CHINESE COTTON DEMAND IMPROVES

SHANGHAI OUTPERFORMS NEW YORK CITY IN RETAIL GROWTH

PAKISTAN APPAREL EXPORTS STABILIZE

CHINA SLAVE LABOR CONCERNS EXPAND TO TIBET

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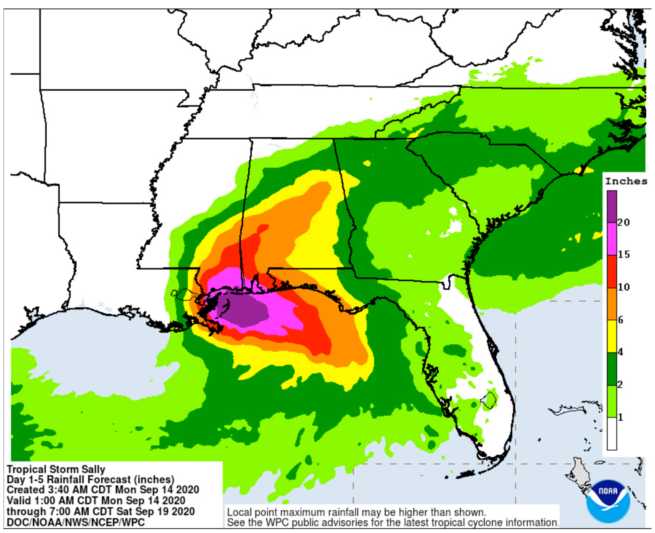
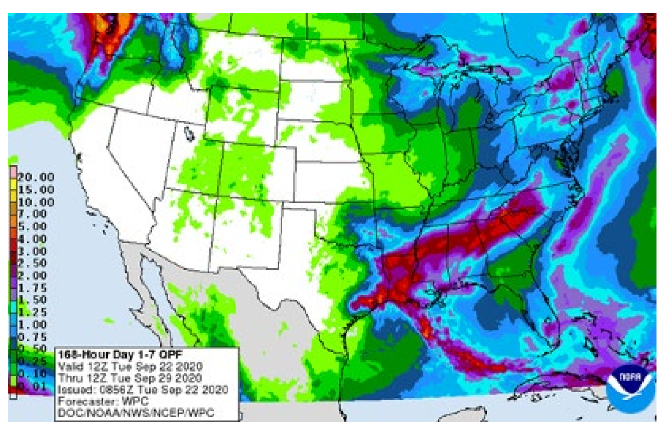
KNOWLEDGE IS THE NEW CAPITAL

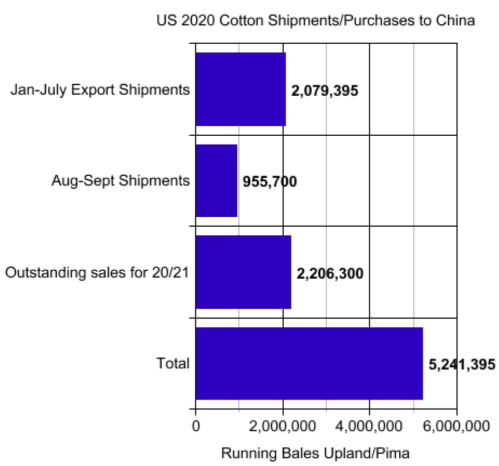
US HIGH GRADE SUPPLIES TIGHTEN FOLLOWING RECORD RESERVE PURCHASES AND UNTIMELY RAINS ON NEW CROP





As of September 17th, the US has shipped 3,035,095 running bales of US upland and Pima to China in 2020, with an additional 2,206,300 running bales remaining sold and unshipped for 2020/2021. This has not only altered the US balance sheet, but it has greatly changed the makeup of the quality of the remaining unsold stocks and also impacted the quality supply and demand balance for the 2020/2021 crop, which is not yet harvested. China has been focusing its Reserve buying on the Middling 1 1/8 and better grades, and a large percentage is also believed to be Green Card, which provides for more uniform quality. These qualities have proven to stand up well in long periods of storage. In 2019/2020, the US produced only 6,116,392 bales of 31-3-36 and better qualities. This total includes Arizona and California.

With only 719,156 running bales classed, the 2020/2021 crop is still at risk from Mother Nature. The bulk of this cotton has come from Texas, but the Rayville, Louisiana classing office is now up and running as well. The quality has been good, with 29.7% falling below Middling color grade. That percentage is increasing and will continue to increase in the weeks ahead. The small Texas High Plains crop means that the bulk of the Middling and above longer staple lots will come from the Mid-South and Southeastern belts. Since the crop began to open, the region has been plagued by unwelcome rains. The two weeks ago it was tropical storm Sally, and last week saw tropical storm Beta. One hit the Southeast and the other the Mid-South in a 1-2 punch. Beta hit the Mid-South with Louisiana, Mississippi, Arkansas, and West Tennessee in its path. This region was where much of the 37-40 staple Middling and Strict Middling grades would possibly come from. Picking was underway when the rains arrived, and the crop was open, especially in the three largest states. The Rayville classing office has already illustrated the potential with Middling color grade, 3 leaf, and a staple of 37-39. High strength of near 33 was noted. Staple length is outstanding, with 24.7% of classings 39 or longer. This is setting the stage for 41 or Strict Low Middling and lower color grades to dominate. However, it is likely to be high strength and long staple. Much will depend on an open, dry, warm fall.



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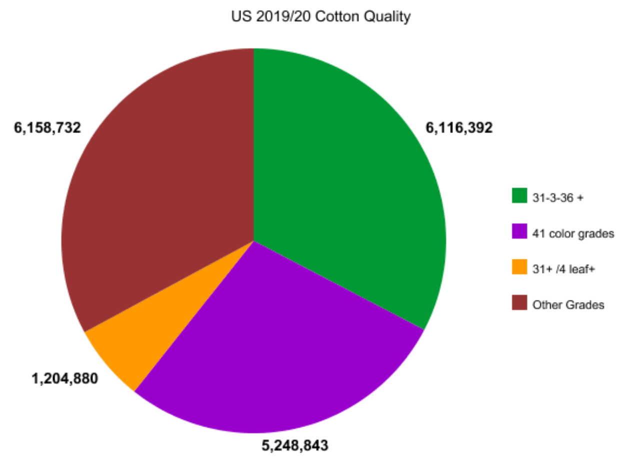
These developments are expected to have a major effect on US domestic FOB basis levels and US spot market differences. The current base grade SLM 1 1/16 will be problematic and, currently, the spot market differences are not in line with the CFR basis levels. This could pressure the general FOB basis in order to compensate for the misalignment. The FOB basis has moved to Dec futures where the basis is at 300 off for the Southeast, 400 off for the Mid-South, 625 off for East Texas, and 700 off for West Texas. The current North Delta premium for a 31-3-36 is 325 points over a 41-4-34, and the additional premium for a 21-3 is only 25 points. The premium for a 41-4-36 is 175 points. The premiums in the West Texas region are larger, with a 21-2-36 drawing a 525-point premium, a 31-3-36 drawing a 450-point premium and the 41-4-36 draws only a 75-point premium. The West Texas differences appear closer in line with export values than the Delta differences. The very weak CFR basis for a SLM 1 1/16 suggests additional FOB basis pressure on the base grade and a greater premium for the Middling color grades in the Southeast and Mid-South. The CFR offering basis of a 41-4-34 is the weakest on record and also at a record discount to the 31-3-36.



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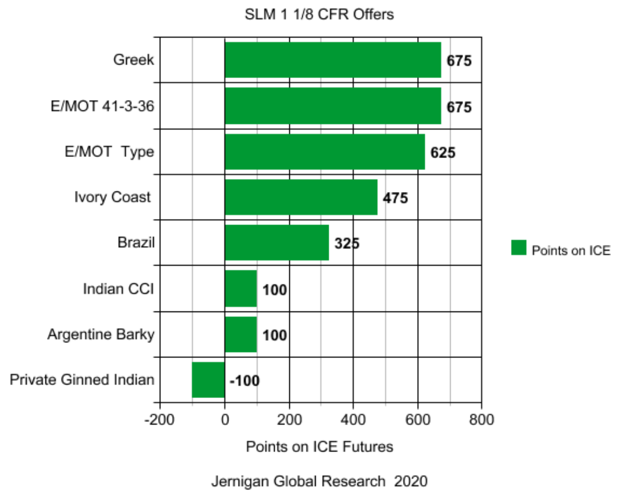
Much of the unsold balance in the US is already a very mixed quality lot, and a surge of SLM color grades from new crop will mean very tight high-grade supplies. This changing supply and demand balance in the grades is now evident in merchant's offers. In the E/MOT Green Card offers, a year ago the spread between a 31-3-36 G-5 and a 41-4-36 was a 150-250 points discount, but last week it stood at a 650-point discount. The absolute CFR basis level for an E/MOT 31-3-36 was about 100 points firmer than a year ago, while the 41-4-36 basis was 275-300 points weaker.

The shortage of 31-3-36 and better quality lots from new crop could have a significant influence on US export sales for the reminder of the season. It could also influence the outlook for additional Reserve purchases. It is clear that China has met any target for cotton purchases under the trade agreement and any additional purchases are tied to larger restocking issues. Thus, will the Reserve move to purchase lower grade US styles or take up the large stocks of

Brazilian Middling longer staple lots? Prior to the trade agreement, the Reserve had purchased volumes of Middling 1 1/8 Brazilian styles.

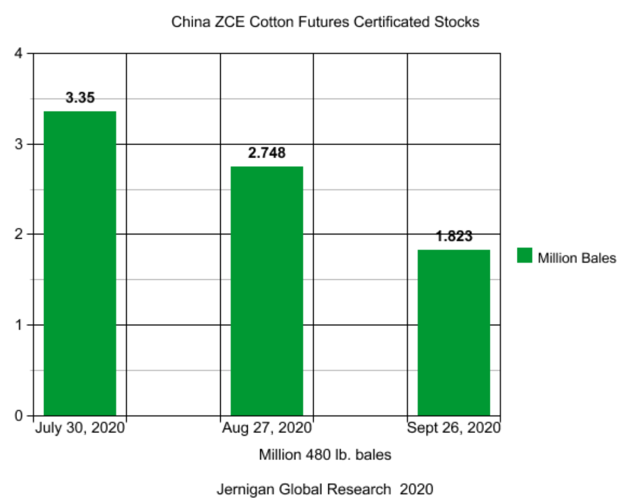


The Strict Low Middling and lower color grade market is well supplied. Not only does the US face completion from Brazil in this color grade, but also from Argentina and Greece. A recent cyclone in Greece lowered the grade outlook. The changing supply and demand balance in the qualities could provide a welcome relief for Australian and its larger 2020/2021 crop. The battleground for export is likely to be the SLM 1 1/8 descriptions. For the moment, Indian Shankar-6 SLM 1 1/8 and Argentine Barky are the cheapest growth offered in volume in this grade category. Prices are from 100 off Dec for private ginned Indian lots to 100 points on for CCI lots, and Argentine is near the same at 100 points on. Brazilian 2019 and 2020 crop SLM 1 1/8 offers can be found as aggressive as 325 points on Dec. Ivory Coast offers for a close type is at 475 points on. The US E/MOT's most aggressive offer is for a SLM 1 1/8 type at 625 points on Dec. At these differences, the business is dominated by Brazilian with some US selling but in small lots associated with the Cotton USA programs. With more rain last week in the Mid-South, areas where cotton is open a large supply of SLM 1 1/8 and longer staple will be available from the 2020 harvest. So far, the continued large sales to the Reserve are limiting basis pressure on US styles. The offering level for a SLM 1 1/8 extends from the most aggressive at 625 all the way to 925 points on, as some merchants attempt to maintain a very firm basis. Greek is uncompetitive except when discounted into such markets as Turkey.

The battle in the SLM grades and the US 41-4-34 base grade for the US and the ICE futures could result in a buildup of certificated stocks. This threat appeared to weigh on ICE futures last week. The base grade for the ICE futures has not been adjusted in 50 years or more and is a SLM 1 1/16, which means 80% or more of the US crop is eligible most seasons for delivery, even though actual deliveries are small. During the last week, a small increase in certificated stocks was noted. If the 41-4-36 premium for delivery remains attractive, then certificated stocks could see a sizeable increase. Over 16% of the current small stocks are 41 color grades with 36 and longer staple. The tightness in the higher color grade should provide a boost for Brazilian and Australian exports.

ROAD TO RECOVERY 2020/2021 CHINESE COTTON DEMAND EXPANDING WITH ACTIVE XINJIANG & IMPORT INTEREST

The textile and apparel sector in China is showing improvement, as the large spinners in Shandong, Henan, Jiangsu, and other locations have reported a pickup in the demand for 40s and above count carded and combed yarns. This improvement has come after a prolonged period of weak demand and a steady draw down of higher-grade cotton inventories. Before this improvement occurred, imported cotton stocks in the bonded warehouses reached record levels of more than 600,000 tons, and Xinjiang warehouses were filled with old crop higher grades that had been certificated for delivery against ZCE cotton futures. Demand for both stocks has shown dramatic improvement. Bonded warehouse stocks have dropped below 500,000 tons as US, Brazilian, and Indian has sold. Very active demand was noted for all three growths from the bonded warehouses early last week before slowing. Then, mills have begun to purchase 2020 crop Brazilian for November-December shipment in some volume last week after a long lull in demand. The most dramatic improvement in demand has occurred for Xinjiang 2019 crop stocks held in warehouses in Xinjiang. The collapse in domestic demand as the Wuhan Virus epidemic broke out resulted in active risk management by Xinjiang traders and ginners. They hedged these inventories in ZCE futures and certificated the cotton for delivery. On June 30th, the volume of cotton certificated for delivery against ZCE futures stood at 3.897 million 480-lb. bales. The ZCE, unlike ICE, has updated and created an excellent delivery system and tool for the cotton Trade to use. Even with this massive certificated stock the market functioned well. As demand has improved, the volume of certificated stocks has been falling. Between July 30th and August 27th, stocks declined from 3.350 million bales to 2.745 million bales, which reflected movement of 605,000 bales in that period. By September 23rd, certificated stock levels have dropped to 1.932 million bales, which indicated demand of 813,000 bales during the period with this cotton moving east to domestic mills.



Shipments of Xinjiang cotton east are reported as active, as ginners look to clear up space for the new crop arrivals. Physical cotton prices moved up slowly last week reaching 12,350 to 12,850 RMB a ton or 82.38 to 85.71 cents a lb. This compares to ZCE Jan futures near the top end of that range. Both ZCE cotton and cotton yarn futures were weaker last week. Upward pressure so far is the result of early seed cotton price levels in Xinjiang. New gins opened in 2020, which has increased competition for supplies. The top end of hand-picked seed cotton with a 40/41 ginning outturn is 6.5-6.6 RMB a kilogram, and machine picked in Northern Xinjiang is trading at 5.4-5.5 RMB a ton. These seed cotton prices require a higher lint price to be maintained. Some support is also occurring from a slight reduction in some of the largest crop estimates. The Production and Construction Corps 8th division, an important cotton producer, reported some drop in yields on a few smaller farms due to a smaller top crop associated with reduced water supplies. This has not been a problem on the larger farms with their own wells. The Chinese Cotton Association's latest production estimate is 5,931,000 tons or 27.25 million bales, with Xinjiang producing a record 5,244,000 tons or 24.093 million bales. Over 15,000 tons have been ginned so far in Xinjiang.

The demand for imported cotton, as discussed earlier, has increased. In addition to the bonded warehouse turnover, Brazilian cotton has sold for a variety of shipment periods, nearby, November and December and April and May. The spread between a Brazilian Middling 1 1/8 and Middling 1 5/32 and US Green Card of similar grade offers remains at a record level, premium of an E/MOT 31-3-36 and a Brazilian Middling 1 1/8 stands at 875 points. August cotton imports totaled 140,000 tons, and August cotton yarn imports were quite impressive at 170,000 tons and provided a boost for Vietnam, Indian, and Uzbekistan suppliers.

The boycott of Xinjiang cotton has also created increased demand, with approximately 3.5 million bales or more of Chinese cotton consumption estimated to be tied to export of cotton product to the US according to work by Beijing Cotlook and others. This is slightly higher than our first estimate on consumption tied to the US. An exact estimate is made difficult by the sharp reduction in cotton apparel and product imports from China in 2020, and it is unclear if this reduction is permanent. Nonetheless, this provides a good guide at the volume of extra import demand that may be created by the boycott efforts. The improvement in the Chinese domestic apparel market is continuing to be an important influence, as we discussed last week. Nike announced results last week and reported that sales in China in the quarter rose 6% as compared to a 2% decline in North America. Nike is one of the top five apparel brands in China, and its shares hit an all-time record on Wednesday. It reported improved sales in

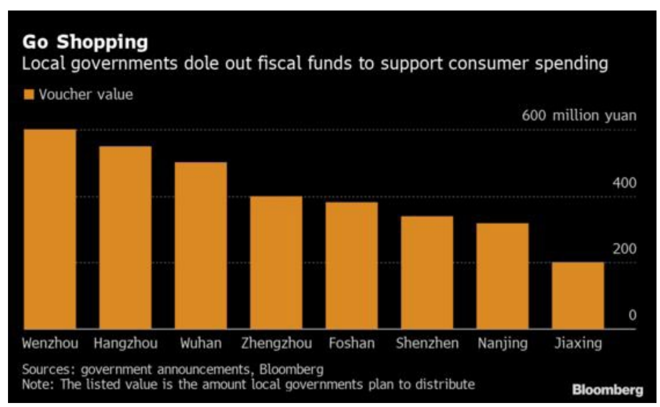
China, Japan, South Korea, the UK, and Germany. A direct contrast in the importance of domestic spending to the leadership of the local economies is seen in how China's major metropolitan centers are managing vs. the US.

Nike House of Innovation, Shanghai

China digital coupon for retail spending

Shanghai is a well-run city with the highest GDP of any city in China. Its GDP reached 3.82 trillion RMB or 561.76 billion USD in 2019. Its retail sector has returned to life after the virus, and it was very well managed through the crisis. It provided a boost to its retail spending by issuing vouchers for spending and several ongoing promotional events. Stores are open and foot traffic is slowly returning, and there are no boarded-up stores, no rioting or unrest, and companies are announcing new stores and expansions. Just last week, Singapore firms announced new investment and development in the city. This is a big difference from New York City with a GDP in 2019 of 1 trillion USD. NYC is one of the most mismanaged cities in the world, and its management of the Wuhan Virus has destroyed the economy and caused a mass exodus of the population. The Broadway area is closed and will not reopen in 2020, and the vibrant bar and restaurant sector has collapsed. 87% of all restaurants and bars could not pay their full rent in August. At the same time, the mayor has addressed social injustice by defunding the police, which has caused crime to increase, including shootings. The city's retail stores were devastated by riots and looting that cost businesses millions of USD and have resulted in rows of boarded-up stores and an empty Fifth Avenue. The major luxury stores are closing, and sales have collapsed at those that are open. Hotels are closing, and the tourist trade has ended. The New York Metropolitan Opera, which draws 800,000 annually, announced it will remain closed until September 2021. The Broadway theater district is closed until January 2021. Now, with a collapse in tax revenues, increased taxes are occurring along with reduced city services. A second wave of the virus cases ended any revival of a return to the office for millions of NY workers. While Shanghai has controlled the virus, it allowed the retail sector and restaurants to rapidly reopen. The issuance of vouchers to promote retail spending and the sponsored shopping events worked to reinvigorate consumer spending and confidence in the city.

Boarded up Fifth Avenue, New York City



In August, when NYC remained boarded up, Italian designer Gabriel Colangelo opened new boutiques in Shanghai to join its first global flagship store in Beijing. Then, last week, the Canadian brand, Arc'Teryx, opened its largest store yet in Shanghai. Law and order remains high, and so does confidence. NYC has done none of this and left the retail sector to wither and shrink. The US Dept of Justice last week designated NYC, Portland, and Seattle "Anarchist Jurisdictions," which means the poor management will result in the loss of federal spending. The loss of such grants would take 7.5% from NYC's budget income. The city experienced new riots on Wednesday and Thursday last week, as law and order remains elusive. While China's retail spending on apparel is showing some growth, the US's remains down sharply. The drag of New York City and other poorly managed regions is a major reason why. Yet the ruling political parties continue to be unwilling or too inept to address the issues.

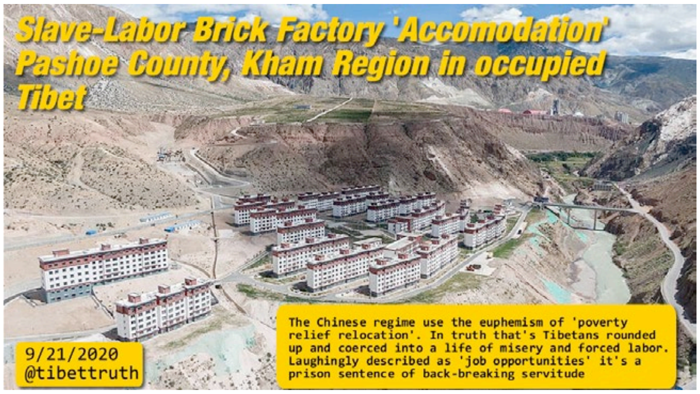
Against this backdrop, the Chinese domestic market is taking on new importance in cotton consumption, and we expect this role to increase further as long as Chinese consumer confidence is maintained. 2020/2021 cotton use will now likely show some improvement from earlier estimates, which is a bright spot for the global industry. A return to 36.76-37 million bales of use in China in 2020/2021 would create a supply and demand deficit of 9.5-9.8 million bales, which, combined with Reserve restocking, could provide a boost to world trade.

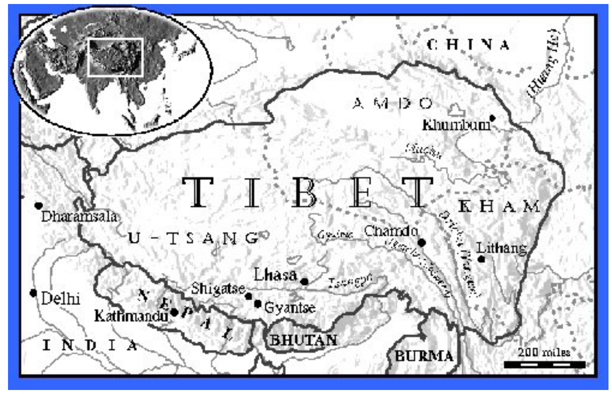
INDIA'S NEW CROP MOVEMENT BEGINS; WILL CCI EXPANDED BUYING MAINTAIN PRICES?

Movement of new crop cotton in the Northern Zone has begun, with daily arrivals nearing 3,000 bales or more. The CCI has not yet started buying but has promised to be ready in the north and to work to maintain seed cotton prices near the MSP. With the CCI not yet buying the seed, cotton prices are at 3600-4600 Rupees per quintal, below the MSP of 5,725 Rupees, with the differences in the seed cotton quality and moisture content. Cash prices of new crop J-34 are at near 62 cents. The overall price level of domestic prices is firm at 62-64 cents for S-6. The CCI raised floor prices last week. This is helping to keep the CFR export basis firm. Indian exporters raised basis levels last week as ICE futures retreated. The CCI Middling 1 5/32 offer is now near 150 points on Dec, while a private S-6 1 1/8 is about even ICE to a 100 off, depending on the day.

Early last week, heavy monsoon rains caused damage in Gujarat, Maharashtra and West Madhya Pradesh. The greatest damage occurred in parts of Maharashtra. Overall, the central and northern areas are ready for the monsoon to withdraw and would welcome hot, dry weather to finish the crop. The monsoon needs to begin its withdrawal in the next few weeks. If not, the yield and quality of the crop will be impacted. India planted a record 12,946,800 hectares, which means crop potential remains very sizeable given the adequate monsoon. The Agmarket Group forecast the 2020/2021 crop at 37.1 million 170-kg bales or about 29 million 480 lb. bales. The growth in cotton yarn exports, along with expansion in apparel and made up export orders, are boosting domestic consumption, now nearing pre-Wuhan Virus levels.

FIRST XINJIANG AND NOW TIBET FORCED LABOR GANGS DOCUMENTED





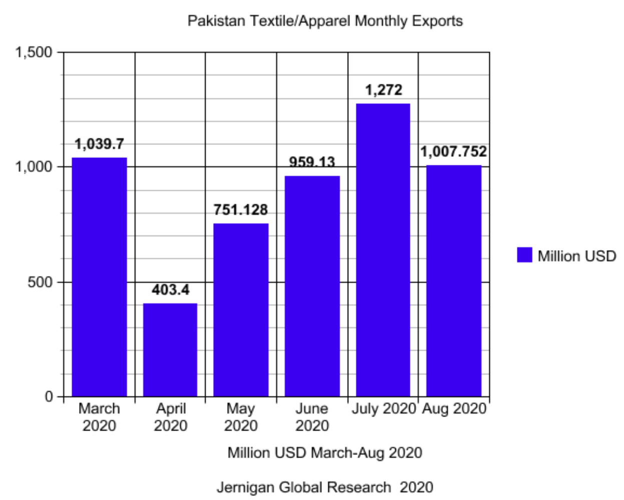
The economic successes of China continued to be marred by its desire to completely end all non-Chinese cultural practices and destroy the cultural identity of the people of the occupied lands of Tibet and Xinjiang. From a Chinese perspective, this has been done successfully in Xinjiang and with limited economic pain. Only in 2020 have western efforts to halt the work in the concentration camps had any real result. Even now there has been little to no real change in the camps or the forced labor brigades, only some switched orders from US brands or retailers. With the experience of Xinjiang behind them, the Chinese government has now moved to erase any symbol of Tibet's nationalism and bring the Tibet rural population under its boot. Reuters last week revealed that 500,000 rural Tibetan workers and farmers, about 15% of the total population, had been forced into training camps for vocational training. The workers are then sent in brigades to work in factories in Tibet and throughout China. The bulk of the jobs are in textile factories or construction. When the workers are put into the training camps, they are forced to transfer land to Chinese state-run cooperatives.

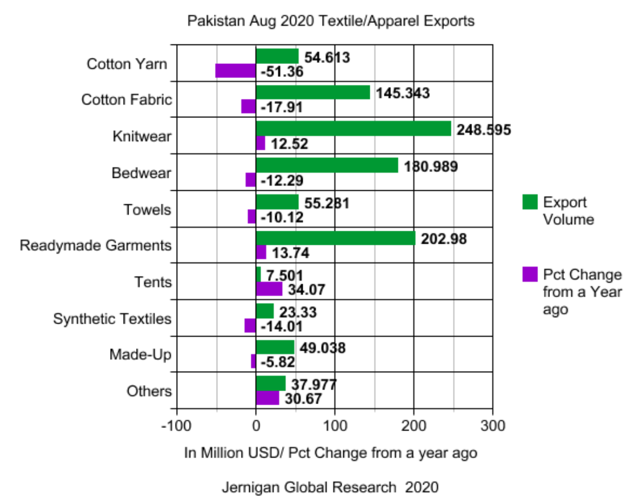
Thus, China's textile and apparel industry has two major sources of forced labor, from Xinjiang and Tibet. This backs up our ongoing belief that the issue is far larger than the use of Xinjiang cotton that is now the poster child for the protests. Labor costs make up a sizeable 25% or more of the cost of many apparel items, so the use of the slave or forced labor is providing a huge economic subsidy to the industry. No discussion of the Tibetan labor gangs has made it into the US Customs and Border Protection actions. The use of forced labor in Xinjiang and Tibet is much larger than the cotton textile and apparel imports into the US from China. In 2019, the US imported 36.472 billion USD of textiles and apparel from China, while 2020 January-July imports are down 42% at 12.132 billion USD. However, based on 2019 data, if the Xinjiang and Tibet slave labor was used in 25% of these imports, Chinese exporters gained an approximately 2.3 billion USD subsidy from that labor. The unknown question is who benefited, the importer due to a lower price or the Chinese exporter. In most cases the Chinese company using the labor is participating in a government-sanctioned program, and their participation is viewed as patriotic by the government. Actually, a refusal to use the labor brigades could draw government action and also provide competitors with a price advantage in orders. A real effort to halt these practices requires a cost to the Chinese government if it is to be effective.

The Australian Strategic Policy Institute shocked the world last week when it released new satellite data that showed the Chinese government had actually expanded the construction of 14 new large-scale high security detention camps in Xinjiang and also had begun construction to expand 61 high security prison camps for the Uyghurs. They reported the focus was now on tier three and four security prison camps, and that the low security camps have been closed. This illustrated that the Western strategy of putting pressure on the Chinese government has so far resulted in expansion not contraction of the camps. The ASPI interviewed detainees and relatives that had been released, verifying the discussion.

The US House of Representatives passed the Uyghur Forced Labor Prevention Act, which is now in the Senate. This bill will force all products made in Xinjiang to prove they do not include slave labor. However, the unknown is how will a product be identified as made in Xinjiang since it is likely to come only with a Made in China label. It would appear to be easy to cover up any Xinjiang manufacturing, unless a process for determining the origin of manufacturing can be developed. Enforcement will be the challenge to any passed final bill. Additional campaigns to stop these practices must focus on the entire industry and the use of these workers, and not just on Xinjiang cotton.

PAKISTAN TEXTILE AND APPAREL EXPORTS APPEAR TO BE STABILIZING

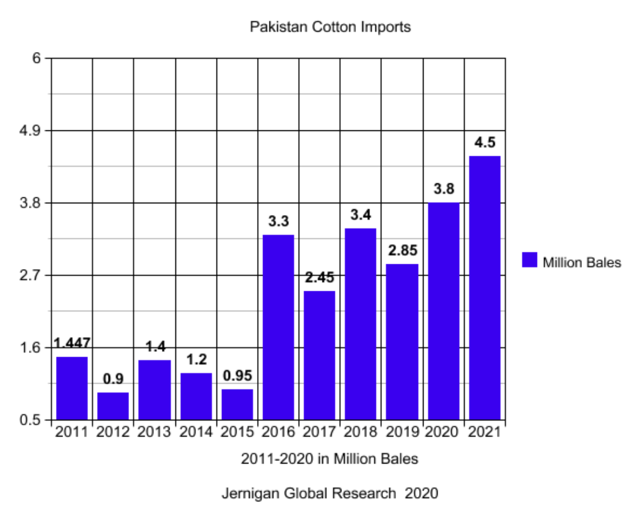




Pakistan exported 1.007 billion USD worth of textiles and apparel in August, which was down from 1.272 billion in July and down a moderate 15.35% from a year ago. Cotton yarn and fabric exports remained very weak, while knitwear was strong with a 12.52% year on year growth. The stabilization of exports has allowed cotton use to return to near 90% of pre virus levels. The size of the 2020 domestic crop is now estimated at 7.5-8.0 million 150-kg bales or 5.26-5.6155 million 480-lb. bales. This means cotton import demand should hold steady, with imports of 4.5 million bales possible. Mills remain very cautious about rebuilding inventories. So far, spinners have been able to maintain imports with aggressive priced Brazilian, Argentine, East African, US Pima, and US low grade recaps.

In July, the US reported that imports from Pakistan reached 228.321 million USD, with 104.372 million USD of apparel. In volume terms, Pakistan was the fifth largest supplier to the US in July. January-July exports to the US are at 1.477 billion USD, which is only a 17.11% decline. Since the virus outbreak, Pakistan has moved up from the eight largest suppliers to the US to fifth, due to new sourcing in Pakistan. Pakistan has plenty of room for improvement in cotton apparel exports, which are lagging far behind India, Bangladesh, and Cambodia in the US market.

Pakistan mills have been very active buyers during the past week of imported cotton as the reduced size of the domestic crop has become evident. A large volume of Brazilian sold last week in a variety of qualities, while West African discounted lower grades have sold in small volume. US very low-grade discounted recaps also sold. Pakistan mills have become an important



market for Memphis/Eastern recaps, which are 41/42/51 longer staple high mike lots at very cheap basis levels. Tanzanian and Ugandan Middling 1 1/8 have sold at very aggressive CFR basis levels of 100-200 points on ICE. ELS demand remains strong, with US Pima and Egyptian 94 both selling.

COTTON REMAINS A PROFITABLE CROP IN BRAZIL

Brazilian farmers manage a host of risks, including political and social unrest, crime, and a volatile exchange rate, but their success in being able to negotiate these many pitfalls is due to a continued advancement in yields. For cotton, the average yield has now reached over eight bales a hectare, which is a record for a 95% rain-fed crop. Thus, even a net 60 cents farm gate price still allows for a nice profit. The main risk is yield. A drop of a bale per hectare can begin to change economics quickly, raising production cost by 8-10 cents a lb. Currently, if the industry stated production cost for Mato Grosso is used, which can include opportunity cost and depreciation, including all costs an eight-bale-a-hectare average yield means a production cost of only 51.25 cents. All costs vary, but for the farm with little debt and before depreciation and opportunity costs the breakeven can drop much more. This is all based on the current exchange rate of 5.4-5.5 per USD. Returns for 2020/2021 have been boosted by surging cottonseed and cotton byproducts prices. The previous week, prices advanced over 5-6% as a shortage of soybeans pushed up all proteins. China cleaned Brazil out of all soybean stocks and has left it to import soybeans for crushing plants from Paraguay and Uruguay. Mato Grosso growers have started planting soybeans on the small amount of irrigated land.

Cotton export demand picked up for Brazilian cotton last week, especially from China as we mentioned earlier. A notable volume of new sales was made through May of 2021 shipment. Brazilian cotton is enjoying a large price advantage over US styles. A growing tightness of US Middling and above color grade is also turning buyers to Brazil. A small pickup in domestic buying interest is noted. However, the ESALQ Index of domestic spot prices for a 41-4-35 landed Sao Paulo is weak, standing at 55.76 US cents a lb. or nearly 1,000 points off Dec ICE. The index declined more than 10% over the past two weeks. Such weakness is keeping export sales the only viable option for most growers. The BBM notes that forward sales of the new crop 2020/2021 reached 458,266 tons, which is likely about 70% of all grower sales. This suggests that only 23% of the expected 2021 crop has been sold forward. Despite the rally off the lows, Dec 2021 ICE futures have remained at rather unattractive levels since January 2020. The BBM reports that the first grower sales of the 2022 crop have been made.

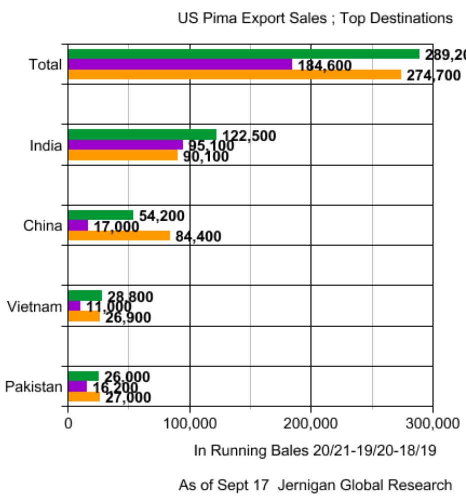
Spot Price 41-4-35 Landed Sao Paulo

While the extreme pressure of the movement of 2019 crop stocks from Brazil has passed, the ginning of the 2020 crop is progressing, and volume offers continue in a wide basis range varying from shipper to shipper. Some shippers are involved in the barter trade for inputs either with growers or the input companies, and these groups are the source of the most aggressive 2020 crop offers, while merchants operating more traditionally are maintaining a much firmer CFR basis. Therefore, spinners should be aware and seek multiple offers. We will concentrate most of our discussion on the most aggressive offers. One block of offers likely to find ready buyers are the Middling long staple lots form Bahia that are now under shipment to Asia. Middling

39 staple lots are offered at 650-700 points on Dec for November delivery, and Middling 38 staple is at 575 points on Dec. A smaller volume of Strict Middling 37 staple is offered at 600-800 points on Dec and SM 36 staple at 550-600 points on Dec.

Middling 1 1/8 are offered at 425-475 points on Dec, Middling Plus at a 50-point premium, Middling Shy 37 staple is offered at 450 points on Dec, and 36 staples at 350 points. SLM 1 1/8 offers are near 325 points on Dec, and 1 3/32 staple offers are in the market but are overpriced vs. the most aggressive 1 1/8 styles. A few merchants have begun to test the water for 2021/2022 crop offers, but little interest has appeared.

A REVIVAL IN DEMAND FOR US PIMA AS LUXURY RECOVERS



US Pima export sales experienced a strong revival over the past 60 days. Total export sales have reached 289,200 running bales as of September 17th, which is a considerable improvement from year ago sales on the same date of 184,600 running bales. It also exceeds the 2018 sales on the same date of 274,700 running bales. The largest buyer is India, which has purchased of 122,500 running bales, up from 95,100 running bales a year ago and 95,100 in 2018. The total does include some high-priced carryover sales that may prove difficult to complete. The second largest buyer is China, with purchases of 54,200 running bales, up sharply from only 17,100 running bales a year ago but below the 2018 levels of 84,400 running bales. Demand has recovered from the dramatic collapse but remains far below the previous levels. Vietnam is the third, purchasing 28,800 running bales, which is an impressive increase from year-ago levels of only 11,000 bales. Pakistan is close behind at 26,000 bales, which is also up from year-ago levels of 16,200 running bales. Bangladesh is increasing its Pima purchases, which have reached 10,500 running bales, which is near year ago levels. El Salvador continues to expand consumption with purchases of 7,000 running bales.

ICE FUTURES STALL AND RETREAT AS CHINESE BUYING SLOWS

ICE futures lacked upward momentum last week, and one reason appeared to be the lack of additional Reserve purchases of US cotton and a lack of volume US export sales to the major destinations. The US continued to register small sales to China that appeared not to be Reserve purchases; 39,500 running bales of upland and 5,700 of Pima, and also 13,200 bales to Hong Kong, which is now the same as China. Sales to other major traditional US destinations were down with 53,500 running bales of upland sold to Vietnam, but US 2020/2021 export sales of upland to this destination are down more than 31% from a year ago. Vietnam is buying more Brazilian, Indian, Argentine, and other growths. The US remained overpriced for the volume sales for most spinners. The cotton programs are maintaining some volume as is the availability of some very aggressively priced recaps that merchants want to move. This is the source of steady 8,000-10,000 bales

weekly sales to Pakistan, while the traditional SLM 1 1/8 business is moving to Brazil. Season to date, US upland sales to Pakistan are down by over 37% from a year ago. ICE futures do continue to find support from an unfixed, On Call purchase positions that have continued to grow, expanding to a total of 100,081 contracts or over 10 million bales. The position in Dec has been reduced by the rolling into March and some fixations.

Volume on ICE was extremely light last week, with spreading and Algo and HFT accounting for most activity. A large number of Exchange for Physical (EFP) trades were noted, which suggested some price fixations of physical trade against Dec. The Dec/March spread traded some volume at 100 points March premium. New attention is now on the possibility of a buildup of certificated stocks in the 41-color grade due to the changing US quality mix and the SLM base of the contract. This influence is being matched against the influence of likely heavy shipment requirements to China, which will create a steady flow of shipment demands that influence the warehouse's willingness to allow certificated stocks, especially in the Memphis market which dominates delivery. At the same time, the recent storms have raised new issues regarding not only the quality of the US crop but yields and the final size.

While cotton sales to the Reserve slowed, the USDA weekly export report showed brisk sales of soybeans, corn, sorghum, pork, and beef to China. Daily sales of soybeans and corn also were noted. August China import data confirmed the increased arrival of all these purchases. The buying interest of Chinese mills last week was focused on notable sales of Brazilian cotton, which supported basis levels.

The support in the physical market is strong at the current trading levels for Brazilian styles as a guide. The problem is spinners are cautious about adding inventories, as they should be. Global retail outside of China is a mixed affair. In Europe, fears are growing concerning the Christmas season due to a new wave of Wuhan Virus cases in Spain and France. These two important markets are both reporting large outbreaks last week, and the same is true in the United Kingdom, where new control measures were announced. There are bright spots. Nike, which is the largest sportswear company in the world, reported sales results of 10.6 billion USD and an 11% increase in net income. Growth was noted in China, Japan, South Korea, UK, and Germany. Costco, which is now in the top five US apparel retailers, reported same store sales in the last quarter surged 11.4% for a record, and the company reported record growth of four billion USD. August apparel sales were strong, which is a reflection of the role of basic apparel in sales. At the same time, many of the apparel stores' shares were under significant pressure on fears of weak performance. Some posted large losses for the week, with a major luxury retailer at 52-week lows. This mixed affair is making it difficult for the necessary confidence to be restored to build inventories. The strength in China is about the only real positive for the moment.

We continue to feel the physical price has solid support in the current 65-70 CFR cent area, which has appreciated from 62-64 cents, base a Middling 1 1/8. The CFR basis is also showing some strength, which is providing support to the physical price. The higher grade Middling 1 1/8 basis may have room for improvement, while additional basis pressure could still occur in the lower color grades. For these trends to continue, the US/China trade agreement has to remain active, along with a continuation in China's domestic improvement. ICE is the wild card. Last week's weakness was contained near the major uptrend from the lows, which provided end of the week support from the Funds and HFT systems. As discussed earlier, the color grade issue and the SLM base grade of the ICE futures are a negative. ICE is really no place that indicates any Middling and above tightness. Then, you have the Chinese shipment requirements, which may keep this from playing out on the Dec contract. Overall, the Technical outlook ended the week positive, but the rally failed to take out the weekly outside range high in Dec of 66.23 (Friday's high was 66.18). It remains to be seen if the momentum can develop to take it to 70 cents. Any such move would impact CFR basis levels. A close through the 64.50 level in Dec would likely trigger Fund selling. The COT weekly CFTC position report showed no important changes, which was expected given the low volume and the fact the large EFPs occurred after the report deadline.