



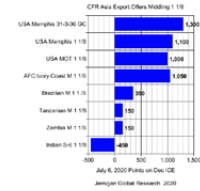
US ENDING STOCKS TO REMAIN A ISSUE



RECOVERY AT RETAIL SLOWER THAN EXPECTED



XINJIANG SOURCES WOES EXPAND



CFR BASIS LEVELS FALL AS ICE RALLIES



JERNIGAN GLOBAL

— KNOWLEDGE IS THE NEW CAPITAL —

US FACES EXPORT CRISIS IN 2020/2021 AMID RECORD WORLD STOCKS

WHIMS OF BEIJING ALONE CANNOT SOLVE THE PROBLEM

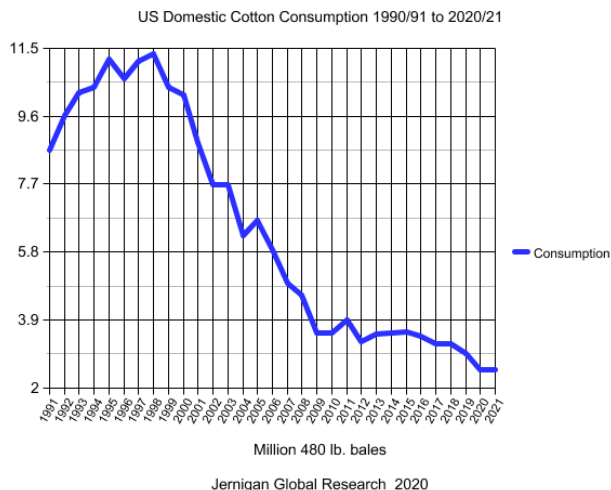
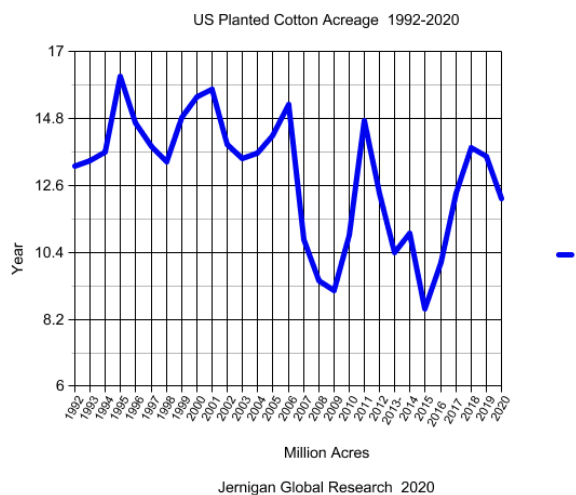


The USDA last week released its long-awaited June 30th Planting Report, and it confirmed expectations that US growers would reduce planted acreage due to the decline in US cotton prices following the virus outbreak. US planted acreage was estimated at only 12.185 million acres, which was below expectations but still above our earlier estimate of 12.0 million acres. It will be the lowest US planted acreage since 2016. The estimate immediately set off the drama with those attempting to estimate abandonment and average yields. Some excitement was also created when the marketplace complemented the lower production possibilities. It also drew our attention to export possibilities, and this is where the US could face major dramas as it has neglected its domestic textile industry



for far too long and left the fortune of the industry at the whims of Beijing and exports. It is simply shocking that the US, as well as Brazil, are left to battle each other to sell a raw industrial material because both allowed their domestic industry to be overrun with

imports. Brazil is now experiencing what this means to prices, while it battles to find a CFR basis level at which volume offtake can be stimulated. Fresh cotton export demand is soft and difficult to stimulate.



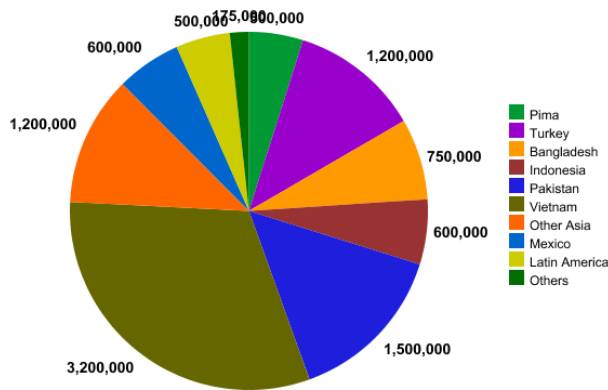
The USDA forecast 2020/2021 US exports at 16.0 million bales, which is based on the US's excessive stock levels. The problem is all the rest of the world exporters, for the most part, face very burdensome stocks, and for US exports to reach 16 million bales will mean record exports. The 2020/2021 season hardly seems the season for record exports. The US will carry a record volume of forward sales into 2020/2021. The carryover is likely to be near three million bales, which will require nearly 325,000 bales of weekly shipments, the remainder of the 2019/2020 season. Approximately a third of the outstanding sales will be to China. This will give the US an impressive 6.3 million of 2020/2021 sales. The completion of the shipment of these three million bales in high priced sales is another issue. To get these shipped means that spinners will have to add to inventory and will have filled a sizeable portion of 2020/2021 needs. Leaving China to the end of this discussion, let us begin with US Pima exports. We estimate that 2020/2021 will find it difficult to get past 500,000 bales, since only a small volume has been sold forward. We discussed the issues with the global luxury market in the last edition and its impact on global ELS use.

A review of each major export market shows a market where, for now, Brazilian cotton is offered at least 4-5 cents or more below US styles. This suggests if this does not change the business will go to Brazil through the first half of 2020/2021, and the discounts will add to the burdens of merchants attempting to fulfill the open, much higher-priced US contracts. Spinners will likely seek to switch to Brazil with some sharing of the

discount. A review of each market shows where the challenges are.

In 2019/2020, Turkey will import 4.2-4.3 million bales, which will be close to the record set in 2009/2010, when 4.374 million bales were imported and will exceed the USDA estimate. As of May, it had already imported 3,835,756 bales. US cotton has been very popular in Turkey in 2019/2020, with the quality and price the key advantages. A look into the import data also showed that Turkish spinners have become very comfortable using Brazilian and Mexican cotton in addition to Greek and Central Asian. Turkish mills have recently again purchased Brazilian and Mexican, which are offered at large discounts to the US. The US has sold Turkey 1,775,600 running bales of upland in 2019/2020, amounting to one of the largest sales volumes on record. Import demand in 2020/2021 will be impacted by the lower overall cotton use, and a smaller domestic crop may offset some of this. Objectively, we estimated 2020/2021 exports to this market at 1.2 million bales. However, this volume is not assured and requires competitive CFR basis levels. Bangladesh became a major US market in 2019/2020, with purchases of 1.306 million running bales of upland. We expect this volume to decline. First, cotton use will be lower, and, secondly, Indian cotton is at record discounts, and the CCI will need to unload volume, and this is the top market. We estimate that US exports will struggle to reach 750,000 bales, and again, the CFR basis will have to be competitive. Indonesia was also a major market for US styles in 2019/2020, with sales of 960,800 running bales of upland. Cotton use is now weaker, and the country is still struggling with the Wuhan Virus, which has affected mill use. US styles in this market compete with Brazilian, Argentine, West African, and other growths. We estimated 2019/2020 sales will reach no more than 600,000 bales.

US Export Sales Potential 20/21 Non-China



Jernigan Global Research 2020

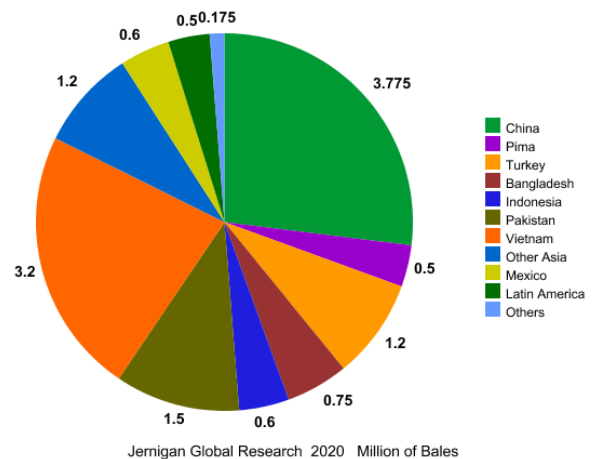
In 2019/2020, Pakistan was a major US export market with 2,128,200 running bales of upland sales. This was due to the fact the US was the most competitive exporter for much of the season. 2020/2021 cotton use in Pakistan will be down, and spinners have already been turning to Brazilian, with sales all the way through 2021. Brazilian exporters have been willing to offer the popular SLM 1 1/8 styles all the way through December 2021 at 350-450 on. Sales at 250 on have now occurred, which is very attractive. Argentine cotton is also quite popular and has recently sold. East African is also offered at very cheap basis levels, stimulating offtake. We estimate that 2020/2021 US export potential is no more than 1.5 million bales, and this will depend on a competitive CFR basis level.

Vietnam is the most important US export market in volume terms, and US cotton is very popular, and the CCI has spent a significant amount of promotional effort in the country. 2019/2020 sales have reached 3,707,800 running bales of upland. Vietnam is also a large buyer of Brazilian, and we expect the CFR basis differentials to cause some of the business to shift, with the volume depending on how long US CFR basis levels are distorted. Brazil has the volume to take a large block of this business. For now, we are assuming the US can maintain sales at near 3.2 million bales. Vietnam cotton use has held up much better than most markets, with cotton yarn exports to China being maintained. Many of the largest Chinese textile groups have spinning operations in Vietnam.

Collectively, Japan, Taiwan, South Korea, Malaysia, and Thailand in 2019/2020 have purchased 1,457,900 running bales of US cotton. Cotton use in this block has turned weaker, and we don't expect the same volume can be repeated. US cotton is popular in all these

markets but so is Brazilian, and the basis discounts means first half 2020/2021 business will go there unless conditions change. 2020/2021 sales will struggle to reach 1.2 million bales. Mexico in 2019/2020 purchased 813,700 running bales of US cotton, but mill use is weak and will be slow to recover. 2020/2021 prospects would suggest sales will struggle to reach 600,000 bales. The Mexican Agriculture Attaché estimates total 2020/2021 imports at only 600,000 bales. The remainder of the Latin American market in 2019/2020 purchased 648,400 running bales of upland, and we expect 2020/2021 sales will reach no more than 500,000 bales. We expect US export sales to these combined markets in 2020/2021 will reach 9.55 million running bales.

US Exports 20/21 Depend on China to Reach 14.0 MB



Jernigan Global Research 2020 Million of Bales

In recent years, India become the top export market for US Pima, and in 2018/2019 upland sales surged to over 1.18 million bales, but sales in 2019/2020 declined to 402,800 running bales. India has record cotton stocks, and domestic prices are at sizeable discounts to US styles. In addition, exporters for East African and West African are now offering large discounts to attract offtake by the southern mills. We expect US 2020/2021 upland exports will fall to 100,000 bales or less. US sold approximately 115,000 running bales to small miscellaneous markets in 2019/2020, and we expect that volume to be no more than 75,000 in 2020/2021. Collectively, US export sales prospects outside of China today stand at 9.725 million bales. Add the Pima sales and total exports outside China should reach 10.225 million bales.

Thus, China has a considerable gap to fill in US export targets, China import demand from the commercial sector is very weak, and the country has record free stocks of domestic cotton and record imported cotton

in bonded warehouses. At the same time, the domestic cotton spinning industry is operating at 50% of capacity, and mills are approaching inventory accumulation quite carefully. We expect commercial imports to be weak. The US will carry large sales forward into 2020/2021 and also a large block of forward sales for 2020/2021. The US will begin the 2020/2021 season with forward sales to China of 2.2 million bales, which would push possible sales to 12.425 million bales. The latest sales push this to 12.77 million. These sales are at risk, as China/US relations continue to decline and the US experiences an election. Bloomberg reported that through May China had purchased just 19% of the total agriculture, manufactured, and energy products agreed to in the agreement. In May, it did increase aircraft orders and purchased more than a billion USD worth of integrated circuits. Bloomberg estimates China will need to buy 139 billion USD worth of products in the remainder of 2020. Energy product purchases have reached only 3% of the target. China purchased 3,582,200 running bales in 2019/2020 worth about 1.3 billion USD.

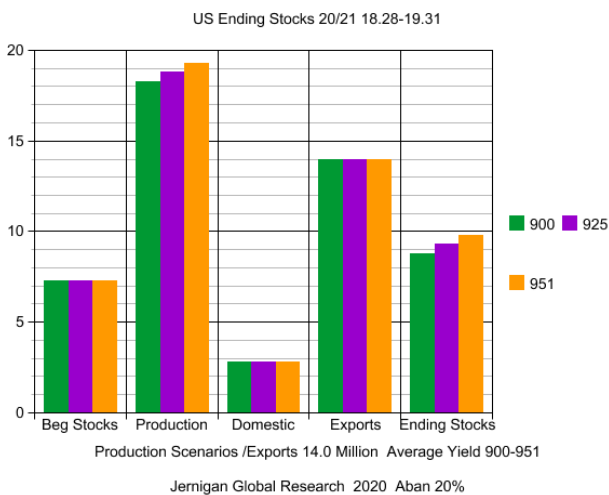
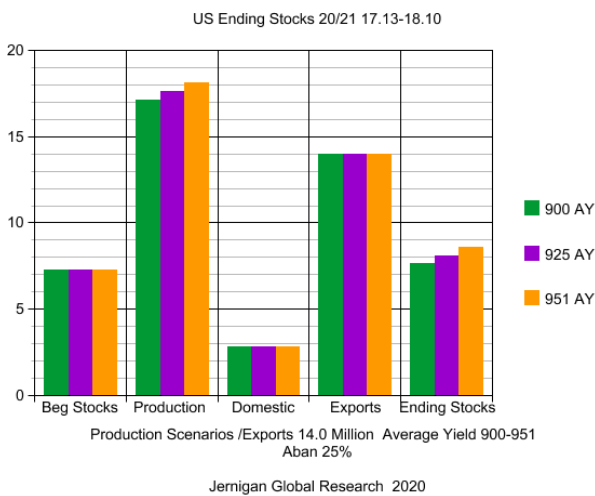
In terms of the trade agreement, China has purchased 85,300 running bales of Pima and 2,100,800 running bales of upland since the signing of the trade agreement for 2019/2020 shipment. In addition, 966,900 running bales (before the latest report) of upland have been sold for 2020/2021 and 1,300 of Pima. If we assume this is shipped in 2020, the total purchases under the trade agreement stands at 3,138,500 running bales. We do not know the actual target set for cotton, but based on spreading the growth in purchases equally, cotton purchase targets should be near 1.684 billion USD with purchases thus far at near 1.2 billion USD for 2020. This leaves about 500 million USD in possible future purchases if the trade agreement is going to be honored, which suggests 1.3-1.4 million additional bales could be purchased for 2020. In the weekly export sales report for the week ending June 25th, China made additional purchases of 15,700 running bales for 2019/2020 and 246,500 bales for 2020/2021, which reduced possible future purchases to near 1.1 million bales.

If this were to occur, total US exports would reach 13.775 million bales. Then, if the odds are defied and the agreement terms are met, purchases should begin again in 2021. Cotton's role after a major restocking of the Reserve then becomes the question. Remember, China has the right to change its trade mix in 2021 based on internal demand. Therefore, cotton's purchase target is not assured to remain the same.

The USDA will now begin to reduce the US's 2020/2021 production, and it will also scale back US exports. We believe 13-14 million bales is a more realist figure. What is unclear is the role Beijing will play in even this achievement. A fully implemented trade deal could raise that target further with 2021 purchases. The more US cotton China buys, the more difficult it will be meet the earlier targets in the remaining markets because of elevated CFR basis levels.

Today's China is the most volatile and unreliable in the history of the Communist rule. It just decided that the 1987 treaty on the handover of Hong Kong was no longer valid. It did this solely on the fact that it knew the UK would not stand up and enforce the agreement. It did not consider the economics or the impact on the millions of Hong Kong people to whom it had pledged one country-two systems rule. Thus, the China/US trade Deal is nothing but a possibility that may or may not be fulfilled based on the whim of Xi Jinping. How can a US cotton industry allow its future to be at his whim?

The US is preparing sanctions on Chinese officials that have violated the rights of the Xinjiang Uyghurs,



which will be embarrassing for China. The Trump administration has begun to invalidate the special trade arrangement with Hong Kong, and new bills are pending in Congress regarding sanctions and arrest warrants for those Chinese violating the rights of the Hong Kong people. In this age of outrage and social justice it seems extremely hypocritical that much of the world has stood by as China violates the human rights of millions. Just last week, the mass sterilization in Xinjiang was in the headlines, along with US customs embargoing shipments of human hair from the shaved heads of women in Xinjiang. Let it sink in that a US, Australian, British, or any other foreign citizen that visits Hong Kong and has voiced support for the freedom of its people can now be arrested and sent to Chinese gulags. It is shocking that continuing trade as normal under these conditions is the future. We feel that all the forward cotton purchases today of US styles are in jeopardy. The numbers tell the story. Without the large purchases by the Reserve, the US will face a crisis in meeting its export requirement.

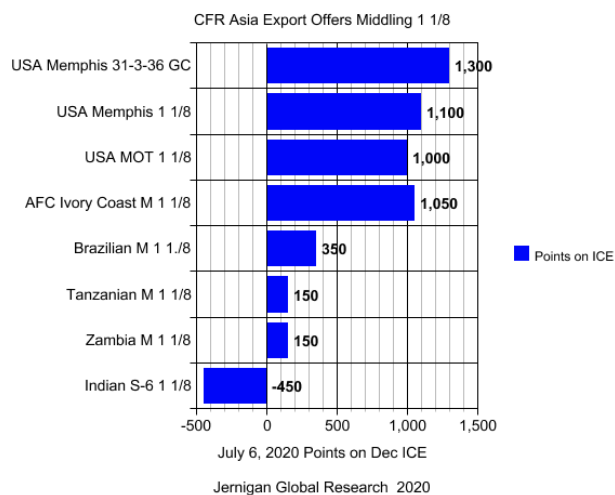
Now let us look at supply; the USDA lowered the US planted acreage to 12.185 million acres. The West Texas crop has experienced failed acreage, and even the semi-irrigated has issues unless the moisture improves. This suggests that abandonment could reach 20-25%, and then there is the issue of yield. The US average yield over the past six years has ranged from 859 to 1014 lbs. per acre. Using a range of 900-951 lbs. per acre and various abandonment levels of 15-25% provides a reliable range of production – from 17.135 million bales to 20.52 million bales. On Twitter, some much lower estimates that the bulls had released were making the rounds, but these were based on the 2011/2012 season when the US had much higher planted acreage – 2.545 million or more acres – which does not compare to this season. 25% total abandonment would indicate nearly 55% abandonment of all Texas High Plains and Rolling Plains acreage, or 40% of the 1-S, 70% of the 2-S and 40% of the Rolling Plains. This is the lowest yielding acreage in the US. In 2019, the 1-N averaged 703 lbs per acre, 1-S averaged 458, 21 averaged 501, and 22 averaged 325 lbs. per acre.

While West Texas is in trouble, the rest of the US belt would appear to be headed for a normal-to-higher yield. Thus, 17-18 million bales production at this stage should account for much of a worst-case scenario for West Texas. The loss of the lower quality cotton may actually hurt exports for 2020/2021, since outside the China Reserve the demand is for lower count yarns for the moment. which is increasing the offtake of the discounted cottons. We discussed this last week. The

recovery in spinning is being led by the lower counts of 40s and below yarns.

The sharp rally in ICE futures since the release of the acreage estimates suggests the market is building in the lower end of this range. The US will have a beginning stock level for 2020/2021 at nearly 7 million bales (USDA 7.3). The problem starts with consumption, which we place at 2.8 million bales but think it could be much lower given conditions domestically and in CAFTA/Mexico. Let us first look at a crop of only 17.135 million bales. Add this to the 7.0 stocks, and you have a supply of 24.135 million bales. Reserving 2.8 million bales for domestic use leaves supply of 21.335 million bales. If US exports can reach 14 million bales, which we have doubts about, this will leave a carryover of 7.335 million bales. What happens if exports fall to 12 million bales due to a Beijing pivot, then jumps to 9.335 million bales. On the other hand, putting on our rose-colored glasses and saying exports match 2019/2020, which appears very unlikely, then it drops to 6.335 million bales. The problem is that the industry has done nothing to stop the collapse of the domestic textile industry. Today we can find no trade groups that are working to support this very important industry as an alternative to export. What if the domestic crop is 18.785 million bales, which occurs at 20% abandonment, and 925 average yield, the carryover levels jump quickly, even if 15 million bales is exported, which will not occur unless Beijing is generous.

For Brazil, Australia, Greece, African Franc Zone, India, and others, securing as much market share during the time of US's lack of competitiveness is crucial. For the US, the longer its export offers remain at excess premiums to the real market the more dangerous the future becomes, as more and more of the outlook rests in the hands of the whims of Beijing.



RECOVERY AT RETAIL LIKELY TO BE MUCH SLOWER THAN EXPECTED

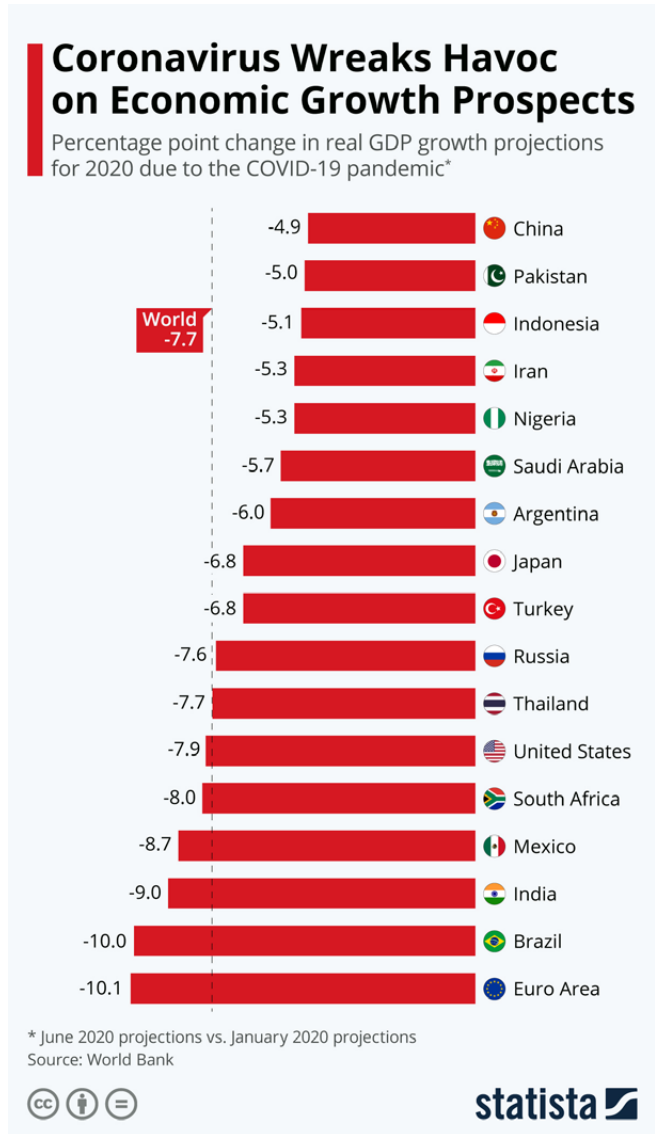


Latin America is now the epicenter of Wuban virus

The US economic recovery received more setbacks last week, as the Wuhan Virus reemerged with a vengeance across the US. It is clear that China's reckless behavior has unleashed on the world a pandemic never experienced before in modern times. China has yet to actually share with the world where it came from and what are its real origins. The pain the pandemic has caused is economical and emotional, as the death tolls now exceed 500,000, even though the true death toll in China will never be known. The millions of disconnected cellphones in Wuhan suggest a death toll in the millions there. The daily US number of new cases has surged, and the reopening has been slowed or halted, with some new restrictions placed in California, Texas, Florida and Arizona and others states. The rest of the Americas are facing serious damage. Mexico and Bolivia are tied for the highest infection rate. In Argentina and Chile, 3 in 10 people are infected, and Brazil has 1.4 million people infected and has stopped counting. Latin America's economy has seen decades of economic progress destroyed, and the region's healthcare is collapsing. There is no sign of Chinese aid, as it left the region to suffer. The economic pain for this region will be felt for years to come.

Some improvement is noted in Europe though, as French consumer spending on goods has increased 36.6% and sales of household durables also surged. The recent household spending data showed it only down 7.2% from pre-virus levels. Google maps data on foot traffic at malls in Europe is down 30% from pre-virus levels, but at entertainment venues it is much higher, as people want to get out. In the UK, the luxury retailer, Harrods, has established a new concept store in London's Westfield area to serve as an outlet store to liquidate inventory at discounted prices.

In the US, the process has begun to liquidate the



excess inventory as well. Dick's Sporting Goods, with 851 stores, has established two new outlet chains to liquidate its inventory. The first is Overtime by Dick's Sporting Goods, which will offer 75% off apparel and other goods, and the second is Dick's Sporting Goods Warehouse, which will offer 90% discounts. A total of 11 of these stores are being opened in areas where Dick's does not operate in order not to compete with full-priced merchandise. The warehouse stores will be open only six months. In the last quarter, Dicks reduced the value of its inventory by 28 million USD. The Gap has been donating apparel to families impacted by the pandemic, while Ralph Lauren provided 1.5 million pieces of apparel to front line workers. Sea Folly, an Australian beachwear brand,

has gone into administration (bankruptcy). It operates stores in Australia, US, Singapore, and France. Macy's, one of the US's largest department store chains, announced a first-quarter loss of a shocking 3.58 billion USD on a 45.2% drop in sales. It said sales were improving, but urban stores are coming back slowly, with many of its stores located in areas of social unrest. This included its flagship store in New York City, which was looted. Law and order have become a significant problem in NYC, with the number of shootings up 142% from a year ago. One news headline stated, "the Mayor has lost control. Michael Kors announced a first quarter loss of 551 million USD, with revenues dropping 70%.

China's Beijing SKP, the largest luxury mall in the country, reported that the recent increase in virus cases in the city has reduced foot traffic, and it had fallen to only 50% of the pre-virus levels. Luxury apparel and goods brands have moved into e-commerce with the use of influencers. One major Shanghai influencer that has nearly 700,000 followers is reported to have sold 70-80 items worth more than a million RMB or 140,845 USD in a three-hour period, compared to the average daily sales at a brick-and-mortar luxury retail store of only 500-700,000 RMB a day. McKinney estimates that 78% of all luxury store sales in China are from 20-40 years old.

Vietnam is proving to be one of the least affected economies from the virus, as its second quarter GDP grew .36%, which followed 3.68% growth in the first quarter. Exports in June were down only 2%, and it experienced a 500 million USD trade surplus. South Korea retail sales grew 1.7% in May.

Overall, the recovery in apparel consumption is occurring much slower than hoped, and many markets are recovering very slowly. We expect the USDA to begin to scale back the very optimistic quick recovery in cotton use in 2020/2021 that it earlier forecast.



 An advertisement for Field to Closet. The top half shows a close-up of a cotton plant with fluffy white cotton bolls. On the right side, there is a circular logo that says "CERTIFIED FARMER" around the top and "GIVE-BACK" around the bottom, with a stylized "F" in the center. Below the image, the text reads "FIELD  CLOSET. A RESPONSIBLE CHOICE FOR BRANDS, RETAILERS & MANUFACTURERS. Making farmers lives better with a more equitable supply chain. WHY COTTON? Comes from Nature, Returns to Nature."

CHINA RESERVE BEGINS 2020 AUCTIONS; RESERVE STOCKS STAND AT 2.5-2.6 MMT

The China National Cotton Reserve Corp has begun its 2020 daily auctions, which will run from July 1st to September 30th with a total of nearly 8,000 tons offered daily. For the July 1st–3rd period, the floor price will be 11,837 RMB a ton or 75.72 US cents a lb. Demand has been brisk for Xinjiang low grades, while the heavy free stocks carried by the Trade are dominated by high grades. The demand from Chinese mills is for low grade cotton for use in the lower count yarns. Demand in general has been slow for cotton since the return from the Dragonboat Holidays in the Eastern warehouses as well as Xinjiang. Before the holiday, a number of mills had reduced operating rates in Shandong, Henan, Jiangsu, and Zhejiang. Funds are quite tight, and there is growing fear that some traders may have to dump stocks for liquidity reasons. The Reserve stocks are now estimated to be made up of a

large block of low grades from 2011, 2012, 2013/2014 Xinjiang high grades purchased recently and a block of Brazilian imported cotton. US stocks are now moving in as well from the recent purchases.

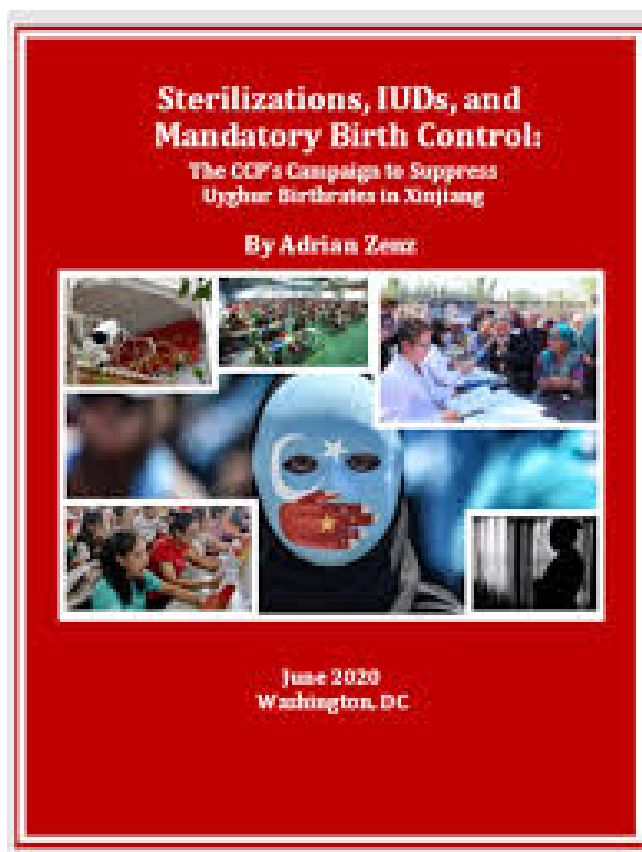
The improvement in lower count yarn demand is tied to products sold in the domestic market. The Chinese service sector is improving, and this has increased domestic sales of lower end apparel. The textile and apparel sector is operating at only about 50% capacity due to a collapse in export demand. The boom in PPE production has also faded, and polyester prices are once again back at record lows, as is Viscose. US imports of apparel from China plunged 60% in May from a year ago, which illustrates the collapse in demand due to the shutdown of retail.

XINJIANG ATROCITIES INCREASE ADDING TO SOURCING WOES



US seizes shipments of Uyghur women hair

China was in the headlines last week, first, regarding news that US Customs had seized 10,000 assault weapon parts in Louisville, KY from a Chinese shipment. This added to the fears that China has played a role in the social unrest in the US. This followed the Pentagon listing 20 state-owned companies operating in the US with ties to the Chinese military. A 1999 law gives the President the authority to impose sanctions on these companies, which include companies listed on US exchanges. Then came an AP report that China had carried on “demographic genocide” in Xinjiang, with mass sterilization and abortions to control the Uyghur population. This has not been done since WW II. This was followed by the quick implementation of the Hong Kong Security Law that drew widespread condemnation



from the world concerning the immediate arrest of Hong Kong citizens. It also meant any foreigner

arriving in Hong Kong that had supported the freedom movement could be arrested and sent to Beijing. The US Senate approved a bill that would penalize banks doing business with the Chinese companies that support the law. The US also imposed Visa bans on Hong Kong and Chinese officials that infringed on the freedom of Hong Kong. After a long period of silence, the UK announced Visas for three million Hong Kong citizens, and Australia also announced plans to take Hong Kong refugees. Australia also announced a 270 billion AD increase in defense spending, along with the deployment of a missile shield because of Beijing.

The US also declared it was preparing sanctions against Chinese officials who were carrying out the atrocities in Xinjiang. The US announced for the first time a “Xinjiang Supply Chain Business Advisory” against companies doing business in Xinjiang or supporting the concentration camps. This was jointly announced by the departments of State, Treasury, Commerce, and

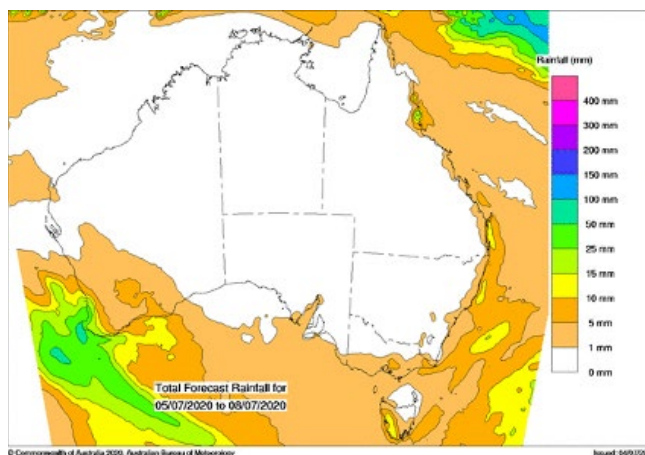
Homeland Security. “CEOs should read this notice carefully,” said Secretary of State Mike Pompeo in a press briefing. “Be aware of the reputational, economic, and legal risks of supporting such assaults on human dignity.” The initiative warns companies to inoculate their supply chains against working with suppliers complicit in the use of forced labor or other human rights abuses in Xinjiang and throughout China. Later in the week, US Customs officials seized a large shipment, 13 tons, of beauty products that included human hair that was taken from women in the Xinjiang concentration camps that had their hair forcibly shaven, a practice that has been documented.

Another bill is working its way through Congress that will ban all imports from Xinjiang, and the support for this is gaining momentum. The pressure on brands and retailers to assure that their apparel has not touched the Xinjiang or forced labor supply chains is increasing.

ABARE CONFIRMS 2020 AUSTRALIAN CROPS REACHED 615,663 BALES

ABARE confirmed the 2020 Australian crop would reach 134,000 tons or 615,663 bales, one of the smallest crops on record. The bulk of the crop is all sold forward to China, and few offers are in the market. All attention is on the 2021 crop, where CFR basis levels will face a test as ICE rallies. In China, some improved demand has been reported for Australian held in bonded warehouses. The forecast remains bleak for any rainfall in the next ten days. More rain is needed to boost dam levels and to provide a chance of a dryland crop. Forward prices remain attractive for cotton, and growers will plant if water is available.

The 2021 crop CFR basis is weaker; SM 1 5/32 is offered at 2000 points on May 2021, and SM 1 3/16 is offered at 2100 points on.



INDIAN CFR BASIS FALLS SHARPLY AS ICE RALLIES

The Indian CFR basis for export fell sharply last week as ICE futures rallied. International merchants' offers fell to 75 points on Dec according to Cotlook A Index.

However, much more aggressive offers prevailed from Indian shippers. S-6 1 5/32 CFR basis levels declined to a new low of 425-450 points off Dec, and S-6 1 1/8 was at 475 to 500 off Dec. This put the discount to a US Middling 1 1/8 offer at 1500 points or more, a level we do not remember seeing. Some offtakes have occurred in Bangladesh, but other markets appear quiet, with even these discounts failing to draw offtake. Chinese mills would normally show interest at such levels, but the Indian/China border dispute appears to halt new offtake. Even MCU-5 offers have moved to an off Dec ICE basis. The CCI faces a heavy burden finding an export market for its stocks, since domestic mill recovery is slow, and it will take



a prolonged period for the stocks to be absorbed into the local market. Meanwhile, planting of the new crop is advancing rapidly, with planted acreage jumping to 7.169 million hectares by June 25, an increase of 4.291 million hectares in a week.

Planting has advanced rapidly in Gujarat, Maharashtra, and

Telangana. Maharashtra has reported it sowed 4.4 million hectares in 2019/2020. The CCI has reported it purchased 1.1 million bales in Gujarat, its largest purchases in that state since 2008. Heavy arrivals continue in Gujarat, and prices are weaker at near 55 cents for S-6 ex gin. Spot prices for seed cotton at the Rajkot Botad APMC market are below the MSP by a sizeable margin. This is one of the largest spot markets in the country. Some growers are reported to be switching from cotton to groundnuts in Gujarat, as the prices remain above its MSP.

PAKISTAN MILLS ADD TO INVENTORIES OF DISCOUNTED IMPORTS

As ICE rallied last week, merchants reduced their CFR basis levels on all non-US styles, which triggered offtake in Pakistan where some of the cheapest CFR levels have sold. Very active offtake of Brazilian SLM 1 1/8 was offered at only 200 points on Dec, a new low in that basis. Brazilian styles are set



to take this market from the US in 2020/2021, and the import demand is large and will help offset the loss of the China Reserve business. Argentine SLM 1 1/6 also sold at aggressive basis levels of 300 or more off Dec. Tanzanian new crop also moved at very aggressive basis levels. Some traders moved to rid their stocks of West African low grades, which also sold at weak

basis levels. Other East African origins sold, and it appears Pakistan will be a key market for these styles for 2020/2021. This opportunity has been created by the embargo of sales from India.

The textile sector appears to be facing higher energy prices due to the gouging of cost on the China Belt

and Road projects. Pakistan is seeking to renegotiate Belt and Road repayments to the Chinese companies as a result of inflated power project cost amounting to billions of USD. The Huaneng, Shandong Ruyi, and Port Qasim Electric Power have overcharged by three billion USD and overcharged on setup cost.

INCREASED TENDERS OF AFRICAN FRANC ZONE EXPECTED TO PRESSURE CFR BASIS



African Franc Zone sellers held tenders for export last week as ICE rallied and Mali sold some volume. This came as protests broke out in Bamako over problems with a rigged parliamentary election. The selling organizations face great risk attempting to hold near three million bales onto the next season. The wet season has also begun, which adds to the risk. In addition to the unsold three million bales of 2019/2020 crop, the region needs to begin to sales of the 2020/2021 crop now being planted. The CFR average basis levels from merchants remain inflated and at unimaginable premiums to Indian and Brazilian cotton. The only business occurring is in discounted lots that appear.

ICE COTTON FUTURES END THE WEEK NEARS ITS HIGHS

The June USDA planted acreage report came in below the pre-report estimates not only for cotton but for most major crops, which triggered the High Frequency Trading systems and the Algotmetric systems to turn aggressive buyers. This occurred following a prolonged consolidation in futures that left the Dec contract open to a major technical influence, as we discussed last week. Both volume and Open Interest dried up during the consolidation, which left prices vulnerable to major technical influence. The Managed Funds had allowed their position to fall to near neutral. Open Interest jumped sharply during the rally, which suggests the Managed Funds are moving toward a net 25,000 contract long position. The last On Call report also indicated that a large block of On Call sales have been completed, which may include both US and foreign growths. China's purchases have made On Call purchases of non-US growths extremely risky for now. Dec On Call unfixed sales rose 481,000 bales, which may include some Reserve sales. Traditionally, the



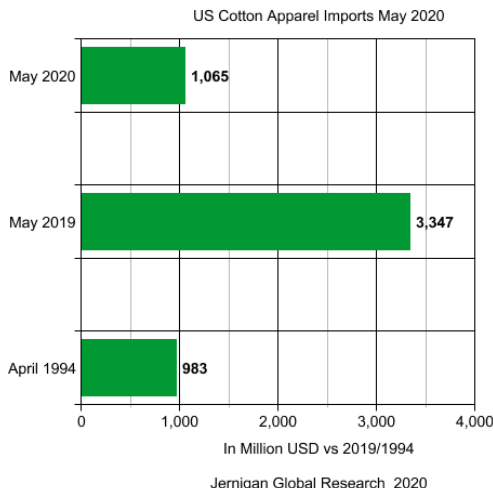
Reserve has not purchased On Call, but, since a Chinese trade house has been involved, this may be possible.

CFR basis levels for all non-US growths turned weaker last week as ICE rallied. Indian suffered the largest losses, followed by East African and Brazilian. The heavy discounts of the Brazilian, Argentine, and East African prompted some offtake last week. US styles are priced far out of

the market except for specialty lots, which the weekly export sales report illustrated. Earlier, we discussed in detail the crisis the US faces regarding exports the longer it remains uncompetitive. All the other major markets will fill their reduced needs with Brazil, East African, Mexican, Argentine, and others' growths. The premium of US to these growths is at records. We have been bearish on CFR basis levels and have been proven correct, and we continue to expect much lower basis levels if ICE continues higher. Indian prices are reaching crisis levels vs the rest of the world. Indian apparel importers are now going to gain a strategic

advantage, and they also know how to manage the contamination issues with their cotton. It remains an unknown what the discount will have to be to attract Vietnam, Indonesia, and others, but at 1500 points and counting against US, we are setting records. Maybe a more accurate measurement is the discount to Brazilian, which is a much more reasonable 800-900 points. For the moment, physical price levels are much lower than the Cotlook A Index 2019/2020 and 2020/2021 quotations, but we expect these levels to fall.

The non-US origins need to move stocks, and the pressure is on. Just wait until the African Franc Zone attempts to move three million bales plus new crop. It is definitely a buyer's market. We remain very concerned about overall consumption and the ability of the market to absorb the excessive stocks. We were shocked by the level of US apparel imports in May. Total US apparel imports plunged 60% to 2.659 billion USD, the lowest monthly volume since September of 1996, several years before China joined the WTO. After that shock, came the import data for cotton apparel. Cotton apparel imports in May reached only 1.065 billion USD, the lowest since April 1994. Let that be absorbed. Cotton apparel demand in the US was the lowest in 26 years. That volume compared to 3.217 billion in May 2019, represents a drop of more than 67%. We have a serious problem with demand, and the cotton industry needs to focus on it. Consumer habits have changed, and cotton needs new innovation and markets.



ICE futures are in a whole other world. The futures rallied last week on speculative buying, while limited selling interest allowed prices to advance. Our futures experience says the technical remains bullish, and 65 cents is possible. ICE is focused on a lower US crop and the artificial Chinese Reserve sales. Earlier, we discussed in detail how this may play out for US exports and ending stocks. If the bizarre world of US/China relations allows the trade deal to be fulfilled, then ICE may be in its own world for some time. However, by that time, many of the other major export markets may be filled. But if the trade deal ends and sales stop and shipments are canceled, then a much different world will evolve for ICE futures. For now, spinners should focus on flat priced sales and avoid any On Call purchases on ICE.

Jernigan Commodities Global, LLC and its offer of services, whether given orally or in writing or in electronic form, has been prepared for information purposes only. This newsletter may contain statements, opinions, estimates and projections provided in respect of future periods. Such statements, opinions, estimates and projections reflect various assumptions concerning future results, which may or may not prove to be correct. As a result, no representation, warranty or undertaking, expressed or implied, is or will be made or given in relation to the accuracy of any such statement made in this brochure. In particular, but without limitation, no representation or warranty, is given as to the achievement or reasonableness of future projections or the assumptions underlying them, management targets, valuation, opinions, prospects and returns, if any. Consequently the recipient of this newsletter must make their own investigations and must satisfy themselves as to the particular needs of the recipient and seek professional independent advice. Jernigan Commodities Global, LLC disclaims all liability at law and in equity from any and all damages, loss, claims, liability, costs and expenses of whatever nature arising directly or indirectly out of any act, omission or decision made by the recipient in reliance upon this brochure or any statements made by any director, officer, employee or agent of Jernigan Commodities Global, LLC.



JERNIGAN GLOBAL
 — KNOWLEDGE IS THE NEW CAPITAL —

