CHINA SET TO OVERTAKE US APPAREL MARKET

CHINA BUYING SPREE FOR AGRICULTURE PRODUCTS CONTINUES

AFRICAN FRANC ZONE CFR BASIS FALLS

PROTEST AT NEW YORK FASHION WEEK OVER XINJIANG

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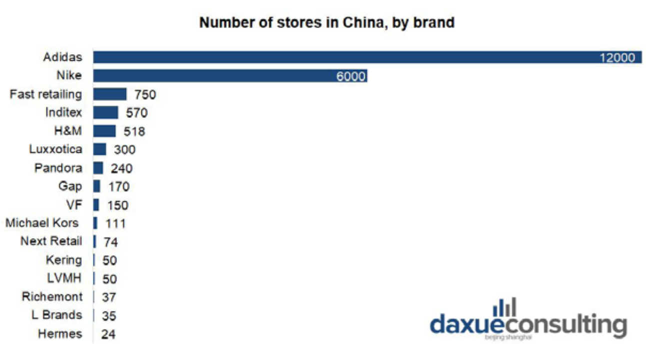
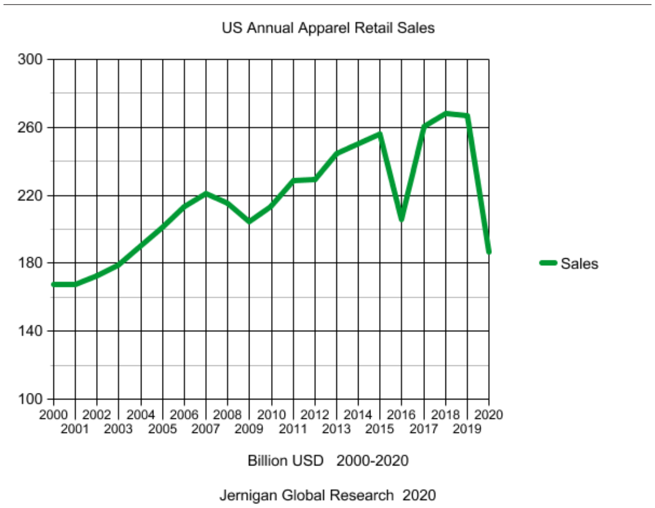
US AND CHINA'S RETAIL APPAREL MARKETS' DIFFERENCES NARROW AS US WEAKNESS CONTINUES

For the past five years or more, consulting and research firms have been forecasting that the value of the Chinese domestic apparel market would soon surpass that of the US. That prediction was based on the record growth in the Chinese market, but the forecast has failed to be realized as growth in China slowed. However, what was not forecast or expected was a record contraction in the US apparel market. Prior to the Wuhan Virus epidemic, the US apparel market had been steadily expanding annually. During the past five years, pre-Wuhan Virus growth was 6.26% for the period 2014 to 2019. 2019 total retail sales of apparel and accessories reached 266.1 billion USD. August total US retail sales were 545.89 billion USD, which reflected an increase of 2.6% from a year ago. Total January–August retail sales have reached 3.995

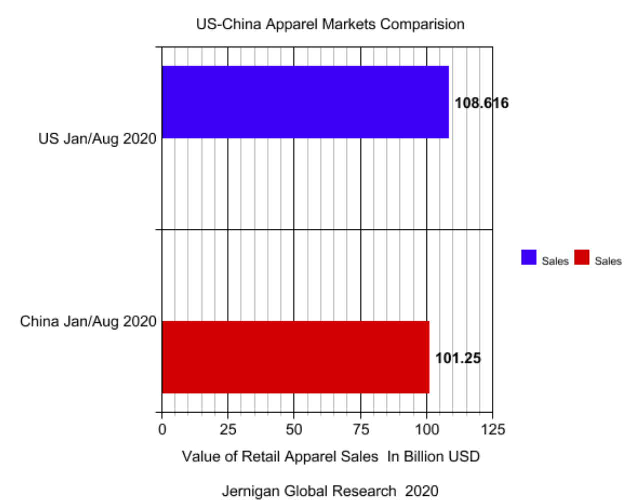
trillion USD, which is only a 1.8% decline from a year ago. The main area of weakness was apparel, where sales of apparel and accessories at clothing stores accounted for 18.155 billion USD, a 20.4% year on year decline. Sales at department stores fell 16.9% compared to sales growth of 11.4% at sporting goods stores and a 15.4% growth in home improvement. January through August sales at clothing stores reached 108.616 billion USD for a 34.9% year-on-year decline.

The shrinking of the US apparel market has narrowed the difference between the Chinese market and the US. Chinese total retail sales in August was 3.4 trillion RMB or 492.1 billion USD, which placed the Chinese retail market at 90% of the US level in August. August sales were up .5% from a year ago. The January-August total retail sales reached 3.44 trillion USD. Sales of apparel, shoes, hats, etc., totaled 96.7 billion RMD or 14.117 billion USD, which reflected a 4.2% gain from a year ago. This put the Chinese apparel market sales at 77.8% of the size of the US. January-August sales have reached 693.6 billion RMB or 101.25 billion USD, a decline of 15% from a year ago. This indicates that the Wuhan Virus has had a much greater impact on apparel demand in the US than in China where the virus originated. Using the official data, Chinese apparel sales were more than 93% of the US sales level in the first nine months of 2020.



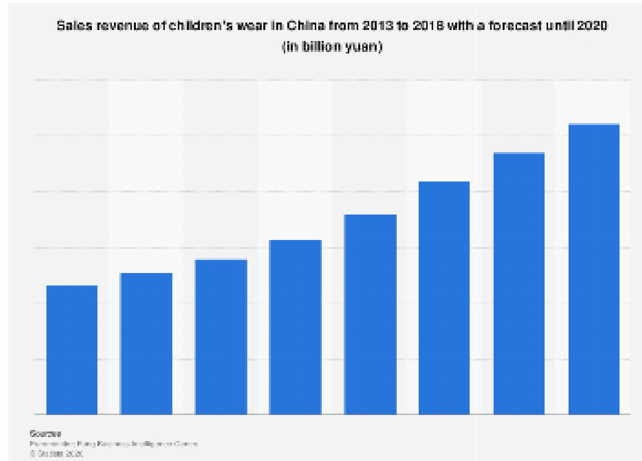


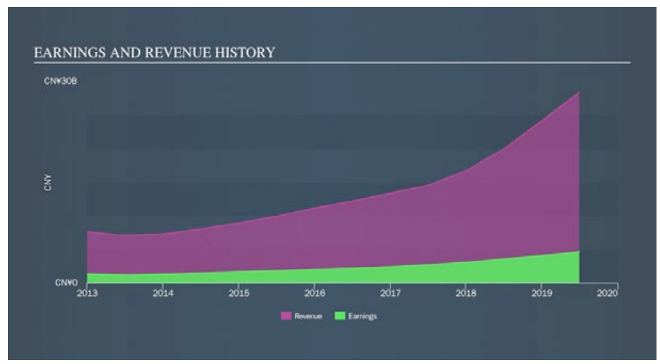
The strength in the Chinese domestic apparel market is a bright spot for the global apparel market. It also illustrates why the Chinese market is so important to the major global apparel brands. The domestic market, however, is over supplied, and profitability is difficult for apparel companies as all companies switched focus to domestic sales as export sales collapsed. The switch in focus to the domestic market is also impacting fiber use and even the makeup of cotton consumption. It appears that natural fiber market share has held. The makeup of yarn demand has switched to 40 and below count yarns since many Chinese consumers have changed purchase patterns. This has increased demand for lower grade cotton and a greater use of the standard Middling 1 1/8 and a lower demand for the high-grade US and Australian longer staple lots.



The sharp fall in US retail sales of apparel that is continuing will limit the recovery in global cotton use. Another significant impact is coming from the damage resulting from the unrest and lack of law and order enforcement in several major urban centers that have large retail sales markets. The largest metro region which has been mismanaged is the New York City region. The NYC Mayor and his administration first mismanaged the Wuhan Virus with large scale shutdowns that destroyed retail business, closed Broadway, and raised fears the city may suffer for many years to come. This was followed by a breakdown in law and order and the reduced funding of the legendary NYC police force. This has resulted in billions of dollars in losses from the riots but also the permanent closing of thousands of business. The well-known, high-end luxury streets are a ghost town, with many stores and shops boarded up and closed. In August, shootings in the city were up 166%, and murders increased by 47%. One major corporation made headlines by being concerned about the safety of workers coming to the company's global headquarters. Calls continue for the Mayor to be replaced, but the New York Governor is ignoring them. The problem for the US retail market is the size of the NYC economy and the effect the collapse of NYC retail is having. The GDP of New York City was over a trillion USD, but it is now rapidly sinking, along with the city's budget. The retail sectors in Chicago, Los Angles, Portland, and a host of other key markets are also suffering as a result of the unrest and lawlessness.

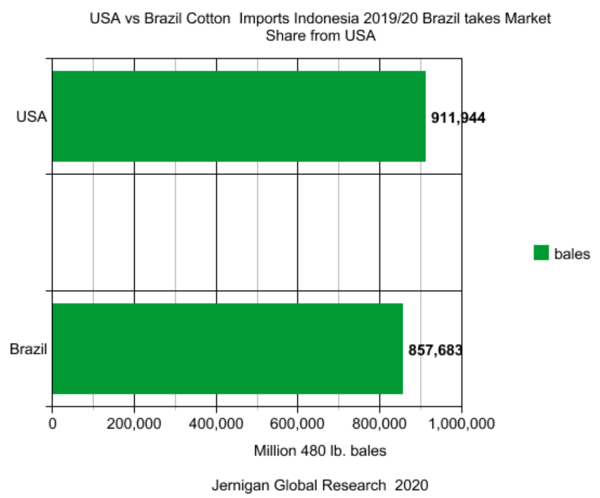
McKinsey Consulting last week forecast that 2020 US retail sales would end down 20-30% for the year, and sales in 2021 would remain weak, declining 10% to 25% from 2019 levels. The first forecast for a return to 2019 levels is the first quarter of 2023 under the best conditions and second quarter of 2025 under the worst conditions. If these forecasts hold true and China's sales show only small growth in 2021, then its apparel market may overtake the US in sales volume for the first time.





Anta Sports Revenue: the next Nike, source: Simply Wall Street

SHIPMENTS OF 2020 BRAZILIAN CROP INCREASING ALONG WITH NEW CFR BASIS PRESSURE



As ginning of the 2020/2021 Brazilian crop expands, offers of the crop are increasing and so is pressure to move the cotton from inland locations. Recently, a large fire was reported in Bahia in which 30,000 tons of ginned cotton was lost in a fire at a storage lot and warehouse. This illustrates the danger in having large inland storage yards that can be at risk during the dry season when humidity levels drop to extreme levels and temperatures soar. These conditions trigger massive wildfires that are often uncontrollable. The small firefighting units become quickly overwhelmed, and most areas have limited equipment to fight the fires. Currently, a serious heat wave is prevailing across the cotton belt where in Mato Grosso and western Bahia daily highs are 100-105 F. Western Bahia is showing no rain in the 14-day forecast, while parts of Mato Grosso has a 20%-40% chance of rain around September 22-24. The heat wave is also a concern for the upcoming soybean and corn crops. The increased shipments of the 2020 crop have increased merchants' offers afloat with the cotton expected to arrive in the major Asian markets by late October and November.

Brazilian 2019 crop also remains available in volume in the major markets. The record low CFR basis levels for Brazilian cotton have made it the growth featured in every key import market with the exception of China where Reserve purchases have focused on the US. However, active retail offtake has occurred from bonded warehouse stocks. The volume of business has been such that the pressure has been lifted off the CFR basis over the last two weeks and some improvement has been noted as we have discussed. Then came the new surge in ICE futures on Monday which applied new pressure to basis levels. Many merchants have attempted to maintain CFR basis levels, but a few have cut basis levels. This has been especially true in China were very active offtake of Brazilian 2019 crop has been noted from bonded port warehouses. Over the past two weeks, a rally in domestic Xinjiang prices has made Brazilian and US styles offered from port warehouses cheaper than domestic cotton. A rather hefty volume of port stocks was traded during the period, approximately 40,000-50,000 tons or nearly 230,000 bales. This was very welcome, as many traders have been holding stocks for a long time amid weak demand. New Brazilian 2020 crop and Indian CCI stocks are arriving, and the space is needed.

The CFR basis after the futures rally came under pressure in Afloat offers, which are shipments unsold and headed to Asia or other destinations. Among these shipments appear to be Bahia longer staple lots. Middling 36, 37, 38, and 39 staple offers are now noted. Offering levels are very competitive and will undercut US styles by a wide margin. Middling, 39 staple offers have been noted at 650 on Dec compared to a US E/MOT 31-3-39 offer at 1450 points on. This should undercut demand for US higher grades in all markets. Middling 38 and 37 staple lots are at 50-100 points discount, which are also undercutting US styles. These offers are also hurting demand for the remaining 2020 crop Australian and 2021 new crop in all markets in which they are jointly offered. The most aggressive Australian Middling 1 3/16 is at 1500 points on and in many cases much higher.

In China, some merchants, especially the Chinese trade firms, are offering Brazilian On Call the Jan ZCE contract and in RMB a ton, which is aiding in its popularity with spinners. Offtake of the Brazilian styles from the bonded warehouses during the past two weeks has also been erratic due to exporters requiring proof that non-Xinjiang cotton was used in cotton apparel in order to avoid the possible embargo of product as it is shipped to the US. It is clear that US and Brazilian cotton are expanding their market share in China at the expense of Indian and African Franc Zone styles. The real test for the Indian styles will come when the recent CCI sales arrive and the cotton is readily available in retail lots. Indian cotton has always been popular in China due to its similarities with the eastern crop. Spinners have recently moved to focus on Brazilian and US for contamination improvement and better contract performance. The improved quality of the CCI offers should be of interest to Chinese mills. One issue is that the spread between a Brazilian

Middling 1 1/8 and an Indian M 1 1/8 on a landed the port basis is only 200-300 points discount for the Indian. The Indian discount needs to be 500 points or more to stimulate the larger buying interest. Indian domestic prices have remained very firm, and the Indian basis was appreciating until the recent ICE gains.

As ginning is completed, the record 2020/2021 Brazilian crop is set to again test the recent strength in CFR basis levels, especially in front of new ICE strength. Basis trade has been thrown into havoc by the US/China trade agreement and lack of adjustment by ICE in the futures contract. Argentine styles remain very popular with open end spinners, but their bark content has them trading at hefty discounts to Brazilian. An Argentine Middling 1 1/8 with limited bark is offered at 275 points on Dec, Middling 1 3/32 at 100 points on. The SLM 1 1/16 standard has been popular in Pakistan and is offered at 100-200 points off Dec. Heavy bark lots are offered at 400-500 points off Dec in the 1 1/16 lower grades.

US CUSTOMS AND BORDER PROTECTION ISSUES LIMITED WITHHOLD ORDERS ON XINJIANG COTTON TEXTILES

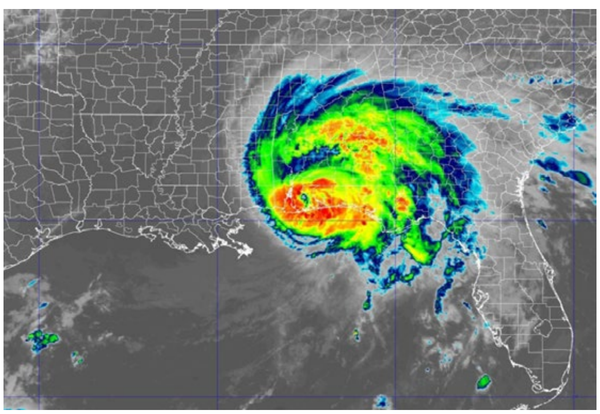
Contrary to the discussions the CBP had with the press outlets, it issued very watered down withhold orders on only Xinjiang textiles and apparel from a few select companies and any product made with the cotton from one farming group. This was in contrast to expectations that a total ban on all imports from Xinjiang was coming along with other products. The US Department of Homeland Security issued five withhold release orders. The first was all products made in the LOP County 4 Vocational Skills and Training Center in Xinjiang. The second was on all hair products made in LOP County Hair Product Industrial Park, and the third was on all apparel produced by the Yili & Baoding Zyszd Garment Manufacturing Co. The fourth was all products made from cotton grown and processed by the Xinjiang Junggar Cotton and Linen company, which was, until recently, a BCI China producer. The final order was on computer parts from Hefei Bitland Information Technology Company in Anhui.

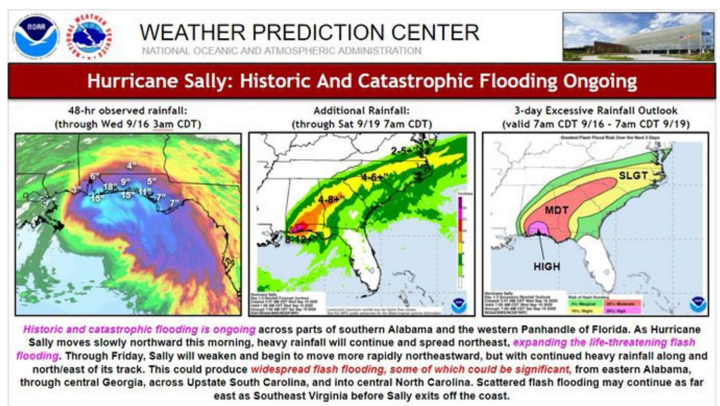
There has been no discussion as to the reason the actions were more symbolic than impactful. The reduced actions may be linked to a desire to not disrupt commercial trade already contracted for. With or without any ban, brands and retailers are moving quickly to limit exposure to Xinjiang. Chinese exporters are complaining they are seeing orders switched to branches outside China or to India and Pakistan. The second feature is to require the use on non-Xinjiang cotton. Brazil and US cotton from the bonded warehouses have traded in some volume as a result.

Protest at New York Fashion Week

At the opening of the New York Fashion Week, models staged a protest, wearing white cotton t-shirts and bound together with red rope to draw attention to the need to boycott Xinjiang products. This is very noteworthy since just a few years ago everyone at a major New York sourcing meeting avoided any mention of what was then becoming evident in Xinjiang for fear of causing commercial problems for them in China. The issue has moved from the shadows to the front lines and will not go away. The issue is also now being raised in Europe, where an EU parliament member has launched a social media campaign on the issue. Another member introduced a new mandatory due diligence legislation on environmental and human rights. It would make European companies legally liable for failure of due diligence across supply chains. The bill, if passed, will cause major changes in the supply chain. The EU is the largest export market for China's textile and apparel exports. The Uyghur Forced Labor Protection Act continues to move through the US Congress. This would ban all imports from Xinjiang unless proof could be provided of no use of slave labor.

US COTTON CROP SHRINKS FURTHER AS THE CHALLENGES OF 2020 NEVER END





Hurricane Sally path

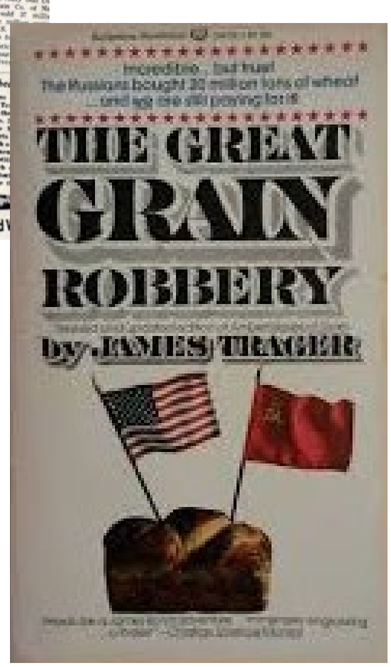
2020 will long be remembered for the pain and agony experienced throughout the world. For the US cotton grower, the first major drama was a drought in West Texas, where 6,836 acres was planted but only 3,880 acres are expected to be harvested. This was followed by an unseasonal hurricane that caused significant damage in the RGV. Then came a series of unwelcome rain events. The USDA September survey provided the first solid evidence of trouble, and the weather is now suggesting more trouble ahead. This week it was Hurricane Sally that was the concern, as it brought torrential rains to Alabama and Florida cotton areas. The impact of Sally is not yet fully known, but up to 200,00-300,000 bales could be lost. Several other storms are out in the Gulf that may yet cause problems. Georgia is the second largest cotton-producing state in the US, and it is a natural crop for the state, making great strides in both yield and quality. A late season concern has emerged over hard lock that appears to be a problem in the late April and early May planted cotton. This will greatly affect yields, with losses of 200-300 pounds. In August, the USDA forecast that average yields in the state would reach 1003 lbs. per acre, but in September it trimmed this back to 932 lbs. The estimated harvested acreage means each small reduction has a big impact. The full effect is unknown. The issue overall is that the Mid-South and Southeastern crops are rapidly opening and need a hot, dry early fall to emerge or at least dry.

The 2020 US crop is now shrinking further, and the chance of a large upside revision is fading. Given what this year has already brought, maybe we should not be shocked by this. The exact amount that production will fall from the September survey remains in question, and currently much emotion is surrounding each weather event. The main takeaway is that the 2020 crop will be below 17 million bales.

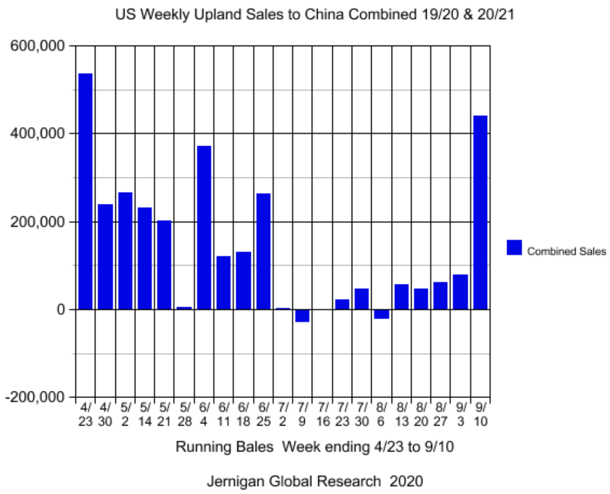
Early planting prospects for 2021 suggest cotton will face major competition for acreage in the Mid-South and Southeast as corn and soybean prices advance. Nov 2021 soybean price levels, along with the positive basis, leave little room for discussion when compared to Dec 2021 cotton and a negative basis. US soybean carryover levels could fall to record low levels if the China's commitments are all shipped.

CHINA PURCHASES OF US GRAINS WERE AGAIN ROBUST LAST WEEK, ALONG WITH LARGE SALE OF US COTTON

Many years ago, during the days of the old Soviet Union, a book was written in 1973 titled "The Great Grain Robbery." The book was written about the Soviet Union's large purchases of US grain at subsidized prices following poor domestic harvest. The grain was purchased using US credit and occurred before the US or the world realized a major global shortfall had occurred. The Soviet Union was successful in buying at the bottom and with US credit. Today, the term is beginning to be thrown around again as the Chinese food buying spree gets global attention and is influencing prices. Some suggest the restocking by China is also happening in industrial commodities, where record imports continue from Australia despite the trade spat over minor agriculture products. Last week began with a major sale on Monday of US soybeans and corn noted on the USDA's daily reporting system and was followed by more volume on Tuesday and Wednesday, along with large sales to Unknown, which is expected to be switched to China. Thursday and Friday brought yet more volume sales of corn and soybeans to China. The exact reason for the buying is clearly much more than any compliance with the trade agreement. Moreover, there were record purchases of Brazilian soybeans until all supplies were gone, and then China shifted to buying US, which is continuing. Regarding corn, purchases of US corn are nearing 10 MMT, and it is now known that 4 MMT of Ukrainian corn have also been purchased. Private current estimates place China corn imports in 2020/2021 at 20-22 MMT, compared to 4.5 MMT in 2018/2019. Then came reports that new flooding in China's northeast corn areas has reduced production by 5 - 10 MMT. Record purchases of US pork have occurred. Imports of pork from Germany more than doubled before additional sales were recently banned because of Swine Flu.



The weekly USDA export sales report for the week ending September 10th again confirmed very heavy US sales to China, including 359,700 tons of corn, 121,800 tons of sorghum, 1,487,100 tons of soybeans, 1,800 tons of beef, 35,000 tons of pork, and a very large 440,100 bales purchase of US cotton. This was the second largest US single combined weekly export sales of upland cotton to China since the Reserve purchases began. The largest purchases were announced for the week ending April 23rd, when 422,400 running bales of 2019/2020 and 115,300 running bales of 2020/2021 were sold. The purchase of this volume of cotton raises some questions. Why did it occur now with prices near 63.50-64.00? China has now purchased 3,068,300 running bales of upland and 48,500 of Pima for 2020/2021 shipment. In the January-July 2020 period, the US shipped 2,079,400 running bales to China, which takes total purchases for 2020 to 5,196,200 running bales. This has pushed purchases to near a value of two billion USD, which is at the high end of private estimates of an allocation target for cotton.

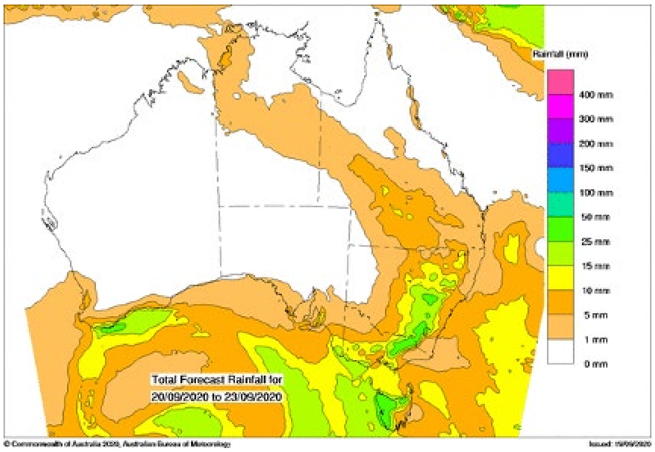


There is now a good deal of debate as to the true origins of the massive buying across a range of industrial and food commodities. Some fear it could be preparations for more trouble in relations with the West or even more sinister reasons, such as an invasion of Taiwan and the possible conflict with the US that could come. Chinese planes invaded Taiwan air space last week ahead of a high-level visit by a US State Department official to Taiwan for trade talks. Others cite the need for food crops due to domestic shortfalls and industrial demand for commodities like iron ore because of a rebound in the Chinese economy. Then there is the sharp increase in Australian exports of iron ore and coal, which is up 75% YTD through July. The sheer volume of the combined purchases is now having a sizeable impact across the globe. China imported a record amount of crude oil in June, and the import surge is continuing. Why? Is it due to industrial growth or building inventories?

The volumes are having an influence on the supply and demand balance of the various commodities. Global soybean supplies will now be extremely tight, with the 2020 Brazilian crop taking on a new importance. For Corn, the sudden new demand of 10-15 MMT has an effect. As we mentioned before, more than half of world stocks of corn, coarse grains, wheat, and rice are estimated to be in China. We, however, feel these estimates are overstated. Nevertheless, the true reason is this scale of purchases will not be known for some time, but again, it is clear the buying spree is the result of more than the US trade agreement. An expanding economy or a crop shortfall is one issue, and geopolitical concerns such as a Taiwan invasion is another concerning the long-term implications of the buying. The well-respected *Nikkei Asian Review* last week compared China's current aggressive "Wolf Diplomacy," in which it has threatened the US, India, Australia, Canada, the recent threats to the Czech Republic issued in front of the EU, and its attempted control of the South China Sea, to that of Imperial Japan prior to WWII. Japan's actions, of course, led to WW II, at which point Japan attempted to occupy much of Asia and even invaded the US and Australia. This suggests the next 24 months will have a lot of risk.

Regarding cotton, through September 17th, the Reserve sold 473,537 tons or 2,175,666 bales in the latest sales program. No purchases were announced of domestic cotton during the period, which means Reserve stocks have been drawn down. Reserve stocks are estimated to be near 2 MMT or 9.2 million bales before the auctions began. The sales would indicate Reserve stocks had reached just over 7 million bales. US purchases would eventually raise Reserve levels to more than 12 million bales, a level which is believed to be in the maintenance range established for the Reserve. The unknown is whether a decision has been made to further build Reserve stocks for strategic regions.

AUSTRALIA RAIN EVENT ARRIVES AHEAD OF WIDESPREAD PLANTING



Light rains arrived in New South Wales last week, with cotton areas receiving from zero to 10 mm as of Thursday. From Friday through the next several days, over 25 mm will be possible, with the heaviest amounts in the western areas. This rain will be very welcome, with the benefit depending just on the amount of rainfall. SE Queensland will see very light rains. Planting has begun in the earliest planting areas of Queensland. Domestic cotton prices remain weak despite the strength in ICE futures. The old crop 2020 basis is quite weak at 470 points on FOB, which is providing an Australian Dollar price of only 488 per bale, a level considered unattractive. The new crop 2021 crop basis is at 590 points on May, which is producing a price of 506 Australian Dollars a bale. The basis is weak due to poor export demand and a strong Aussie Dollar exchange rate. Export demand for Australian is under pressure from weak Pima prices as well. Chinese demand for Australian cotton is very weak. Aggressive offers of US Pima have triggered large offtake of US Pima over the past six weeks. During this period, 27,200 bales of US Pima have sold to China, and 2020/2021 sales have now reached 48,500 running bales, which compares to only 15,700 bales sold a year earlier. The price of Pima on a CFR basis reached the level that the spread with Australian SM long staple lots reached a record narrow spread, which has dramatically reduced the practice of using Australian high grades in place of Pima in the 60 counts while also reduced blending. A Step 2 payment for Pima has helped accelerate exports, along with a revival in luxury apparel sales.

Export demand for Australian styles is weak. Both 2020 and 2021 crop offers are in wide circulation. The most aggressive export offers are in 2020 crop Australian. SM 1 5/32 offers are at 1500 points on Dec, and Middling 1 5/32 are at 1400 points on. These are CFR basis levels in China, and in the same market Brazilian Middling 1 5/32 offers are at 500 points on Dec from the most aggressive merchants. While the Australian has higher strength and other great qualities, a 900-point premium to Brazilian is hurting offtake. Most merchants appear to be holding the 2021 crop CFR basis at lofty levels, with SM 1 3/16 offered at 2100 points on while no Brazilian Bahia Strict Middling is offered, but a Middling 39 staple is offered at 650 points on. We have been warning for some time of the competition from Bahia longer staple lots in the Middling color grades. For the top end, a GM 1 3/16 and longer staple face a record narrow premium for US Pima.

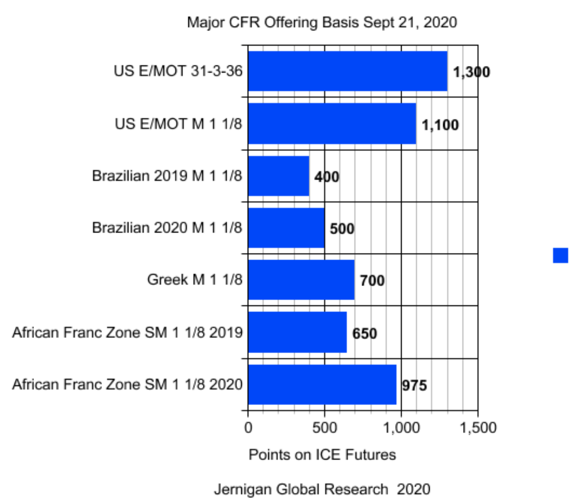
July export shipments totaled 17,225 tons, with China taking 12,479 tons. Total 2019/2020 export shipments for Australia reached 294,906 tons, which was down sharply from 790,877 tons a year earlier. Total sales to China reached 181,443 tons. In addition to the lower crop, Chinese export shipments were reduced by the default by the largest Chinese buyer of Australian cotton. China/Australian relations remain strained due to China's interference in the country's internal affairs. The last two leading Australian journalists were expelled from China after being arrested at midnight and then forced to leave the country. It was also discovered that an office security firm owned by a state-owned Chinese group purchased an Aussie firm in order to gain access to personal information on Australian citizens. Then, a scandal in Victoria has made the news regarding traitorous activity by the Premier. Up until now, cotton has not been drawn into the trade conflicts.

CFR BASIS BREAKING ON AFRICAN FRANC ZONE STYLES

Mali Coup 2020

The renewed strength in ICE futures has caused further weakness in the African Franc Zone styles. One key merchant cut the average CFR basis by 100-200 points last week following the rally in ICE. The most aggressive AFZ style is the Ivory Coast origin, with the Ivory Coast Manbo/s 1 1/8 (SM) offered at 650 points on Dec for the 2019/2020 crop. Small premiums are noted for Mali or Burkina Faso. Cameroon Plebe 1 5/32 is now offered at 800 points on. These basis levels are maintaining AFZ offers at a premium to Brazilian, which will affect take up. The new crop CFR basis offers have also been reduced, with the top grade Strict Middling 1 1/8 offers at 975 points on March, May, or July from the most aggressive merchants. This again is at a premium to Brazilian, Greek and Indian, and at a discount to US offers. The bulk of the offtake in these styles has occurred in the most aggressive lower grade offers. Cotlook A Index has its Middling 1 1/8 new crop offers at 860 points on March, which makes it the most expensive in the index.

The region has a big problem with unsold stocks. The only thing that has been holding the CFR basis up has been the fact that the long position is held by the in-country marketing and ginning organizations and not merchants. Merchants have been reluctant to take on the basis risk since May due to the behavior of ICE futures. Each time an origin sale occurs, the CFR basis will weaken slightly. Bangladesh has been traditionally the largest single buyer of African Franc Zone styles, especially Mali. The Wuhan Virus switched buyers to a just-in-time inventory management, and the CFR basis premium has cut the Franc Zone styles out of much of the business. Indian CCI styles are taking a large market share since CCI offers are at large discounts to AFZ offers and private ginned cotton has sold at even larger discounts. Mali, which is presently in the middle of a coup, is holding about 600,000 bales of unsold 2019/2020 crop. New crop production will fall sharply to an unbelievable 310,000 bales, dropping from 1.35 million bales because of farm gate prices and high inputs, which is still not sold. In Burkina Faso, where production is expected to reach 850,000 bales, it is holding large inventories of unsold old crop and still has to sell the new crop. The region is facing a crisis as pressure builds to move the record old crop and then new crop stocks. It is the only major exporter that has not moved to cut basis levels and take market share from the US while it is preoccupied with sales to Beijing.



ICE FUTURES STALL NEAR 67 CENTS AS DEMAND WANES OUTSIDE OF RESERVE SALES

ICE futures moved sharply higher upon opening last Monday and peaked at 66.93 on Tuesday, then spent the rest of the week slightly on the defensive. The Trade move to add over 1.3 million bales in new longs in the week ending September 7th. This did indeed mean, as we suspected, another large sale to the China Reserve; 440,100 bales were announced in the weekly export sales report. The size of the long position suggests additional sales might be announced. ICE showed no reaction to the sales, as no additional Trade buying occurred and, strangely, the Algo's and HFT systems did not react. Adding to the market's anxiety was the arrival of Hurricane Sally, which affected parts of the Southeastern US cotton belt. The problem for cotton remained the fact its bull is focused on Beijing. At 2 billion USD of cotton purchases, almost all for the Reserve and not actual mill demand, it creates a lot of questions as to how much more volume will occur for 2020/2021 shipment. Purchases of US cotton under the trade agreement is understood. However, if a greater restocking is going to occur, Brazilian cotton at the current discount would appear likely to be purchased. In the past, the Reserve has purchased US and Brazilian for Reserve stocks. The US is only serving as a provider of retail lots to the other major markets, but the power of the CCI marketing programs is keeping some volume moving. Beijing's buying spree in US corn, soybeans, sorghum, and pork are near record levels, if not actual records. 2020/2021 soybean sales to Beijing are at a record by wide margins, and, if the Unknown sales were credited to China, then nearly one billion bushels have been sold. That is not far from 25% of the crop. These conditions make Ice futures unpredictable and with a future tied to Beijing.

Spinners did not follow ICE futures higher last week, but instead they held back. Those needing just-in-time shipments focused on the most aggressive priced Afloat shipments. Retail offtake of US and Brazilian cotton from the bonded warehouses continued in China and expanded to Indian and Australian by Friday. China also announced the issuance of the 894,000 tons annual import quota last week. It is clear that import demand from the bonded warehouse stocks and some offers have improved, as exporters demand proof of no Xinjiang cotton or supply chain involvement. H & M made such a commitment public last week. This could also switch Reserve purchases to domestic Xinjiang cotton as harvest advances.

The lack of mill demand following the ICE gains has again put pressure on the CFR basis, because other sellers need to continue to move volume. While conditions have improved for spinners, the textile and apparel supply chain face problems. McKinsey's apparel, fashion, and luxury practice last week issued an outlook for retail sales in which it forecast retail sales for 2020 will end the year in the US down 20%-30% from 2019 levels. It forecast 2021 retail sales of apparel would fall 10-25% from 2019 levels. The earliest return to pre-Wuhan Virus levels was forecast for the first quarter of 2023 under the best conditions. Under the worst-case scenario it could be extended until the second quarter of 2025. While any such forecast generates lots of questions, just the sheer ramifications for global cotton use is very troublesome. It means 2020/2021 will be weak, and 2021/2022 will still not reach the pre-virus levels unless cotton can gain market share.

The CFTC COT report contained no surprises for the week ending September 15th. The Trade added 340 new longs with their position at 45,320 contracts, a 15,017 contract increase since the week ending August 25th, which suggests additional China Reserve purchases could be reported in the future. The Trade continued to add hedges last week and sold 5,619 contracts of new shorts. The Managed Funds, Other Funds, and Small Speculators all added net longs. The main Managed Fund's net long position sits at 49,828 contracts, and, so far, this group has not been willing to move the new highs in this position. Index Funds sold last week reducing longs by 2,658 contracts. The CME grain complex closed sharply higher Friday, with November soybeans gaining 47 ½ cents for the week. The balance sheet will improve as the impact of the rally in grain prices filters through next season. For now, the support in physical prices remains strong at the flat priced levels discussed many times. It is ICE that remains the wild card, as does Beijing's true intentions behind the massive buying spree.