CONTAMINATION EXPANDS INDIAN PRICE DISCOUNTS

US/CHINA TRADE DEAL CONTINUES AMID BIZARRE CONDITIONS

BRAZIL BASIS WEAKENS FURTHER AS ICE SQUEEZE EXPANDS

WAREHOUSE SPACE CONSTRAINTS ALLOWS ICE TO INVERT

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

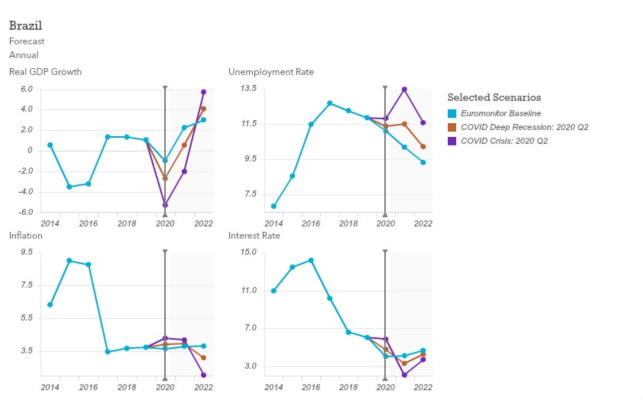
EUROPE AND US RETAIL OPENING SUGGEST SLOW REVIVAL IN DEMAND

The Global retail market is now rapidly re-opening, and shoppers are slowly returning to stores with mixed results. The USDA's rapid recovery to the pre-Wuhan Virus cotton consumption levels would appear very much in doubt. There are clearly encouraging green shoots, but they appear to be more reflective of a rebound from the devastation of March and April than a return to normal. Many parts of the emerging markets are still deeply impacted by the virus. Latin America, which is home to over 650 million people, is now one of the worst hit with Brazil the epicenter with nearly a million people infected. Brazil is the largest economy in the region, a leader in fashion, and home to a very vibrant retail apparel market. Brazil's economy has been decimated, and the retail sector is one of the hardest hit. Their GDP shrank 1.5% in the first quarter and could fall 8-10% for the year. Small business is in crisis, with many banks turning down loans to aid

the sector, and government assistance has not been forthcoming. Many state and municipal governments are reported to be unable to make payroll. Retail sales in April declined a record 27.1% from a year ago in the extended measurement. Textile and apparel sales plunged 75.6% from a year ago, which followed a 39.7% fall in March. Furniture and home appliance sales fell 35.9%.

Brazil Retail devasted by Wuhan Virus

We fear domestic cotton consumption may not reach anywhere near even the reduced estimates for 2019/2020 and 2020/2021, as several mill groups are in the same financial condition as many retailers and may not survive the crisis. Every bale not consumed domestically is another bale that will have to move to export. The virus and social unrest have damaged Chile, which was once the hottest economy in the region. Mexico also remains in the grip of the virus outbreak. No recovery is yet underway, and there is no real government support. Retail offtake of apparel in this huge region is in trouble and will not easily recover for some time. The governments of the region have proven extremely ineffective in managing the virus and have not been able to deliver any effective aid packages.



Impact of Wuhan Virus on Brazil

US apparel sales are rebounding as illustrated by May's apparel sales data showing a surge of 188% off the record lows of April, but sales remained 63.4% below May 2019. A number of additional retailers are rumored to be considering bankruptcy as a way to manage the debt they have accumulated, which usually means losses for suppliers and the closing of stores. In the areas hit by social unrest, the stores face an uncertain future, as local law and order remains a question. New York and New Jersey, where far more than a trillion USD of the US GDP has come from, still has local governments who continue to mismanage conditions, allowing protesters to congregate and march but still will not allowing stores to open. New Jersey allowed non-essential retail stores to open for the first-time last Monday, and many of them had been closed for a record 90 days. JC Penny began liquidation sales at 136 of its stores last week.

In the United Kingdom, shoppers showed some excitement returning to stores. At the Meadowhall Mall near Sheffield, the UK's largest indoor shopping center, only about half the stores opened. The fashion retailers Primark and Zara all reported brisk business, with shoppers lining up for entry. Primark opened all of its 152 shops in the UK and was reported to be offering no special discount. H&M reported that sales in the first two weeks of June fell 30% from a year ago, with 82% of its stores open. Harrods in London reported long lines as customers had to remain two meters apart. Harrods has over a million square feet of shopping space. News reports indicated that at least six Major European apparel chains with a large number of stores in the UK were in danger of moving into administration and were seeking rent concessions. Monsoon, with 230 stores, went into administration on June 3rd. Norway reported that fashion sales fell 42% from a year ago in the last week of May.

Shoppers waiting to enter Primark/UK after reopening

Germany reopens

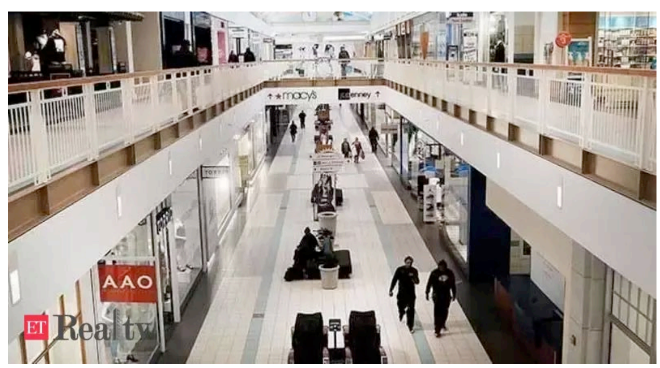
Shoppers have returned to Paris, but foot traffic is far below pre-virus levels. On the premier Paris shopping streets, a study showed that foot traffic on the Blvd Haussmann fell 38% from pre-virus and declined 48% on the Champs Elysees. However, streets in more residential areas reported higher traffic levels. Tourism remains dead, and office workers have only returned in small numbers. Galleries Lafayette has reported higher average spending per transaction. In Italy, the main luxury district of Milan, Quadrilatero della Moda, reported 59% lower foot traffic, while Rome's Municipio traffic fell 55%. A big concern is the absence of international tourists, since global shoppers make up 35-55% of all luxury sales in Europe. The trade group Confemmerico reported a survey of 100 Milan retailers that showed sales down 30% since all shops reopened. In Germany, the luxury streets of Berlin, Dusseldorf, Frankfurt, and Hamburg were at 50-60% of pre-virus levels.

India reopens

Many of the Indian Malls have reopened, but others remain closed as virus concerns continue. Chennai announced a re-shutdown from June 19th - 30th. Mumbai's malls opened on June 5. Westside department store chain reports it has opened only 70 of its 165 stores. Ecommerce stores were allowed to reopen three weeks earlier and have reported that sales are

Indian malls reopening

tracking about 70-80% of a year ago. Each state is making it owns rules, with many not allowing air conditioning, while others are limiting the number of shoppers. The major metro centers of Mumbai, Delhi, and Chennai are at the epicenter of India's continued virus outbreaks. Reports suggest foot traffic is very slow, with only 10-20% of pre-virus levels. Many stores within the malls that have opened remain closed with rent disputes underway. The loss from the 60 day or longer shutdown is estimated by the Confederation of Indian Traders at 120 billion USD. The variation of rules has caused total chaos in many cities. In Delhi's most prestigious mall, Khan Market, the number of shoppers is being limited, and Delhi has imposed alternative day openings. One study of opened retailers reported sales are running at 40-50% of pre-virus levels. The best-selling items have been appliances and home goods, while apparel sales have been quite sluggish. Myntra, the largest fashion ecommerce platform, has been expanding its offerings rapidly. India is a significant part of the global apparel market and is estimated to have a luxury market worth 30 billion USD in 2019.



Khan Mall, New Delhi, most expensive retail in India

China's retailers report that consumers have downgraded to cheaper-priced apparel items, which has impacted the domestic demand for combed and higher count yarns. It has also kept wool demand weak. Wool apparel has been quite popular, but prices are at a sizeable premium to cotton and man-made fiber. Luxury retailers report an increased emphasis on wellness products, which has hurt apparel sales. This has hurt the sales of the most expensive apparel items, and for many shoppers this is a return to reality. Last week's major outbreak of the Wuhan Virus in Beijing has affected the recovery in retail and customer sentiment. Travel restrictions were put in place, along with massive testing and the lockdown of some residential areas.

ITMF ANNUAL SURVEY ON CONTAMINATION CONFIRMS: AUSTRALIA AND US HIGHEST QUALITY WHILE ARGENTINE, GREECE, SOUTH AFRICA, BURKINA FASO AND MEXICO SHOW MAJOR IMPROVEMENT

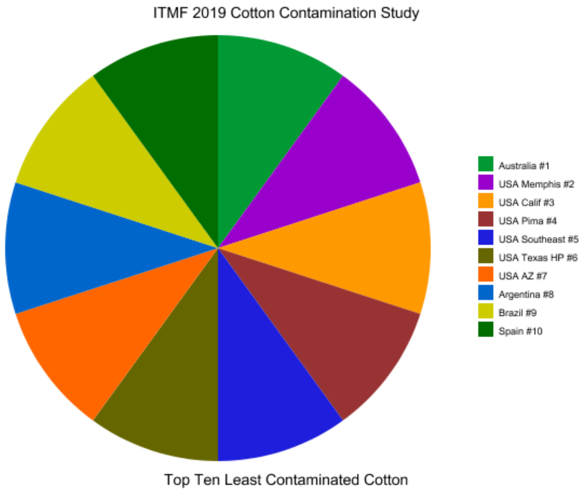
Australian harvest

US Cotton harvest

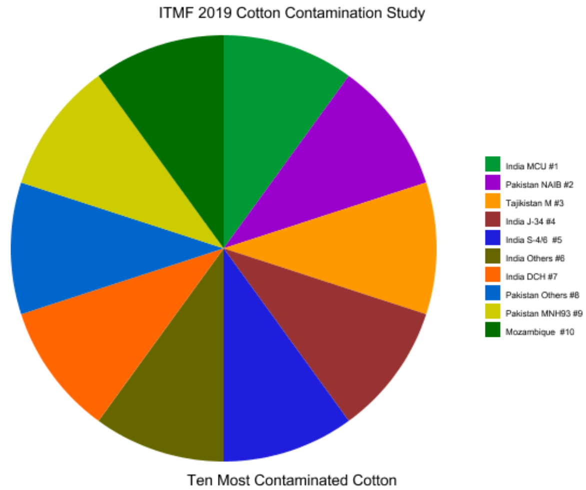
The ITMF 2019 survey of global cotton contamination conducted every three years revealed several significant improvements in quality and confirmed that India still has a major problem. Australia was again #1 with the world's least contaminated cotton, just as it was in the last 2016 survey. US growths have made real improvements during the period since the last survey, while Chinese cotton has suffered a setback, as has Egyptian. The 2019 survey ranked six US regional growths in the #2 through #7 positions. Memphis Territory moved up from #9 in 2016 to the second least contaminated position and was ranked as 94% free of any contamination, which was only one point below Australia. In a surprise, USA California upland was #3, USA Pima came in at #4, USA Southeast at number #5, USA Arizona was ranked #6, and US Texas High Plains #7. The shock was Argentina, where new seed and farming practices has dramatically improved the cotton qualities ranking #8 compared to the 2016 study when it was the thirteenth most contaminated cotton in the world. It still has a problem with seed coat fragments. Brazil was ranked #9, which was down from its #6 ranking in 2016. The study cited problems with stickiness and seed coat fragments.

India CCI sale yards

The tenth ranked, least contaminated cotton was Spain. This represented a major improvement from the 2016 study. South African cotton was ranked #11 following a dramatic improvement in seeds and machine picking. #12 was Greece, which also experienced significant improvement since the 2016 study when it was ranked the 9th most contaminated cotton. Burkina Faso was ranked #13, which also indicated a great deal of improvement since 2106 when it was ranked the 15th most contaminated. USA Others was ranked #14, and Mexico showed a lot of improvement, moving to the #15 position on the least contaminated list. Chinese cotton in the 2016 study ranked four regions in the least contaminated cotton but no Chinese type was in the 2019 top 15. Egyptian Giza also dropped out of the top 15.

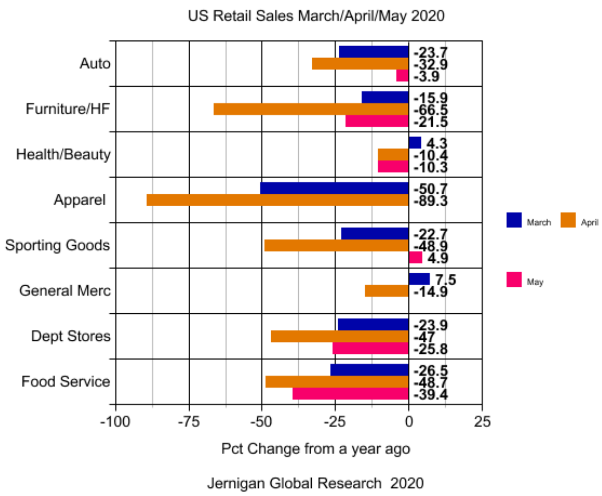


The study also ranked the most contaminated, and it shows why the Indian cotton has been selling at record discounts. Indian MCU-5 was ranked as the most contaminated cotton in the survey, this despite its fiber length. The study cited serious issues with contamination from plastic, jute, organic matter such as leaves and feathers, inorganic matter such as sand, metal, wire, and oily substances. This explains why export offers are at 1000 points or more discount to the African Franc Zone Burkina Faso of the same grade. Pakistan NAIB was ranked #2, followed by Tajikistan Medium Grades. Indian J-34 was ranked the #4 most contaminated. The Fifth most contaminated was Indian S-4/6, followed by Indian Other Regions and Indian DCH. Indian S-6 1 5/32 is currently offered at 50-100 points off July CFR. The contamination issue is costing the producers and government billions, as well as the textile industry, which allocates countless man hours of labor to remove the matter.



The ITMF has also released its annual survey of shipments of new textile machinery. Investment in cotton spinning in 2019 fell by 1.7 million spindles, as shipments of short spindles reached 6.96 million spindles. The top destinations of the new investment were China, India, Uzbekistan, Vietnam, Pakistan, and Bangladesh. Shipments of open-end rotors reached 536,600, a decline of 147,500 units from the previous year. The top destinations were China, Vietnam, India, and Uzbekistan. Shipments of long staple used for wool spinning plunged 66% from the previous year, with China and India the main destinations. 89% of all shutterless looms went to India and China. Shipments of circular knitting machines declined 1.2%, with 61% of all shipments going to China.

US RETAIL SALES REBOUND STRONGLY IN MAY



US retail sales recovered in May, falling only 6.1% from a year ago. This follows a 19.9% decline in April. Apparel sales surged 188% from April's depressed levels and were down 63.4% from a year ago. Total sales at apparel stores reached only 8.419 billion USD, and January-May cumulative sales at apparel stores totaled 57.4 billion USD, a 42.9% decline. Positive year-on-year growth occurred in Building and Home Maintenance +16.4%, Food +14.5%, Sporting Goods +4.9%, and Non-Store Retailers +30.8%. Department store sales fell 25.8% from a year ago.

INDIAN EXPORT SALES SLOW DESPITE DISCOUNTS


Cleaning contamination from Indian cotton

Indian export sales outside Bangladesh are slow, and the issue of contamination and its impact on yarn yields and quality have been clearly illustrated by the poor demand for Indian cotton from Vietnam. Vietnam is one of the most important non-Chinese markets for imported cotton, and in the 2018/2019 season from August-May, Vietnamese mills imported 125,193 tons of Indian cotton. However, in the 2019/2020 season, Indian styles for the last 60 days have been extremely cheap and at a record 1000-point discount to US styles. In spite of this only 48,078 tons have been imported. Over the last several weeks, when the discount of Indian cotton has been at the extremes, Vietnamese spinners have purchased a heavy volume of US cotton while largely shunning Indian cotton. This means that the discount has not been large enough to account for the quality issues. Indian styles, as confirmed by the ITMF study, are the most contaminated in the world, while the US styles purchased by Vietnam are ranked in the top ten cleanest cotton. Plastic has proven a major problem with Indian cotton, and this is very difficult to remove. The US classing system has introduced sizeable discounts for plastic contamination, 4,000 points or a hefty 40 cents a lb.

Shankar-6 1 5/32 and 1 1/8 CFR export offers remain at an off basis, 1 5/32 offers stand at 50-100 points off Dec, and 1 1/8 at 100 off. Spot prices at the gin in Gujarat stand at 55.50-56 cents a lb. The CCI has lowered its offering prices, which remain above commercial levels, and also extended its bulk discounts. The CCI faces a major struggle to liquidate its record stocks.

The Indian monsoon has expanded and remains active. The heaviest rains have fallen in the Madhya Pradesh area of Maharashtra and Coastal Karnataka. The monsoon is forecast to expand.

US TRADE REP LIGHTHIZER CONFIRMS CHINA HAS BOUGHT ONE BILLION USD OF US COTTON AND HAS HIGHER TARGETS

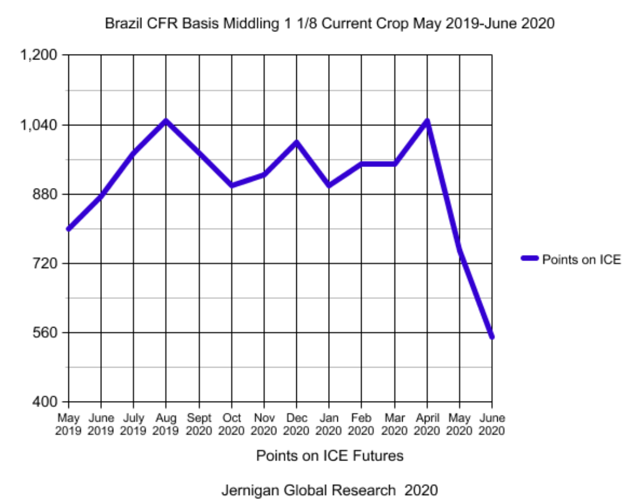
In an open hearing last week, US Trade Representative Lighthizer told US lawmakers that China remains committed to Phase I of the trade agreement. He reported China had purchased 10 billion USD worth of US farm products so far. One billion USD worth of cotton was part of that purchase. He went on to say the purchases were still below the targets set for the year. US/China relations are certainly in a bizarre period. President Trump signed a bill passed by both houses of Congress that cited China's abuse of Uyghurs in Xinjiang and required the US to sanction any Chinese officials involved in the torture. On the same day, former White House official Bolton breached confidentiality agreements and released excerpts of his new book saying Trump had early on encouraged Xi as he established the camps in Xinjiang. President Trump denied this and called Bolton a disgruntled fired advisor. This all occurred the same day Lighthizer testified to Congress on China's repeated verification of intention to honor the trade agreement. Meanwhile, the list of actions that we were supposed to be taking against China for its violation of Hong Kong's autonomy have received no further commentary since the President's announcement, which adds to the bizarre nature of current conditions. Meanwhile, two large Chinese companies used a secondary listing on the Hong Kong Exchange. Net Ease raised 2.7 billion USD, and JD.COM raised 3.9 billion USD, all with the assistance of American banks, JP Morgan and Bank of America. So, despite all the rhetoric, the key US banks are continuing to finance the CCP companies, and China continues to buy US cotton and soybeans. US/China officials met in Hawaii, and China said the state trading groups were told to honor the agriculture purchases. At the same time, President called for a decoupling with China. Conditions are bizarre, to say the least.

The US weekly export sales report included China sales of 226,500 tons of US sorghum, 1,353,000 tons of soybeans, 10,000 tons of pork, 90.700 bales of upland cotton for 2019/2020, and 24,200 bales for 2020/2021, along with 1,300 bales of Pima. In addition, cotton export shipments increased to 90,700 bales of upland and 3,500 bales of Pima. The Lighthizer comments on cotton ignited memories of the early comments in the press that the Reserve had approved a million tons of US cotton purchases for the Reserve, which were never confirmed. So far, one feature of the trade agreement is clear; China and its trading houses and the traders completing the sales have inside knowledge of the biggest source of demand in cotton, soybeans, and a few other products. This has clearly given China great commercial advantage. Soybean prices are only nominally off the lows, and cotton has enjoyed the largest rally, but mainly after most US growers had sold, and basis levels have remained weak.

US weekly export sales remained primarily a China/Vietnam event. 2019/2020 sales totaled 117,800 running bales of upland, and cancelations reduced net sales to 97,600 bales. China was the main buyer of 90,700 bales followed by Vietnam at 19,000. 2020/2021 sales totaled 148,400 running bales of upland, with Vietnam a buyer of 100,300 running bales and China 24,200. Turkey canceled 6,800 bales for 2019/2020 and purchased 17,700 for 2020/2021. 22,000 bales were registered for 2021/2022. Export shipments were very brisk at 348,300 running bales of upland, which included 123,500 to China and 89,900 to Vietnam. 5,900 bales of Pima were also shipped. Total US export sales now total a record 17,837,800 480-lb. bales. However, only 12,712,635 bales have been shipped. The US is now on track to exceed the USDA export target of 15 million bales. A record volume of 2019/2020 sales will be carried forward. The US now has 1,783,600 running bales of upland sales sold to China but not shipped for 2019/2020 and outstanding sales of 930,400 for 2020/2021. During the past eight weeks, China has purchased 1.949 million running bales of US cotton. If China continues its US buying spree, it will provide a serious boost to 2020/2021 export prospects for the US.

BRAZIL BASIS WEAK AS US CAPTURES RESERVE PURCHASES

Both the CFR Asia basis and the FOB Santos basis have turned weaker as demand continues soft and US styles continue to capture the Reserve's purchases and Vietnam's recent buying spree. The Vietnam sales could always be registered in the US but have an option to ship Brazil, but this is only known by the shipper and buyer. The FOB Santos basis for 2019 crop is bid even Dec for a Middling 1 1/8, while growers are offering at 200 on, and the 2021 basis is the same. This is the weakest FOB basis in years as the glut of 2019 stocks, a record 2020 crop, and poor demand all weigh on prices. For growers, the export market is the only choice, considering domestic demand is so weak. The ESALQ Index of a 41-4-35 landed Sao Paulo collapsed last week as the Real/USD exchange rate also took a dive. The Real/USD exchange has become extremely erratic. After reaching 5, it collapsed back to 5.35 on Thursday, which has taken the spot domestic index back toward 50 cents or 1100 off July.



Merchants are now offering a wide range of recaps of 2019 Brazilian styles for immediate shipment at aggressive basis levels. Several large blocks of lower strength lots have been offered with a minimum GPT of 26 and 27. These are drawing deeper discounts. SM 1 1/8 27 GPT is offered at 700 points on Dec, while an M

1 1/8 was offered with a GPT of 26 at 500 on Dec. The 2020 crop basis is at 800 on Dec for a Middling 1 1/8, but trades as low as 600-700 on have occurred. When the Mato Grosso crop moves in full force, there will be serious pressure to move stocks. As the week ended, Vietnamese mills were reported to be showing new interest in Brazil at very cheap basis levels nearing 500 on Dec for 2019 crop.

The Wuhan Virus is causing economic and human destruction throughout the country. As of Friday, Brazil had reported 47,897 deaths and 985,314 cases, with limited testing. Mato Grosso, the largest cotton producing state, is in much better shape, with only 295 deaths and 8,166 cases, with Cuiaba the hardest hit. The major cotton towns have, however, been impacted. The problem is that the virus is now spreading in a state that has limited ICU beds. In the cotton and soybean towns of Sinop and Sorriso, hospital beds are in very short supply.

TIGHTNESS IN MEMPHIS WAREHOUSE LOCATIONS ALLOWS JULY ICE TO LIQUIDATE AT PREMIUM

The world faces record 2019/2020 carryover stocks as the season ends and will pay an extremely large cost to carry over 60 million bales forward into 2020/2021. It only has one risk management tool to use to attempt to manage that risk, and that tool has failed again to cover that risk.

The ICE contract has had problems with its antiquated delivery system since the acquisition. First came the Hedge Funds price squeeze of 2008 and then the experience of 2010/2011. All of this was followed by the problems with the US warehouse system and the exchange in 2014, the year in which Reuters ran a major feature asking, “Is Cotton the New Aluminum?” Aluminum warehouses have long been a problem for the LME contract, with legendary delivery delays. Now we come to the May-July delivery period 2020 when the world has just experienced the greatest shock to demand on record, as the Wuhan Virus took world cotton consumption from more that 120 million bales to near 102 million, the lowest since 2004. This shock raised world ending stocks outside of China by over 18 million bales. These stocks of over 60 million bales will be largely held by the private sector. Approximately 10 million will be held by the CCI and US CCC Loan. This means the Trade will face carrying charges of over 40 million USD a month. The Trade position in ICE has been much smaller than normal all season. Then, it appears that those that did have hedges in May and July had to roll positions without carrying charges. Increased hedges have been placed recently directly in new crop futures. Most of the hedges that were in 2019/2020 were rolled into July at just below par or actually at a premium for the late rollers.

The sales to China have no doubt provided the stimulus for the invert of July, and the ICE delivery system does not provide much capacity outside the Memphis region. The delivery points are Galveston, Greenville, Houston, Memphis, and Dallas/Ft Worth. Absent are any West Coast warehouses or any warehouse that could easily draw cotton from the West Texas region. Efforts to add warehouses in both regions have been blocked. For years, prior to the 2008 takeover of the NYBOT, the fears were the possible delivery of Arizona and a heavy certification of Texas High Plains cotton. The total capacity of the current approved warehouses is 3,184,500 bales. It is unclear if all warehouses are actually open today for public use. Out of this capacity, the focus is Memphis, where the largest US merchants have been located. The Memphis delivery warehouses have a capacity of 1,824,500 bales. Delivery capacity in Dallas is 649,000 bales, with the balance spread between the other locations. The major merchants own many of the warehouses, with one group controlling eight or more warehouses.

Even a Chinese trading firm has three warehouses.

July/Dec 2020 Futures Spread

Thus, if a group wanted to make delivery and owned no warehouses, the space is limited or could be blocked. Actually, all production from the West Texas region faces a high cost to be certificated for delivery. This cotton would likely have to be placed in Galveston, Houston, or Dallas. At a time of such large stocks available, warehouse space in these locations could be very limited given the low capacity. The cost of certification for West Texas cotton is 600 or more points and could be higher. The effort to keep West Texas cotton off the contract shuts out 4-5 million bales of supply. The largest producer groups from the region own no delivery approved warehouse. Then, you have the California and Arizona upland small crops blocked. This cotton all moves to the California ports and does not move east. With no West Coast delivery point, cotton moving to export cannot be switched to delivery easily.

A very large volume of potential deliveries is blocked from delivery except in very unusual times. Growers who have wanted to place cotton into certification from the region have found the hurdles very difficult. Thus, the available warehouse space can be controlled, and the capacity is defined. It is simply shocking and mindboggling that in 2020 no delivery warehouse is located on the West Coast. Under the NYBOT, a warehouse and delivery committee provided active input, and all aspects of the procedure were debated regularly.

The potential buyer who wants to take delivery faces unbelievable problems if he is not one of the owners of the delivery approved warehouse. The buyer is only assured that delivery will be completed within nine weeks of the request, more than two months. It is therefore unfeasible for buyers to, say, take cotton in May, since they would be in a race to be assured to get the cotton before the end of the season. In July is even more of a problem, as they will not get the cotton until the next season. The rules for making and taking delivery were written by a past generation and have not been modernized, so those that know how to use them for their strategic advantage are limited. New players attempting to enter the process find it shocking, expensive, and difficult.

We now come to the latest drama, a squeeze on July amid a record world carryout outside China and India and a carryover of seven million bales of US cotton into new crop. The squeeze was made possible by the antiquated delivery systems, the lack of delivery points with easy access for West Texas supplies, and the lack of West Coast delivery. Then, we have the Chinese trade houses that can trade the ICE futures with their inside information of the Reserve buying intentions. The China ZCE does not allow the Reserve to trade its futures due to the unfair advantage. The exchange even controlled other state trading groups' use of the ZCE until the contract matured and hedging increased. Overall, the ZCE contract is well managed but is not a tool for hedging of non-Chinese cotton. The final shorts in July last week had to pay up. The premium of July held firm and steadily moved toward a new high of 200 points. Open Interest declined rapidly ahead of First Notice Day, which is Wednesday, June 24th. However, 10,564 contracts, which represent over a million bales, were left open. With a maximum deliver capacity in the Memphis warehouses, the sale of more than 1.9 million bales of cotton to China over the last eight weeks set up the perfect invert against a Memphis area capacity of just over 1.5 million bales. Meanwhile, millions of bales out of location cannot alleviate the shortage. The final shorts could face even more pressure.

The invert has contributed to a collapse in the Brazilian and Indian CFR basis levels. A look back over the last five years found July has drawn very limited deliveries. The five-year average is only 558 contracts or 55,800 bales. The heaviest was 1,533, and the smallest was 3. Only six firms have been major players, with a few dominating. Total Open Interest in futures had fallen to only 170,051 contracts through June 17th. This got our attention since this is lower than it was on May 7th when it stood at 174,593. Thus, the Invert has occurred on low volume and mainly from forced short covering. However, the Reserve sale has been at the root of the move.

CHINESE SPINNERS REPORT BETTER DEMAND FOR CARDED YARNS THAN COMBED DUE TO CHANGES IN CONSUMER DEMAND

Chinese spinners report improved demand for carded yarns

Demand in China for the top grade, longer staple cotton is weak, as combed yarn demand has declined and failed to return to earlier levels. Inventory of combed yarns are reported to be larger than for carded. Most of the combed yarns go into higher end export product, with a smaller amount moving into products for the domestic markets. Orders are reported poor from both segments. Export orders are very weak, and domestic consumers are scaling down their apparel quality. This has also hurt demand for wool, with Australian EMI for wool just off its lows. The Eastern Market Indicator for wool has fallen 555 Australian dollars a kilo over the past 12 months due to weak Chinese demand. It was down 3.33% last week in USD terms.

Port stocks of unsold cotton yarns are estimated at approximately 186,000 tons held in Jiangsu, Zhejiang, Guangdong, Fujian, and Shandong, Hebei. May imports fell more than 50%, with Vietnam remaining the top supplier. In Xinjiang the government continues to provide subsidies to the textile sector in an attempt to revive it. It announced a 300 million RMB, 42.33 million USD, subsidy for utility bills, which will reduce the sector's water and electricity. Additional companies are now making new efforts to assure they are not sourcing in Xinjiang following the publicity that the concentrations camps have received in the US since Uyghur rights bill was signed. This marked the first time any government has taken any official action to stop the abuse in Xinjiang, which should put further pressure on the textile industry in the region.

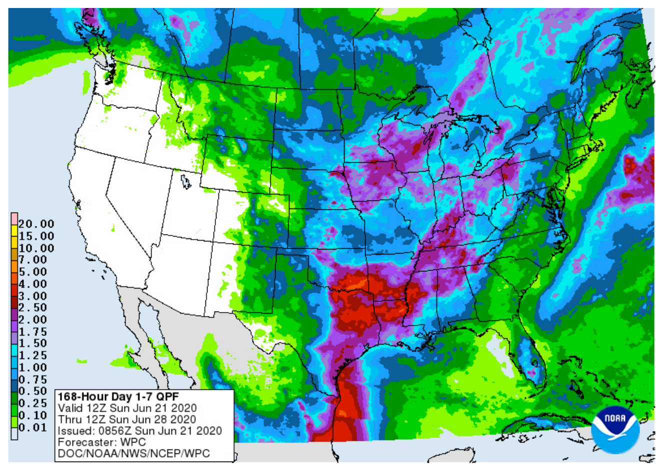
The China Cotton Association estimated 2019/2020 cotton use at 7.650 MMT or 35.148 million bales, compared to the USDA's 33.0 million bale estimate. This appears too optimistic. The crumbling of the Shandong Ruyi textile and apparel group continues with a great deal of drama. In 2017, the company gave the impression that it was on track to be a Chinese version of the luxury group, LVMH. Earlier in 2013, their chairman had purchased the third most expensive residential property in Sydney, Australia, an event in which no one questioned where and how the funds got to Australia, and the company purchased the largest cotton producing property, Cubbie Station. They signed MOUs across Africa to create a complete supply chains from cotton production to apparel in such remote locations as Nigeria. They even showed up in the US and created a lot of excitement regarding the development of the largest new US cotton spinning operation in centuries. Much of this turned out to be nothing but bravado combined with smoke and mirrors, as the MOUs turned out to be worthless. It soon become clear that the company's global buying spree was built on credit that was raised from both Chinese and international investors. US investment banks appeared to also get in on the act, and the actual financials mattered little. The debt trail is now coming due, as is the bizarre story of how a state-owned company created subsidiary after subsidiary and then went public on the Chinese and Hong Kong exchanges to create a maze that would confuse even the most articulate accounting firm. Moody's has now downgraded its debt to Caa3, which is junk, as the company is scrambling to make payments to bond holders.

US Uyghur Rights Bill signing

Even the other state-owned investment companies in Shandong, where the company is headquartered, are attempting to reduce exposure. Earlier headlines were made when the Shandong-based Jining City Urban Construction Investment Company was said to take a 26% ownership in the company, making it the second largest shareholder and providing it a lifeline. It recently announced that it has not completed the investment and will instead own only .01% share in the company. However, earlier they did act as a guarantor on a 1.9 billion RMB bond issue for which it received a 25.9% stake in the parent company of Shandong Ruyi. The company is seeking a delay in a bond payment until December 15th. It is unclear the number of spinning operations that have been impacted by their credit problems.

US WEST TEXAS REGION RAIN CHANCES MUCH IMPROVED

The seven-day outlook for the West Texas region is rather wet for much of the area. Through Thursday of last week, rainfall was scattered, although some areas received pockets of rainfall. But heavy rains appear on the way. Some dryland has failed, and other acreage is under serious stress. From 5.5-6.0 million acres are in play, and abandonment is still a moving target as to exactly when the rains fall and where. Seed planted recently in the dry soils will require a soaking rain to emerge and move to a stand.



CHINA RESERVE PURCHASES CONTINUE TO DISENGAGE ICE FUTURES FROM REST OF WORLD PRICES

For international traders of cotton, these are certainly hard times. The main risk tool for management of the price risk is under the influence of the China/US trade agreement, which gave China major commercial advantage in its buying, including the influence of futures. It remains purely the secret of the Chinese trade houses acting for the Reserve and the US merchants completing the sale as to China's remaining intentions for its final Reserve purchases. If indeed it plans a million tons purchase for 2020, then there is much more to come. Rumors of additional purchases surfaced Friday. If Reserve purchases do total 4.5 million bales, it changes world stocks outside China very little, but it will increase world trade. China's commercial cotton imports are likely overestimated, given the port stocks and poor demand. The main importance is that it will give US 2019/2020 exports a big boost and make the USDA 16 million bales of export much more of a possibility. The impact of the Reserve purchases is making ICE become isolated, and the CFR basis for all other growths turned weaker, as we have been discussing for the past 60-90 days. The Brazil CFR basis is under pressure, and this is likely to accelerate it as the few mills who can buy realize they are in the driver's seat, which is what happened this week as cheap bids surfaced. We expect major pressure as long as ICE moves higher. With limited space, cotton can be shipped out afloat, which means significant pressure with weak demand.

Maintaining an artificial ICE price level when the US has an ever-shrinking domestic consumption requirement has many difficulties. Currently, spinners can buy Brazilian 2019 crop at 300-500 points under US and 200 points or more below US new crop. Much of the US export commitments are with merchants operating across all origins, and, amid the greatest period of financial stress on record, many may seek to switch to Brazil and capture the saving. For merchants with high-priced unshipped sales, it is all about completing the shipment. New sales are also an issue. US and Brazilian are near the same in quality most of the time, and in recent years there has been very little price difference in the type basis. The 2021 crop Australian basis also turned weaker, falling to 2000 points on May 2021, reflecting a 300-point weakening. The FOB basis is 950 on.

The Indian discount has drawn limited interest outside Bangladesh, and the reason is the contamination problem discussed earlier. The weakness in the Brazilian basis has reduced the discount of Indian to Brazil, giving it no advantage until the discount widens. The Brazilian discount suggests it is going to be difficult for the US to maintain the momentum in sales to Vietnam, Turkey, and others, which could mean the China Reserve sales were more of a zero-sum game if they distort ICE price levels.

The outside range in Dec created the previous week has proven a good technical guide, with Dec closing below the low of that session last Monday. It quickly recovered Tuesday and remained within the range the balance of the week, never closing above the highs of 60.34. The CFTC COT report indicated that, while the overall Trade position was near even of long and short in July, some trade houses were caught in the short July squeeze. The COT data showed the Trade net short position last week through June 16th declined 6,424 contracts. A closer look showed that was due to the short covering of 6,587 contracts in July. Thus, the squeeze took an additional toll on the Trade in addition to the lack of carrying charges. The Managed Funds through Tuesday were small net sellers, but that may have been reversed by the end of the week. Overall, these are strange times, ICE futures are in their own world, and normal forces are not at play. There could be more pain for the remaining July shorts unless the other side feels generous. The Dec contract is enjoying its impact, as last week's weaker technical outlook went nowhere, and here we are. A close firmly above the recent highs should trigger a new wave of Managed Funds buying. If that does not occur, then prices remain vulnerable to new price weakness. Higher futures will likely mean dramatically lower CFR basis levels, and, even with weaker futures, the pressure to carry the record stocks is real and will not go away with the games of ICE and China's Reserve purchases.