US APPAREL PRICES AT RETAIL UNDER MAJOR PRESSURE

CHINESE APPAREL COMPANY DEBT REPAYMENT A CONCERN

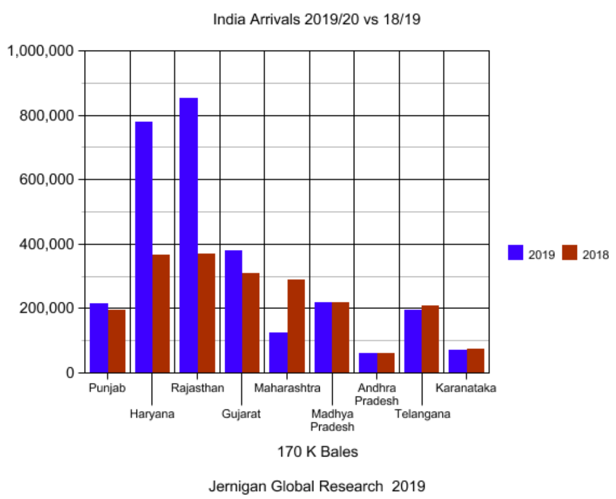
GLOBAL COTTON CONSUMPTION REMAINS WEAK

ICE FUTURES STRUGGLE AMID NO TRADE AGREEMENT

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

INDIAN EXPORT OFFERS PRESSURE GLOBAL MARKET AS MSP FAILS TO SUPPORT DOMESTIC PRICES

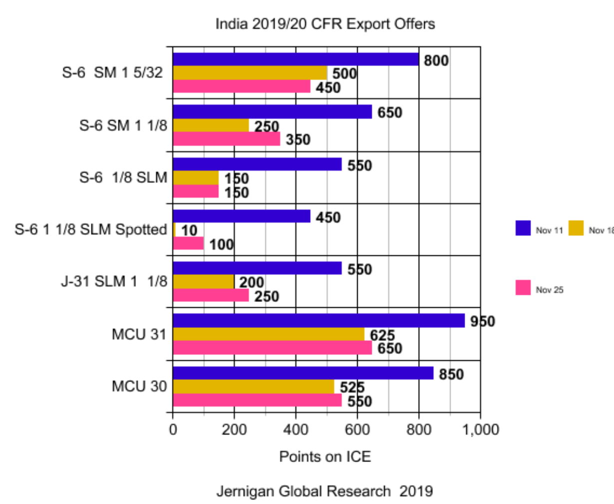
The Indian Minimum Support Price had been expected by the global trade to act to support Indian domestic prices and keep Indian styles out of the export market until prices exceeded the MSP. Pressure on Indian export offers continued last week as the CCI remained out of the domestic market as seed cotton arrivals continue to have a high-moisture content. The MSP is a failure for the millions of farmers who have already been forced to sell their seed cotton. We have said for months we have been concerned about the effectiveness of the CCI and the MSP scheme in supporting the Indian domestic price, when the MSP was placed at an unrealistic premium to the International market. The MSP support scheme is built around the CCI buying seed cotton, either directly or through agents, then contracting gins to gin the cotton, and then storing the cotton until it is sold. At times this has been effective in supporting the domestic price, but not always. It appears from the experience that the CCI or Cotton Corporation of India acts like a for-profit, state-owned company. In addition, it also seems to always have limited funding. This would seem to put it at odds with the idea of supporting grower income. The problem in 2019 appears to lie with just that, commercially buying wet seed cotton is a money loser, resulting in losses and lower grades, etc. Thus, the CCI has said it would not buy seed cotton above 12% moisture and would discount seed cotton after 9%. The commercial reasons to do this are clear. However, for the poor Indian farmers who need cash, they simply cannot wait to spread the seed cotton out to dry. Most do not have any facilities to lay the seed cotton out to dry, and steady rains have made the spreading of seed cotton in yards or roads impractical.



Indian new crop arrivals as of November 18 have reached 2,890,994 bales, up from 2,081,624 bales delivered on the same date last year. The data also confirmed a much higher crop in Haryana and Rajasthan. Arrivals in Haryana reached 778,000 bales as compared to 365,000 a year earlier. In Rajasthan, deliveries have reached 851,240 bales, as compared to 370,000 bales a year ago. In Gujarat ,where rains have delayed the crop, arrivals have reached 380,323 bales. These arrivals, which reflect about 8.5% of the expected crop, have all traded at a major discount to the MSP.

The growers have delivered the cotton to commercial ginners who had to discount the seed cotton in order to make the purchase profitable. For example, seed cotton has been delivered with 18% moisture. The ginners had to discount the seed cotton to 2800-3000 rupees per quintal, which compared to the MSP of 5,200. The farmer incurred large losses. The ginner had to attempt to dry the seed cotton as much as possible, but still the color grades and quality were impacted, and an abundance of Strict low middling and spotted cotton has occurred. Growers are protesting as November comes to an end, and still little CCI purchases. The much cheaper seed cotton has allowed Indian cotton to now make its way into export channels. It is now the cheapest in the A Index.

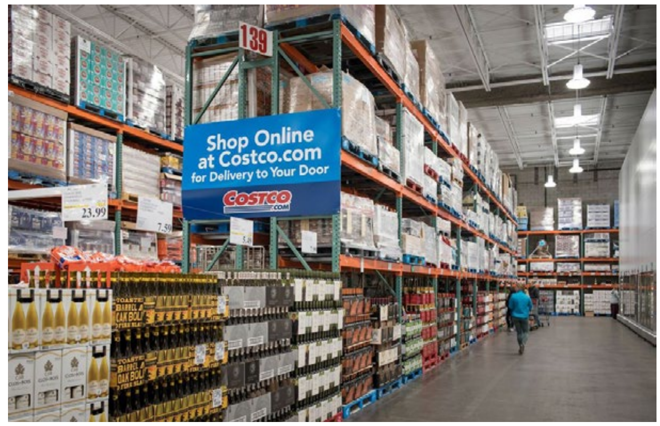
Indian exporters are the most aggressive, with the S-6 1 5/32 offered at 400-500 points on March ICE, and with International Merchants at much higher basis levels. At these levels, the discount is 600 point to a Brazilian M 1 5/32 and a similar discount to a USA M 1 5/32 E/MOT. These discounts have stimulated offtake in Indonesia, Bangladesh, and Vietnam. They have also stimulated interest in China. Chinese Mills have historically liked Indian cotton and been a sizeable buyer. Some merchants that focus on China are now focusing heavily on Indian and Brazilian offers. Lower grade Indian offers are very aggressive, with a S-6 1 1/8 SLM light spotted offered at even to 100 points on the March ICE landed the Chinese port. The Basis has again been volatile out of the Indian shippers.



Indian Mills appear set to consume a record volume of ELS cotton in 2019/2020. India is the top buyer of both US and Egyptian cotton. In Egypt, through 11/16, Indian mills have purchased 6,827 tons of total Egyptian export sales of 15,343 tons.

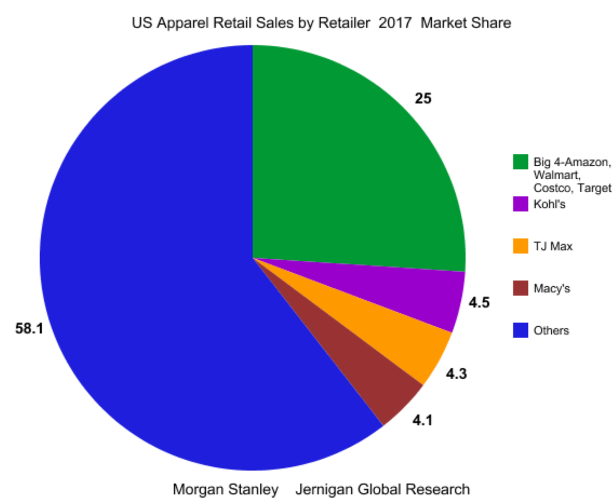
It remains to be seen if the economics will rule and India and Pakistan resume cotton trade. The discount of Indian styles is now providing the economic incentive. If allowed, exports could reach 1-2 million 170-K bales. Pakistan is in the realm of influence of China, which has made trade relations even more difficult. Pakistan's silence on the situation in Xinjiang illustrates the economic influence China now has.

APPAREL DEFLATION AT RETAIL A MAJOR PROBLEM FOR THE ENTIRE SUPPLY CHAIN

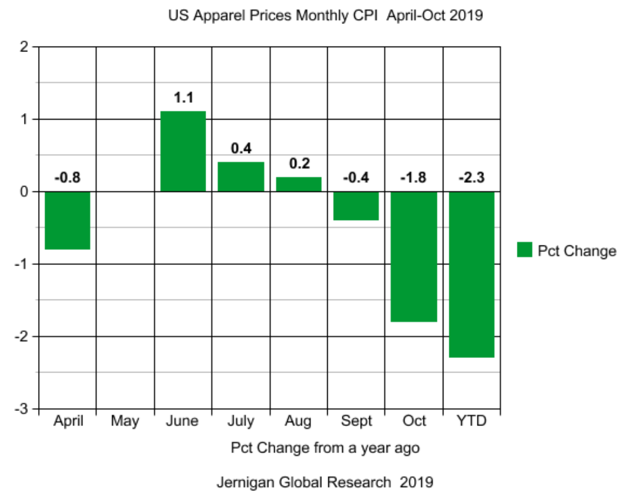


Two major developments are driving major price deflation in apparel at retail in the US, which spreads around the world. The first development is intense competition between Walmart, Amazon, Target, and Costco, which are making it almost impossible for others to compete on price. The four companies also have become very tech savvy. One major US retailer saw its shares fall nearly 20% in one session last week, as the market shows no mercy. The second development enabling the competition to go far beyond any reasonable level is the massive price cuts from Chinese exporters. In September, Chinese exporters cut apparel prices aggressively to the US. While the volume of imports fell just over 4%, the value plunged 17%. Bloomberg compiled an index of Chinese export prices. The index fell 5% in September, as the price declines are occurring across many industries. *Bloomberg* also reported that the deflation impact on export prices was the most severe in Japan. China is exporting its overcapacity as domestic demand declines. Adding to the export pressure is a shortage of cash, credit, and USD. Domestic Chinese buyers are in many cases paying in IOU or delaying payments while exports earn USD.

Chinese domestic demand is weak across many products, as consumers are impacted by record food inflation and increased unemployment. Credit conditions for business are difficult, and debt loads at many companies are excessive. Many have large debt payments due in 2020, and a large volume of the debt is USD, which can only be earned by exports. In apparel, man-made fiber prices continued lower last week, which is allowing manufacturing groups to cut prices even further. The price of polyester staple fiber is down over 50% since the trade war began.



The price cutting at US retail is also showing signs of causing consumer fatigue, as the 5-10 USD apparel



item is no longer exciting. The US equity market has begun to punish the share price of retailers that are engaging in excessive price cutting promotion.

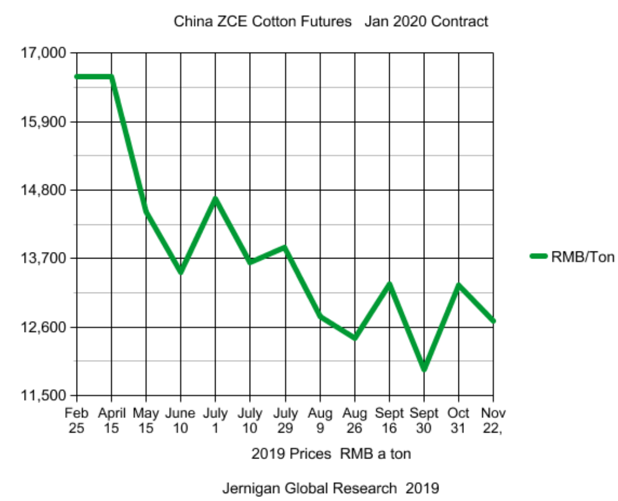
Adding to the problems of the major retailers is that the price conscious consumer is focusing on chains such as TJ Max that offer designer names below even the promotion prices at the traditional retailers. The price-cutting has caused retailers to source at many questionable locations, which has made the headlines in recent weeks. They are exceptions, with Indian exporters the greatest benefactor. Indian exporters have endorsed traceability and an increased willingness to offer products made from US cotton.

Current conditions are unsustainable, and you are already beginning to see brands and retailers switch the focus to innovation and customer experience and less on price. These companies are already winning. The current environment is also bad for cotton and provides the perfect atmosphere for polyester to take market share, with the polyester price at record discounts to cotton.

CHINA'S ZCE FUTURES DRAW RECORD CERTIFICATED STOCKS

With all the attention on the trade war, little notice has been given to the lack of intervention in Chinese cotton trade over the last 12-14 months. The Chinese commercial cotton market has always drawn heavy intervention, with the State Reserve entering the market to stabilize domestic prices and allow Chinese commercial trading groups and ginners to avoid large losses. In 2018/2019, conditions were ripe for another state intervention. Ginners purchased seed cotton and built inventories at very high prices. Traders accumulated inventories. The volume of actual hedging on the ZCE has been limited over the years due to the lack of development of the private or small state-owned commercial sector. In 2018/2019, for the first time, a collapse in domestic prices that even exceeded ICE futures did not bring the state in to rescue the sector. This appeared to be the sign that the State was setting the industry free and expected it to learn to hedge using the ZCE cotton futures.

The ZCE is a well-run Futures exchange, while a CCP official is involved, below the surface a very qualified well-trained staff is in place. This has allowed the exchange to manage margin risk and control excessive speculation. Today, the market is beginning to act like a well-established commercial market in cotton. The commercial cotton trade is learning how to hedge. We have talked about this before, but for the last several months the ZCE January cotton contract has moved in line with the cash market in Xinjiang. Over the last couple of weeks, we have talked about the heavy trade selling that has appeared above the 13,000-RMB a ton level in January. The reason is, at prices above 13,000, Xinjiang traders and ginners can buy seed cotton or lint and hedge it on ZCE, and lock in a profit.



Each futures contract is five tons, and each warehouse receipt is eight units or 40 tons. As of November 18, certificated stocks had reached a record 14,226 units. This equaled 2.63 million bales. Both machine and handpicked cotton can be delivered, and approved warehouses are in Xinjiang. The ZCE is now reflecting the value of machine-picked cotton. The level of the certificated stocks illustrates that hedging may now be the new normal. The recent announcement of Reserve purchases will be at market prices, not above the market, which means it is about Reserve stocks rotation, not price support. The Certificated stock levels also illustrate the poor level of mill demand in China and the lack of desire to carry large inventories.

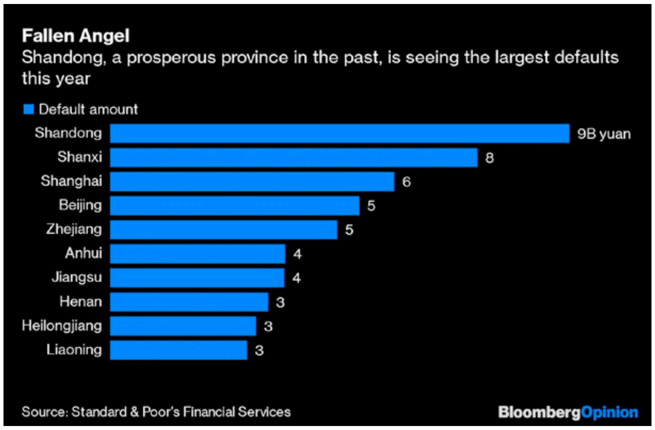
The record certificated stocks explain why the lead January ZCE futures have encountered price resistance near the 13,100-13,200-RMB a ton level. As the delivery period nears, the January contract has moved lower, closing the week at 12,730 RMB a ton or 82.19 cents a lb.

SHANDONG RUYI RECEIVES ADDITIONAL STATE-OWNED INVESTMENT AS DEBT CRISIS EXPANDS

Shandong Ruyi offers a clear example of how the Chinese state has provided the funds for its state champions to come to play a dominant role in the Global textile and apparel industry. Shandong grew from a state-owned Shandong textile company to a global corporation. That growth was fueled by a combination of private and state funds. The model allowed Shandong Ruyi to issue shares for a percentage of the company and subsidiaries, while the State remained an owner. Not only did the company complete the largest global acquisition of textile and fashion brands on record, it also was the leading textile/apparel company that followed the expansion of the Belt/Road with record investments. The growth appeared to have no limits in 2017, but ended abruptly in 2018 as Beijing stopped the flow of capital and forced the company to halt acquisitions. The company accumulated record USD debt that fueled the global acquisition binge. It remains very unclear how the establishment of the massive global textile/apparel manufacturing base, which is part of the Belt and Road program, was financed, and how much the State may have subsidized it. Now, the company is focused on the repayment of the USD debt that is coming due.

The Company appears to have come full circle, with a greater percentage of State Ownership. The Chinese Communist Party is expanding its ownership of several of the world's leading brands, such as Bally. State-owned Jining City Urban Construction Investment

Company now owns 26% of Shandong Ruyi, following an injection of 3.5 billion RMB, or approximately 495 million USD. It was not made clear if it was a cash injection or some other form of exchange. The expanded state ownership of Shandong Ruyi follows its massive global acquisition spree that has left it with a heavy debt load. Moody's estimates it must repay 10 billion RMB in debt (1.42 Billion USD) and interest in 2020. Analysis has shown it would not have enough cash flow to make the payment. Many of the acquisitions involved a percentage ownership, with the balance traded on a stock exchange in Europe or Asia. On Wednesday, a USD bond issued by a subsidiary, Gieves &Hawkes, fell sharply in Hong Kong on fears the company will default on 345 million USD due for payment on December 19. The bond traded down to 77 cents. Gieves &Hawkes is a 248-year-old Savile Row tailor that was purchased by Shandong Ruyi during its global buying spree. The Company is currently estimated to have 3.97 billion USD in debt as of the end of 2018.



The new investment by Jining is very intriguing. First, the company is a state-owned company that is directly managed by the state-owned Assets Supervision and Administration Commission of Jining. Jining is a prefecture-level city in southwestern Shandong province. Shandong is the center of China's textile industry and was once the largest cotton-growing province in China. It was also home to the largest standalone cotton spinner in China, Weiqiao, which is listed on the Hong Kong exchange. In 2019, Shandong has become famous for a major crisis in the default of company debt. Shandong is the third largest economy in China. The debt issues in Shandong have hit the so-called Private Companies that have provided cross guarantee of company debts. Two other USD bonds of Shandong companies also fell sharply in Hong Kong on Thursday on fears that the debt repayment will not be made on time.

Shandong Ruyi proposed Nigeria textile investment: largest on record

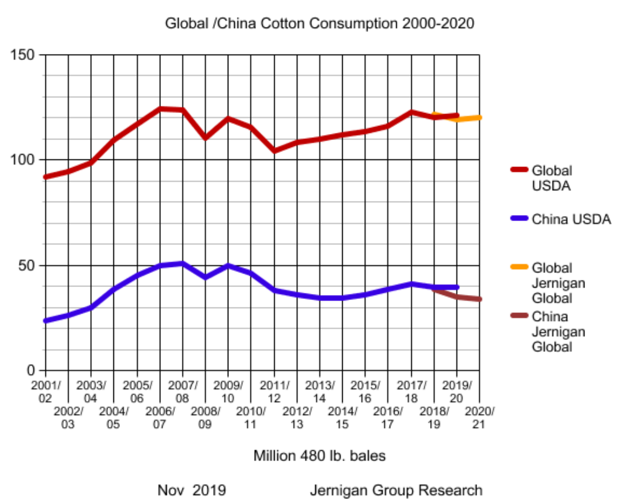
The investment by another local state-owned company suggests Shandong Ruyi is very important to the local economy and the overall economy. It may also illustrate what is defined as what "too big to fail" looks like in China. It remains to be seen how the company will manage the massive debt repayment required over the next 12 months. One issue that is being raised is the level of involvement of Shandong Ruyi in Xinjiang, and the use of Uyghur prison labor. The China Daily reported that Shandong Ruyi invested 1.5 billion RMB in a textile operation in Kashgar. According to China Daily, the operations included setting up sock making equipment in Uyghur homes. The ability of the company to complete the debt repayment and continue to operate is very important to total Chinese cotton use, given the size of its spinning capacity.

CHINA BEGINS TO ROLL 2019/2020 US PURCHASES TO 2020/2021 AMID NO TRADE DEAL

During the week ending Nov 14, 2019, China purchased 15,400 running bales of US Upland cotton for 2019/2020. In addiction, China canceled 39,600 running bales for 2019/2020 and transferred the sales to 2020/2021 shipment. China has 1,594,400 running bales of 2019/2020 purchases on the books that have not yet been shipped. Of that total, 1.0-1.2 million bales of may be rolled to 2020/2021, because of the unresolved trade dispute and the high-priced nature of the sales. US net export sales during the week reached 227,600 running bales. Vietnam was the largest buyer at 95,600 running bales, followed by Pakistan 40,100 running bales, Bangladesh 31,200, and Turkey 28,200 running bales. Pakistan has now purchased 1,208,100 running bales of upland, which is up sharply from 727,900 running bales a year ago. US export sales to Turkey are also up sharply from last year at this stage in the season. Sales of upland have reached 684,900 running bales vs. 387,800 bales a year earlier. Vietnam has purchased 1,991,400 running bales of upland, which is below year-ago purchases of 2,133,600 running bales.

US exports for 2019/2020 face several hurdles reaching the USDA target. These include the slow level of shipments, risk of cancellation of Chinese sales, and unshipped 2018/2019 sales that were rolled forward, and the reduced consumption in South Korea, Taiwan, Thailand, and other traditional markets. Total South Korean cotton imports in August/October have reached only 22,250 tons, as compared to 44,182 tons a year earlier. The pace of US export shipments reinforces fears of additional cancellations, as shipment volume remains extremely slow. During the week ending November 14, shipments reached only 137,900 running bales of upland and 5,900 of Pima. Over 37 weeks remain in the season, and weekly shipments will have to average 356,007 running bales to meet the USDA target. This will be a very difficult goal to reach.

GLOBAL COTTON CONSUMPTION CONTINUES TO SUFFER FROM SLOWDOWN IN CHINA



Cotton consumption in Xinjiang is suffering, as the issue with the use of forced labor from the Uyghur concentration camps receives increased attention. The recent exposure of increased details by the *New York Times* made the story front-page headlines in the US, Australia, UK, and some locations in Europe. 403 pages of internal Chinese government documents were leaked to the New York Times on the Xinjiang crackdown on Uyghur citizens and all who opposed the program. The leak suggests that someone in the Chinese government wanted the world to know just how brutal the arrests of millions of people have been.

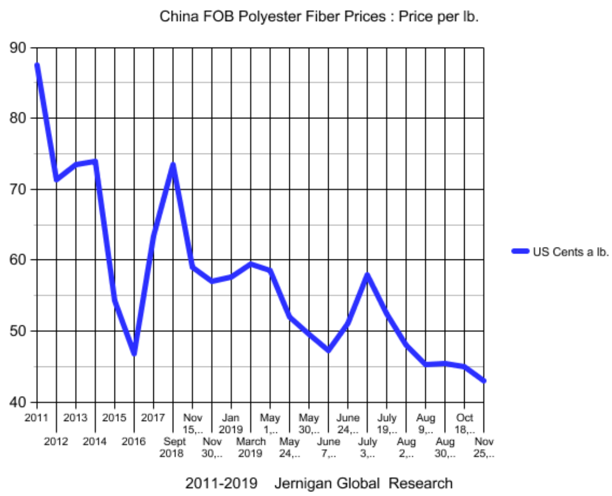
The 400 pages of documents leaked to *The New York Times* expose the thinking behind the crackdown, including Xi's call for an all-out struggle using "organs of dictatorship," "a period of painful, interventionary treatment," and showing "absolutely no mercy." The CCP's top official in the province commanded a "smashing, obliterating offensive," and urged colleagues to "round up everyone who should be rounded up." The documents provided chilling detail of how returning college students would be told their parents are in vocational camps. The documents also revealed that the Chinese government would not allow any discussion among the local officials. *The New York Times* article said, "Officials who resisted carrying out the campaign of mass detention were purged by Chen Quanguo, the hardline party boss installed to oversee the program in 2016. One local official who was worried about the impact of the crackdown was jailed after he released thousands of detainees." Children were reported as seeing parents taken away and have been left without support. Crops were left to die if the family was a farmer.

The New York Times suggested the officials leaking the documents wanted Xi Jinping and his administration held accountable for what they have done in Xinjiang. *The New York Times* said the documents were leaked by a CCP official and included hundreds of pages on internal speeches by Xi Jinping and other top officials. With the death toll already estimated in the hundreds of thousands, the event has taken on historical importance. *The New York Times* documents provide the basis some believe for the case to be made for some officials to be arrested under the Magnitsky Act, which allows the US to sanction those who it sees as human rights offenders, freeze their assets, and ban them from entering the U.S. The Act was passed in 2012.

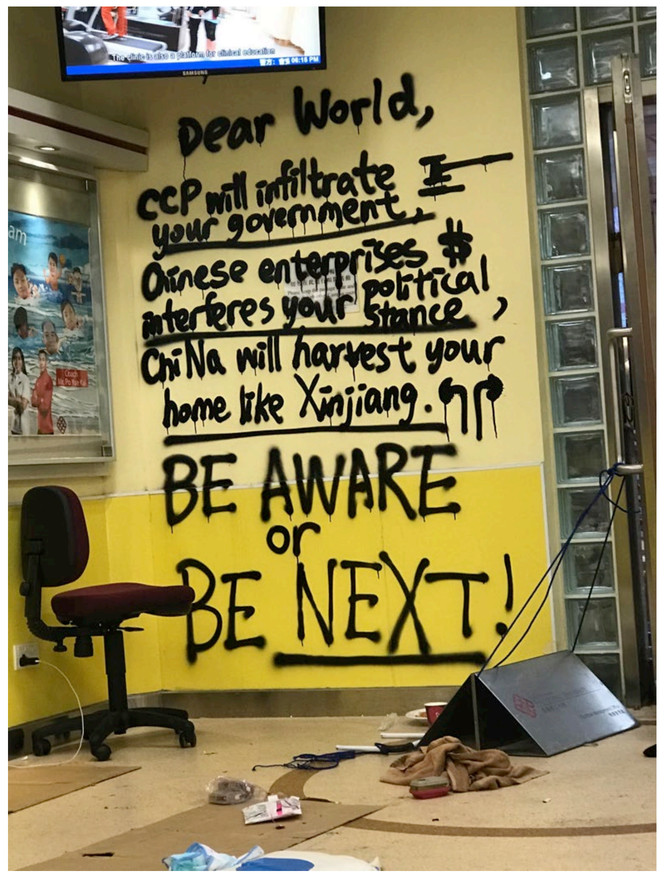
Australia is the only country to take action. On November 18 it suspended Australia's human rights partnership with China, amid growing concern over the mass detention of ¬Uighurs, Hong Kong democracy protests, and the banning of two Australian MPs from visiting China. The Australian newspaper revealed that a key program aimed at "advancing human rights reform in China" was suddenly stopped after more than two decades of operation, as Xi Jinping attempts to stop foreign support for human rights causes. The move further halts humanitarian collaboration between Australia and China, after Beijing abandoned its longstanding human rights dialogue with Canberra. Australian Foreign Minister Payne said she would continue to raise "strong concerns" about China's human rights ¬record, following the leak of 400 pages of documents exposing Beijing's crackdown on Muslims in the Xinjiang region. Senator Payne said the "Xinjiang papers" that showed that Mr. Xi told officials in a series of private speeches to show "absolutely no mercy" in the struggle against separatism, were "disturbing." In Australia, the issue of organ harvesting also took center stage. Senator Eric Abetz told ABC Radio that China's organ harvesting trade was completely unacceptable and "a breach of every concept of human rights." Last week overall was a very bad week for Australian/Chinese relations, as the country appeared to awaken to the new hostile China.

Evidence from Xinjiang suggests that cotton consumption has fallen sharply. The Aksu Textile Industrial Park has reported that exports have fallen sharply since the labor issues surfaced. The Xinjiang government has announced new subsidies for exports, textile/apparel shipments from Aksu to Urumqi are now free, and is giving a 50% subsidy for export shipments from Urumqi. Exporters are attempting to refocus exports to Europe, where the human rights issues are not receiving the same amount of attention, and to Japan. A recent promotion of cotton apparel and textiles from Xinjiang in Japan has been removed following pressure on the human rights issues. Xinjiang in 2017/2018 accounted for an estimated eight million bales of China's total cotton consumption. It is proving difficult to separate textile/apparel products made in Xinjiang from the rest of the Chinese supply chain. Much emphasis has been placed on cotton, but Xinjiang also has Viscose fiber plants and man-made fiber plants, which further adds to the problems focusing just on Xinjiang cotton.

In addition to the situation in Xinjiang, the situation in Hong Kong has added to companies' problems of sourcing in China. In the US, each investor call comes with the question, "What percentage of your products do you source in China?" The situation in Xinjiang is now expanding into Hong Kong's capital markets. While Chinese funds dominate the Hong Kong IPO, and capital markets US Investment, banks are very active underwriting the major stock issues. Goldman Sachs, Morgan Stanley, Citigroup, and JP Morgan are all very active. Megvill, the Chinese Facial recognition company, has been placed on a US Blacklist for its role in Xinjiang. Megvill had announced a major IPO in Hong Kong. Then came news that Goldman was being forced to review its role because of the blacklisting. The Hong Kong exchange then also asked for further information about the impact of the blacklisting by the US before approving the listing. US companies are prevented from trading with companies on the blacklist. JP Morgan, Goldman, and Citigroup are all the underwriters of Megvill, and may be forced to back out. Many US investment funds have investment in Megvill and other companies on the blacklist and may soon have to divest.



For months, we have been talking about the unfolding events in Hong Kong, and the fear that, if handled incorrectly by China, they could have a major impact on the global economy. China's handling of Hong Kong has been a disaster that has allowed the global news to be dominated daily by thugs dressed as police that randomly beat kids and citizens, used live ammo, killed citizens, instigated violence in order to attack the populace, and made face masks a essential, as the air was filled with teargas daily. Not one time has Beijing attempted to negotiate or address the demands of the city. A ruling by the Hong Kong Supreme Court that the face mask ban was unconstitutional drew rebuke from Beijing that it alone would decide what was constitutional, making clear to the world that Beijing would not respect the independent Hong Kong Judiciary or Hong Kong Law. Prior to this action, fears of a repeat of Xinjiang had begun to spread, after kids and students were videoed being handcuffed, then loaded on trains headed to unknown locations on the mainland. Then came conformation that a Hong Kong citizen who worked at the British consulate was detained as he attempted to reenter Hong Kong. He was beaten and forced to confess. The US Senate passed the Hong Kong Human Rights and Democracy Act. The bill then went back to the House, where it was approved and sent to President Trump's desk with a veto-proof approval. Then came demands from China that Trump not sign the bill. The bill will become law without the President's signature after ten days. The handing of Hong Kong by Beijing has united the Democrats, Republicans, and the US public, with a new poll showing that most of the US now believed Hong Kong should be independent. Such a view would have been unthinkable just 8-10 months ago. President Trump has not yet committed to signing the bill, because of its impact on the trade talks. He told a news reporter that he had prevented a full-scale invasion by China by telling Xi Jinping that it would end any hopes of a trade arrangement.



The risk to the continued role of Hong Kong's capital market and the role of the world largest investment banks, which are all US-based, is now uncertain. This will play a major role in Chinese companies' ability to raise cash. The final event that could serve to end the ability of Chinese- and Hong Kong-listed companies to receive any US funds or have any involvement by a US investment bank occurred at the end of last week. A Chinese spy has asked for asylum in Australia, and has provided Australian authorities with chilling


The Sydney Morning Herald

INDEPENDENT. ALWAYS.

THE GUIDE
A new chapter of Star Wars begins
LIFTOUT TODAY

OK, Boomers, this rort can't last
TONY WALKER
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Sydney FC take Victory
SPORT

DOCUMENTS LEAK

China's brutal regime exposed

High hopes but she knows the ropes

Race to bolster containment lines

ICAC faces threat of new funding squeeze

evidence of how Chinese publicly traded companies have been corrupted by the Chinese Communist Party. He provided details of how the CCP used Hong Kong-listed Chinese Companies to fund intelligence operations and interfere in the internal affairs of Hong Kong and Taiwan. These companies also sought to influence local media outlets and were very active in the 2018 Taiwan election. This follows the confirmation that every Chinese company has a CCP official in its management, a rather unsettling thought. The event has also triggered fears of massive CCP influence in the internal affairs of Australia by Chinese companies.

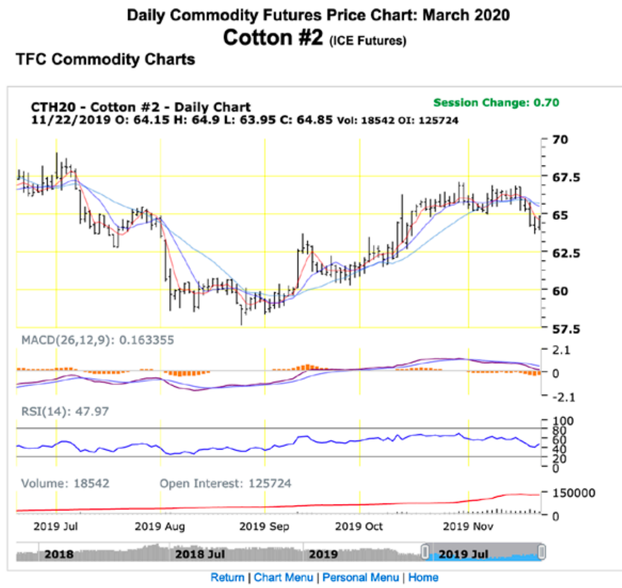
Major defection in Australia

ICE FUTURES MOVE LOWER AS TRADE UNCERTAINTY CONTINUES

ICE futures managed to rally off the lows on Friday, but did close the week below the outside range lows of the recent technically important outside range sessions, which we discussed last week. The lows of the week came as spot Dec reached first notice day, and the December/March spread reached 207 points. As normal, full carrying charges produced a taker for Dec. The CFTC COT report showed no major ownership changes as of Tuesday, but since then some new fund selling had occurred. The market via the Algo/HFT systems was influenced last week by the rather bizarre nature of the trade discussion headlines. It certainly appeared that both sides attempted to use press leaks to influence the behavior of the other. On Friday, some optimism returned, despite expectations that no firm agreement was likely before Christmas, and that both sides would attempt to keep having serious talks and neither would escalate. This came from comments from US President Trump, who told news outlets that he had prevented an open invasion in Hong Kong through his talks with Xi Jinping. He also appeared to hold out the signing of the Hong Kong Democracy and Human Rights Act as an incentive for Beijing to give him his terms. The bill will become law without the President's signature. At the same time, VP Pence said a trade deal was difficult with the current Beijing behavior in Hong Kong.

We are still very pessimistic about a trade deal, especially a trade deal that will provide much incentive for cotton purchases. China has abundant cotton stocks, and consumption is weak. The situation in Hong Kong and Xinjiang remains explosive, as do the ramifications for Taiwan. In the US, the mood is clear for greater disengagement from China. The only remaining holdout is Wall Street interest, which may be forced to disengage by the blacklisting of the Chinese tech firms involved in Xinjiang, and the intervention of Beijing in the Hong Kong legal system. The world had three major global financial centers for capital formation and trading: New York, London, and Hong Kong. If it was not for China's failure to honor the 1997 Handover agreement, Hong Kong would have likely taken over London. The HKSE already owns the London Metal Exchange. Its bid for the London Stock Exchange was withdrawn when the bid was viewed as a takeover by Beijing. Now, the entire future of Hong Kong is in doubt due to Beijing. Last week, Alibaba completed its secondary raise in Hong Kong amid the teargas, as it postponed its road show and completed the process by phone and video conference. So far, the flow of Chinese funds into the Hong Kong market has limited losses and given the impression that all is well. Unless a major change occurs, the situation will not be settled by additional strong-armed moves from Beijing. The disappearance of the arrested Hong Kong citizens has the potential to become the next Xinjiang if they do not reappear in a Hong Kong court. The revelation that Hong Kong-listed Chinese companies are being used for spying and espionage could be the breaking point, judging from the revelations since it was revealed. The volume of credit on Chinese companies that flows through Hong Kong is in the trillions.

For cotton, this is all-important, because it effects confidence and impacts China's ultimate cotton consumption. The industry was compliant in allowing the record investment in China to concentrate a large block of the world's spindles in China, and the heavy concentration of the entire world's fabric and dyeing/finishing capacity. For consumption to boom, until more of the capacity is relocated, means the Chinese industry must be working at a much larger capacity than today and have greater confidence. The capital constraints mean the Chinese companies that would be the first to place new investment outside China are trapped and have limited ability to do so. Therefore, we spend so much time discussing Xinjiang and Hong Kong and why they are so important. Until 2014/2015, these regions were managed within what can be said to be the Norms. Today, both have been mismanaged in ways that have affected the global economy and supply chains.



Up to now, Beijing has been able to move the global cotton market at will, as it dictated cotton import policy at its whim. The world was complacent in never challenging its move, by the desire to participate in that trade. This was clear in the eerie silence when China placed a 25% duty on US cotton on day one of the trade war that violated the WTO accession agreement that allowed 894,000 tons of any growth to be imported without duty annually. The silence cost US growers millions, while Beijing continued to dominate the US market in textiles and apparel without any penalty. Today, the import policy of Beijing is very much in doubt. We just do not see how any trade agreement can be depended upon without very tough enforcement. The Hong Kong Handover Agreement is an example for all. The agreement was based on the honor of all parties to keep their word, but included no enforcement mechanism. The result is that this is dominating the nightly news in the US and the world outside of China, and millions of Hong Kong people are suffering. Amid these conditions, cotton trade will remain very unsettled as we finish 2019/2020 and enter 2020/2021, and it will not just be the weather that determines the outlook. For the last several weeks, many have been encouraged that prices could return to 70 cents or more in ICE because of the reduced supply. Instead, we ended last week below 65 cents in March. The reason is unsettled US/China trade, weak cotton consumption in China as well as across other markets, and no protection of the US domestic market. No effort has been made to protect the interests of US cotton in the domestic market or to aid those exporters that are loyal importers of US cotton. Today, China has a nearly

35% market share of the total US textile/apparel market. The odds are, if the product is cotton, that nearly 7 out of every 10 bales used was Xinjiang cotton. Out of the remaining three bales, only about .30 of a bale now comes from the US. Polyester dominates the imports, thus the problem further accelerates, with harm to the US environment and the US cotton grower. This injustice has been ignored since the trade war began.

ICE futures direction in the near term will depend on the movement of the funds that are net short. Unless technical conditions improve, additional short selling is likely from this group in the near term. The 65.70-level would appear important to this group near term. Trade selling from the US or Brazil has been minor. We are not at all sure when the pressure will build to accelerate movement. The Chinese and International markets remain close to in-line. The Jan ZCE contract closed at 82.19 US Cents a lb., Cotlook A Index closed near 83.67 landed the port after VAT, Indian at near 80 cents, while Brazilian was at 84.36 landed the port after VAT. As you can see, no major advantage to import, except for the cheapest Indian offers. US cotton remains with a 25% duty, and thus remains the cheapest in the world outside of the Indian offers.

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