NEW YORK'S ROLES AS GLOBAL FASHION CENTER IN DOUBT

BRAZIL COTTON CFR BASIS COMES UNDER MAJOR PRESSURE

FAITH IN CHINA INC IS CRUMBING

INDIA CCI PROCURES A RECORD 9.2 MILLION BALES

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

CHINA TRADE HOUSE PURCHASES OF US COTTON CONTINUE: ARE THESE LINKED TO THE RESERVE OR YUAN /USD EXCHANGE RATE?

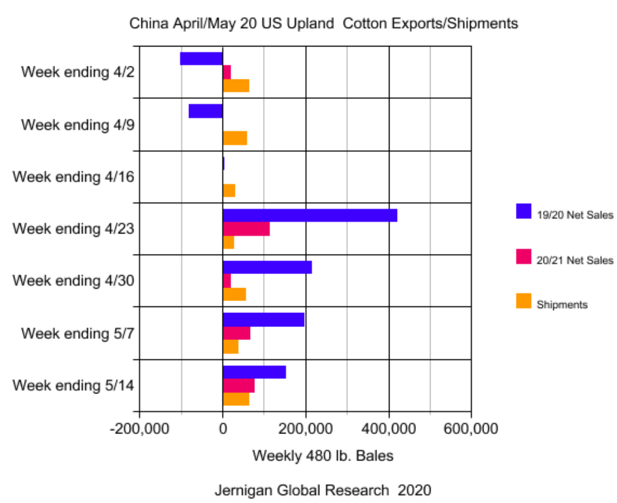
The continued China trade house purchases of US cotton at a premium amid the weakest physical cotton demand in decades continues to raise a host of questions. Last week's confirmation of additional purchases has only added to the mystery. One theory making the rounds last week was that, despite all the actions of both the US and China, both sides wanted to continue trade because each needed it, the US having sold many supply chains in their entirety to China, which needs and requires Chinese imports, and with the economy in a recession these imports are essential. Then there is the fact that the Chinese economy is very weak, and its exporters must have access to the US market. In addition, the Chinese fear a second wave of the virus is possible, as is now occurring in the country's rust belt. This is causing restocking of key commodities. Therefore, China is making some small progress on its agriculture commitments in the trade agreement. In the weekly USDA export sales report for the week ending May 14th, China made no headline purchases but did make several purchases. 128,900 running bales of upland cotton was sold for 2019/2020, and 79,200 for 2020/2021, 131,500 tons of sorghum for 2019/2020, and 32,000 tons for 2020/2021, 737,400 tons of soybeans for 2019/2020, and 462,000 tons for 2020/2021, and 20,000 tons of soybean oil.

However, by the time last week ended other newsworthy announcements surfaced when Xi Jinping made a bold move on Friday proclaiming a clear end to any attempt to honor the Hong Kong Handover Agreement. On the opening day of the CCP Party Congress it was announced that China would bypass the Hong Kong legislature and would establish a new security law in Hong Kong that would allow it to suppress all press freedoms, arrest people at will, and abandon the "one country-two systems" model it had promised. At the same time, it was clear Xi was using this to cover up his massive mistakes in dealing with the economy and the outbreak of the virus, as China announced an end to its annual GDP targets. Bloomberg headlines added to the tension with some analysis summing up China's move this way: "We are going to do what we want in Hong Kong and not scared of the consequences", and, "China dares Trump to hit back in Hong Kong power grab."

The reckless action by China caused a major exodus of capital out of Hong Kong and furthered the flight of capital out of China. The MSCI Hong Kong Index ETF saw its largest losses since 2008, while the Hang Seng Index plunged 5.56%. China's Mainland Index also fell sharply. The Yuan/RMB index declined sharply in its managed trading band to 7.1432 per USD. The actions by China in Hong Kong then began to fuel speculation that China's recent commodity buying wave around the world was stocking up by Chinese trade houses and groups ahead of this action and a possible RMB devaluation. This has been evident in Australia where China has started a bitter trade dispute, but not in the commodities it needs. Iron ore and thermal coals imports are up sharply, and China has been on a major iron ore-buying spree. China was active in Brazil, where a record volume of soybeans was purchased during January-April. Given the Chinese actions in Hong Kong, capital flight is likely, and the Hong Kong dollar peg will not hold. Thus, the RMB/USD rate could move to near 8.

This has raised the possibility that the accumulation of the US cotton by the Chinese trade house may be just a trading position accumulated at a low exchange rate and low price. This remains to be seen, but it could be linked to the Reserve and the rest is just conjecture. It is clear that the method used in these purchases marks a new buying procedure for the Reserve, if that is what it is.

Total 2019/2020 export sales during the week reached a gross 186,400 running bales, and cancelations of 57,500 bales reduced net sales to 128,900 running bales. China was the only game in town with purchases of a net 153,600 running bales and just a few token few went to Turkey 5,400 bales, Vietnam 3,900, and Nicaragua 2,200 bales. Bangladesh and Thailand appeared to roll 2019/2020 sales into 2020/2021. Bangladesh canceled 16,300 bales, Thailand 11,900, Japan 4,000, Malaysia 3,500, and Mexico 2,800 bales. 600 bales of Pima were sold. 120,200 running bales of upland were sold for 2020/2021, with China again the big player taking 79,200 running bales. Bangladesh took 19,800 bales and Thailand 11,200 bales.



Export shipments were light at only 252,200 running bales of upland and 4,600 of Pima, with only 64,100 running bales of upland shipped to China. The US has shipped 11,510,257 480-lb. bales. Eleven weeks remain in the season, and average weekly shipments will need to average 313,262 bales to meet the USDA's target.

During the past six weeks, US export sales to China have shown great volatility. In the first three weeks for the period ending April 16th, China canceled a net 187,600 running bales of upland for 2019/2020 and purchased 22,200 running bales of upland for 2020/2021. The next four weeks saw sales of 991,900 running bales of upland for 2019/2020 and 284,700 running bales of upland for 2020/2021 shipment. At the same time, actual export shipments reached only 342,900 running bales during the six week period. Total US upland purchases by China over the past four weeks reached 1,279,600 running bales of upland. The volume suggests this cotton, if shipped, will be headed to the Reserve stocks.

These sales will likely help the US to meet the USDA's export target as they offset additional sales for 2019/2020, which will likely get switched to 2020/2021. Last week, a large increase in the number of bales under shipping orders suggested that a notable increase in weekly Chinese export shipments will occur over the next 11 weeks. This does raise the opportunity that export shipments may exceed the USDA's target, but that will all depend on China. The US has 1,734,000 running bales of upland sold for 2019/2020 and unshipped, and it remains quite doubtful such volume can be shipped.

NEW YORK CITY WAS NAMED GLOBAL FASHION CAPITAL JUST BEFORE THE WUHAN VIRUS STRUCK

In February, New York City was named the fashion capital of the world, replacing its main rival, Paris, and the city was preparing to make its mark around the world with its fashion trends. Paris and New York compete annually for the title, with Paris winning six out of the past 10 years. New York City had a GDP of 1.5 trillion USD in 2019, but the city has been in slow economic decline since the election of what many views as a socialist mayor who has triggered a real estate exodus as well as a host of other problems. Nonetheless, the shear economic power of the city has been propelling it forward. The fashion industry had continued to prosper. However, before the pandemic the retail sector had begun to show signs of weakness, and real estate prices had come under significant pressure as an exodus had begun due to the policies of Mayor Bill de Blasio. Now the city is in crisis following the mayor's early lack of virus response. New York City has suffered the largest number of infections and deaths in the US. New York had actually drawn the wrath of the US government before the crisis because of its actions as a sanctuary city in which it failed to honor US laws that increased the flow of undocumented aliens. These conditions created a hotbed for the breakout of the virus. NYC is the hardest hit area of the US, and the mayor has employed draconian measures in an attempt to control the outbreak that has destroyed the economy.

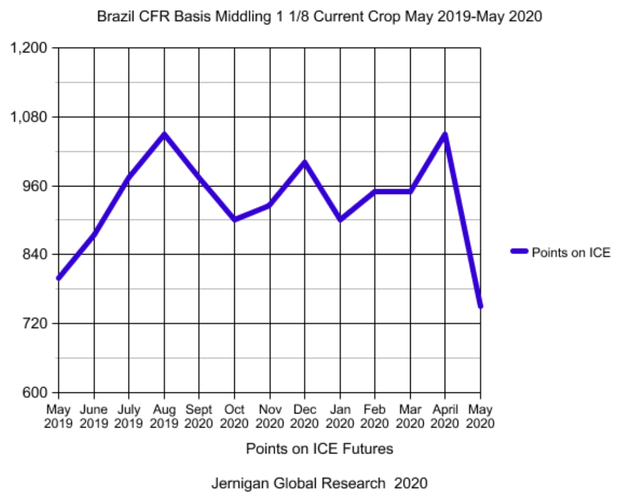
New York's fashion industry employs 180,000 people and creates more than 10 billion USD of wages. The city is home to an estimated 900 fashion companies and approximately 75 major trade shows. The city has maintained and promoted a small Made in New York program that manufactures a few high-end brands. The city's historic Garment District continues between 5th Street and 9th Street. All the major department stores have been closed and not yet open. Many of the landmark department stores face severe credit restraints, and a number of the showcase stores may be forced out of business. In the new environment, having an incredibly expensive piece of real estate on Fifth Avenue is not a necessity.

New York City's has two great assets that helped establish its place in global fashion. First is its role as a top tourist destination providing high traffic locations for retailers and brands to showcase their products, just as Hong Kong did prior to China's violation of the handover agreement in 2019 that ended that role. The second asset is a large labor pool of creative people, as the city is the desired location of many up-and-coming designers. Both of these are now under threat. First, travel has stopped and international travel is not expected to return to pre-virus levels until a vaccine is achieved. Secondly, many small businesses now face permanent closure due to the shutdown and very slow reopening. The high density of NYC has now caused the creative workers, as well as others, to find other locations with more open space and much cheaper living conditions. Real estate agents have confirmed these trends.

The question is where the designers and fashion industry will move to. In the annual ranking of fashion capitals, Paris, London, and Los Angles have finished out the top four. Los Angeles is experiencing large-scale flight due to mismanagement by the California state and city governments. Both New York City and Los Angles face massive

budget deficits and increased spending, as both cities appeared committed to their socialist ways adding new benefits for illegal aliens and increasing salaries for many in the administration. All of which means more taxes. In the annual listing of the top 25 Global Fashion Capitals, the Texas cities of Dallas and Austin have received mention. At this time, neither has any notable fashion industry or apparel manufacturing facilities. Austin appeared destined for the escape of tech companies from California. Texas is well run, has low taxes, and is business friendly, so it could certainly end up as a city fulfilling the role. Nashville and Atlanta have also been discussed as possible new locations. Much will depend on where the US re-shoring efforts gain momentum. One ingredient of both the success of the New York City and Los Angles areas as fashion centers has been the availability of nearby manufacturing facilities for the young designers. New York had made a name for itself with several popular small denim brands before the crisis.

BRAZILIAN CFR BASIS COMES UNDER MAJOR PRESSURE AS SALES SLOW



The recent improved quality of the Brazilian cotton and steady Chinese demand have ushered in a period of stability in the Brazilian CFR basis levels. The much-improved staple length, which has made offers of 1 5/32 common, has also made Brazilian cotton interchangeable with US cotton, resulting in Brazilian moving in volume to every major market in which US cotton is sold. All the large merchants are international in scope, with Brazilian operations that equal those in the US. The improved quality and political motivations encouraged the major Chinese trade houses to switch to preferred Brazilian sourcing shortly before the US/China trade war began. Against this backdrop, up until May 2020 the average CFR basis for a Brazilian Middling 1 1/8 held steady near 900 to 1200 points on the cover month in ICE. We have been expecting pressure to build on all basis levels to move the record inventory of cotton located outside of China. The pressure began on the Indian basis and has now spread to the Brazilian, as ICE futures continue to be driven by the games surrounding the US sales to a Chinese trade house. The reliability of ICE to perform as an effective hedging tool ended in the May contract delivery period, as one trade group provided strong support and ended nearby hope of the market reflecting carrying charges.

Brazil is facing carrying record stocks for the first time into the 2020/2021 season, while at the same time domestic consumption is the weakest since 1984/1985. This is shocking, since in 1984 the GDP of Brazil was only 209 billion USD, but in 2019 it reached 1.868 trillion USD. Despite the record growth in the consumer spending power, the domestic industry remains at the same level. As we discussed last week, each administration has failed to unleash Brazil's potential, failing to reduce taxes, the regulatory burden, improve infrastructure, and give the industry access to credit. Government corruption has remained a serious issue that has impacted every aspect of the business. The local ESALQ Index of a 41-4-35 has collapsed to over 1300-1400 points under ICE, with the price on May 19th at 45.58 an indication of almost no demand, as the industry operates at extremely low capacity.

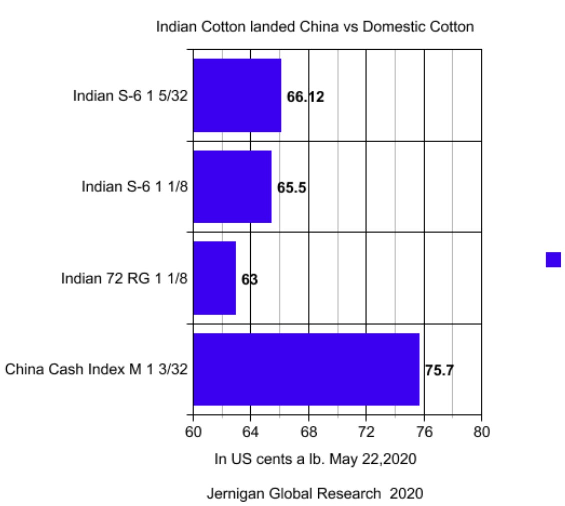
The record 2019 crop and the reduced domestic cotton use since March have caused Brazil to face a record inventory of unsold stocks that will have to move as the 2020 crop moves from the gin. Brazil has no sizeable warehouse storage and stores their cotton under tarps. This reduces the length of time it can be safely stored. Until recently this storage method worked well as the entire exportable surplus was shipped before the next crop moved, and stocks were so tight that the domestic industry had to import. This all ended with the record 2019 crop. As last week ended, the export CFR basis had weakened to 750 points on July from the largest merchants. This represents a 200-300 point weakening in the basis since April. For the first time in two seasons, Brazilian styles are now at a 200-point discount to US offers.

The discount may lead to merchants switching shipments for Middling and SLM 1 1/8 out of US styles and to Brazil. Some sales were made with Brazil/US seller's option. Brazilian offers are also under pressure from Indian offers, with the typical Indian Middling 1 1/8 S-6 at 50-100 points on July.

Spinners have been approaching business quite cautiously and are seeking only discounted lots. The long shutdown has increased raw cotton inventories along with most operations running at low capacity. Some spinners are willing to bottom pick to lower the average price of inventories, which means they are seeking discounted basis levels. In previous seasons, merchants have been able to unload Brazilian inventories at 600 points on the cover month, but it remains to be seen at what level larger scale demand for Brazilian styles will return.

Brazil faces a significant hurdle due to a record carryover that will be added to a near record 2020 crop as the country moves into July. At the moment, merchants are maintaining premiums in the new crop basis, with the 2020 crops Middling 1 1/8 now offered at 1000 to 1100 points on Dec 2020 and SLM 1 1/8 is offered at 900-975 points. The catalog of offers will likely expand once the Bahia crop begins to move. In the past two seasons, the Bahia crop produced 37 and 38 staple lots, which have become very popular in some export markets.
The continued rapid spread of the CCP Wuhan Virus does present a risk to shipping. Infections in the country reached a new high last week, with 19,951 new cases on Wednesday alone, and the US is considering a travel ban. If Santos Port operations are forced to slow or close, this will cause serious problems during the remainder of the year.

CHINESE MILLS TAKE UP INDIAN COTTON AT RECORD DISCOUNTS



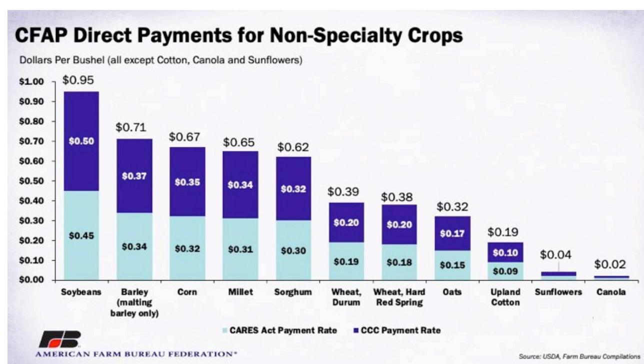
Chinese mill demand has been very light. However, Chinese textile and cotton organizations in their forecast have called for a recovery in cotton use in 2020/2021, raising their estimates by 3-4 million bales from the depressed levels of 2019/2020. This is based on the expected recovery of global export orders and increased retail sales of apparel in China. This outlook, when combined with the ability to purchase Indian cotton at record discounts to domestic cotton and to imported cotton setting in the bonded warehouses, has led to offtake by mills with 2020 cotton import quotas. Mills without quotas have also taken up a small volume of Xinjiang cotton. Indian high grades can be landed the mill at 800-900 points discount or more to the same Chinese Xinjiang style after VAT and import tax. Chinese mills have historically liked Indian cotton, which is similar to the Eastern belt cotton.

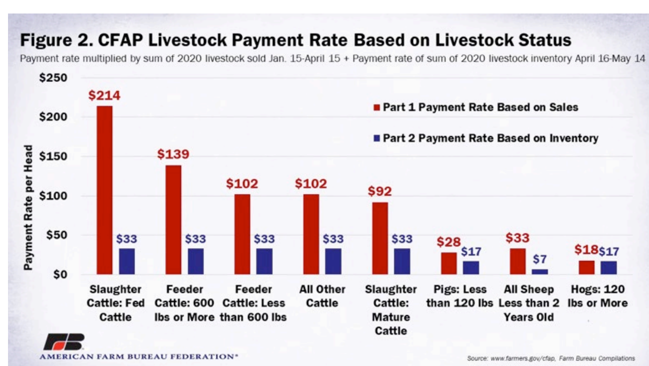
India needs volume offtake of exports, as the final portion of the crop moves and the CCI concentrates only on the top grades, leaving the private sector to take up the medium and low grades. Daily arrivals at gins are increasing, even as the CCI has limited the arrivals at delivery centers to 50 vehicles or less. This has led to a backlog of farmers waiting to unload. Farmers also are being required to register before they can sell to the CCI, and only after registering can a farmer proceed to a CCI center. Agents helping farmers to register are reported to be taking brides to move farmers up in the line, as they need to sell their cotton and get cash. Private ginners are taking advantage and offering heavy discounts to the CCI MSP. By Monday last week, nationwide arrivals had reached 50,000 bales and increased to more than 70,000 by Friday.
As the country slowly opens up, it appears the 2019/2020 crop may be larger than first thought. In Punjab, the 2019/2020 crop reached a new record at 4.3 million 170-kg bales. This is increasing the burden on traders to move the stocks for export. The volume of export offtake during the next 90 days will be crucial to avoid a major buildup in inventories. Growers are under pressure to move the seed cotton before the start of the monsoon, since they lack proper storage for seed cotton during the heavy rains. The monsoon normally starts in June.

The Indian cotton will provide open-end Chinese spinners with profitability. Today, any cotton purchased at the current spot price means a 300-400 RMB a ton loss on most yarns, but the Indian cotton will produce a nice profit if yarn price holds steady. Overall, downstream Chinese fabric mills are estimated to be holding very lean cotton yarn inventories. Since opening after the May Day holiday, there appears to have been a pickup in cotton yarn demand, not big, but the improvement is very welcome. Most weavers still have not received any significant pick up in orders and face restraints with cash.

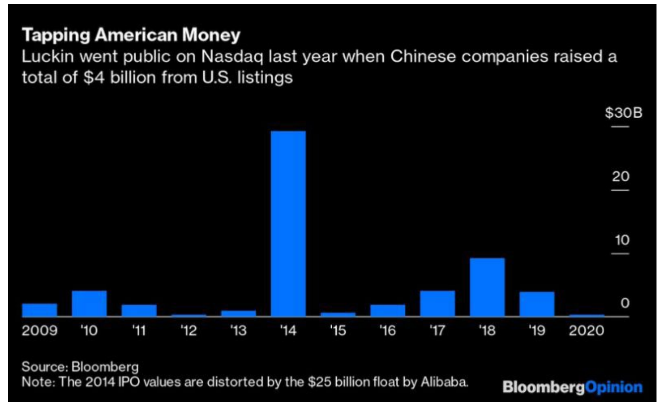
USDA ANNOUNCES MAJOR NEW VIRUS DAMAGE AID FOR US FARMERS

The Trump administration announced a major aid package for US farmers that were damaged by the CCP Wuhan Virus. A a total of 16 billion USD in aid was released. The aid went to almost every major farming group. For cotton a payment rate of .09 cents a lb. and a CCC payment rate of .10 cents a lb. will be applied to 50% of 2019 production or 50% of the inventory on hand as of January 15th, whichever is smaller. This combined aid package provides growers with a payment of .19 cents a lb., which covers over 70% of the total price drop in July futures from a high of 74 on January 13th to the low of 48.15. In reality, the payment covers more than 95% of the 20-cent loss from the impact of the virus. The payment also assumes farmers were 50% sold prior to the virus outbreak's impact. Soybeans received a payment of .45 cents and a CCC payment of .50 per bushel for a total payment rate of .95 cents, which is also a sizeable payment. This was one of the most extensive farm aid packages ever delivered and was completed through CCC funding and the CARES Act. The program should go a long way to offsetting much of the losses from the virus. The payments also included livestock producers and specialty crops.



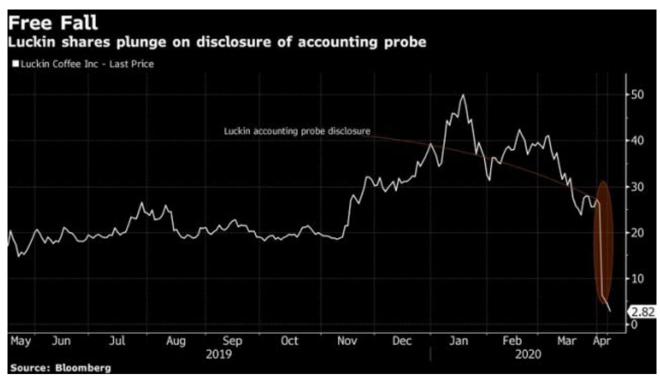


FAITH IN CHINA INC IS CRUMBLING: CAPITAL IS BEING CUT OFF AS CHINA MOVES TO COMPLETE HONG KONG DESTRUCTION



In the previous week, *Bloomberg* reported that US investors pulled 330 million USD from Blackrock's iShares Large Cap China Fund and pulled 2.7 billion from Chinese stocks in the five-day period ending May 13th. In the past six weeks, Bloomberg reports that 6.2 billion USD has been pulled out. Additional funds were expected to be pulled out last week, as US/China trade relations turned worse. NASDAQ moved to change the rules for listing on its US exchange in an attempt to avoid another scandal, like the one that occurred with Luckin Coffee, which will impact Chinese companies seeking to list in the US. The exchange also moved to delist Luckin. In January, Luckin had a market cap of 12 billion USD, but by May 21st it had crashed to near 500,000 USD. The US Senate passed a bill by unanimous consent to delist any company listed on US Stock exchanges that had not passed a US accounting audit for three consecutive years. They also have to prove they are not controlled by a foreign government. This would mean most Chinese companies face major problems, since the PCAOB has been prohibited from inspecting the accounts of any China or Hong Kong company, and the Chinese government requires all Chinese companies to have CCP member on their board of directors.

This has triggered rumors that these companies were looking to move their listings to other exchanges. 170 Chinese companies are listed in the US, worth over a trillion USD. The Hong Kong Stock Exchange is expected to try and fill the void but faces major problems. In 2019, Hong Kong raised 40 billion USD in IPO's. In the first quarter, the HKSE listed 27 companies that raised 1.818 billion USD, compared to 21 Chinese companies listing on NASDAQ raising 5.5 billion USD. NASDAQ companies have an average EPS value of 36.8 USD vs. only 10.1 USD in Hong Kong. It will not be easy for Hong Kong to fill the role of the US, as China continues to destroy the city. All year, China has replaced and infiltrated the Hong Kong police with thugs from Beijing, violated all civil liberties, and arrested any pro-democracy supporters on trumped-up charges.



Any confidence in the Hong Kong government was destroyed last week when China moved to further violate the Handover Agreement. It passed a new security law that will give the CCP control over Hong Kong, arrest any pro-democracy supporter, arrest anyone without a warrant, and close down the press. The law bypassed the Hong Kong legislature and has triggered outrage and caused the US Senate to start calling for the arrest of Chinese officials over their actions in Hong Kong. Posters in the Hong Kong unrest that followed read, “This is the End of Hong Kong”, and “Battle of Life or Death” The leak of the bill in the *South China Morning Post* created selling in Hong Kong shares, with heavy liquidation coming from ETFs owned by US investors. Pressure was also evident on the Hong Kong dollar peg. Kyle Bass, the US Hedge Fund manager, has been predicting a break in the Hong Kong dollar peg, which would have serious consequences for Chinese money in Hong Kong. The Hong Kong dollar has been forecast to fall sharply and pull the RMB down with it.

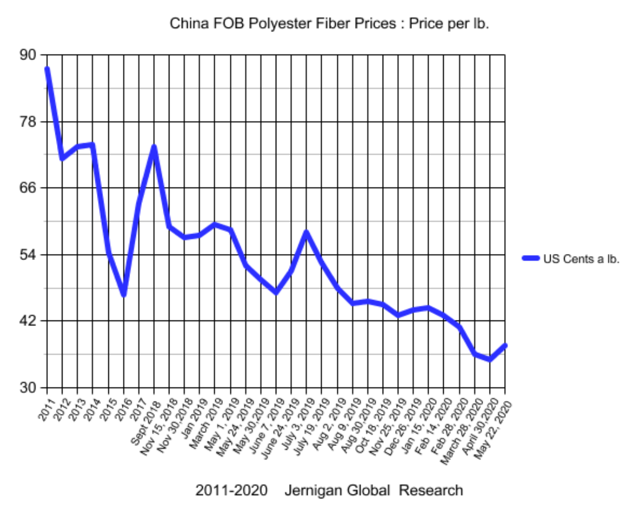
The law will result in major actions from the US. For the first time, the One China Policy is now being discussed. Its support in the US is fading, as China moves to destroy Hong Kong. There are also discussions about limiting the role of US banks in Hong Kong that aid Chinese companies in raising funds in Hong Kong. The CCP has tried to hire a prominent global advertising agency in an attempt to remake the image of Hong Kong, but they have been unsuccessful. Well-known firms have said no, they fear the blood that would be on their hands.

Xi Jinping has mismanaged Hong Kong at every turn. His actions are costing China billions, and he is destroying the financial center of all Asia. In 2018, Hong Kong was the pinnacle of financial markets, raising the most money from IPO’s in the world and serving as a highly efficient engine for raising the capital needed by Chinese companies. Xi Jinping does not seem to have any concept of the actions he is taking, as the ability to raise funds in Hong Kong is about to end. The US actions will make it extremely difficult for JP Morgan, BlackRock, and the hosts of other Wall Street firms now assisting Chinese companies to raise cash in Hong Kong or on the mainland. Six months ago, Wall Street investors were still on board with investing on the mainland, but the release of the CCP Wuhan Virus and China’s handling of it changed everything. The Senate bill to delist passed with not a single objection. Investment advisors interviewed about the bill and China’s actions in Hong Kong for the first time said they want no Chinese exposure. The pressure on capital is impacting the RMB/USD exchange rate, which again neared 7.15 per USD.

CHINESE TEXTILE SECTOR SEES IMPROVEMENT LED BY POLYESTER

China’s consumption of polyester received a boost over the past 30-45 days from a surge in demand for personal protective medical equipment (PPE). It also increased offtake of polyester fabric and poly/cotton fabric. A substantial surge in demand was noted for polyester taffeta fabric, a lightweight plain wave polyester fabric that can be treated with a variety of antibacterial coatings. It is used heavily in isolation gowns, which are the second most popular PPE. The polyester taffeta segment had been in surplus going into the epidemic, but now it is enjoying a boom that has benefited the fabric mills and dying/finishing houses. The impact on polyester fiber is a recovery in price to the 37.50 cents a lb. level, up from a record low price of 35 cents. It also compares to a year ago price of 52-53 cents per lb.

Cotton yarn and fabric demand has remained soft, with fabric mill turnover only showing a marginal improvement. The poorest performing segment is rayon and Viscose fiber, where rayon fabric turnover is estimated at only 33% of a year ago. Rayon blends have also performed poorly.



European demand appears to still be strong for PPE, which last week showed up in a rather bizarre way. Following an announcement by UK Prime Minister that citizens should wear fabric masks in public, it then provided instructions on how these masks were to be made out of T-shirts. The UK then moved to source these T-shirts on the Chinese-owned Alibaba platform, which reported a surge in T-shirt sales to the UK. It is reported that T-Shirt sales since the outbreak are up 118% from a year ago. T-shirts have also been sold to many other European destinations through Alibaba.

China's ZCE cotton futures rallied last week slightly before giving up a portion of those gains on Friday, with the September contract closing at 11,695 RMB a ton or 74.40 cents a lb. The Cash Index was also higher, closing the week at 11,900 RMB a ton or 75.70 cents a lb. Indian was only international growth offered at a discount at 67.00 cents a lb. after VAT and 1% import tax. The general Cotlook Index after VAT and import tax stood at 75.64 cents per lb.

INDIA CCI PROCURES RECORD 9.2 MILLION BALES

2020 is only five months old, but it appears to be the year of records. The Cotton Corporation of India (CCI) announced that it purchased 9.2 million 170-kg bales of the 2019/2020 crop. This is a new record and surpassed the previous record set in 2008 when nine million bales were purchased. New crop arrivals have increased and are near 75,000 bales a day, and local prices have improved as export trade has increased. The CCI is expected to procure 10 million bales before the harvest is complete. The size of the new crop acreage remains in doubt but estimates have grown as acreage in the Northern Zone increases, and Telangana announced it will mandate growers switch from rice to cotton, increasing acreage in the state by near 900,000 hectares. The issue of seed availability has not been discussed, as the seed processing companies were forced to close at a crucial time. The issue of the MSP for new crop remains unsettled.

India faces a burden of large stock levels until cotton consumption improves, and export and domestic demand are weak. The CCI has only procured such volume three times, and each of those periods was followed by three seasons in which it had to procure very little cotton, thus allowing it to manage the stocks and sell them in an orderly manner. If the government approves a very high MSP, which it appears likely to do, and world consumption does not recover enough, then CCI could face what may be an unmanageable task of again acting as the main buyer of the crop in 2020/2021 while managing record stocks. The CCI will have purchased 25% of the entire 2019/2020 domestic crop.

Indian Export offers remain almost unchanged for the week, with the S-6 1 5/32 offers near 100 points on July and S-6 1 1/8 offers at 75 points on July.

ICE FUTURES' RALLY STALLS NEAR 60 CENTS IN JULY AS DEMAND REMAINS WEAK

July ICE futures, in what has to be viewed as a feeble rally, neared 60 cents last week before stalling. On May 20th, July posted a high of 59.85 before reversing. On the same day, the July/December spread reversed from a high of 30 points premium to close at a discount of 61 points on volume of 6,724 spreads. By Friday, the July had retreated back to near 57 cents, and the spread traded at a discount. It remains to be seen how the July contract and the July/Dec spread will play out. What is clear is that the Chinese trade house demand has been the only notable buyer for US cotton. The Brazilian 2019 crop CFR basis has broken approximately 200 points and remains weak, as merchants need to clear inventories. The Indian CFR basis is still unchanged at record lows against ICE. Besides the US, the only major 2019 crop basis still attempting to hold at large premiums is African Franc Zone. It is hard to imagine a spinner paying the current premiums to Brazilian. Physical trade remains focused on managing delayed shipments, opening of letter of credit, and cash shortages. New business outside of the China trade house is principally only bottom picking and not interesting in making substantial forward commitments.

When Xi Jinping first came to power, the early commentary from traders was "he is different and will reverse much of the progress China had made." Little did the West know that a new Mao was in office, which would cost the Chinese people a great deal and usher in the largest global pandemic since the Spanish Flu, sending the world into the greatest economic downturn in decades. Xi appears determined to not honor any agreement he or any past Chinese leader has signed. Without hesitation, he violated a commitment he made in the Rose Garden to President Obama not to militarize the South China Sea. This was followed by further violation of the Hong Kong Handover Agreement last week in ways that were no longer hidden and appeared to issue a direct challenge to the US. We have warned since the unrest in Hong Kong began in 2019 that everything was changing, and it would have significant ramifications for the global textile and apparel industry and the global cotton industry. Hong Kong carries with it great symbolism as the center of globalization and trade. Before the birth of Communist China, it served as a bridge between China and the rest of the world. It was the one place where investors and traders had confidence that the rule of law would apply, their funds were safe, and both Western traders and Communist Party officials could interact. Rights were respected, and the economy grew to be the freest in the world and serve as the hub for Asian and Chinese growth.

In recent years, the city was the center of the capital for China Inc. Faith in the safety of Hong Kong allowed US and Western funds to flow in record volumes to Chinese companies, despite the lack of accounting practices and financial oversight. Prior to the riots of 2019, the Hong Kong Stock Exchange was ready to purchase the London Stock Exchange and was set to be an important rival to the US. That has all ended, and last week will mark the date the destruction was completed unless Xi reverses course, something he has never done up to now regardless of the destruction it causes. The attitude in the US has changed dramatically, and Wall Street finds itself now in the minority. Pressure will be applied by new laws introduced in the Senate prohibiting US banks from raising capital for many of the Hong Kong or Chinese companies supporting Beijing's intervention in Hong Kong. Raising capital directly from China will fall miserably short with US funds prohibited. Riots and demonstrations are now underway in Hong Kong, and the scenes of Beijing thugs in Hong Kong police uniforms attacking unarmed Hong Kong citizens will cover the media. In this atmosphere, support for China in the US will be viewed as a liability. Actions such as these will change cotton trade and raise real doubts if the China/US trade agreement will hold. China also is threatening Taiwan. China denounced US Secretary of State Mike Pompeo when he referred to Taiwan's leader as President after she won a second term. The tone was belligerence and further created support for Taiwan. The disrespect shown the Secretary was shocking.

These events will impact the return of consumer demand and also the willingness of the brands and retailers to extend coverage. The level of unsold global stocks outside China is a significant issue, and it is unclear how the Trade can financially carry the more than 60 million bales, even after adjusting for an overestimation of stocks in India. We continue to feel the pressure to carry this inventory will be exhibited in either ICE or the CFR basis, or both. Our fear is due to the fact that, unlike any other time in memory, there is not a magical price that will allow massive inventory accumulation by trade groups. There is also the question as to who will finance the inventories.
It appears that both basis and futures prices will be affected. We remain doubtful that the Chinese Reserve will buy and ship over 4.5 million bales of US cotton, but it remains possible. Even if it were to happen, the impact would be felt the most in basis levels, creating artificial conditions in ICE. The global supply and demand balance will show only minor adjustments. The bullishness regarding the US/China trade relationship was in a robust overall US/China relationship and the effect this would have on restoring Chinese domestic mill demand, and their willingness to buy forward. This is clearly not happening and China's action in Hong Kong will end any chance of a relationship that is not hostile. The actions in Hong Kong today are much different than in 2019. At that time, many on Wall Street were willing to give China leeway to exert its sovereignty in Hong Kong. That all changed when the Wuhan Virus was mismanaged and unleashed on the world, costing the US and almost all other countries countless trillions of USD.
For cotton, the future is in the new supply chains that are coming. Natural fibers are gaining market share and will continue to expand their share as apparel moves more upscale with emphasis on quality and longevity. It is clear that cotton needs extensive new research in applications and treatments to assist it in replacing man-

made fibers. The early retail signs are a bit encouraging for apparel. Target, one of the top four US retailers, last week announced its last quarter results, and spending on apparel in the last two weeks of April increased. New store closing and inventory liquidation remain a problem. It is crucial that in the US and Europe some base in consumer spending on apparel occurs.

The Dec 20 ICE contract also faced major resistance as it neared 60 cents last week. As the market neared these highs, the decline from the retail apocalypse caused by the Wuhan Virus had been reduced to only 15%. Given the increase in global stocks that occurred from this event, the rally would appear to face problems moving forward. As stated previously, we expect the Dec contract to face major resistance on any attempt to rally through the 60 cents area and believe new contract lows are possible. July is also showing much the same chart pattern, but it remains to be seen if returns reflect broader fundamentals or stay focused on a potential short squeeze in July. The CFTC data showed that the Trade was an aggressive seller of the ICE rally, along with the Other Reportable Funds, which could have been Chinese longs that add further evidence the rally in futures is likely over.

THE WEEKLY IS DEVOTED TO THE MEMORIES OF ALL THOSE HONG KONG TRADERS THAT MADE IT A GLOBAL TRADING CENTER FOR 177 YEARS.

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