens attempted to find better medical care. Border control is a failure, which has led many Hong Kong residents to fear that the Chinese government was attempting to increase infections in the city.

The economic cost continues to rapidly build and is now surpassing 150 billion USD or more. That number can quickly multiply, as all facets of Chinese travel and movement has been halted. All tour groups have been stopped from leaving the country. Each day there are additional international airlines announcing suspension of service to China. By the end of the day Friday, most traffic with the US will end. The major ports are closed and demand weak. S&P Pratts Global reported that the key Fe Iron Ore Index 84.70 Dry CFR China price dropped 8% early last week. It further reported the CFR soybean basis at an eight-month low. S&P also reported a major hit to Chinese oil demand, which could drop by 2.6 million barrels a day in February. The key manufacturing hubs of Chongqing, Zhejiang, Jiangsu, Shanghai, Guangdong, and Shandong have all extended the holiday closing until February 10th or later. The list included three of the largest textile and apparel production provinces in China. In Hubei, the holiday is extended until February 13th.

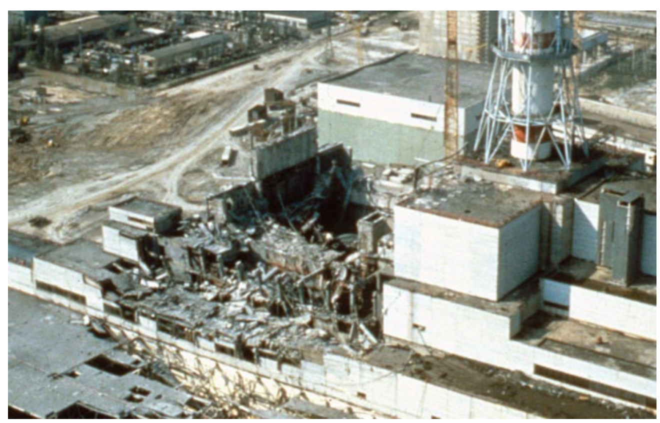
It is no surprise that global supply chains are being disrupted. Last week, exporters told American customers to expect significant disruptions in their shipments. There currently is no indication that the spread of the virus is anywhere near under control. Chinese authorities first resisted US help from the Centers for Disease Control and Prevention (CDC) but have since changed their minds. The source of the virus is still unknown. However, one theory is that it originated in a Wuhan bioresearch lab where infected animal carcasses, which were supposed to be burned, were instead sold at the local wet market for extra income. If true, this is something the CCP would certainly attempt to cover up. Order and confidence need to be restored before an end to the crisis can be predicted. Adding to the creditability of this were reports from Indian researchers that the virus had been altered with an insertion of a HIV virus, which confirmed it was man-made.



The entire event has begun to be called China's "CHERNOBYL Moment." The term is being used in China so as not to draw the attention of social media censors and for outside of China to highlight the handling of the virus outbreak by the CCP. In 2019, HBO released a global hit series called "Chernobyl," which highlighted the 1986 Chernobyl Nuclear Power Plant accident in the Soviet Union that killed thousands and contaminated a large area of the region. The dysfunctional Soviet Communist Party officials attempted to cover up the nuclear reactor meltdown. The series provided an in depth look at how the party tried to cover up the catastrophe by treating it like a minor accident. The series featured the heroic efforts of a Soviet scientist who told the world the truth and was punished for doing so. The comparisons are chilling, as the virus epidemic unfolds. Of course, the ultimate outcome of the Chernobyl tragedy had significant ramifications. Even on Saturday, the CCP continued to push to arrest anyone commenting on the outbreak, including the arrest of doctors.

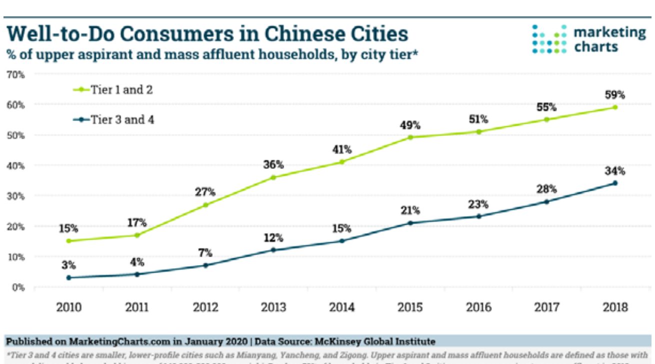


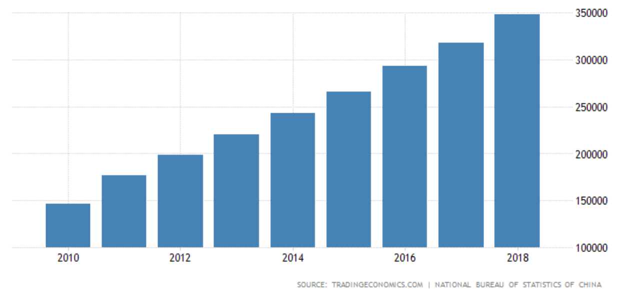
It appears that prior to the outbreak, or at least the acknowledgement of the outbreak, Chinese buyers had begun to return to the US market as buyers of small amounts of a host of US farm products. The USDA weekly export sales report showed that China had purchased US sorghum, soybeans, cotton, hides, and pork in small volumes. The cotton purchase was the largest in months at 109,900 running bales for 2019/2020 and 30,800 bales for 2020/2021 and much higher shipments. Now everything appears in doubt. One major Indian exporter announced they had halted new sales to China because of credit fears and concern over the closure of ports. India is estimated to have sold 600-700,000 bales of cotton to Chinese buyers, holding unused 2019 import quotas which have a set delivery date limit in early February. There is a real fear that unshipped purchases will be declared void under force majeure. Approximately 300,000 bales of the sales have not been shipped and could be affected.



Chernobyl, the nuclear accident that the communist party attempted to cover up

The fear is now two-fold from a cotton market perspective. First, how will this event affect the financial condition of some of the major mill groups? And second, how will domestic and international demand be impacted? Chinese companies face serious issues regarding heavy debt loads and debt repayment. Having state ownership does not currently mean automatic access to credit as it once did. The state funds used to provide or guarantee such funding are overextended, and some are themselves in trouble. Shandong Ruyi is a classic example of what can happen. In 2018, Shandong Ruyi was a high flier and one of the largest textile and apparel groups in the world. Today it is on the ICA blacklist, meaning no member can sell it cotton. The ability to tap the Hong Kong bond markets appears to be much more difficult, if not impossible, except at very high interest rates. Some groups suggest they may have to close their business if the shutdowns are extended or the slowdown continues. The mill groups focusing on the domestic market face extremely uncertain times due to the economic damage caused by the virus, lack of holiday sales, and the fact that they now face a different consumer. Analysis of the Chinese consumer indicated that retail spending was a very important social experience, and even in harder times retail shopping remained important. The coronavirus crisis may have changed it all. Never has the modern Chinese consumer had their confidence shaken in ways they never dreamed of. Chinese shoppers appeared to be of the mindset that they were moving into the global middle and upper class concerning quality, style, and comfort. They appeared willing to tolerate an authoritarian government without a voice as long as they had the wealth to keep spending and experiencing upward mobility. They showed confidence the government had established a reliable healthcare system. The crisis further highlighted the point that China practices the most extreme raw form of capitalism, which can be quite brutal. This crisis has endangered the ability to continue that spending and, more importantly, it has destroyed the confidence that the Chinese system could withstand anything. Social media photos of families throwing their dogs out windows for fear of the virus showed the degree that the established order has been shaken. The Chinese economy depends on domestic consumption more today than ever, as 60% of the 2020 GDP will come from the domestic market.

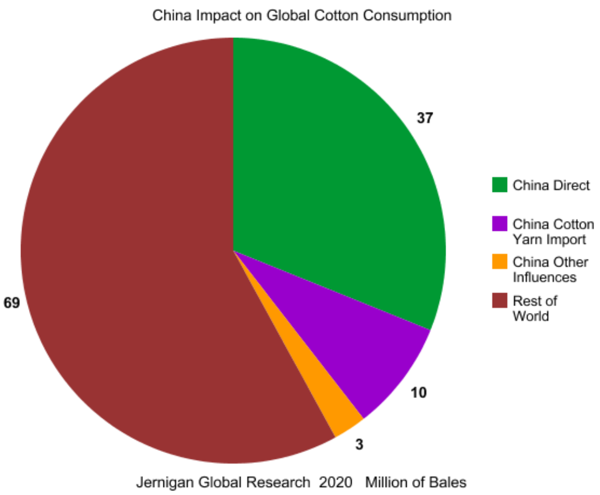




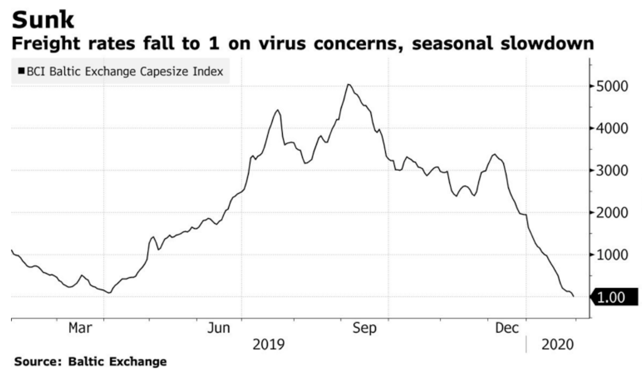
China consumer spending annual

The anticipated return to renewed confidence in sourcing, which Chinese exporters had hoped for after the Chinese New Year, will not happen. Indications are that this event and the government's failure to manage it was the last straw for many companies. The current crisis will cause sizeable disruptions to the supply chains of many brands, retailers, and manufacturers. Up until now, the movement out of China in many products has occurred in those sectors where moving was easy, the low hanging fruit. Most companies were still up in the air as to whether or not to make the commitments and investments necessary to establish operations in other regions. It seems now many are ready to explore where to make that investment. The "CHINA RISK" has now become just too great for many companies. The question is, where will the investment go?

Chinese textile and apparel consumption is expected to be weaker from this event, driven by lower domestic apparel consumption and a failure of export sourcing to be expanded. Pressure is also expected from a switching from cotton to polyester because of the price ratios. China alone accounts for 32% of all global cotton use, and then cotton yarn imports accounts for an additional 10% of global demand. The weaker internal cotton demand in China is one issue, but the second is the extreme focus on bringing the virus under control, and how it will impact state directives to accelerate the purchase of US goods to meet the obligations of the trade agreement. Then there is the issue of how the uncontrollable nature of the virus will impact shipping. As last week ended, near panic conditions were prevailing. In the US, the CDC announced that US personnel evacuated out of China will now be quarantined, that all US travelers from China will face quarantine, and that foreign nationals that have been to China are now banned. US equity prices for US retailers declined sharply late Friday, as worry spread over supply chain disruptions.



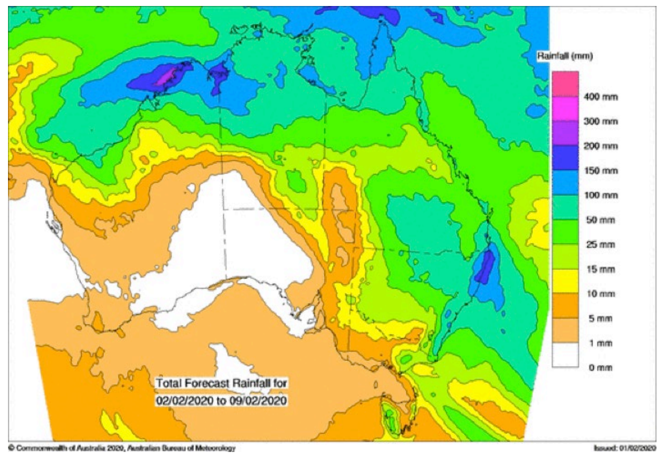
It starts with disruptions to shipping and truck drivers' willingness to work, which of course will impact port activity. One major container shipping line said it is concerned about several factors. First, will Chinese employees be able to get to the port and allow the port to operate normally? And what if the docking at one port led to the possible quarantine of the ship in another port? Ships have already been given port delays at the major Chinese ports. Federal Express, UPS, and other air freight companies have not announced stopping flights but have announced disruptions, and most major US airlines have announced the stopping of all Chinese routes. The air freight companies, such as Federal Express, have an estimated 9500 employees in China, and this is impacting some service as they attempt to keep them safe. Given all these conditions, delays in air freight are likely, and it could be halted altogether. The Baltic Exchange Capsize Index collapsed last week, falling over 99%, while the broader Dry Index fell more than 50%.



AUSTRALIA EXPERIENCES A BIG WET IN NORTHERN QUEENSLAND AND LIGHTER RAINS IN THE COTTON BELT

The big wet has hit northern Australia, with 200 mm or more falling in many areas. The country's lack of a water capture scheme means that instead of all this water being moved south to the crop belt it will cause damaging floods before flowing out to sea. The rainfall event has accelerated the calls for the Bradfield scheme to be approved. Over the past week, rainfall totals in the main Queensland cotton belt has reached 44 mm at Emerald, 11 mm at St George, and 16-58 mm on the Darling Downs. In NSW, rainfall was light, with 9-59 mm recorded. The forecast has heavy rains over this past weekend in South Australia (no cotton) and rainfall over the next week in the northern NSW and Queensland cotton belt, where rainfall amounts will be scattered, with over 25 mm possible in some areas. By Sunday, some areas of South Australia and Western Victoria had received very heavy, 100mm-plus rains. Many areas of NSW are also under a major heat wave again with 40 C temps possible, and the Capital Territory of NSW was under major fire threats.

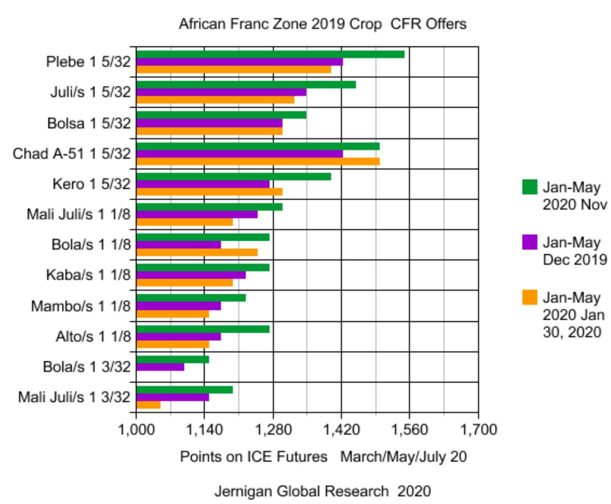
The attention remains on a boost to water supplies, and the greatest boost is occurring in Queensland where dam levels are improving. Currently, the Burdekin, Paroo, and Bullo rivers are near flood levels, which means growers may be able to build on farm storage.



AFRICAN FRANC ZONE CFR BASIS LEVELS REMAIN FIRM

A record 5.9 million bales of African Franc Zone crop is being ginned and headed to ports. Franc Zone styles now play a key role in world trade, and the record crops now mean that 13% of all world trade will be met from these handpicked styles. Growers continue to favor cotton, as the region's central marketing authorities have maintained farm gate prices, despite the fall in international prices. Benin has emerged as the largest producer in the Zone, with production of 1.45 million bales. Cotton dominates the Benin economy. CFR basis levels the top 1 5/32 styles from Cameron and Chad are well offered at 1350-1500 points on the cover month, which places them at a premium to US Green Card offers of the same grade. The SM 1 1/8 types, such as a Mali Juli/s, are offered at 1200-1275 points on March, May, and July futures. These offers are on par with US Green Card offers and at sizeable premiums to US and Brazilian type offers.

The top export market remains Bangladesh, which appears to favor these cottons for its spinning features. Bangladesh mills are also are experienced in dealing with the contamination issues.



GLOBAL COTTON DEMAND DRIVEN BY NON-CHINESE SPINNERS

Global trade outside China is expected to reach 35.38 million bales, which is up from 31.7 million bales last season and near the 35.80 million bales achieved in 2017/2018. This expanded world trade is the result of a much smaller crop in Pakistan and Turkey. Turkey's production declined by 600,000 bales from 2017/2018, which, when combined with strong consumption, has resulted in imports expected to reach a record 4.1 million bales. Pakistan imports are forecast to increase by more than 1.5 million bales from last season. These two have been the largest buyers over the past 30-60 days. The largest exporters this season are USA, Brazil, and the African Franc Zone.

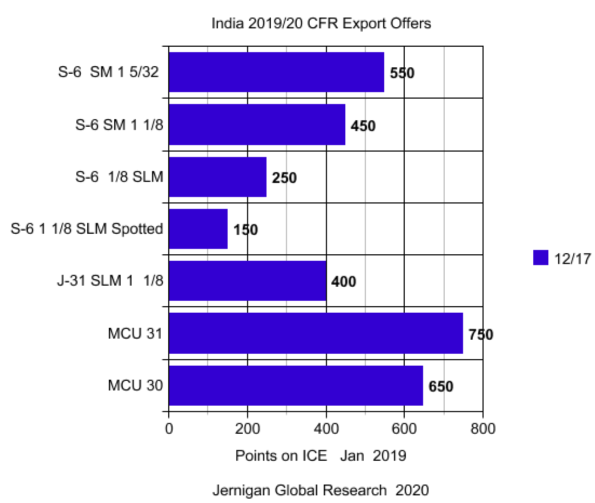
In the week ending January 23rd, China returned as the top buyer of US styles with a few purchases, and the second largest buyer was Vietnam, which purchased 79,400 running bales. Vietnam demand has become central to US cotton exports, as well as very important to Brazil. Vietnam is expected to import 7.0-7.2 million bales, with a sizeable portion of this cotton moving to China as cotton yarn, and then returning to Vietnam as fabric, where it is cut and sewn before moving to the USA. Vietnam has now shut its borders to Chinese tourists, so there is the concern over whether the supply chain flow will be disrupted by the current crisis. Approximately half of Vietnam's cotton use is tied to cotton yarn exports to China. Vietnam is the top export market for the US, and, as of January 23rd, Vietnam has purchased 38,300 running bales of Pima and 2,734,000 running bales of upland.

Pakistan and Turkey were again very active buyers of US cotton in the latest week, as Pakistan purchased 56,800 running bales and Turkey 45,600 running bales. Pakistan has now purchased 1,585,300 running bales of upland and 49,100 of Pima. Turkey purchased 1,138,200 running bales of upland and 12,200 running bales of Pima.

Export shipments remained below the level needed to meet the USDA targets at 327,100 running bales of upland and 12,900 of Pima. Weekly shipments the remainder of the season will have to average 409,600 480 bales, an extremely difficult task.

INDIAN EXPORT PRICES REMAIN COMPETITIVE AS CHINA SHIPMENTS ARE IN DOUBT

Indian export offers remain the cheapest in the world, but the discount has not been large enough to cause buyers of US cotton to switch in the lower grades. Quality issues have kept Bangladesh spinners focused on the African Franc Zone high grades. Shankar-6 1 1/8 offers are at 450 points on March for prompt shipment. China has purchased a total of near 700,000 bales of the 2019/2020 crop, with most of that demand from mills holding unused 2019 import quota. Approximately 300,000 bales are in doubt due to possible shipping delays caused by the virus outbreak. The Chinese government may grant extensions.



NEW COLLAPSE IN POLYESTER PRICES LIKELY AS CRUDE OIL TUMBLES

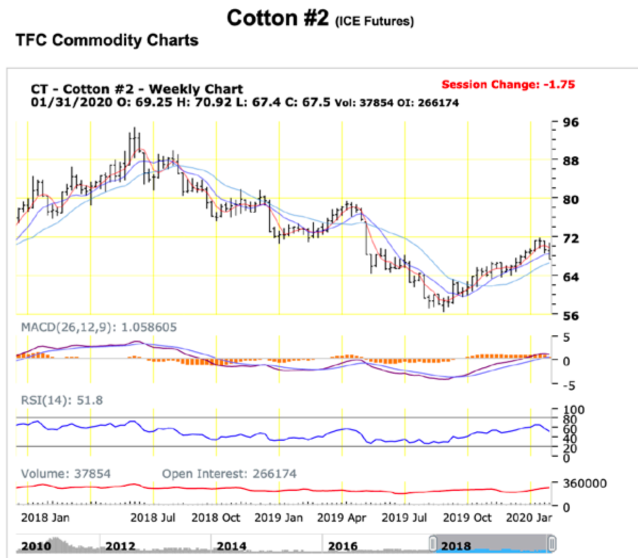
The world is awash with fossil fuels, and demand is waning. Since January 8th, the price of West Texas Crude has fallen 21.5%, and 14.5% of that decline has occurred since January 21st. Prices collapsed last Friday as fears increased that the Coronavirus would reduce crude oil demand in China. S & P Global Platts forecast that crude oil demand in China could fall by 2.6 million barrels a day in February and by 2.0 million barrels a day in March. These forecasts have triggered worries of a major glut in supplies. Crude oil, natural gas, and coal provide the raw materials for the petrochemical complex. Natural gas has already been near a multi-year low. A rash of new petrochemical complexes and other downstream plants, both in and outside of China, has the world flooded with cheap man-made fibers.

The average price of polyester staple fiber ended the post New Year trade in China at 44-45 cents a lb. Expectations have been for prices to come under pressure after the holidays, as new capacity comes online. The new crisis and collapse in downstream retail demand for apparel suggest that prices may breach the 40-cent area shortly after trade resumes. The sharp drop in crude oil prices will quickly begin to influence PTA and MEG prices, the main raw materials for polyester and PET production. The additional weakness in polyester prices will add further pressure on spinners to increase the production of poly/cotton-blended yarns instead of 100% cotton.

ICE FUTURES COLLAPSE AS CHINA CORONAVIRUS REMAINS OUT OF CONTROL

ICE Futures drew interesting commentary last week as attempts were made to explain the rather bizarre trade at times, which was linked to the attempts of the Algorithmic and High Frequency Trading systems to exploit price movement. The influence of these systems also prevails across the equity markets, and it is amazing to note the similarities of movements in these markets and movements in cotton. Prices early in the week were influenced by rumors that the US, as a goodwill gesture, would lift all tariffs on Chinese imports and that China would reciprocate. Midweek, Peter Navarro put an end to that rumor in a CNBC interview, saying it was baseless and had come from Wall Street interests. The rumor was behind the abrupt rally on January 28th off the 69-cent level. The negative influence of the Coronavirus returned as the major influence on prices on January 30th, as the crisis expanded and economic impact began to appear at the upper end of estimates. By Friday, all markets were in panic as to the increasing impact of the Coronavirus on the Chinese and global economy. By late afternoon Friday, the US CDC announced the US would quarantine the staff evacuated from Wuhan, its first such actions in centuries. In addition, the US announced that all US citizens traveling from Hubei would be subject to a 14-day quarantine, that all US citizens arriving from mainland China would be subject to a self-quarantine of 14 days, that all foreign nationals who have been to mainland China in past 14 days that are not part of a US citizen family would be denied entry to the US, and that all flights from China would be allowed to land at only seven airports.

Amid these actions, ICE cotton closed on its lows, with March losing 155 point and closing at 67.50. The CRB fell 1.68% as losses occurred across other markets. Dramatic moves occurred in some currencies. With the Brazilian Real moving to a new record low of 4.2884, it has now lost 6.3% against the USD for the year. The Australian dollar, Chilean peso, Mexican peso, and Argentinean peso all posted large losses against the USD. US equity markets lost up to 2%. For cotton, it was quite a week. The outside range session of the previous week, which had suggested that a top was forming, proved again to be excellent guidance as prices never moved above the high of that session. Fridays close was decidedly below the low of that session, confirming a near-term top has been reached in prices, as we have suspected for some time. The CFTC data showed through January 28th that the Managed Funds were again net buyers, adding 7,533 net longs and taking their net long position to a hefty 36,541 contracts. The Index Funds were also buyers, adding 951 additional net longs. The Trade was generally neutral, acting as both a buyer and seller. The largest sellers were the other Reportable Funds, which sold a net 5,317 contracts. We suspect this was Chinese selling that was hedging ZCE positions since it was closed or Chinese Hedge Funds. Overall, at the end of the week, it was clear the Managed Funds had started to liquidate and the Trade support had been reduced in volume, as buyers turned cautious.

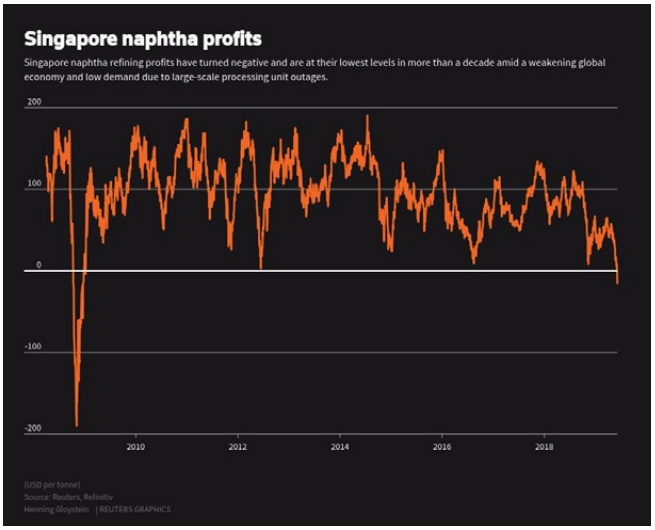


The China markets will reopen today, and a sharp decline in the ZCE cotton contract and all markets is likely. Government intervention and support is possible. Last week, we discussed in detail our first observation on the seriousness of the Coronavirus and its impact on China's domestic economy and domestic apparel demand. Those concerns have only increased during the past seven days, and, as of today, the entire country of China is, for all practical purposes, in a de facto state of quarantine as far as the US and other nations are concerned. The disease shows no signs of being under control, and reports that the CCP will attempt to control comments or criticism of how it is handling the crisis or its origins will only make its control and eradication more difficult. The comparisons to Chernobyl are eerie. We do not see the Chinese consumer easily returning to full confidence under the current CCP. We fear that the damage to domestic apparel consumption will be greater than at first feared, as will the disruptions to the textile and apparel supply chains that are focused in China. The closing of travel for the most part will completely erase all hope of the Chinese export order books receiving any renewed confidence. The issue of the required purchases under the trade agreement would seem something of a non-priority for the Chinese government at this point.

China accounts for over 42% of all global cotton use either through direct spinning or cotton yarn imports, and we have discussed numerous times the dangers in this concentration of production. Those fears are now being realized. Supply chains will now move out of China and seek to establish new supply chains. This investment will take some time, but it will occur. For now, we would expect that possible order books will flow to non-Chinese locations, thus boosting consumption outside of China. Consumption in China will resume at a weaker pace, but it is the timing of this that will hold the key to the full impact. China also plays a major role in the global economy, and there is a great doubt about its future growth. Not only has the likely confidence of the Chinese domestic consumer been shaken, so has that of the West. The scenes of people lying in the street, at shopping malls, or reports of hospitals having no drugs to treat the outbreak will be difficult to forget.

Cotton now faces a final battle with polyester and other man-made fibers. This time we will see victory when it's over. As Jim Cramer said of investing in the fossil fuel companies, "It's over, something of the past, not interested," when questioned about these companies that have low PE ratios. In the near-term, futures prices are likely to head lower toward the 64/65 area. Cotton faces a new battle, with record low polyester prices that will be attractive to spinners because of margins. Over the past couple of weeks we have been asked many times why we were not the raging bulls regarding price. At the root of the reason were concerns about Chinese demand and the fact that the US and Brazil face significant burdens exporting large crops, as their domestic consumption base remains weak. Lower 2020 US cotton acreage will still bring a 20-million bale crop, and with it the need to export 17 million bales in order not to add to the carryover. The US faces great difficulty in such lofty export goals. For both Brazil and the US, the future of stability lies in a renewal of their domestic consumption bases.

URL: https://electrek.co/2020/01/31/jim-cramer-cnbc-fossil-fuels-death-knell/



2020/2021 prices also were hit hard this week, with Dec now retreating over 400 points off the highs, as this contract has had to bear the burden of a record Brazilian crop that has been forward contracted. Mill interest in forward coverage is limited and likely further shaken by the lack of confidence in the situation in China. For the moment, these contracts will follow the nearby contracts, and their ability to find a point of value will depend on how the situation in China stabilizes and the future of the US/China trade agreement and its implementation.

OUR THOUGHTS AND PRAYERS GO OUT FOR THE SAFETY & HEALTH OF THE CHINESE PEOPLE.

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