



AUSTRALIA'S PRODUCTION SET TO COLLAPSE AS DROUGHT HOLDS



PAKISTAN MILLS NOW MAJOR IMPORTERS



WEAKER CHINESE YARN DEMAND CONFIRMED



OCEAN PLASTIC POLLUTION LINKED TO SHIPPING



# JERNIGAN GLOBAL

— KNOWLEDGE IS THE NEW CAPITAL —

## IN THIS AGE OF FAKE MEAT, DISRUPTION AND ARTIFICIAL INTELLIGENCE, CAN AN 8,000-YEAR-OLD FIBER BECOME COOL AGAIN?



Plant-based proteins are the latest rage with both the public and investors. These plant-based patties have been around for a while. However, renaming them as burgers Beyond Meat and Impossible Burger changed everything. Beyond Meat went public at 25 USD a share and surged to a high of 234.90 USD, with a brief market cap near 18-20 billion before returning to today's 145.72 a share. The mindset is, "it can be done better in a lab than in nature." Sounds familiar, doesn't it? The fake meat playbook follows that of the



plant-based beverage companies that now dominate the grocery store dairy aisle. The behavior of Beyond Meat's share prices, and the host of competitors to introduce their version of the plant-based faux meat, very much resembles what happened to wool and

cotton after Swiss scientist George Audemars created rayon in a lab in 1855, leading to its development for large-scale commercial use in 1894. In 1932, cotton had an estimated 56% of the global fiber market. PET, the raw material for polyester and plastic, was patented in 1941. We are not going to debate the merits of plant-based meat patties, but the comparisons with cotton and wool are eerily similar.

For the fiber market, it has come full circle, with the downside of man-made fibers now clearly apparent with the massive scale of water supplies, air, and food pollution from the non-biodegradable microfibers. "Poly fatigue" has begun, and fiber scientists and developers around the world are in a search for how to replace the crude oil derivatives in apparel and textiles. Did you know there is milk fiber actually made from milk, an orange fiber from orange peel, spider silk from spiders, corn fiber and on and on? The latest craze is hemp. What is common about each of these is that they all want the hand, or the feel, of cotton.



*Cotton: 6,200 year old cotton pants, Huaca Preta, Peru*

Cotton is estimated to be more than 8,000 years old and appears to have been part of the original Genesis creation. You can safely say the fiber has been proven by the test of time and been a staple in wardrobes for centuries. The question now is how the 8,000-year-old fiber makes itself cool again with new generations. Generation Z and millennials are showing a significant concern for the environment and their health. Both concerns make cotton the natural fiber of choice. However, the media is telling them that recycled polyester is the answer, without any rebuttal from the cotton industry. First, recycling of plastic waste, including plastic bottles, is something we



*Cotton on the ancient Silk Road, Central Asia*

all admire. However, the fact that recycled polyester never biodegrades and releases the same volume of microfibers as virgin polyester is quite problematic. Secondly, the quality of the polyester is reduced with each recycling. Plastic can be recycled repeatedly, which causes a breakdown of the polymer chains because of the multiple heating processes during the recycling that degrade the PET's strength. Recyclers then use additives to improve the products strength, but this added process leads to additional variabilities in the integrity of the finished product.

Despite these facts, cotton is not yet gaining market share on recycled polyester, and very little comment has emerged in comparing the two. Those willing to attempt to switch to natural fibers are choosing organic cotton. You will probably find this interesting. One brand has actually mixed organic cotton and recycled plastic bottles, making what they call the ECO Shirt. As silly as that is, they also promote the quality imperfections in the product caused by the mixed quality of the plastic bottles used. Such misunderstandings are mind-blowing and illustrate the need for a much more effective message for cotton.

China is the world's largest producer of man-made fibers and the second largest cotton producer. It is home to one of the most polluted water supplies in the world and air that is unfit to breathe. In 2014, it launched its first serious attempt to rein in the pollution. Their effort has had its starts and misses, but has begun to attempt to deal with the issue. Much more remains to be done as highlighted by the fact that an estimated 70% of businesses inspected fail their first inspection test. The need to boost economic growth has also slowed enforcement. Despite these efforts, new, massive petrochemical facilities and production continue to come online. New capacity will again be added in the fourth quarter of 2019. The

question for China and their cotton industry is when will the discussion of microfiber pollution and the great environmental damage being done by this industry become a national topic. A country in which less than 25% of its water supply is still safe to drink is now experiencing microfiber pollution that has invaded those water supplies, as well as their food industry. The stifling of all debate has made dealing with the issue appear impossible. Cotton and other natural fibers could be used as an effective tool to clean up the pollution.

Cotton needs to become cool again, and it might take a cue from wool. To our surprise and dismay, these two industries have little interaction. The wool industry is innovating, and a host of new products have been introduced, making wool cool again. We need to credit Australian Wool Innovation Ltd. and its sister company, Woolmark, with much of this success. These nonprofit, grower-funded companies have been working with brands and retailers to develop and introduce a host of new 100% and wool blend products. One of the most impressive of these is Allbird's all-wool sneakers, which is one impressive product based on attributes the company is using to describe their shoe – cozy and dry in cold, wicks moisture inside and repels weather outside, minimizes odor, low carbon footprint, flexibility in movement, and breathes. The sneaker also uses a foam made from Brazilian sugarcane. The popular shoe has been so successful that it is now being copycatted by other manufacturers. Wool flannel shirts are again popular, and the wool vest can again be found.



*Duckworth Wool Vaper Tee*



*Duckworth Wool Vaper Performance Hoody*

Woolmark and AWI have teamed up to develop a wool-focused, complete uniform collection for the America's Cup sailing contest that will include waterproof jacket, soft shell jacket, polo shirt, T-shirt, wet jacket, blouson (blouson jacket), wetsuit, and base-layers. American professional surfer Kelly Slater and designer John More have teamed up to produce the first 100% Australian Merino wool boardshort. The Merino wool is being touted as the world's best natural performance fiber. The spinning technique used to produce the wool is unique. AWI CEO Stuart McCullough was quoted as saying the wool is, "soft on skin but tough enough to handle the elements. Wool is not only the world's oldest fiber but also the most technically advanced, with modern manufacturing techniques making the best even better."

A major US outdoor brand has reintroduced wool into its lineup this year, which will be distributed in 40-plus countries. The reason for the reintroduction is thanks to AWI, which worked with the company's development team on a new spinning technique that makes the wool fabric dry up to five times faster, 35% warmer, has 35% more stretch, and the seams are up to 120% stronger. Houdini, a Swedish outdoor brand, has launched 100% Merino wool pants and jackets. The same brand has launched the Menu Project, which grows vegetables in soils made from 100% composted wool garments.



Wool in winter performance wear

Blends such as Merino wool with, core-spun polyester or nylon, are proving popular with customers in the outdoor industry and getting a lot of buzz. The reason is price, with wool trading many times the price of polyester or nylon. Tencel and Modal are also popular. However, cotton is very seldom being used in the blends. Nagnata, a high-end fashion brand founded by Australian fashion leader Laura May that focuses on premium natural fibers, has launched a line of athletic apparel aimed at the yoga market. The line is groundbreaking in that it is made from Merino a wool/Tencel blend instead of petroleum-based fibers. Cotton again was not used.

That has not always been the case. In 1893, the first branded and trademarked fabric, Viyella, was created in England. Viyella was a blend of 55% Merino wool and 45% cotton. The fabric was a twill weave. A 1920s advertisement called it a “guaranteed unshrinkable fine wool flannel” for women who wanted both “daintiness” and “protectiveness.” It came in various weights and widths, some rather narrow by today’s standards, and in both plain colors and woven or printed patterns, and was exported. Near the end of the 20th century, it was woven in 150-cm-wide lengths suitable for modern garment design and production, and went on to become a complete apparel line. The original fabric is not produced today, but the Viyella brand fabric does exist in a new blend mix of 80% cotton and 20% wool.



Wool performance pants, Banana Republic



In 1962, the world consumed an estimated 1.491 million tons of wool outside of China, but today only about 1.3 million tons, including China, is consumed. The fiber has seen its market virtually disappear, as product after product was replaced by a man-made fiber substitute. Fleece had always been 100% wool. Today, however, it fights for even a 5% market share.

The industry has had to innovate and get the message out about the environmental advantages, and has begun to retake market share. The progress is slow, but when market share has fallen to 1.2%-1.3%, a 1% gain would double the industry. Wool also has a major

price disadvantage compared to cotton. With polyester below 50 cents, wool is eight to nine times higher, while cotton is only 55% higher. It is time for cotton to innovate and work closer with other natural fibers to end the rule of the crude oil derivatives.

## AUSTRALIA ENTERS PLANTING PERIOD; WORST FEARS MATERIALIZE



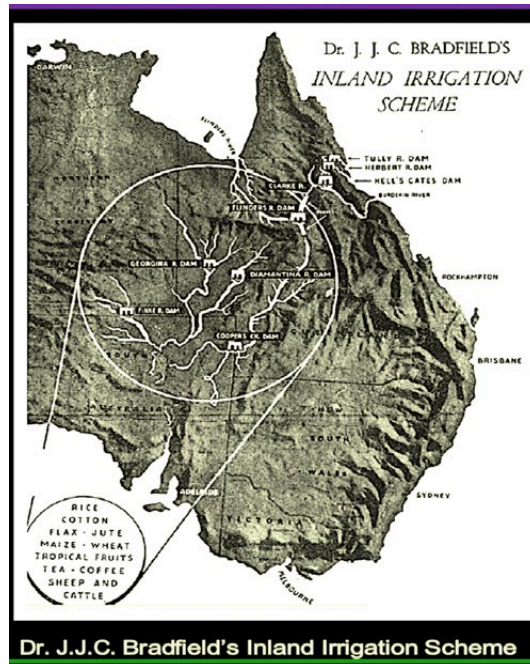
The ideal planting window has arrived for the 2019 crop, and the first planting began in August in central Queensland where about 7,000 hectares has been planted. Water has shown no improvement without any consequential rains. Central Queensland experienced a few major storms last week, with Biloela reporting the only notable rains of 16 mm. Despite the level of the drought, there has been no indication of an opening up of a debate for a major water reform package. Cotton Australia estimated production at 850,000 bales, a level we forecast several months ago. Many major cotton areas will plant no cotton. Australia has water but does not manage it. Despite the economic losses from flooding caused year after year in northern Queensland, and even greater losses from drought after drought in SE Queensland and NSW, no thought or planning has gone into the impact of implementing a long-term water infrastructure plan that would move water from the flood prone areas of northern Queensland south, providing high security irrigation supplies for thousands of hectares. The potential from such infrastructure would quickly triple total agriculture production and exports, which would be much larger and more secure than Australia's coal exports. The situation today is dire, with several beautiful rural towns running out of water. This occurs

as millions of gallons of water go out to sea when it does rain. The headlines are full of the government effort to solve the problem with aid.

Just such an Infrastructure project, the Bradford Scheme, was proposed in 1938. It would have diverted northern Queensland rivers, which largely drain out to sea in the south, thus providing irrigation supplies to 3,000 square miles and providing a secure supply of water to the Murray-Darling River system that provides the current irrigation supplies for a large region. The scheme would also have reduced flooding in the north and provided more than 700 megawatts of power that would have prevented the current energy crisis. Again, it is simply shocking that 73% of NSW power generation is from coal. Many state governments have prevented the rural sector from water security, and the federal government has spent billions in water buy backs from farmers, which reduced rural incomes, devastated communities, and reduced output, while allowing the water to flow out to sea. The Bradford Scheme was designed by the same engineer that designed the Sydney Harbor Bridge.

The Bradford Scheme has been revised and pushed, only to fail. The Fraser government that was in power

from 1975-1983 allocated five million AD for a new full feasibility study, but the government fell from power before it was ever carried out. The scheme was back in the spotlight briefly in 2010 when another engineer revised the scheme, which added current cost estimates and its impact on agriculture production. The entire original plan at that time would have cost only nine billion USD and taken just six years to complete, with all costs recovered in four to five years. The revised scheme was designed for 60% agriculture and 40% urban use, and it would have solved the problems with the Murray-Darling system. It failed to move forward. Instead, the government spent more than eight billion AD in water buybacks.



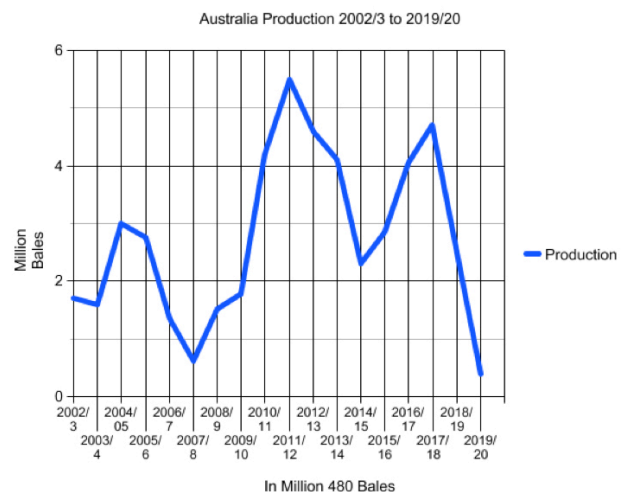
aqueducts, and pump plants, some shared with the California State Water Project. The Central Water Project provides irrigation to three million acres, or 1.2 million hectares. These two schemes provide an excellent blueprint for Australia. Moreover, the California State Water Project provides much of the state's power supply.

An Australian version would create an agriculture boom that would likely stimulate a doubling or tripling of the production of many crops, including cotton. The return on investment from agriculture production, power generation, and water supplies to rural communities (which would

Australia has not launched a major infrastructure project for water since the Snowy Mountains Scheme was started in 1949. It was completed in 1974 for a total cost of \$820 million, the equivalent of \$6.8 billion today. It is not clear what it will take to get the current group of anti-rural legislators to understand the importance of the Bradford Scheme. The 2019 cost of the scheme is thought to have increased to 15 billion AD, and the construction would also create a significant economic boom.

stimulate rural growth) would make the cost seem very unimportant. In addition, massive savings would occur from a sharp reduction in flood damage in Queensland. Losses from the devastating floods that hit northern Queensland in 2019 alone are estimated at one billion AD (over 710 million USD). This is not the only billion-Australian-Dollar flooding disaster in recent years. The 2010/2011 flood that hit the state caused damages of 2.38 billion AD. If a 2019 version of a revised Bradford Scheme ended such catastrophic floods, it would pay for itself in short order. If these economic losses were changed into dependable agriculture production the impact on Queensland alone would reach into the billions. The scheme would also impact New South Wales and assure water supplies for the Murray Darling supplied region.

There is a blueprint for such schemes as the Bradford in the US. The California State Water Project was launched in California, which constructed 10 storage dams and four additional dams and covered almost the entire state of California. After first being proposed in 1931, the project got started in 1960. It supplies water to more than 27 million people in northern California, the Bay Area, the San Joaquin Valley, the Central Coast, and southern California. SWP water also irrigates about 750,000 acres of farmland, mainly in the San Joaquin Valley. Even larger is the Central Valley Project, which is a federal water management project in the state of California under the supervision of the United States Bureau of Reclamation. It was devised in 1933 in order to provide irrigation and municipal water to much of California's Central Valley by regulating and storing water in reservoirs in the northern half of the state and transporting it to the water poor San Joaquin Valley and surroundings areas by means of a series of canals,



For now, the supply of some of the world's highest quality upland cotton will be restricted to only 850,000 bales or less. The US has the potential to fill part of that demand if Mother Nature cooperates, the 2019 harvest avoids unwelcome rains, growers successfully manage the harvest, and ginners properly manage the post harvest processing. The quality of the Australian crop is partly genetics and partly the result of excellent farm management and gin procedures that produce a fiber

with spinning features far beyond just the HVI statistics. The next 90 days will determine whether there is any improvement from these early estimates. The last time growers faced such bleak production prospects a big wet followed, which filled dams and on-farm storage. There is hope again that such an occurrence awaits in 2020. For spinners, it has created a gap in the supply of top end upland cotton that exists between upland and Pima.

## PAKISTAN CROP LIKELY TO FALL TO 7.8 MILLION BALES OR LESS



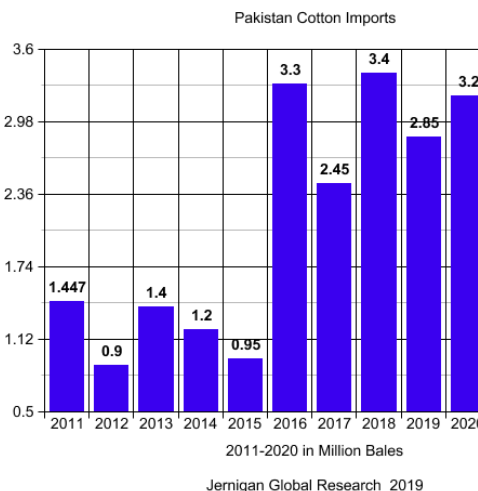
*Pakistan cotton at planting*



*2019 Pakistan cotton harvest*

Pakistan's September 30th new crop arrivals confirmed the local markets' greatest fears. Total arrivals during the second half of September are 1,081,156 150-170-kg bales, down 422,144 bales from year-ago levels. Total arrivals as of September 30th reached 2,933,565 local sized bales, which represents a 27% decline from last season at this time when 4,020,645 bales had been delivered. Late season rains have again returned to the cotton belt, which has increased concern regarding the quality and yields. The effort to provide higher quality seeds in 2019 appears to have failed. The narrow genetic base of Pakistan's cotton germplasm has been criticized, because it is prone to problems with insects and diseases, which is one of the major factors influencing crop productivity

in the country. Critics say Pakistan breeders rely on a back-crossed, 16-year-old biotechnology event, which is less virulent against bollworms and diseases. Pakistan has been struggling to boost cotton production above eight million 480-lb. bales. In 2015/2016, production fell to only 7.0 million 480-lb. bales.



Pakistan cotton production reached 10.6 million 480-lb. bales in 2011/2012 and in 2014/2015. The weak BT seed technology and other weak seed varieties is the biggest problem facing their ability to raise yields.

The lack of successful innovation in seed technology continues to make the crop more susceptible to insects like the pink bollworm. The prospect of a domestic crop of 7.8 million bales or less is stimulating import demand. Pakistani mills were very active buyers of imported cotton during the week. A sizeable volume

of US 2018 recaps, Brazilian, Mexican M 1 3/32, Tanzanian, and Argentine low grades sold. Much of the US styles are GC 41-4-36, Brazilian SLM, M 1 1/8, Mexican M 1 3/32, Tanzanian M 1 1/8, and Argentine low grades. Total 2019/2020 imports could reach 3.2-3.3 million bales.

## US: UNWELCOME RAINS DAMAGE WEST TEXAS COTTON CROP

The West Texas region has been plagued with wet, cool conditions for the past several weeks, with very heavy rains being recorded last week that resulted in some flooding. The rains were unwelcome, as some early-planted fields had been defoliated and open when the rains hit, which affected quality. The cool, wet conditions have slowed maturity, which is raising concerns about final yields and quality. These rains followed periods of drought stress on the dryland acreage, which has already caused the USDA to lower average high plains yields to below last year's. Total production for the high plains region in the September estimates was 5.685 million bales, and a further reduction in average yields is expected.

Harvest is rapidly advancing across the remainder of the belt, with only minor disruptions. The quality of the crop classed last week was excellent, with 21/31 or Strict Middling/Middling the average color grade. Average staple length ranged mostly from 1 1/8 and

longer, except in Georgia where the average staple length remained just below that mark. 380,849 bales were classed last week, and 197,609 bales were from Texas, 99,155 bales from the Mid-South, and 80,492 bales from the Southeast. Total classings have reached 1,276,789 bales. The South Texas crop appears to be its highest quality on record. 54% of color grade was 11/21, average staple is 36.06, while 42.1% had a staple of 37 or longer. The average strength is 30.49, and average mike is 4.38. No problem with bark has occurred.

The Memphis Territory crop is also of high quality, with some small differences showing up between the central and southern regions and the northern belt. Color grades are 11/21/31, and the staple length is excellent. In the central and southern areas, staple length averaged 37.82 at Dumas and 37.64 at Rayville. 64% of all cotton classed at Dumas is 38 or higher. Quality of the Southeast crop is good as well, but staple length is a bit short in Georgia, with an average of 35.51.

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## HONG KONG: SHOWDOWN NEARS AS BEIJING'S HEAVY HANDED MEASURES INCREASE



*A Hong Kong protester appears to be shot in the chest by a police officer in this frame from a video on the Facebook page of HKUSU Campus TV, which said it was from the scene of a violent protest on Oct. 1. The Nikkei Asian Review was unable to confirm the veracity of the video. (Photo from HKUSU Campus TV/Kyodo)*



*Oct 1, 2019, unrest in Hong Kong*

While the CCP put on an elaborate celebration in Beijing for the 70th Anniversary of Mao, proclaiming victory over the Nationals, the people of Hong Kong were again fighting in the streets for their freedoms, which provided a stark contrast. Demonstrations on China's National Day turned extremely violent when undercover thugs from China, disguised as protestors, confronted the police so as to provoke them into violence that would be blamed on the demonstrators. Then it appears that the Hong Kong Police force has also been infiltrated from Beijing, with one station filmed flying a China flag. Others are citing the almost unlimited funding the force is receiving without going through the normal legislative channel. This mixture resulted in Hong Kong police shooting a 15-year-old protestor at point blank range with live ammunition, and another being shot on Friday night. The entire episode was filmed on video and posted on Facebook, which left little room for debate and the fact the police officer used excessive force. The protestor who was shot was charged by the police. The China National Day protest resulted in over 50 arrests. Hong Kong has also implemented parts of a colonial-era law banning headwear at protests, which will, of course, result in serious physical injury to protestors. This triggered mass protests across the city on Friday night, with the entire subway system forced to close.

The pressure on Beijing to act is expected to now dramatically increase. It has been documented that 12,000 elite troops moved into Hong Kong under the cover of night, stationed at various army barracks to be ready to act. It appears Beijing has also instructed

police to adapt very heavy-handed methods to control the protests, including attempts to stifle free speech and the arrest of pro-democracy legislators. Police are going undercover, also dressed as protestors, as a way to attack the real protestors and create fear. Moreover, the global headlines, which the October 1st Hong Kong protests created, are said to have raised the anger of Chinese leaders.



On the economic front, Goldman Saks estimates that four billion USD left Hong Kong in August and found its way into Singapore banks. The funds did not flow to Shanghai where capital controls are a major issue. It is, of course, no surprise that conventions and meetings are being canceled. The news is not all bad. Anheuser Bush reintroduced its Asian IPO and raised five billion USD on the Hong Kong exchange, making it the second largest IPO in the world, and Top Sport went public in Hong Kong last week, raising more than one billion USD. Top Sports is the largest sportswear company in China, with a market share of 15.99% and

annual sales of 3.85 billion USD. It is part of Belle International, the largest women's shoe retailer in China.

The leading opposition candidate in the US presidential race, Elizabeth Warren, wrote an editorial October 3rd in Foreign Policy Magazine in which she stated, "Tweets are not enough. Washington must make it clear it expects Beijing to live up to its commitments.... and it will respond if it does not." The title of the editorial was, "ITS TIME FOR THE US TO STAND UP FOR HONG KONG." We have previously discussed the fact that candidate Elizabeth Warren has issued several controversial policies, but on trade she has issued very hawkish policies that include a strong Made in America plan, strong opposition to China, and a firm stand

supporting Hong Kong.

There is increasing fear that instead of launching an assault by the military Beijing will instead attempt to bring Hong Kong under its thumb with a thousand cuts. They will launch each new restriction one at a time followed by arrest. This will deny the protestors the headlines and test the attention span of the West. The announcement to ban the mask triggered new unrest Friday night, including the burning of a China Construction Bank Branch. Many view the implementation of the mask ban as the start of a host of other liberties being removed, and believe the action officially ushers in the end of Deng Xiaoping's "one country, two systems" principle, which now seems to be only a myth.

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## US EMBARGOS FIRST APPAREL IMPORTS FROM XINJIANG DUE TO SLAVE LABOR

For several months we have discussed in detail the US law that bans importation of any products deemed to be manufactured with slave or forced labor. Under U.S. law, it is illegal to import goods into the U.S. that are made wholly or in part by forced labor. This includes convict labor, indentured labor, and forced or indentured child labor. When information is available, Customs and Border Protection (CBP) may detain goods believed to have been produced with forced labor by issuing a withhold release order (WRO). Importers can either re-export the detained shipments at any time or submit information to CBP demonstrating the goods are not in violation. The Forced Labor Division within CBP's Office of Trade leads agency enforcement efforts prohibiting the importation of goods made using forced labor. CBP receives allegations of forced labor from a variety of sources, including from the general public.



*Xinjiang prison camps*

This law was used in the embargo of cotton textiles and apparel from Turkmenistan. The case against Turkmenistan was far less egregious than the procedures used in Xinjiang. We suggested there was a real risk that the US Customs and Border Protection would begin to embargo imports from China, which could be linked to textile and apparel companies in Xinjiang found to use the slave labor from the Xinjiang concentration camps. We were correct, and the first apparel shipments from Xinjiang have been embargoed. The ban was on imports from Hetian Taida Apparel, which is the Chinese supplier of T-shirts to US sportswear company, Badger Sportswear, which was exposed in the press earlier this year. The US company importing from Hetian has already halted orders and pulled product from it shelves. It is not clear if any other major importers will be impacted, but one search showed 16 shipments to the US from Hetian that move largely through Charleston Port (70%) and also serves Badger Sportswear. The balance of the shipments moved into Long Beach and Los Angeles. This embargo was easy to verify and well documented in the press. Hetian is a small company that was found to use forced labor from the concentration camps in the plants it set up in those camps. No other announcements on other companies in Xinjiang have been announced. However, several major textile and apparel groups have been documented to be using slave labor. All the major textile groups have operations in Xinjiang, which is the source of most of China's cotton production. Xinjiang mills consume in excess of eight million bales of cotton annually. Currently, consumption is expected to fall by about 25% as a result of orders being canceled

due to the camps or the US/China trade war. Additional embargoes are expected to be announced in the future.

Xinjiang also has a man-made fiber industry that is expanding. Usu City is home to a 100,000-ton nylon plant.

## CHINA YARN IMPORTS DECLINE LED BY OPEN END YARNS

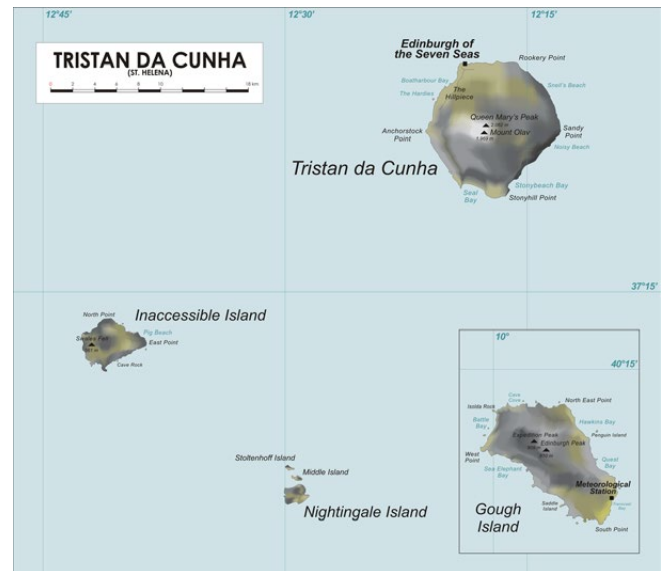
As expected, China's cotton yarn imports in August totaled 138,443 tons (including 3,133 tons of reimports), which is off sharply from imports of 192,715 tons in August 2018. The breakdown of suppliers indicated a sharp decline in demand for lower count, open-end yarns. India has traditionally been the largest suppliers of lower count, open-end yarns. Imports from India totaled only 11,570 tons, compared to 55,000 tons a year ago. Imports from Pakistan totaled only 3,910 tons versus 30,087 tons a year earlier. Both Indian and Pakistan open-end yarns have been popular in China, and import prices have normally enjoyed a sizeable price advantage over local yarns. Since May of this year, the price of domestic cotton has collapsed, dropping nearly double

the pace of international decline, which by last week put Chinese domestic prices at a discount to international values. We expect 2019/2020 cotton yarn imports to remain weak and reach near the equivalent of 8.3 million bales. This will be down approximately three million bales from 2018/2019, with most of the decline coming from India and to a lesser extent Pakistan. We have heard reports of weaker imports from Vietnam in recent weeks. However, the data so far has shown a pickup in import demand for Vietnam yarns, and August imports totaled 76,084 tons, which is up sharply from 59,093 tons a year ago. Demand for Uzbekistan yarns has been maintained at 12,170 tons vs. 12,973 tons a year ago. Uzbekistan yarns are popular in home textiles.

## NEW STUDY FINDS CHINESE MERCHANT SHIPS MAJOR SOURCE OF OCEAN POLLUTION PLASTIC



Researchers from Canada and South Africa associated with the Canada Wildlife Service did an extensive study of plastic pollution on the remote Inaccessible Island between 1984 and 2018. This made this study one of the most extensive in terms of the time period covered. The findings were published in the proceedings of the National Academy of Sciences. They contradict assumptions that so-called “garbage patches” form when material floats away from beaches or land-based facilities. The research group’s detective work suggests that Chinese and other merchant ships are breaking anti-litter rules set by the International Maritime Organization nearly 30 years



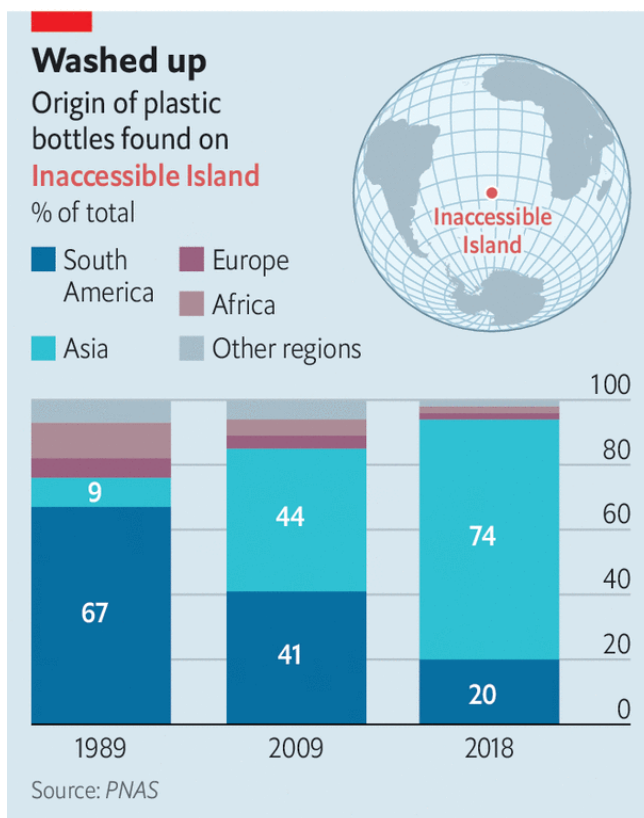
ago. The group focused on an island named Inaccessible Island, an uninhabited island halfway between Argentina and South Africa. It is only reachable by boat and definitely not generating its own trash.

The research team visited the island the first time in 1984, then again in 2009 and in 2018. The team conducted plastic forensic work each time. The island is located on

the main trade routes between South America, Asia, and China. The team examined the trash that had washed up on the island for ages and where it was manufactured. In 1984, it found that 70% of the plastic found came from South American but in 2009 83% of the plastic found was from Asia, and 83% of that was from China. Then, in 2018, the plastic continued to be dominated from China and Asia, but the new trash was all less than two years old. The location of the island required that the trash from China or other Asian locations would have to travel five years or more by ocean current to reach the island. The study concluded that the plastic trash was coming from



Plastic pollution on inaccessible island



The Economist

merchant ships that are dumping their plastic trash in the ocean as they come near the island. This is a violation of the international treaty on shipping that was signed by China and other shippers. The study suggests that a halt to littering by the merchant ships alone would have a major impact on plastic pollution.

This illustrates that the pollution crisis is an international crisis, and that, as the producer of over 70% of all global PET production, China is at the center of it. Research is going on to replace the plastic with a natural fiber-based product.

## ICE FUTURES RALLY AS DEMAND HOLDS STEADY WITH TRADE SELLING ONLY ON STRENGTH

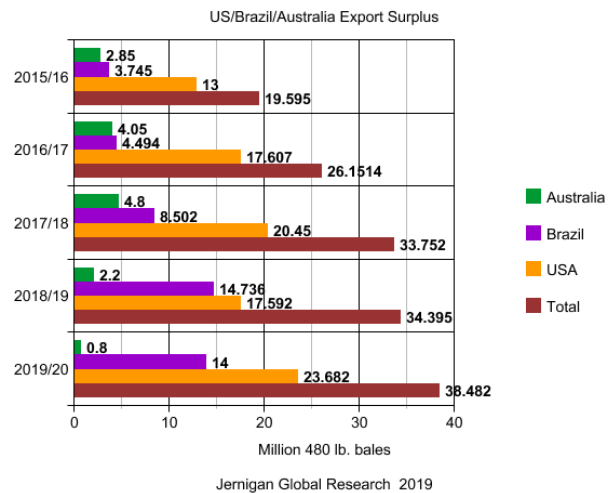
ICE futures found support again near 60 cents, as export Lofftake remained active from Pakistan, Bangladesh, and a small volume from other locations. Trade selling occurred, but only on the rally to the 62/63 area in Dec futures. CFR basis levels were also firm, with merchants unwilling to discount. The Chinese markets were closed, but there was plenty of drama out of Beijing and Hong Kong. Much of the ICE volume appeared to be from the Algo-driven Managed Funds, Algo day trading system,

and the high frequency traders (HFT). Trade selling increased on the rally into the 62/63 area, with a small amount of US and Brazilian cotton moving from growers. US FOB basis levels weakened 50 points in the Southeast, Mid-South, and West Texas. The China National Day celebrations showed a China that wanted to boast about its military power, while on the same day Hong Kong demonstrations reached the most intense level yet, with a student being shot. This was followed by Beijing pushing

the Hong Kong government to invoke a Colonial era law that banned face mask. The same law can be used for the revocation of other civil liberties. Against this backdrop, the US/China trade talks will begin. Adding to drama is the impeachment battle in Washington that China was been drawn into by President Trump's call for China to investigate Joe Biden and his son over his son's business dealing in China while the elder Biden was Vice President. This then triggered a Democrat response that accused Trump of providing China trade incentives to in turn investigate the Bidens. This of course does not appear to be the case, when the call to investigate the Bidens was made at an impromptu news conference. Nonetheless, it seems any possible any China deal will face Democrat opposition, even with the President having the authority for such agreement. The opposition sideshow has caused significant problems for the US to focus on the rapidly unfolding events in Hong Kong.

Next week, China's markets will reopen, and the behavior of the ZCE cotton futures will likely have some influence on the path of ICE. Both markers face resistance on rallies from Trade selling on rallies. From a technical point, Dec closed above last Friday's outside range day high, which is positive. A close above 63 in Dec would clear another hurdle. As we have said previously, we expect heavy Trade selling near the 65-cent level. The market appears to be digesting the decoupling of the China/US markets, and is appearing to grow more insensitive to each minor development. Our expectations have been and remain that no lasting US/China trade deal will occur, and that Chinese cotton use will fall, as previously in 2019/2020.

We continue to expect the movement of a large US and Brazilian crop to exert pressure in the fourth quarter, which has now begun. The Indian crop remains a big if. Record cotton acreage has been planted, the monsoon has stayed over 30 days past its normal exit and has still not exited. Will a 37-38 million 170-kg crop be produced? Or will the pink boll worm and other insects or disease hit the late wet crop? This will be important for global prices. We are very cautious about the CCI being able to procure a large crop at an MSP far above the market, and if it does not manage it perfectly, then domestic prices could fall sharply. India will also face very weak Chinese demand for cotton exports and cotton yarn. Political issues appear to have Pakistan blocked, which means exports will be very price-driven.



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@Globalej



@JerniganGlobal



Eddie Jernigan



Register for Research  
info@JerniganGlobal.com



ed.j@jernigancg.com



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