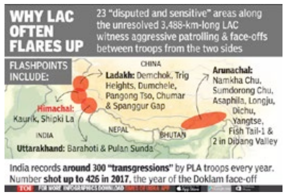
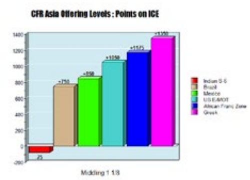
WHAT WILL BE HONG KONG'S ROLE IN GLOBAL TEXTILE/APPAREL TRADE



COULD CHINA/INDIA BORDER DISPUTE AFFECT COTTON TRADE?

US WEEKLY EXPORT SALES TO CHINA CONTINUE



COTTON PRICE MOVEMENT ALL IN CFR BASIS

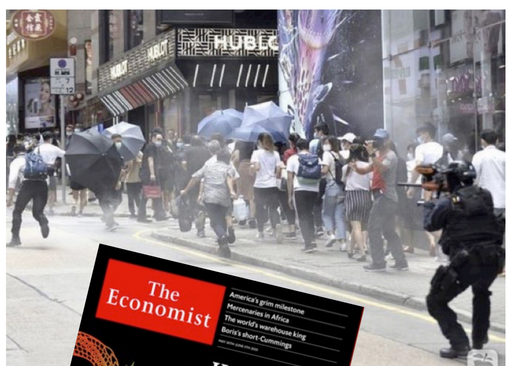
JERNIGAN GLOBAL

KNOWLEDGE IS THE NEW CAPITAL

CHINA INVADES INDIAN TERRITORY WHILE HONG KONG POLICE ARREST SCHOOL GIRLS

US REVOKES HONG KONG SPECIAL STATUS AND STANDS WITH PEOPLE OF HONG KONG

HOW CAN NORMAL TRADE WITH BEIJING CONTINUE?



The world's media was filled with videos of the thugs from Beijing in Hong Kong police uniforms attacking citizens protesting the further violation of the Handover Agreement last week. The final straw for many came on May 27th when the Hong Kong police arrested school girls in their uniforms, handcuffing the young girls and herding them off to police stations. Adding to the disgusting behavior were Hong Kong officials who supported the new Chinese intervention policy calling the rioters terrorists. These disturbing images and the cries of the Hong Kong people moved the US to invoke the Hong Kong act with the US Secretary of State informing the US Congress that the US would revoke the special status of Hong Kong. On Friday afternoon, President Trump announced a host of measures against Beijing. The President made several announcements. First, he announced the US was pulling all funding from the World Health Organization (WHO) due to its corruption. He also demanded that China provide accountability for how the Wuhan Virus was handled and its origins. Second, he announced that

China had been aggressively stealing US technology and research from many American university systems, so the US would halt the issuance of visas to individuals with ties to the PLA or Chinese companies considered a threat. This followed a number of arrests at university research facilities and labs, including Harvard. Third, President Trump stated the US would be reviewing the accounting standards of Chinese-listed companies on US exchanges and would move to protect US investors.

President Trump announced that the US has ended the special relationship and autonomy of Hong Kong. It will no longer be granted special treatment, and a full range of trade relationships will end. The US will also be placing sanctions and seizing the assets of any China and Hong Kong officials deemed to be involved in the crackdown in Hong Kong. The trade deal was not mentioned, nor was the introduction of any new tariffs. This appeared to be a relief to many who feared the US would place new tariffs.

Earlier in the week China's PLA soldiers invaded Indian Territory in the Ladakh Valley of northern India on the border with Tibet, with a unit of 10,000 soldiers setting up camp. These images added to the anxiety building against the actions of Beijing, as it appeared to use the weakness it inflicted on India and the West with the Wuhan Virus to exert its will in Hong Kong and attempt a land grab from India. The bizarre nature of China's claims was seen in India, where its soldiers invaded from Tibet, which China invaded in 1950 and has occupied ever since as an illegal occupying force. It is now attempting to claim more land from India from an area it previously invaded. China claims the Ladakh Valley area of Askai Chin was part of Xinjiang, yet another area it has occupied by force. There is no end to the fantasies Xi Jinping has in occupying any and all land touched by China over the past thousand years.

HONG KONG SPECIAL STATUS REMOVED

The revoking of the special status for Hong Kong confirms the end of the city's historical role as a financial center, a very sad event. Henceforth, trade with Hong Kong will be treated the same as with Mainland China, which means a surge in duties on imports. It also means significant new restrictions on any product with national security concerns. The erosion of the rule of law further means the flow of US funds into Hong Kong is likely to collapse and may be legislated to stop. After the late Friday speech by US President Trump, demand for the USD surged in Hong Kong, with Foreign Exchange dealers forced to halt operations due to USD shortages. It was reported that the demand for USD surged 10-fold last week, as fears grew that the USD/HKD peg would not hold.

One bill pending in the US Senate would prevent US banks from doing business with companies linked to supporting the crackdown in Hong Kong. As discussed, the ability of companies to raise funds in Hong Kong is very much in doubt, as the use of British common law breaks down. The direct move by Beijing to inject a law into the Hong Kong constitution is being viewed as a destruction of the integrity of British common law. China has been moving to support the Hong Kong markets with a record 35.4 billion USD of new funds coming from the mainland so far in 2020. Much of the buying has been in the listed shares of the Chinese state-owned companies, which has been used as propaganda promoting the narrative that Hong Kong did not need US funds. At the same time, China issued direct threats to Hong Kong's largest Business operations to support the new security law. HSBC Bank, which is a cornerstone of Hong Kong and is one of three Banks that issue currency notes, was openly threatened due to its British roots after the UK offered the Three Million Passport Scheme.

China does not have an open capital account and controls the movement of capital. Hong Kong has an open capital account and is very important to all rich Chinese, China INC, and the CCP officials as a way to raise and move funds. The future of international law in Hong Kong is in doubt, since the new security law will allow Hong Kong citizens to be arrested and sent to China without due process and will make all protest a very serious crime. This has raised fear that any foreign national could be arrested at the whim of Beijing, as they are in China. Any form of a modern legal process is gone. The RMB has further weakened, the official fix of the RB/USD exchange rate was set Thursday at the weakest rate in 12 years. The market remains concerned that the RMB will weaken to near 8.0, and the Hong Kong USD peg will fail, adding new pressure. China's export demand reported by companies themselves is quite weak, and a weaker RMB is needed to stimulate sales. The RMB will also be under pressure as capital flows out of Hong Kong, as expected. The move by the US to end the special autonomy of Hong Kong will mean that all Hong Kong exports to the US would face the same level of tariffs and restrictions as that of the mainland. Approximately 8% of all Chinese exports to the US move through Hong Kong as a way of avoiding the tariff war. This will end. The UK has informed China that it will allow immigration of near three million people and allow them to stay in the UK for a year and work toward citizenship. This was viewed as an important gesture of support and was strongly condemned in China where it views Hong Kong citizens as citizens of China. Nonetheless, it provided a major outlet and escape for three million former or current holders of a special passport issued when the UK handed over Hong Kong. The US and Australia are also said to be discussing a special status for people fleeing Hong Kong. Approximately 290 US multinational companies have headquarters in Hong Kong, and an exodus of these companies is likely. Some have already relocated to Singapore.

HONG KONG ROLE IN TEXTILE AND APPAREL TRADE NOW IN DOUBT

Hong Kong's textile and apparel plants have moved to the mainland, but logistics, innovation, and design and development have become the big driver in Hong Kong's textile and apparel sector, with the production all taking place on the mainland or Southeast Asia. Hong Kong is now home to most of the major global sourcing companies, and most brands and retailers have established sourcing offices in there. Hong Kong has given birth to several major fashion labels that have been featured in London Fashion Week, Australian Fashion Week, and New York Fashion Week. It also has several prominent retail groups headquartered in the city, including Esprit, Jeanswest and Giordano. Many of the world's largest textile and apparel groups, like TAL Group, Luen Hing Textiles, and Esquel call Hong Kong home.

These companies play a significant role in global trade and all the Asian markets. Texwinca is a textile company headquartered in Hong Kong with yarn, fabric, and dyeing and finishing operations. It also owns a large part of Hong Kong-based Baleno Holdings, which is an apparel retailer with over 5,000 stores located throughout Asia and approximately 70 or more stores in Hong Kong. Esprit, the global brand and retailer, is headquartered in Hong Kong, and Giordano is another Hong Kong-based retailer with 2,400 stores located across 30 countries. In 2018, Giordano had revenue of 5.58 billion HKD or 711.8 million USD. Crocodile Garments is one of the oldest apparel companies in Hong Kong, while Episole, G-2000, I.T., Moiselle, and Lords of Desire are all popular retail chains headquartered in Hong Kong. Esquel, the world's largest woven shirt manufacturer, is a Hong Kong-based group with operations around the world but with heavy investments in the mainland and Xinjiang.

Hong Kong remains a major center of the global textile and apparel trade, serving as the headquarters of many of the largest companies and the sourcing and design center for many of the major brands and retailers. It is also an important part of the process that China's top brands have used to move directly into retail by opening their first stores in Hong Kong and then expanding into Asia. The Hong Kong retail market has been a very important global market, accounting for an estimated 10% of the entire global luxury market.

One of the leaders of the Democracy Movement in Hong Kong is Jimmy Lai. Jimmy came to Hong Kong as a refugee, and his first job was as a worker in an apparel manufacturing plant. He eventually became plant manager, and then formed his own apparel firm, Giordano, which is now a global firm and was a Harvard Business School study due to its success. Later, he started a large media company that is in the hot seat today for supporting the freedoms of the Hong Kong people. His roots in the textile and apparel industry are illustrative of how Hong Kong has led this industry for decades.

These companies are going to be affected by the change in Hong Kong's status and the doubts regarding the rule of law. These companies have been able to expand across Asia free from heavy regulation, with cheap capital and a booming local retail market. Hong Kong retail sales in 2018 reached 485.2 billion Hong Kong dollars, approximately 62 billion USD, which is 8.8% year-on-year growth. To put this in perspective, this equaled 43.66 % of the 2018 annual retail sales of Vietnam, and Vietnam has 92 million people compared to Hong Kong's 7.4 million people. In 2018, Hong Kong was the 28th largest retail market in the world, with sales very near par with Sweden. Sales are driven in part by tourism. Hong Kong also has a significant impact on global sales and trends. Hong Kong was estimated to represent 5-10% of the global luxury market prior to the violation of the handover agreement in 2019. The retail market turned weak in mid-2019 and has collapsed as the heavy-handed tactics of the Hong Kong police have put a stop to pleasure and experience of shopping. Police are heavily armed like soldiers and located on every street and in malls. They have shown a tendency to attack anyone, including even schoolchildren, as the target of their abuse. Tourist traffic has slowed to a trickle, and many retail outlets have been forced to close.

The new difficulties Hong Kong faces raise the possibility that it could lose its role in fashion, distribution, and retail, as China applies its authoritarian rule. China appears to want to integrate Hong Kong into the greater Pearl Delta region and is prepared to allow it to lose its role in Asia. The impact on the flow of capital into Chinese companies will have a serious effect. A bill currently working its way through the US Senate is expected to pass and would allow for the seizure of assets and sanctions on Chinese officials that are part of the crackdown in Hong Kong. The Treasury Department will also have authority over transactions and freeze assets of Chinese officials. US investment banks have played a major role in working with Chinese companies to raise funds. Those US banks are working against the interests of the US when they assist Chinese companies in listing on US equity exchanges, raise US funds through issuance of bonds, and raise capital in Hong Kong. On Wednesday of last week, when the US Secretary of State was informing Congress that the autonomy of Hong Kong was removed, Tencent, the Chinese tech company that is a large global investor in tech startups and is attempting to give the China state security apparatus a technology edge over the US and US companies, was working with US investment banks to raise six billion USD in new capital in 10-30-40 year terms at low interest rates. This follows an earlier six billion USD raise in 2019. Thus, as the rights of Hong Kong people were being destroyed, Tencent took six billion in USD capital. The next front of the China/US dispute is underway, and it is all about capital.

CHINA'S INVASION OF INDIA COULD HAVE A SERIOUS IMPACT ON TRADE

India China Border Dispute

China's invasion of India's territory has major consequences for global trade. In 1962, China and India fought a brief war won by China, and some analysts compare conditions today with those that prevailed before the war in 1962. In 1962, China faced a number of serious domestic problems following the Great Leap Forward, which caused the deaths of as many as 45 million people, many due to starvation, as a result of Mao policies. The war was starting to turn attention away from Mao's failures. Today, China is again facing a serious economic decline, a major dispute with the US, and India is allied with the US.

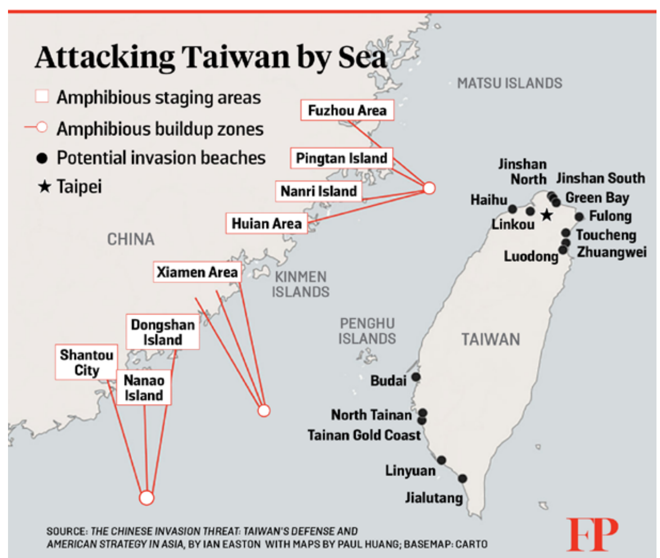
Ever since the war ended, China has occupied and claimed the Aksai Chin, which is also claimed by India and is included on Indian maps as part of the Ladakh region of Kashmir. Troops from both countries are located on the line of dispute, called the "Line of Actual Control" between India and China, which separates Aksai Chin. China has claimed that the region is part of Xinjiang and is important due to its location on a road from Kashgar, Xinjiang to the Tibet capital of Lhasa. The irony is that both Xinjiang and Tibet have been forcefully occupied by China. These regions were taken during Mao's reign. Chinese troops have moved beyond the normal border skirmish, as more than 10,000 soldiers have crossed the Line of Actual Control and destroyed Indian bridges and other infrastructure while establishing a base. China's aim is unclear. It could be to intimidate India and reduce its alliance with the US or just to humiliate it. It comes at a time when India is still suffering from the Wuhan Virus that China allowed to escape its borders. Fears are high in the area, given China's concentration camps in Xinjiang that are just across the border.

India and China have annual trade of near 90 billion USD. The trade is in China's favor, with India experiencing a 56.77 billion USD trade deficit in 2019. India's main exports are mostly raw materials that include cotton and cotton yarn. China has been a key destination for both cotton and cotton yarn. Regarding cotton, at least 25% or more of annual exports move to China, while cotton yarn exports have been as high as 50% of exports but have been steady at 25%.

August 2019-March 2020 Chinese imports of Indian cotton reached 88,747 tons. Chinese imports of Indian cotton yarn during the same period reached 159,709 tons, down sharply from imports of 273,500 tons in the same period a year earlier. It remains to be seen if the conflict will further weaken trade. China is India's largest trading partner. India imports mainly manufactured parts and products.

If the border invasion expands, trade is likely to be affected, which will have a sizeable impact on Indian cotton yarn and fiber trade. No one believes or expects India to do nothing and accept China's hostility without action. Public sentiment in India is strongly against China after the country's handling of the Wuhan Virus, which has hit India hard. There are fears that Pakistan, a key China partner, could be drawn into the conflict. India and Pakistan have been in a long-running conflict in the Kashmir region, as well. Tensions are now high, and Pakistan/Indian cotton trade has been halted.

CHINA ISSUES NEW THREATS AGAINST TAIWAN



Last week, an important Chinese General issued a new threat to invade Taiwan. Li Zuocheng said, "China will attack Taiwan if there is no other way to stop it from becoming independent." This threat came in the midst of the crackdown on Hong Kong, invasion of northern India, and hostility in the South China Sea, which has included intrusions against many countries in the region. At the same time, Taiwan's handling of the outbreak of the Wuhan Virus moved into the spotlight. Not only has it done the best job in the world in controlling the Virus, but it also has served to provide assistance to much of the world as the Virus spread. China has prevented Taiwan from becoming part of the World Health Organization. A new effort supported by a host of nations has emerged to require the WHO to admit Taiwan, at least to an observer status. China is opposing this effort and has issued new threats to any country supporting the effort. China's aggression and boldness is highlighted by the fact that China embassies have sent letters to politicians in several countries instructing them on how to contain Taiwan and warning them of the impact on trade if they defy Beijing.

These conditions have raised the prospect of a Taiwan conflict. The US Taiwan Relations Act does not require the US to intervene directly in a conflict, but to provide support. This act requires the United States to, "provide Taiwan with arms of a defensive character," and "to maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people of Taiwan." Taiwan's support in the US has never been stronger than today, and some discussion is underway to further tighten the US support in case of war. Taiwan has a robust economy, with a GDP of 605 billion USD and per capital GDP double the mainland. It is also a global leader in microchip production. Taiwan has been a major investor on the mainland and in Hong Kong. Taiwanese companies have begun to move out of the mainland but have billions still invested. Taiwan companies were early investors in the Chinese textile industry.

Amid these conditions, the odds are growing that the Phase I US/China trade deal will not be completed, which has major ramifications for US and Global Cotton trade. It seems hard to understand how normal trade with Beijing can continue.

INDIA CAI RELEASES NEW SUPPLY AND DEMAND ESTIMATES

India's CAI has issued its revised supply and demand outlook. 2019/2020 consumption was revised downward by 5.1 million bales to 28.0 million bales, a 15% decline. This was in line with our early May estimates for a 15% decline in mill use as a result of the virus outbreak. The CAI forecast a slow increase from the near total collapse of mill activity in April to a return to normal activity by September The CAI cited the pandemic lockdown as well as a shortage of labor driving the decline. Production was reduced 2.45 million bales to 33.0 million bales. The CAI forecast that farmers would carry forward a large volume of seed cotton into the next season. Imports were reduced 1.0 million bales to 1.5 million bales, and exports were increased 500,000 bales to 4.7 million bales. All bales are 170 kilograms.

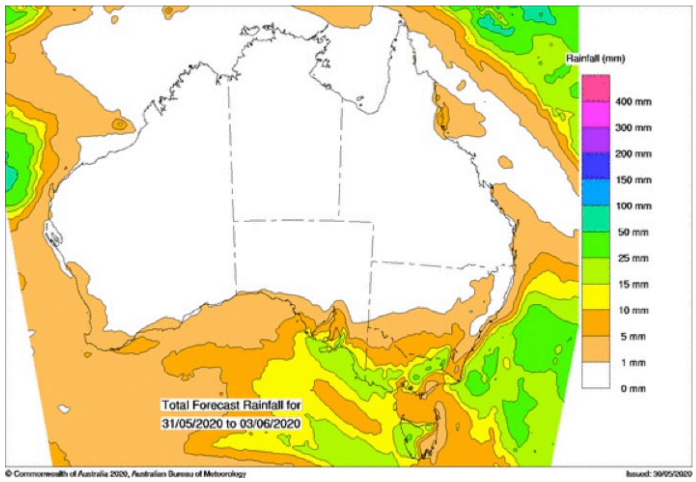
Crisil Research reported that April ready wear exports plunged 91% and will fall 30% to 35% in the latest fiscal year. In Maharashtra, a crisis is occurring with the slow movement of seed cotton. Production is estimated at 7.65 million bales, and over half the crop has still not been purchased. The CCI has 83 buying centers in the state, and the Maharashtra State Federation has 80 buying centers. The shutdown and shortage of labor has slowed movement, and each center is limiting the volume of daily deliveries. There were videos of extremely long lines of farmers waiting the delivery of seed cotton on the recent national news in Gujarat.

COTTON ASSOCIATION OF INDIA
Established 1921

Despite the record stocks of the CCI, it appears the government will raise the 2020 MSP by 5% to 5,825 rupees per quintal. This has been proposed and has not yet been approved. Such a premium to the market would mean the financial needs of the CCI and its storage capacity will soar in 2020/2021.

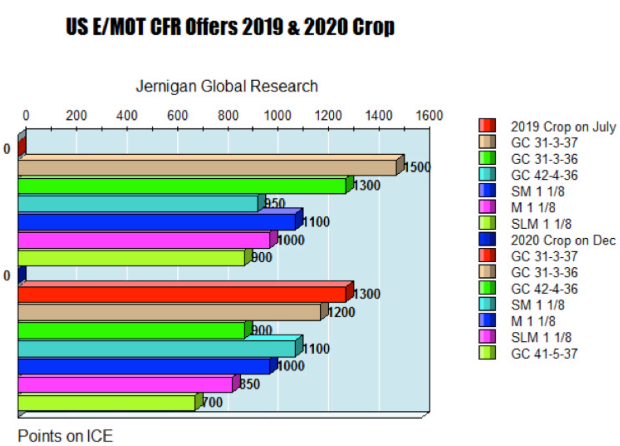
Indian export offers remain the cheapest in the world, with the popular Shankar-6 offered off July for the first time in years. On Thursday, May 27th, S-6 1 1/8 was offered at 75 points off July, and CFR Asia and S-6 1 5/32 were offered at 25 points on July. A wide catalog of export offers from both international merchants and Indian shippers with low grades offered very aggressively. A roller ginned 1 1/8 72 grade is offered at 300 off July, a roller ginned grade 42 27 mm 3.0 GST is offered at 1300 off July, 26 staple are offered at 1350 off, and 26 staple is at 1500-1550 off. LM Spotted 65+1 1/32 is offered at 1400-1500 points off, and V797 21-22 mm is offered at 1800-1900 off July. Again, Indian cotton is the cheapest in the world.

CONCERN BUILDS OVER THE QUALITY OF THE SMALL 2020 AUSTRALIAN CROP



Ginning of the 2020 crop is underway, and intermittent rains continue to interrupt harvest. Early last week, the Queensland belt reported 10-21 mm, while from 3 to 23mm fell over the NSW cotton belt. The outlook is now dry except for a chance of light rains in the southern most districts. The overall production is expected to be near only 600,000 bales. The early harvested Queensland crop was of excellent quality. However, the very important NSW crop in the Southern Valleys has been exposed to several periods of rain and very cool weather. This has raised questions over the quality of these crops, with mike levels and color grades the main concern. Merchant offers of 2020 crop are tight, with most waiting to see how quality and volume matches up against outstanding sales. 2021 crop offers are in much wider circulation, with SM 1 5/32 offered at 2050 points on May 2021 and SM 1 3/16 at 2300 points on.

US E/MOT & MEMPHIS TERRITORY OFFERS OVERPRICED COMPARED TO BRAZILIAN STYLES.



The potential games being played with US sales of cotton to China for shipment before July 31st have moved the July ICE contract to a premium and caused several merchants to move all hedges out to the Dec contract. Offers still on July now reflect major premiums to Brazilian styles. An E/MOT Green Card 31-3-36 was offers at 1250 on July, which represents a 500-point premium to Brazilian Middling 1 1/8 type offer, while a GC 31-3-37 is offered at 1400 on July. Middling E/MOT Type offers are at 1000-1100 on July, and SM 1 1/8 at 1100 or more on July. Many of the offers for old crop are now recaps with a host of low-grade offers. A GC E/MOT 41-5-37 is offered at 700 points on July.

New crop offers are experiencing a steady to strong basis, with merchants showing no signs of pressure to sell. E/MOT SM 1 1/8 are offered at 1100 on Dec 2020 and March 2021 futures, a Middling 1 1/8 is offered at 1000 points on Dec and March, and a SLM 1 1/8 type is offered at 900 points on Dec or March. GC offers are firm for October-December shipment, but showing a much more aggressive basis for January-March. Memphis Territory offers are carrying a 50-100-point premium to E/MOT. Memphis/Eastern GC 42-4-36, which has been popular, is offered at 950 points on Dec or March.

WEEKLY US EXPORT SALES CONTINUE TO INCLUDE NEW SALES TO CHINA

Despite the continued decline in China/US relations, China continued to present a half-hearted effort to show it was attempting to honor the trade agreement. During the latest US weekly export sales reporting, the US announced that 180,100 tons of sorghum was sold to China for 2019/2020, along with 192,400 tons of soybeans for 2019/2020, and 200,000 tons for 2020/2021 shipment, 1,600 tons of beef, and 6,100 tons of pork. US cotton sales for the week ending May 21st totaled a gross 111,000 running bales of upland. Cancelations reduced net sales to 44,600 bales, with China purchasing 58,600 running bales, and Vietnam purchasing 34,000 running bales. These were offset by the cancelation of 2019/2020 sales and replacement with 2020/2021 sales. Pakistan canceled 12,100 running bales of upland and purchased 11,400 bales for 2020/2021, Thailand canceled 9,200 bales for 2019/2020 and purchased 9,700 bales for 2020/2021 shipment, South Korea canceled 7,400 running bales of upland for 2019/2020 and purchased 9,400 running bales for 2020/2021, and Mexico canceled 6,400 running bales for 2019/2020 and 4,300 running bales for 2020/2021 shipment.

10,100 running bales of Pima sold for 2019/2020 shipment, with 9,600 running bales going to China. This marked the first sale of US Pima to China since 2,600 bales were sold in the week ending April 2nd. Upland sales for 2020/2021 totaled 171,900 running bales, and the two new sales that were not rolled forward from 2019/2020 were to China and Turkey. China purchased 113,200 running bales and Turkey 24,600.

US export shipments were again very disappointing at only 267,400 running bales of upland and 1,400 running bales of Pima. The total was short of the volume needed to meet the USDA's export target. Only 55,300 running bales of upland was shipped to China. The US now has 5,258,300 running bales of upland sales that have not been shipped, and 1,738,000 running bales of that total are to China. 145,200 running bales of Pima sales are unshipped and 36,400 are to China. Only ten weeks remain in the season, and it's clear that the US will carry a large volume of sales forward or that cancelations will increase in the weeks ahead. The big drama is over the shipment level, which will determine if the USDA's 15-million bales export target can be reached.

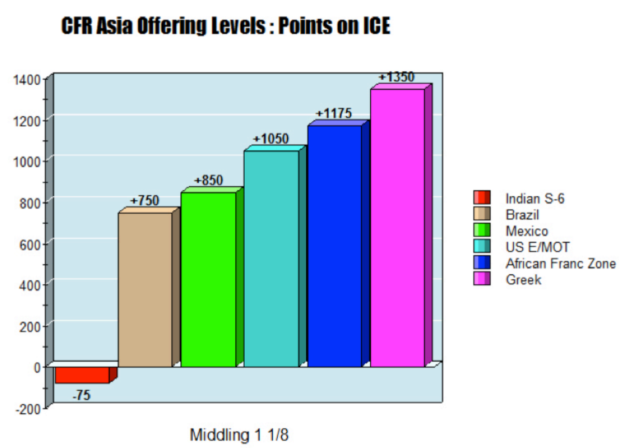
We remain very uncertain over the future of the large outstanding sales to China. It is anybody's guess whether Beijing will be able to control its emotions as the US increases the pressure over its actions around the world. If these sales go unshipped and are canceled, US carryover levels will increase sharply.

US export sales for 2020/2021 total only 2,894,798 running bales of upland. This includes 739,000 bales to China. If these sales are canceled, US export sales will drop to near only 58% of year-ago levels. 2020/2021 Pima export sales total only 33,800 running bales, with only 1,300 running bales sold to China.

ICE FUTURES PROVIDE NO DIRECTION TO PRICES

ICE cotton futures ended last week almost unchanged after several swings, including a large inter-day move on Friday. The market is disconnected from the global market, and it is not reflecting the pain that the supply chain is suffering through. Upon reflection, ICE cotton is behaving to some degree like the US equity markets, which are acting much like a futures market, with daily movements tied to headlines on the progress of reopening, any hint of consumer spending, and the prospects for a Wuhan Virus vaccine. Some have said that the behavior of these markets has become disconnected from the real economy. It may seem hard to believe, but, as of Friday's close, the DJIA average is up 1.02% from a year earlier, the S&P average is up 9.3%, and the NASDAQ is up a shocking 25.74% from a year earlier. Only the NYSE Index is down, 4.85%. Given that the US has suffered its largest job losses on record and has seen the entire country experience a shutdown with some areas like New York City still not open, these are surprising results. European equities have not fared as well, with the German DAX down 2.12%, France's CAC down 10.09%, and UK FTSE 100 down 15.43%. There has been a great deal of discussion among economists as to whether the US would experience a V or U shaped recovery. The S &P chart presents a clear V recovery.

On Friday, both the US equity markets and the ICE cotton futures were focused on the actions President Trump would announce against China. ICE cotton futures posted sizeable losses all day, and then suddenly recovered to near unchanged during the final seconds, as the Algos and HFT systems all reacted to the headlines that the Trade Agreement with China was not mentioned. Despite the dullness in futures trade, Open Interest in the Dec contract has been increasing and will surpass July next week. The CFTC data did show a few interesting features. The trade was almost an equal buyer and seller in the week ending May 26th. A further look indicated that the net Trade short of 48,698 contracts was almost all in the new crop months. The trade is only net short 1,799 contracts July, holding 29,930 longs and 31,729 shorts. Thus, the China sales have some Trade groups long July. This may explain the spread ending the week in a small invert. The Managed Funds are nearing neutral, with only a net 6,859 net short position. However, it does have a notable short July position. The Other Reportable category was again a net seller in the period.



Overall, the continuation of sales of US cotton to China for the Trade Agreement has allowed ICE futures to avoid the negative impact of the canceling of nearby sales and rolling into new crop and has forced the price pressure into the CFR basis for the moment.

The question is how long Beijing can or is willing to continue to make the small token purchases of US products to attempt to give the appearance it will meet the terms of the agreement. There has been no progress on the intellectual property features or the purchases of commercial products required under the agreement. It is in the US's interest that China honor the agreement, and therefore it should not be expected that the US would end the agreement. The question is can Beijing control its emotion after the US unleashed a series of measures with more likely to follow. A bill punishing China's actions in Xinjiang was passed by both houses last week and has hit the President's desk, where it will likely be signed next week, requiring sanctions against those enforcing the abuses in Xinjiang. Additional bills on retaliation in Hong Kong are also moving rapidly to passage. We continue to believe China will be unable to maintain the agreement. If it does, it will lower US carryover but change little in regard to the global supply and demand balance for cotton.

Green shoots in regard to apparel offtake have begun to appear. Bank Of America reported that credit card activity on apparel spending has risen sharply off its lows. Other data shows some increase in leisure apparel spending, but a great deal of financial pain, a lot more store closings, and major inventory liquidation remain on the horizon. The availability of cheap funds is helping many groups raise large amounts of capital at low rates. Debt creation can mean problems later, but for now they will be able to fight on for another day. The issue for cotton is the burden of carrying the record inventories into 2021. We remain extremely uncertain how this is going to be achieved. The CFR basis in Brazilian, Indian, Mexican, and other growths is reflecting the pressure, and there has been no significant offtake. We continue to expect a tough period ahead. If the Trade Agreement is terminated, then ICE futures will likely make new lows.