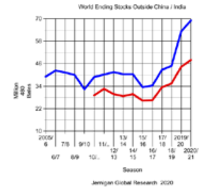
CONAB CONFIRMS RECORD BRAZIL CROP & YIELD'S

CHINA MEDICAL TEXTILE EXPORTS HIT RECORD IN MAY



WORLD ENDING COTTON STOCKS NEAR RECORD

US COTTON CONSUMPTION IN CRISIS

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

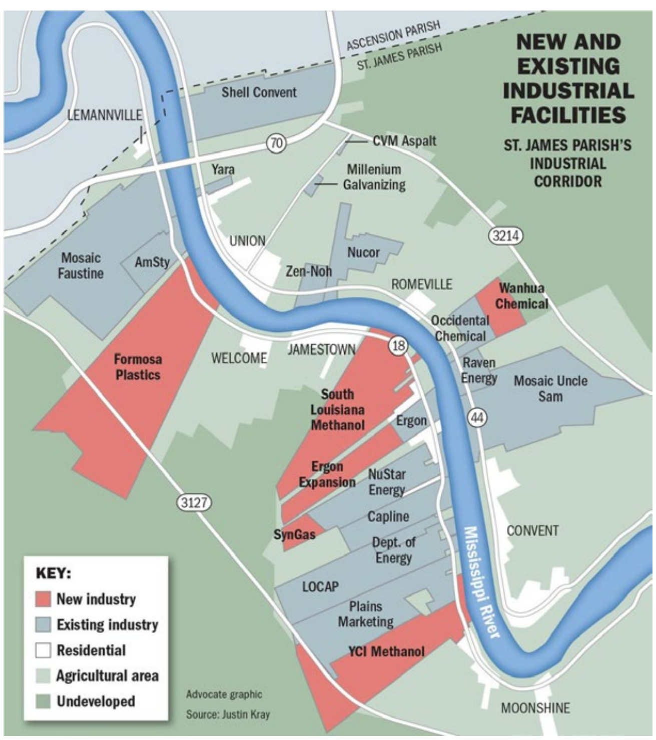
COTTON MUST WIN THE HEARTS OF CONSUMER AS THE BATTLE WITH PLASTIC SET TO EXPAND

GROUNDBREAKING FOR WORLD'S LARGEST PETROCHEMICAL PLANT AND LOCATION US NOT CHINA

Texas is the largest cotton producing state in the US, and Louisiana has been producing cotton for more than a 100 years. However, it may shock many to learn both states have policies in place that also promote the enemy of cotton, petrochemicals that produce cheap plastic and polyester. We have long discussed the rapid expansion of petrochemical plants in China, but the US is just as guilty as China in the production of cheap plastic that is causing a pollution epidemic around the world. The majority of US crude oil refiners are located in Texas and Louisiana, and Texas is a major part of the shale oil boom in the US, while Louisiana produces over 9% of all US natural gas. Crude oil, natural gas

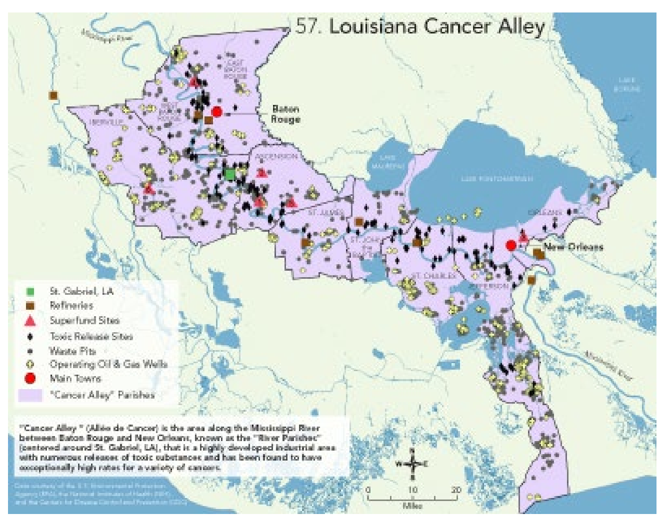
and coal are the raw materials that start the production of the petrochemicals that ultimately produce plastic and polyester staple. Louisiana alone has 20% of all US oil refining and is home to 150 petrochemical plants. The petrochemical plants are mostly located on the Mississippi River along the major highway between New Orleans and Baton Rouge. The region is known as “Cancer Alley.” Louisiana has granted a 1.5 billion USD tax credit for the creation of a mere estimated 1,200 jobs to a Taiwan company to establish the world’s largest petrochemical plant.

The most shocking aspect of this approval is the environmental impact of this plant and the environmental condition of this region. The region brings back memories of similar locations in China where the industry has destroyed local air and water quality. *The Washington Post* reports that there is an oily taste in the water, a blackening of leaves on fruit trees, and an acid odor in the air, and an EPA study found significant problems. Reserve, Louisiana was reported to be the city where each resident is 50 times more likely to die of cancer. The EPA reports a major problem with toxic air, with yellow rain reported as chemicals cause a golden mist to fall. The problem is with the release of chloroprene in the air, which was reported with air levels above the EPA safety levels occurring quite often. In November 2017, the *Guardian* reported that chloroprene levels in the air were found to be 755 times the EPA safety levels. It also stated that it was impossible for the plants to bring levels within EPA guidelines due to the cost. This sounds just like the discussion in China. There has been heavy lobbying of the EPA in an attempt to get its finding on this polymer reduced.

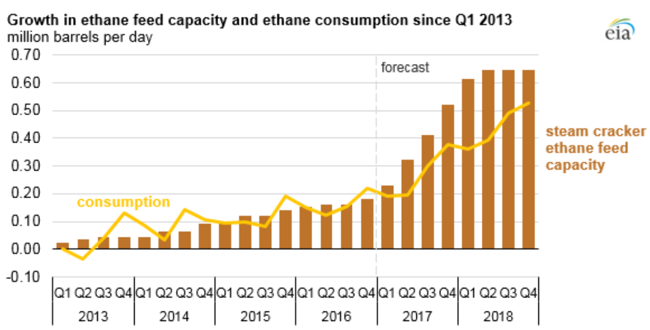


In March of 2020, the construction of the world largest petrochemical complex began. It will cover 2,400 acres located in Cancer Alley along the Mississippi River. A total of 14 plants will produce virgin resins that will be the raw materials from which plastic is made. When completed, this plant will have a major impact on the world supply and demand balance. *Bloomberg Green* estimates that the plants will produce a volume of Greenhouse gasses that will be equal to 295 new coal fired plants. Coal is losing ground in the US, but the environment is not enjoying the benefit as the shale oil boom creates an ever-expanding petrochemical footprint. The massive project was approved despite the issues with past petrochemical plants producing similar products and was fined millions for dumping plastic pellets in the local waterways. Louisiana, in addition to the tax incentives, also has very lax environmental regulations and the availability of cheap natural gas.

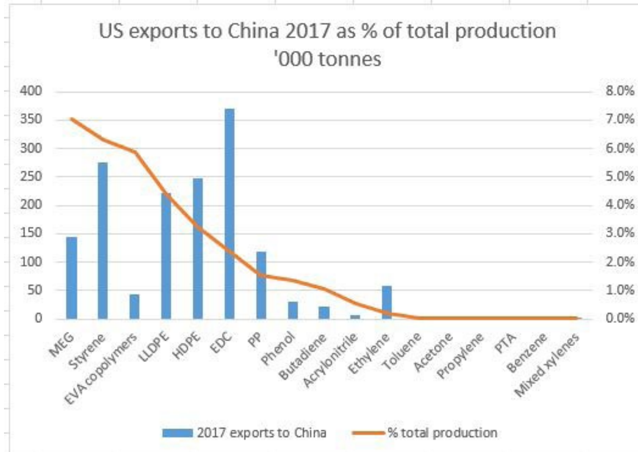
The tax incentives provided could have been redirected to the state’s cotton and small textile industry. An incentive package crafted the right way could have provided the foundation for a robust textile and apparel industry in the state. Two textile operations have been established in the state, including a groundbreaking denim fabric producer. The correct incentive package could have provided the industry with a real boost, which would have created a much larger base of new jobs and also allowed the state to avoid the environmental disaster in the region already known as “Cancer Alley.” The textile and apparel industry has the potential to automate. with many of the jobs created high-skilled and well-paid. The current Louisiana strategy has produced an annual average income below the US average.



For the US and global cotton industry the policies of Texas and Louisiana are a serious problem. When fully operational, the new complex will produce an estimated 116 pounds of plastic a year for every man woman and child. Thus, the expansion of the US petrochemical complex assumes all the efforts to reduce single use plastic and to curb plastic recycling will fail. China has actually announced plans to curb the use of non-biodegradable plastic bags. The extensive expansion of the US industry based on cheap natural gas has made virgin plastic much cheaper than recycled product. Thus, recycling efforts are failing and will ultimately have little success. The mind-boggling new capacity is not only being allowed to come online, but is being subsidized with tax credits. This means that virgin plastic will flood the market for years to come. The environmental impact will simply be a disaster and create problems when the plastic and polyester end up in landfills where pollution of ground water is an issue.

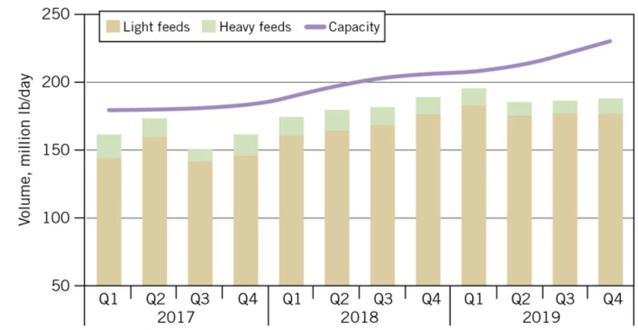


Despite the damage done to cotton consumption by the policies and construction of the new plants, the agriculture industry has been silent, which is surprising since the same policies in China have drawn widespread opposition. Even more shocking is that one study shows that 88 new petrochemical plants are either being planned or under construction. Such subsidized environmentally damaging petrochemical plants have also provided an economic disincentive for the development of plant-based plastics, which have a positive environmental impact. Plastic has been made from cotton, but again, the industry or USDA has failed to back the effort for reasons which are not clear. The fact that the largest petrochemical complex in the world is underway near a crucial waterway, the Mississippi River, and in an area where the region has become known as "Cancer Alley" is a wakeup call. The cotton industry faces a real challenge with the expansion of the petrochemical complex and the surge in cheap raw materials. Louisiana has the fifth highest death rate to cancer in the US, yet no one challenges what is occurring. Once this new complex is operational, the US will produce the raw material for cheap plastic and possibly polyester for decades to come and will present considerable problems for natural fibers.



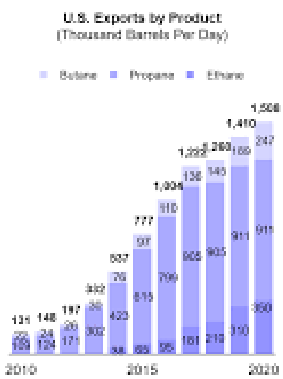
US ETHYLENE PRODUCTION*

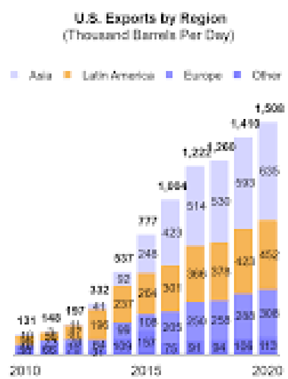
FIG. 1



*Cracker production from fresh feed.
Source: Petral Consulting Co.

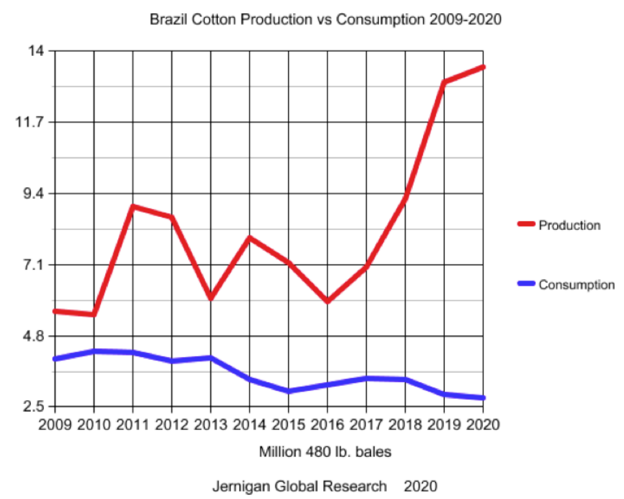
Once the Sunshine Petrochemical Complex is completed it will last decades, with the equipment able to churn out cheap raw materials of plastic and polyester fiber. The environmental damage will be ongoing and long-lasting and, again, this could be in Eastern China. What is most surprising after the well-documented damage to the Chinese environment is the fact that the complex has been able to receive approval and has broken ground in 2020. It appears that the desire to draw FDI and create a few jobs has overridden all the environmental issues. The US and the world face a plastic pollution crisis, and this complex will accelerate the event as its massive output several years from production ends up in a landfills or in the ocean or other local environments. Documents on the plant seen by the press suggest it will operate 24 hours a day, seven days a week. This means the plant is a clear bet on continuing the use of fossil fuel-based plastic forever. It is estimated that it will release 13.5 million tons of greenhouse gasses annually, which will be the largest new source of greenhouse gasses of any gas and chemical complex in the US. Opposition to the plant is continuing through representatives of the local communities that will suffer the most, but it remains to be seen if the strategy will work. Outside the immediate region the project has drawn limited press coverage. For the global and US cotton industry, the rapid expansion of the natural gas-driven petrochemical complexes is a major threat. Today, the focus is plastic production, not polyester fiber. However, any revival of the domestic industry could quickly see fiber production boosted. In addition, the capacity of the US is expanding so rapidly that markets throughout the Americas and Europe are being impacted. The combination of the record capacity in China and the new capacity in the US means that cheap plastic and polyester will dominate the globe. The research for this found the US is now a major exporter of petrochemical raw materials used for plastic and polyester, and one of the markets is China.





We have seen the enemy and he is here. Our hope lies in consumer preference, which appears to be shifting.

BRAZIL'S CONAB PLACES 2020 COTTON CROP AT RECORD

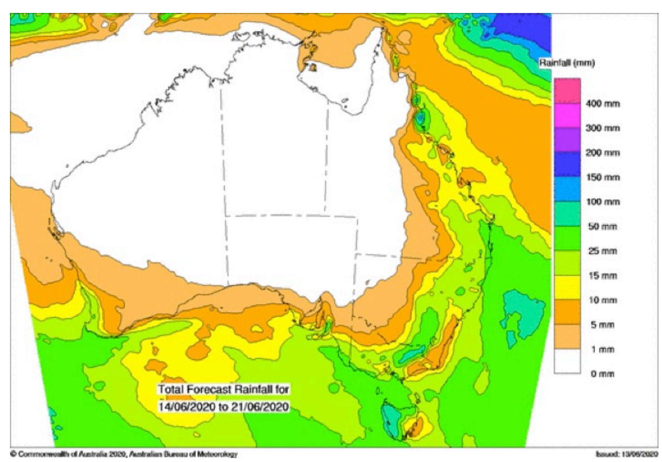


CONAB raised its 2020 crop estimate for cotton to 2,886,000 tons or 13.260 million bales, which is still below some private estimates of 13.5 million bales, a 7,000 ton increase from the May estimate. In CONAB total estimates, all crop acreage in Brazil was placed at 65.5585 million hectares, which indicates a large amount of crop land has come into production in recent years. Total acreage in 2011/2012 was 49.8226 million hectares. Cotton consumption was reduced 10,000 tons to 640,000 tons or only 2.94 million bales, while exports were left unchanged at 1.7 million MT. Ending stocks were raised to 1,978,900 tons or 9.092 million bales, a record and up sharply from last season. The average yield was estimated at a record 1,727 kilograms per hectare or 7.932 bales.

The CFR basis for Brazilian styles has turned weak, as exporters need to move stocks ahead of the record crop that has started being harvested this month in Bahia. Middling 1 1/8 2019 crop has sold at 600 off July, the weakest basis for Brazil in several years. The last time the basis was this weak occurred during a quality crisis several seasons ago. This weakness is driven by weak demand, the need to move stocks, and the short squeeze in July futures. Brazilian is now offered through the 2021 crop.
May export shipments reached 69,554 tons, with Turkey the largest destination at 16,283 tons followed by Vietnam at 14,898 tons. Brazilian cotton has become very popular in both countries. The Real/USD exchange rate has experienced record volatility. On May 12th, it fell to 5.886, and then recovered to 4.82 before ending last week at 5.0 per USD. It remains to be seen how well the industry has been able to manage this in securing 2021 crop inputs.

AUSTRALIAN COTTON BELTS AGAIN HAS A CHANCE OF RAIN

During the past weekend and into this week much of the traditional Australian cotton belt has a chance of sizeable rains. The Darlings Downs and northeast NSW has a chance of 25-50 mm, while lighter amounts are likely the further west you go. The Southern Valleys will have a similar chance. These rains will be very welcome except in the Southern Valley where cotton is still in the field. The region needs heavy rains with runoff into the dams and reservoirs for the full potential of the 2021 crop to be reached. Dam levels remain quite dismal. Concerns over the quality of the small 2020 crop have reduced the average basis to only 800 points on Dec, and exporters face huge discounts on the export of the lower grades.



PAKISTAN'S ACREAGE DECLINES: INDIA RAPIDLY PLANTING NEW CROP

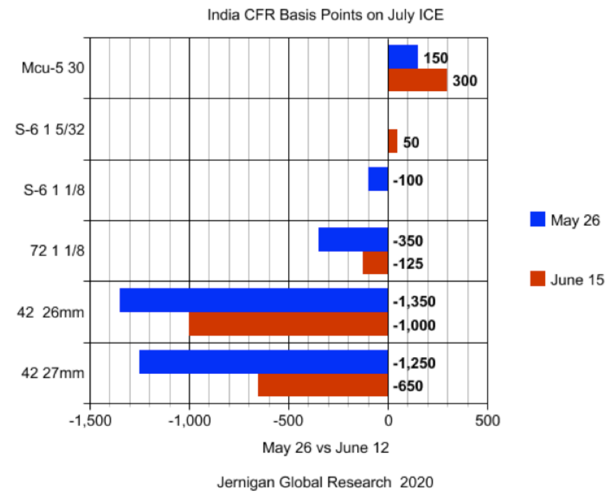
Pakistan planted 2.186 million hectares to cotton as of June 1st, which is 10.1% below year ago acreage levels. Poor seed quality has been a problem. Ginners continue to carry old crop unsold stocks and will face financial stress taking up new crop. Mill demand is very weak.

India is rapidly planting, with planted acreage reaching 1.6648 million hectares by June 4th, which is up from 1.3758 million hectares planted on the same date last year. Most of the acreage is in the Northern Zone, where cotton acreage for 2021 has expanded despite the issues with the lockdown.

Mill demand in both regions remains at a very low ebb. The Indian monsoon has begun, and conditions remain favorable for the advancement. The use of BT cottonseed is reported to be up sharply from a year ago. Light rains were being recorded over much of Gujarat and Maharashtra by Tuesday and continued, which was quite beneficial.

Indian cotton remains the cheapest in the world and is aggressively offered. However, spot prices have recovered off the lows, which eased the pressure on offers. S-6 1 1/8 at the gin has recovered to over 57 cents, approximately a two cents gain. The Indian CFR basis has improved, with S-6 1 5/32 now offered at 50-100 on July, and S-6 1 1/8 now at even to 50 on July.

Indian cotton exports in February, prior to the pandemic impact, reached 95,458 tons, with Bangladesh and China the top destinations. August-February exports reached 458,852 tons or 2,108,195 bales. Despite the discounts that have prevailed, Indian cotton has failed to move any large volumes in Vietnam or Turkey. This appears related to past quality issues and shipment performance.

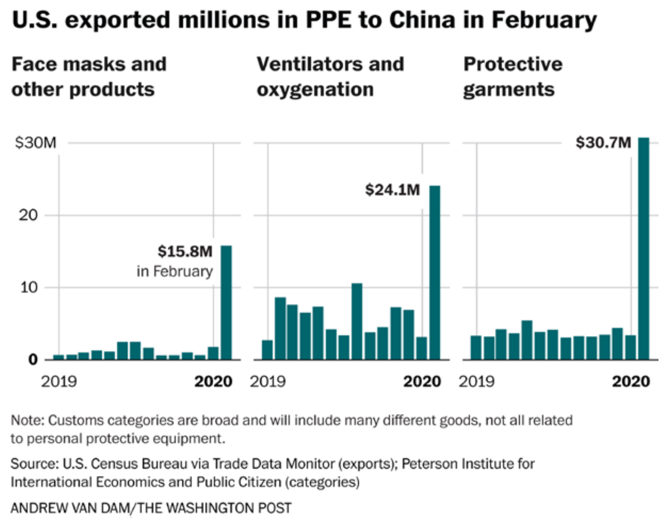


CHINA MEDICAL TEXTILE EXPORTS SURGE IN MAY

China INC pulled off the global trade of the year, and it is unclear if it was a coordinated effort between government and industry or if the actions of each contributed and came together for the perfect trade. When the Wuhan Virus was spreading across China and China was concealing it from the rest of the world, the Chinese government instructed all Chinese organizations and companies to aggressively buy up all available Personal Protective Equipment (PPE) products. It prohibited global PPE producers with factories in China from exporting their products and instead forced them to sell to the Chinese government. This had a major impact on global PPE supplies, since China was already the world's largest producer.

Then, as the epidemic spread around the world and the virus waned in China, its exporters launched an export drive in both domestic production as well as the imported PPE at inflated prices. Poor quality exporters got in on the boom, and exports surged. In the US, each exporter to the USA must register with the FDA. It has been found that 1300 Chinese exporters filed fraudulent details as to having the required local office. We have previously reported that the surge in export demand had helped polyester prices avoid a new price collapse and also a surge for many man-made fiber fabrics used in PPE. Manufacturers around the world also turned to China for the polyester and nylon fabric used for hospital gowns and other PPE.

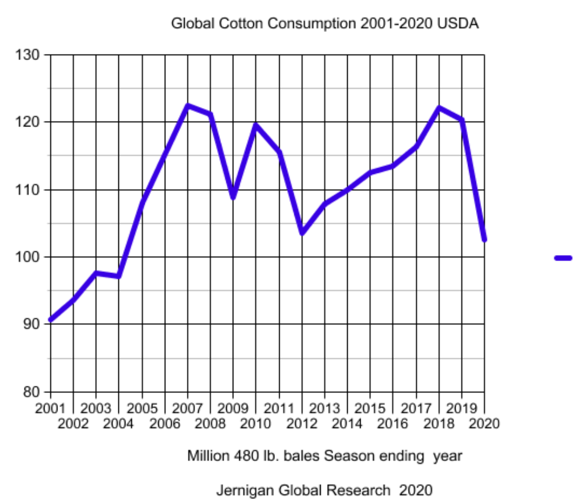
The export surge has showed up in the export data, and most of the PPE is exported as textiles. Textile exports in May reached 20.6487 billion USD, which reflected a 77.34% year-on-year increase. Apparel exports fell 26.93% from a year ago to only 8.9 billion USD. January-May total textile and apparel exports reached 97.965 billion USD, with textile exports increasing by 21.5% to 59.517 billion, while apparel



China hoarded US supplies ahead of Wuhan virus outbreak

exports fell 22.5% to 38.131 billion USD. Fabric exports in January-May grew 25.5%. The pandemic has been a real economic windfall for the polyester fiber and polyester grey fabric sectors. The boom is fading, and these sectors are now slowing down. By the end of last week, the price of polyester staple had returned to 37 cents.

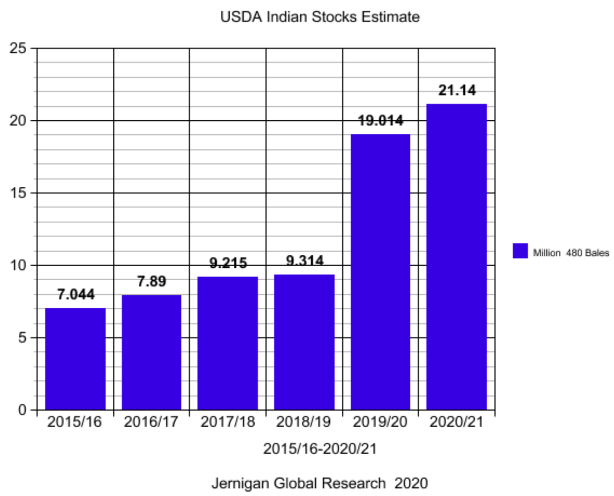
USDA'S WASDE REPORT RAISES WORLD ENDING STOCKS AS CONSUMPTION REMAINS WEAK



The USDA's June WASDE estimates again illustrate the difficulty in attempting to measure the extent consumption around the world has fallen as a result of the March and April global shutdown affecting retailers. The USDA lowered 2019/2020 world consumption by 2.345 million bales to 102.603 million bales, with the largest reductions occurring in China -1.0 million bales, India -500,000, Bangladesh -300,000, US -200,000, Vietnam -200,000, and Brazil -200,000 bales. World production was adjusted 300,000 bales higher, with world ending stocks raised by 3.396 million bales. The USDA had originally forecast a sizeable increase in 2020/2021 consumption, but in June it trimmed the rebound, reducing its consumption estimate by 2.050 million bales. The estimate still forecast a major recovery at 116.459 million bales. The major reductions came in China -1.0 million, and India -500,000.

The USDA made a host of revision to its estimates with India again a major center of attention. The USDA's Indian ending stocks estimates have been controversial for years, as it has been believed to carry inflated stock levels of 3-4 million bales. However, the USDA has raised its ending stock levels for 2019/2020 to a new record of 19.014 million bales, which is nearly a doubling of stocks from 2018/2019. The CCI is estimated to hold approximately 8 million 480- lb. bales as of the end of the season. Even if adjusted by 3-4 million bales, it would still mean that the Indian commercial sector would be holding a hefty 7 million bales.

The USDA raised 2020/2021 ending stocks to 21.114 million bales. The USDA estimates suggest that exports will not be able to expand, despite the price discounts and stock levels. It is clear that India will face significant pressure to reduce its commercial stocks in 2020/2021, but this will be quite difficult unless world prices recover, as the CCI will have to procure the 2020/2021 crop at an even higher MSP.



The USDA forecast that world ending stocks would increase a robust 5.236 million bales in 2020/2021, which places stocks at 104.669 million bales, just short of the record 106.749 million bales that occurred in 2014/2015. US estimates were focused on domestic consumption and endings stocks. US domestic consumption was reduced to a record low of 2.5 million bales, raising ending stocks to 7.3 million bales. 2020/2021 ending stocks were raised to 7.7 million bales, as domestic use was reduced to 2.8 million bales. Domestic consumption in 2019/2020 has experienced a shock following the sharp fall in the CAFTA apparel activity. In addition, this region has been hard-hit by the Wuhan Virus. The USDA also revised Argentine production for the 2017/2018, 2019/2-20 and 2020/2021 seasons, collectively increasing production by 930,000 bales.

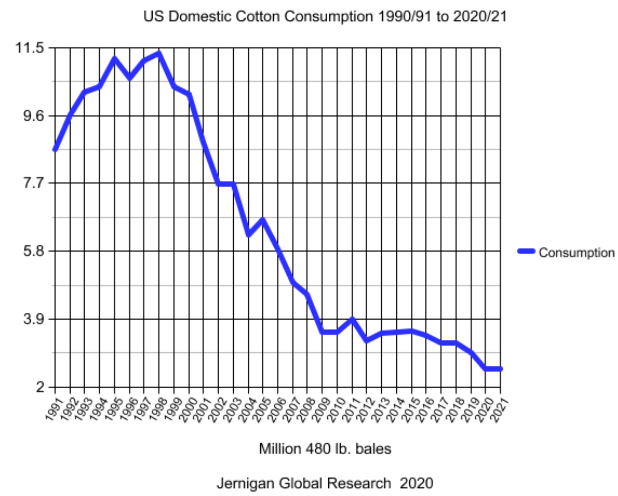
The USDA raised world-ending stocks outside China to a new record of 63.31 million bales for 2019/2020 and 69.05 million in 2020/2021.

US EXPORT SALES PROVIDE A SURPRISE AS UNEXPECTED SALES TO CHINA AND VIETNAM OCCUR

Amid very quiet conditions, the US for the week ending June 4th reported a robust export sales report, providing a bit of surprise. The US reported net 2019/2020 export sales of 399,600 running bales of upland, with the sales focused on a net sale of 209,500 running bales to China and 176,800 running bales to Vietnam. Small sales of 13,200 bales were noted to Pakistan and 11,100 bales to Turkey. Gross sales totaled 438,500 running bales and 38,300 canceled. 2020/2021 sales totaled 193,400 running bales, with the same markets active; 161,700 to China and 22,000 to Vietnam. Pima sales totaled 3,400 running bales for 2020/2021 and 100 bales for 2020/2021. Since the week ending April 22nd, the US has registered net sales to China of 1.290 million bales for 2019/2020 and 565,100 running bales for 2020/2021. This cotton is very likely headed to the Reserve. Shipments to China picked up last week, with 86,400 running bales of upland and 8,300 running bales of Pima. The US has 1,816,400 running bales of upland and 26,800 of Pima sales still outstanding to China. Eight weeks remain in the season. Total export shipments reached 294,300 running bales of upland and 14,700 of Pima, and these shipments keep the US on track to meet the USDA's 15-million-bales export estimate. Weekly shipments need to average 317,452 bales for the remaining eight weeks.

The US has now sold 17,732,549 480-lb. bales for 2019/2020 and shipped 12,349,183 bales. US styles are at a 3-4 cents or more premium to Brazil, which makes the business to Vietnam in the reported volume a surprise. The conditions around the sales are at this point unknown. Overall, export demand is soft, given the premium of US basis levels. A record volume of 2019/2020 unshipped sales will be rolled into 2020/2021.

US COTTON CONSUMPTION IN CRISIS



Meanwhile, we have seen little discussion regarding the crisis involving US cotton consumption. The domestic cotton industry is under considerable stress. US cotton consumption in 2019/2020 will fall to a record low of 2.5 million bales or less. The entire commercial flow to CAFTA has not yet returned to normal, and the spinners are operating far below pre-virus levels. Despite this, not a word from the cotton industry for an aid package to this industry. The pivot toward medical PPE has been very good for the survival, but poor for cotton. Cotton has been used in the facemask, but hospital gowns have been 100% polyester. US apparel cut and sew operations have had to pivot or have been forced to close. Brooks Brothers, the iconic US retailer, has closed all three of its cut and sew operations, dealing a blow to Made In USA. US apparel imports from CAFTA collapsed in April, falling 63% from Guatemala, 90% from Dominican Republic, 52% from Nicaragua, 92% from El Salvador, and 92% from Honduras. CAFTA is the largest consumer of US yarn and fabric. Total US apparel imports in April fell by 40.5%. Only time will tell how quickly this region comes back, but at the moment it is slow, with many companies facing large losses. Still, no aid package is being developed for the domestic industry. US growers will pay the price, as the focus remains on shipping raw cotton China. While China has purchased 1.290 million bales since April 22nd, the US grower experienced little to no benefit, as the average domestic basis actually weakened. If the US domestic industry increased consumption by the same volume we estimated, the basis would have improved at least 200-250 points. The continued weakness in the domestic industry means more pressure to export, which means cheaper prices.

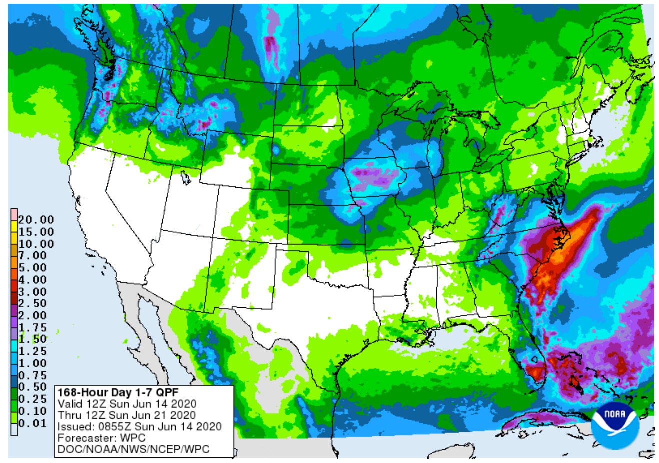
In 2015/2016, the US consumed 3.618 million bales, but now in 2019/2020, an extra burden of 1.1 million bales has been added for export to maintain the same stock levels. When US exports are at 15 million, second highest ever, such an accomplishment is not easy and destroys any value add.

US WEST TEXAS DRYLAND CROP AGAIN IN DOUBT

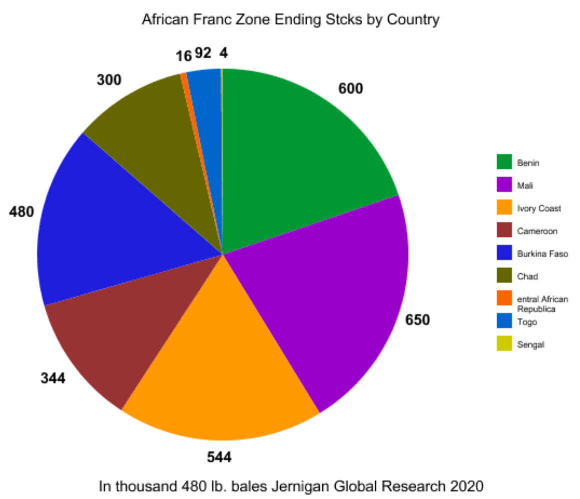
It was a week mostly of hot, dry, and windy conditions across the West Texas region, as the final planting date for the region passed with only the Southern Rolling Plains still having a short amount of time. The importance of the region to US production is sizeable, given the scale of acreage. In 2018/2019, it planted 6.1095 million acres, and in 2019 planted 5.506 million acres. The region has the most volatile weather of any cotton-growing region in the world, which always makes harvested acreage an issue. For example, in 2018/2019 the Southern High Plains planted 3.276 million acres but harvested only 1.475 million acres. Yields can also experience wild swings. In 2019, average yields in the mainly irrigated Northern High Plains fell to only 703 pounds, down from 997 pounds the previous season, as weather extremes and shortage of irrigation supplies affected the crop.

This season, extreme dry conditions are again threatening to destroy much of the dryland crop, as there is no significant rain-producing system in the forecast. In the Southern Plains, approximately 1.5 million acres or more of the total acreage is completely dryland, and the balance depend on supplemental rainfall. This puts the region again in crisis. Moreover, 1.0-1.2 million acres of dryland also require rain in the Rolling Plains region. The

USDA estimated the US 2020/2021 crop at 19.5 million bales, but it is not based on a revised planting estimate that will come at the end of June. At least two million bales of potential US production are at risk without a major rain event over the next 1-2 weeks. The current 7-day forecast is void of any moisture. The longer-range forecast has a major rain event across the region at the end of June, which will save any acreage that can hang on.



HOW CAN THE AFRICAN FRANC ZONE CARRY THREE MILLION BALES OF UNSOLD INVENTORY



The African Franc Zone in 2019/2020 produced 6.07 million bales of cotton, and the region's selling organizations and merchants have both maintained a record CFR basis. This, plus the collapse in global demand, has left the region with a record volume of unsold ending stocks. We estimate the region faces the burden of holding over three million bales or approximately 50% of the total 2019/2020 crop. Given the limited warehouse space in the region, it is difficult understanding how this volume can be managed. At gins, cotton is stored outside, which is a problem even under tarps when the rainy season begins. Very limited storage is available at the ports, and security is an issue. Benin, Ivory Coast, and Mali will carry the largest stocks, accounting for over 1.7 million bales, but even Chad will experience stocks of 300,000 bales. Normal ending stocks for the region is approximately 1.5-1.6 million bales, so the 2019/2020 level will be almost twice the normal level and would simply seem very difficult to manage. The USDA estimated the region will again product six million bales in 2020/2021, which gives it nine million bales of supply and at least 7.5 million bales that will have to be shipped.

The CFR basis for African Franc Zone styles have been elevated all season and now stand at record premiums to Indian and at a premium to both US and Brazilian styles. The top grade Mali T-Juli/s 1 1/8 is offered at 1250-1350 points on July or Dec. A Cameroon Plebe 1 5/32 is offered at 1,500 points on July or Dec, which is equal to a US Green Card E/MOT 31-3-37. The cheapest offer, such as an Ivory Coast Bema 1 1/8, is offered at 1,125 points on July, which compares to 600 on for Brazilian Middling 1 1/8. Such elevated levels would appear to be unsustainable. 2020/2021 new crop offers have been introduced at near the same levels. Indian cotton is taking the business in Bangladesh, one of the largest markets for Zone styles. While the spinnability of the West African is better than Indian, the price discount of 12-13 cents gives the Bangladesh mills plenty of room to compensate. In addition, Bangladesh mill demand is very weak.

ICE FUTURES RALLY STALLS AS JULY LIQUIDATES AHEAD OF FND

Last week, ICE futures continued to operate within a realm with limited interaction with the physical cotton world. The influence of the High Frequency Trading systems and Algorithmic systems clearly ruled the day, with the Funds playing a secondary role as they concentrated in rolling positions from July. Open Interest in July had fallen to only 29,405 contracts before Friday's session, which was the last day for July options, suggesting a sharp fall in Open Interest. Spreading accounted for 70% of the volume on many days, with the spread trading in a range of 1 to 108 points premium July. It appeared the holder of July's fate was willing to let the spread go, as it neared 100 points premium. Market sentiment was clearly swayed by the HFT and Algos that traded off the headlines in the US equity markets. The major indices posted new highs for 2020. On Monday, he S &P 500 made a new 2020 high with every component up for the year. One of the drivers was the US retail investor who has been pulled into the market by zero commission platforms such as Robin Hood and the ability to buy partial shares. These investors also appeared to seek all shares priced cheap regardless of economic prospects. A major correction occurred on Thursday, as the DJIA fell 6.90% and shares tumbled based on headlines of a second virus outbreak. By Friday though, a rebound followed with another wave of buying. For cotton, putting aside the July, the Dec contract encountered resistance at 61 cents and support below 59, and an outside range session occurred on Thursday with a range of 58.75 to 60.34, which may provide future direction.

For the moment, ICE futures are still being driven by outside influences, and the center of attention is now the Dec contract, with July a sideshow for the remaining players. Outside of the short squeeze in July, the Trade has been mainly a scale up seller of Dec. On one side, the weather in West Texas is supportive with the shrinking of US new crop supply, which leaves open the possibility of the rally being extended toward 65 cents. Adding to the uncertainty is the influence of the US equity markets, which appear to have a greater influence of the HFT and Algos than West Texas weather. US production could fall two million bales below the USDA estimate. However, exports closer to 14.5-15.0 and 2.5 million bales or lower domestic consumption is a problem.

We have said the market faces an unprecedented challenge in carrying a record volume of cotton from 2019/2020 into 2020/2021, but so far this pressure has been played out in the CFR basis. The China purchases of US cotton for the Reserve have allowed a short squeeze in July, which has cost the Trade millions, as they have to carry record stocks without carrying charges. In spite of this, we have heard no outcry to reform the ICE contract or ICE. The US has 1.816 million bales of 2019/2020 China sales that cannot be shipped in the remaining eight weeks without record movement. The entire atmosphere surrounding the trade agreement appears bizarre, as China continues to buy US cotton, sorghum, pork, and soybeans. The volume would appear far below the levels agreed to, and there have not been any commercial goods purchase requirements met. However, when asked, the US Trade Representative says they are complying, and President Trump and Beijing are silent. It is almost like both parties do not want to rock the boat in trade for the moment. Besides this, the relationship appears to have worsened. But then, conditions in the US are far from normal due to the Wuhan Virus economic damage, the social unrest, and the endless media attacks against the administration. All this would appear to make the US unlikely to attempt to take on another issue. Regarding cotton, the China sales, if shipped in an orderly manner, will help the US make the USDA export estimates and provide a boost to 2020/2021 export prospects. However, before any sales are rolled forward into 2020/2021, US export sales to China for new crop already account for a third of US export sales. Thus, the drama will continue next season, as the US allows itself to hold the cotton industry hostage to China.

The cotton textile and apparel supply chains remain in a state of flux, as retailers are continuing to announce results for the last quarter and the actions they are taking to halt losses. PVH, the owner of Calvin Klein and other major brands, announced a 1.1 billion USD quarterly loss. Inditex, one of the largest Fast Fashion groups in the world, announced its first quarterly loss ever and that it will close 1200 stores in 2020 and 2021. Other retailers continue to report trouble with paying suppliers. Added to these conditions is the fact that forward demand for orders is returning very slowly. In the US, the social unrest and terrorist activity continues to take a toll on a return of normal retail activity. In Seattle, a far left Mayor has lost control of the city, with a six block square section now under the control of a domestic terrorist group responsible for destroying property and looting. The Trump administration has threatened to intervene. In other regions the destruction of moments and other public structures has continued in Democrat-managed cities where local control is weak. The future of retail in these areas is in doubt. Thus, we remain unsure of the quick rebound in global demand forecast by the USDA. 2019/2020 global consumption will be the weakest since 2003/2004. Adding to the pain of this is the dramatic drop in cotton's market share since that season.

The positive technical outlook of the previous Friday has faded. Prices look weaker, and a close below the 58.75-level would mean a possible downside move. Our opinion remains unchanged. We have been skeptical of the rally due to our concerns regarding the burden of carrying a record volume of stocks into the next season. We have seen the start of the weakness in the CFR basis, but up until now the Reserve sales have prevented any pressure in futures. It is hard to get a handle on how the world outside of China can carry nearly 60 million bales (which includes some adjustment to the Indian estimates) into new crop. What happens if global demand rebounds much less than projected? Well, then the burden will increase with each passing day in 2021.

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