Executive Cotton Update

U.S. Macroeconomic Indicators & the Cotton Supply Chain

Cotton Incorporated

September 2018 www.cottoninc.com

Macroeconomic Overview: In the second quarter, consumer spending supported the strongest rate of GDP growth in nearly a decade (current estimate is 4.2% seasonally-adjusted annual rate). Momentum appears to be carrying through into the third quarter, with the rate of consumer spending in July (latest available) ranking as the highest of the year (+2.9% year-over-year in real terms).

Benefits from healthy consumer spending were apparent in financial reports spread across a range of publicly-traded retailers. This included many traditionally brick-and-mortar companies, such as Target, who reported heavy foot traffic and the strongest same store sales growth in thirteen years. Paired with rising on-line sales, this pulled Target's share price to new all-time highs. Target's average share price in August was up 14% versus the average in January. For comparison, the S&P 500 index was up 3% over the same time period.

Reflective of an improved financial outlook across the retail sector, shares for other traditionally brick-and mortar companies have also enjoyed strong gains. Examples include Kohl's (+23% Jan-Aug), Macy's (+45% Jan-Aug), TJX (+32% Jan-Aug), and the Ascena Retail Group (owner of Ann Taylor, LOFT, Lane Bryant, as well as several other apparel stores and brands, +106% Jan-Aug). Despite widespread improvement, increases in stock prices were not universal, with share values declining for GAP (-8%, Jan-Aug), Wal-Mart (-10% Jan-Aug), JC Penney (-46% Jan-Aug), and Sears (-54% Jan-Aug). In a further indication of the consumer buying increasingly on-line, Amazon (+46% Jan-Aug) recently became the second company (after Apple) to reach a market capitalization of more than one trillion dollars. For context, the value of Amazon is more than twice the sum of the market capitalization of Wal-Mart ($283 billion), Costco ($107 billion), and Target ($47 billion).

Last month, the Bureau of Economic Analysis completed annual revisions to consumer spending and income estimates. A notable result of those revisions was a substantial increase to figures concerning savings rates. These updates doubled recent estimates for savings rates, from levels near three percent to those near six percent (due to a change in methods used to count income). Additional savings suggest consumers have a greater ability to sustain spending growth than previously believed.

Exchange rate volatility remains a feature of the global economy. Over the past month, the U.S. dollar registered new all-time highs against the Turkish lira (TRL), the Brazilian real (BRL), and the Indian rupee (INR). Since April, when the dollar began to accelerate gains against many currencies, the dollar has risen 63% against the Turkish lira, 25% against the Brazilian real, 10% against the Indian rupee, and 9% against the Chinese RMB. Many of these countries are major traders at different stages of the global apparel supply chain and there can be consequences for supply chain pricing. All else being equal, prices for imports expressed in dollar terms (e.g., fiber imports into Turkey) become more expensive when a currency weakens against the dollar. Conversely, prices received by producers for exports become higher (e.g., fiber exports from Brazil and India). Further downstream, prices for imports of finished goods into the U.S. (all else being equal) become less expensive when the currencies from apparel exporters weaken against the dollar.

Employment: The U.S. economy is estimated to have added 201,000 jobs in August. Revisions to estimates for previous months lowered figures for payroll expansion in June and July (from +248,000 to +208,000 for June, and +157,000 to +147,000 for July). The unemployment rate was unchanged at 3.9%, which ties the lowest level reached in 2000, but is otherwise the lowest level since the late 1960s. The rate of growth in wages ticked higher in August. Climbing beyond the values between 2.5% and 2.7% that have been common over the past couple years, the 2.9% year-over-year increase last month is the largest since the recession. If sustained, a trend towards stronger wage gains has upward implications for inflation, interest rates, and the dollar.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence increased in August, rising 5.5 points from 127.9 to 133.4. The current value is slightly above levels maintained over the past year and is the highest reading in nearly two decades.

Overall consumer spending increased 0.2% month-over-month and 2.8% year-over-year in July. This represented the strongest rate of year-over-year growth since November 2017. Apparel spending figures are more volatile. In July, apparel spending was estimated to have increased 1.9% month-over-month (was -0.6% month-over-month in June, +2.1% in May). Year-over-year, apparel spending was 4.6% higher. This is the strongest year-over-year growth since the 2017 holiday sales period (+4.6% year-over-year in December 2017, +6.9% in November 2017).

Consumer Prices & Import Data: In July, average retail apparel prices (seasonally-adjusted) were 0.7% lower month-over-month but were essentially unchanged (+0.2%) year-over-year. The same month, average import costs for cotton-dominant apparel were 1.4% higher month-over-month and 5.8% higher year-over-year.

U.S. Macroeconomic & Cotton Supply Chain Charts

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U.S. Macroeconomic Indicators & Cotton Prices
September 2018

Cotton Incorporated

Macroeconomic Data

Quarterly Data	5-year	1-year	6-month	3-month	Q4 : 2017	Q1 : 2018	Q2 : 2018	Unit	Source
	Recent Averages				Values in Recent Quarters				
Growth in US Real GDP	2.5%	2.1%	3.2%	4.2%	2.3%	2.2%	4.2%	% Chg. Quarter/Quarter	Department of Commerce

Monthly Series with Latest Data for August	5-year	1-year	6-month	3-month	June	July	August		
	Recent Averages				Values in Recent Months				
ISM Index of Manufacuring Activity	54.6	54.6	59.1	59.0	60.2	58.1	61.3	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.4	56.5	58.1	57.8	59.1	55.7	58.5	Index	Institute for Supply Management
Consumer Confidence	102.3	111.8	127.7	127.9	127.1	127.9	133.4	Index	The Conference Board
Change in Non-Farm Payrolls	211.5	196.8	212.8	207.7	208	147	201	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.2%	4.5%	4.0%	3.9%	4.0%	3.9%	3.9%	Rate	Bureau of Labor Statistics

Monthly Series with Latest Data for August	5-year	1-year	6-month	3-month	June	July	August	Unit	Source
	Recent Averages				Values in Recent Months				
US Interest Rates									
Federal Funds	0.5%	0.8%	1.7%	1.8%	1.8%	1.9%	1.9%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.2%	2.9%	2.9%	2.9%	2.9%	2.9%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	99.9	103.1	109.5	110.0	109.4	110.0	110.7	Index	The Conference Board
Housing Starts	11.3	12.0	12.6	12.2	1.3	1.2	1.2	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.5	5.4	5.4	5.4	5.3	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

Monthly Series with Latest Data for July	5-year	1-year	6-month	3-month	May	June	July	Unit	Source
	Recent Averages				Values in Recent Months				
US Industrial Production	104.0	103.7	107.1	107.6	106.8	107.9	108.0	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	97.6	98.3	100.8	101.7	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Monthly Series with Latest Data for June	5-year	1-year	6-month	3-month	April	May	June	Unit	Source
	Recent Averages				Values in Recent Months				
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	3.1	3.1	3.1	3.2	3.1	3.0	million 480lb bales	USDA ERS

Monthly Series with Latest Data for July	5-year	1-year	6-month	3-month	May	June	July	Unit	Source
	Recent Averages				Values in Recent Months				
US Textile Mill Inventory/Shipments Ratio	1.27	1.30	1.29	1.28	1.28	1.28	1.27	Ratio	Department of Commerce

Retail Data

Monthly Series with Latest Data for July	5-year	1-year	6-month	3-month	May	June	July	Unit	Source
	Recent Averages				Values in Recent Months				
US Real Consumer Spending									
All Goods and Services	2.8%	2.7%	2.5%	2.7%	2.6%	2.7%	2.8%	% Chg. Year/Year	Department of Commerce
Clothing and Shoes	2.4%	2.5%	3.3%	3.6%	3.6%	2.5%	4.6%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.4%	1.7%	2.6%	2.8%	2.7%	2.8%	2.9%	% Chg Year/Year	Bureau of Labor Statistics
Apparel	-0.3%	-0.2%	0.8%	1.1%	2.0%	1.1%	0.2%	% Chg. Year/Year	Bureau of Labor Statistics

Monthly Series with Latest Data for June	5-year	1-year	6-month	3-month	April	May	June	Unit	Source
	Recent Averages				Values in Recent Months				
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.4	2.3	2.2	2.3	2.3	2.2	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.0	2.0	2.1	2.1	2.0	Ratio	Department of Commerce

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Executive Cotton Update

Daily Cotton Price and Currency Data
September 2018

Daily Cotton Price Data	Recent Averages				Averages over Recent Months				
	5-year	1-year	6-month	3-month	June	July	August	Unit	Source
NY Nearby	72.3	71.9	85.6	87.0	89.2	87.4	84.5	cents/pound	ICE
A Index	80.6	81.0	94.5	96.1	97.7	96.2	94.4	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months				
	5-year	1-year	6-month	3-month	June	July	August	Unit	Source
Dollar Trade Weighted Exchange Index	116.1	121.8	121.2	123.4	122.6	123.5	124.2	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.43	6.61	6.48	6.63	6.39	6.65	6.83	Chinese Renminbi/US dollar	Reuters
Indian Rupee	64.46	66.09	66.95	68.22	67.10	68.90	68.67	Indian Rupee/US dollar	Reuters
Japanese Yen	110.78	111.29	109.00	110.56	110.00	110.45	111.22	Japanese Yen/US dollar	Reuters
Pakistani Rupee	105.23	107.22	117.13	120.38	115.55	121.45	124.15	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.09	3.44	3.61	3.84	3.89	3.93	3.71	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.24	1.31	1.29	1.30	1.30	1.31	1.30	Canadian dollar/US dollar	Reuters
Mexican Peso	16.75	18.62	19.08	19.33	20.44	19.06	18.47	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.70	0.74	0.74	0.76	0.75	0.75	0.77	British Pound/US dollar	Reuters
Euro	0.85	0.88	0.84	0.85	0.85	0.85	0.86	Euro/US dollar	Reuters
Swiss Franc	0.96	0.98	0.98	0.99	0.98	0.99	0.99	Swiss Franc/US dollar	Reuters
Turkish Lira	3.01	3.49	4.40	4.77	4.47	4.58	5.25	Turkish Lira/US dollar	Reuters

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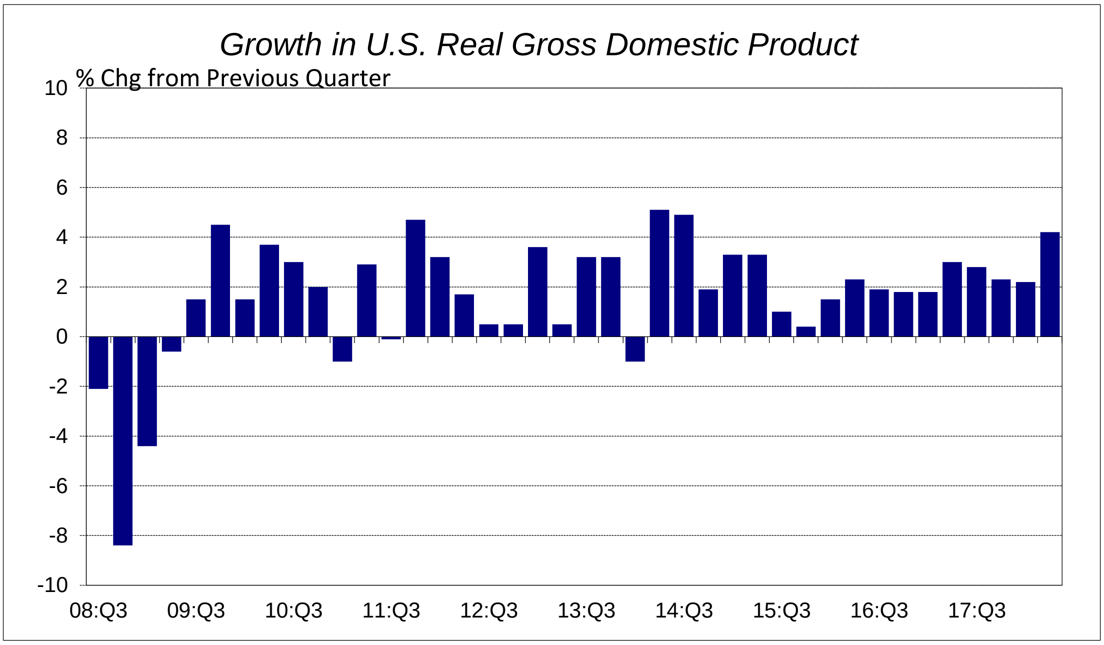
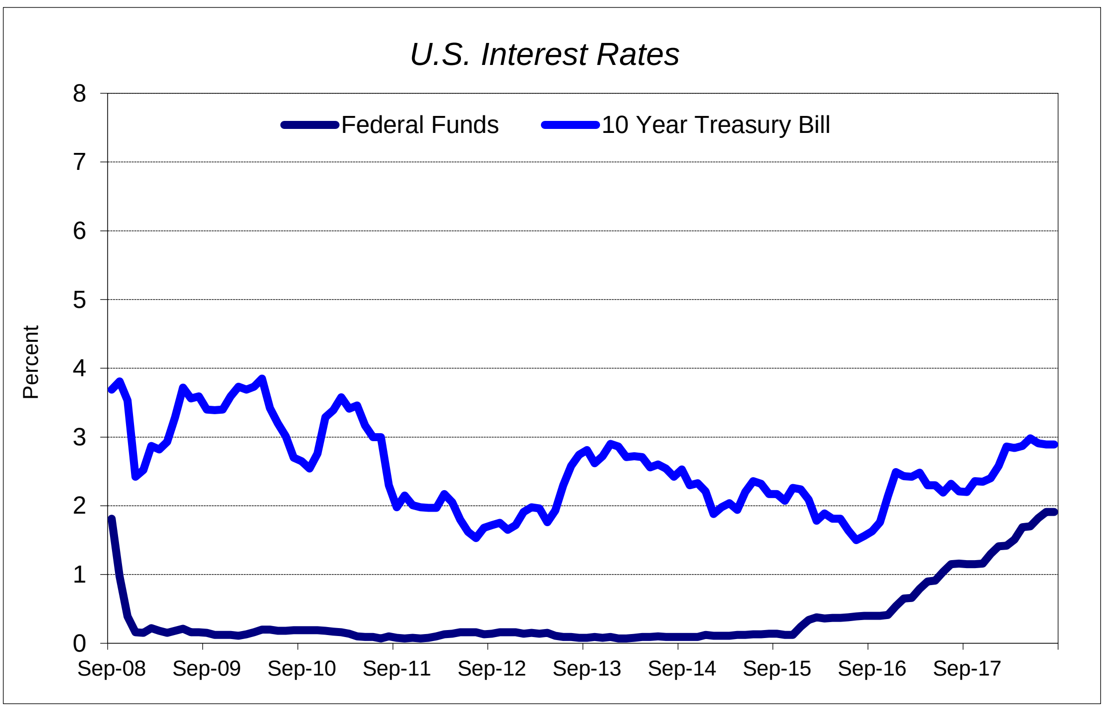


Seasonally Adjusted Annual Rate; Source: Department of Commerce
*Based on chained 2005$.



Source: Federal Reserve

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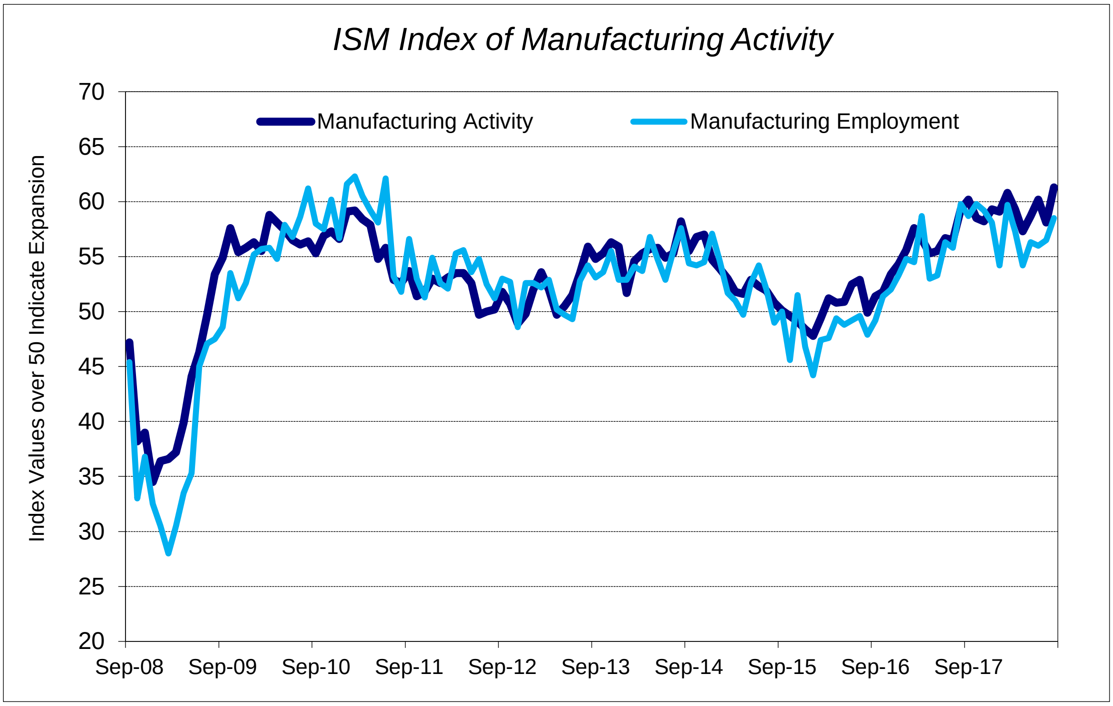
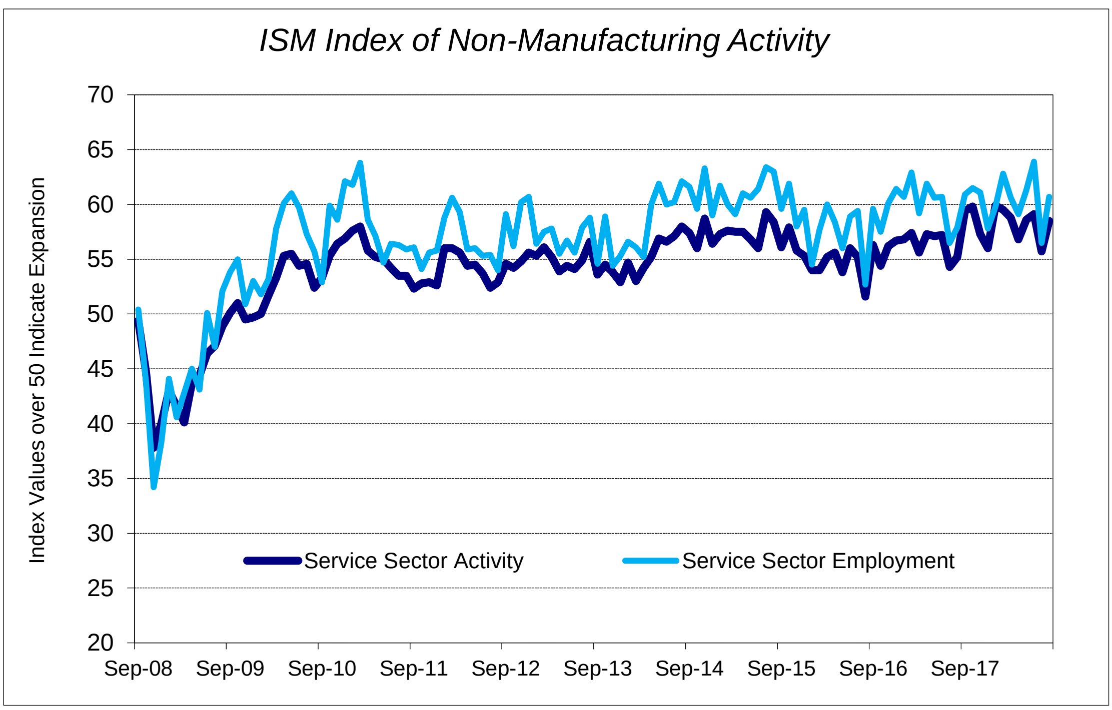


Source: Institute for Supply Chain Management



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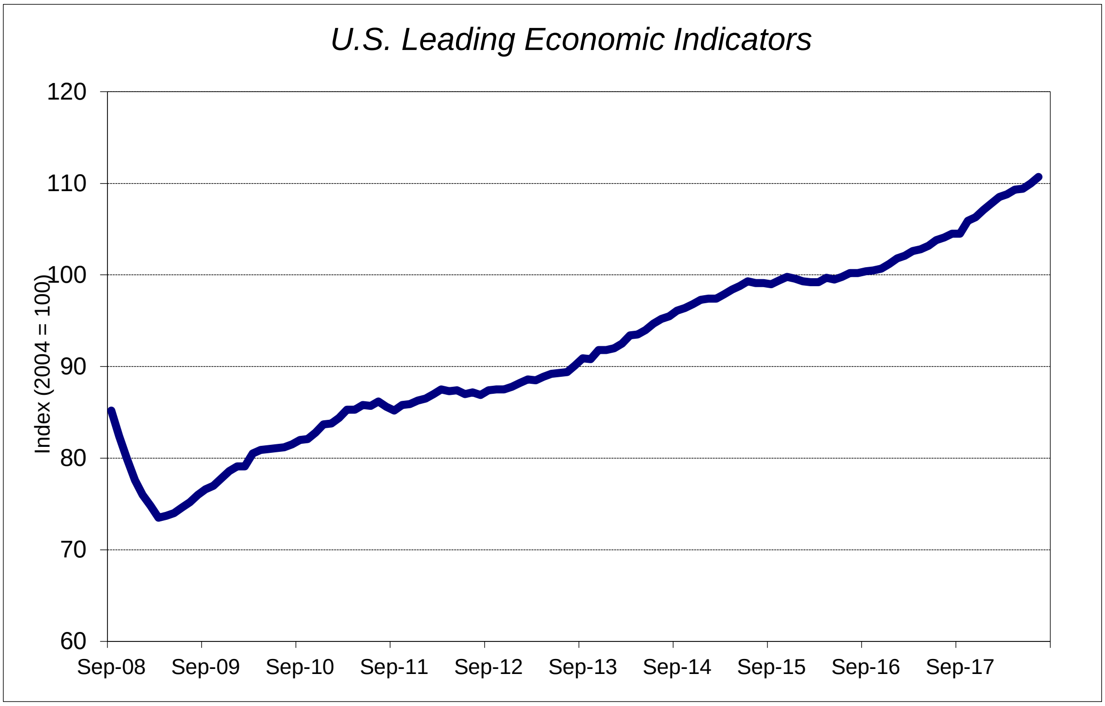
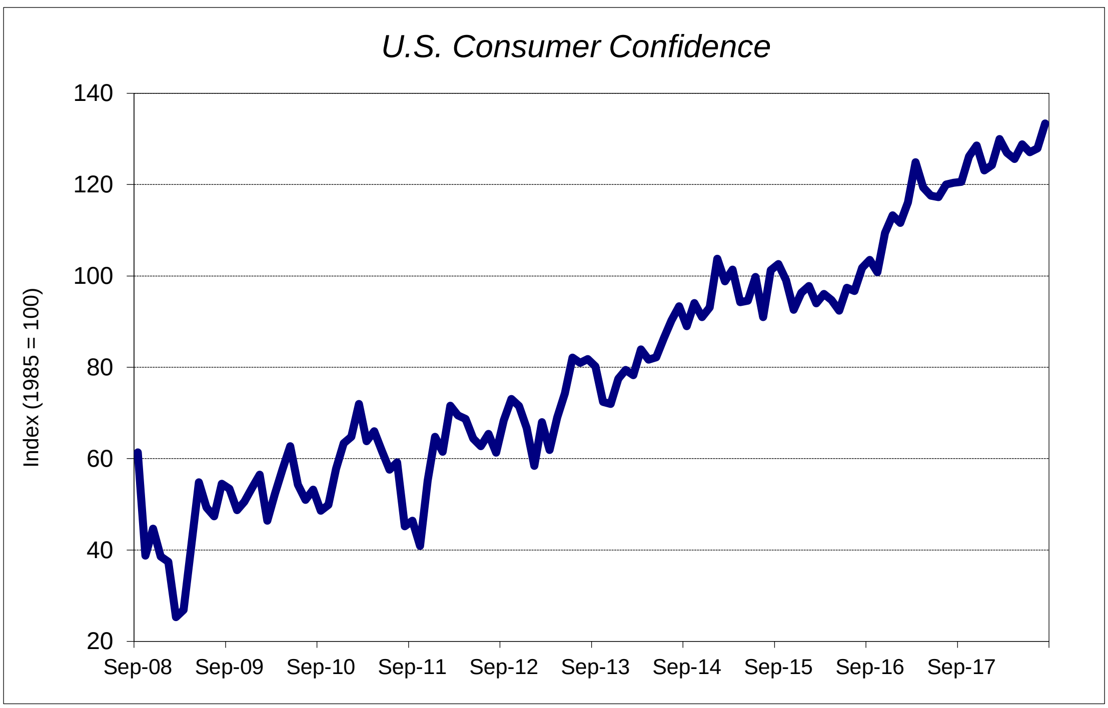


Source: The Conference Board



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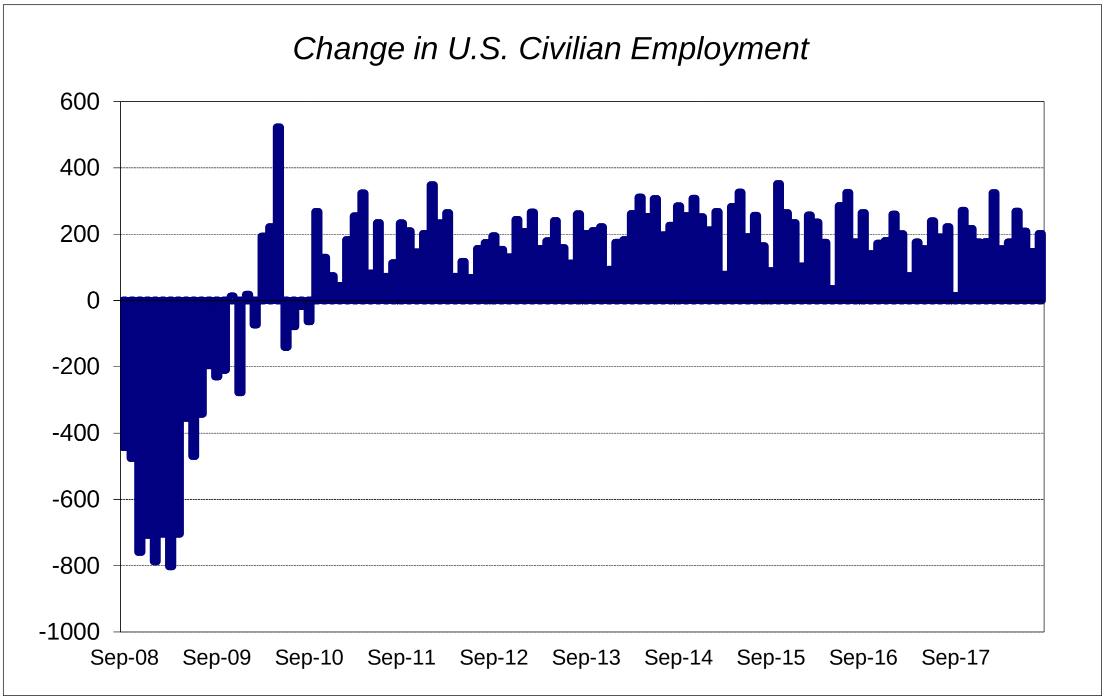
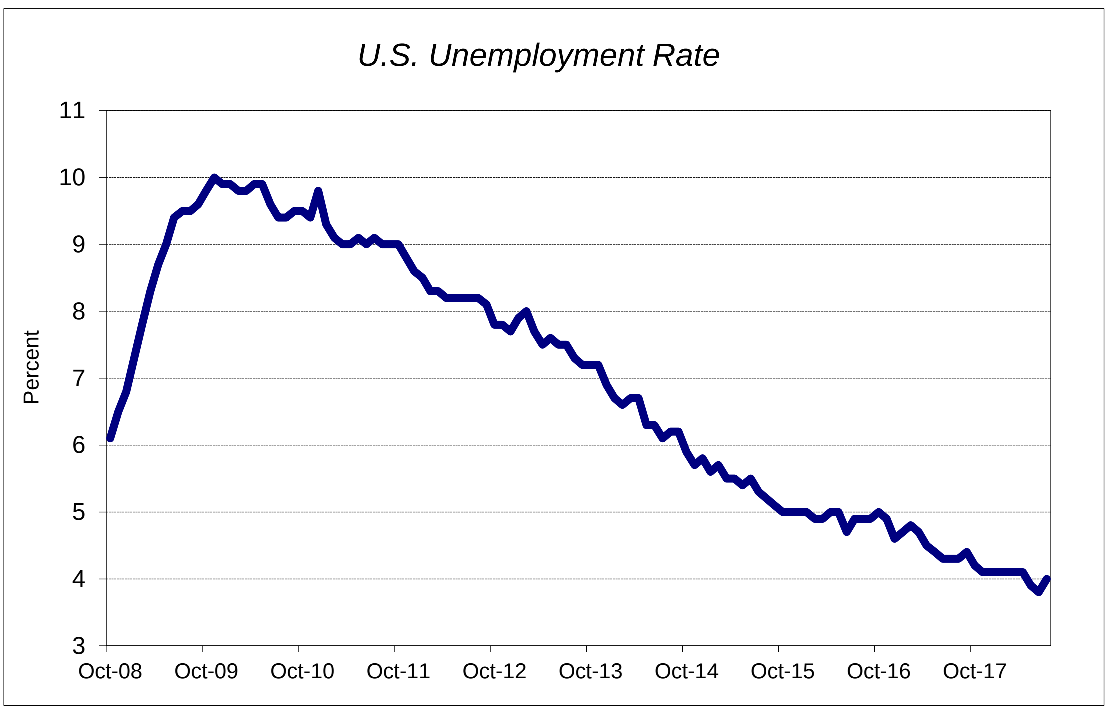


Source: Bureau of Labor Statistics



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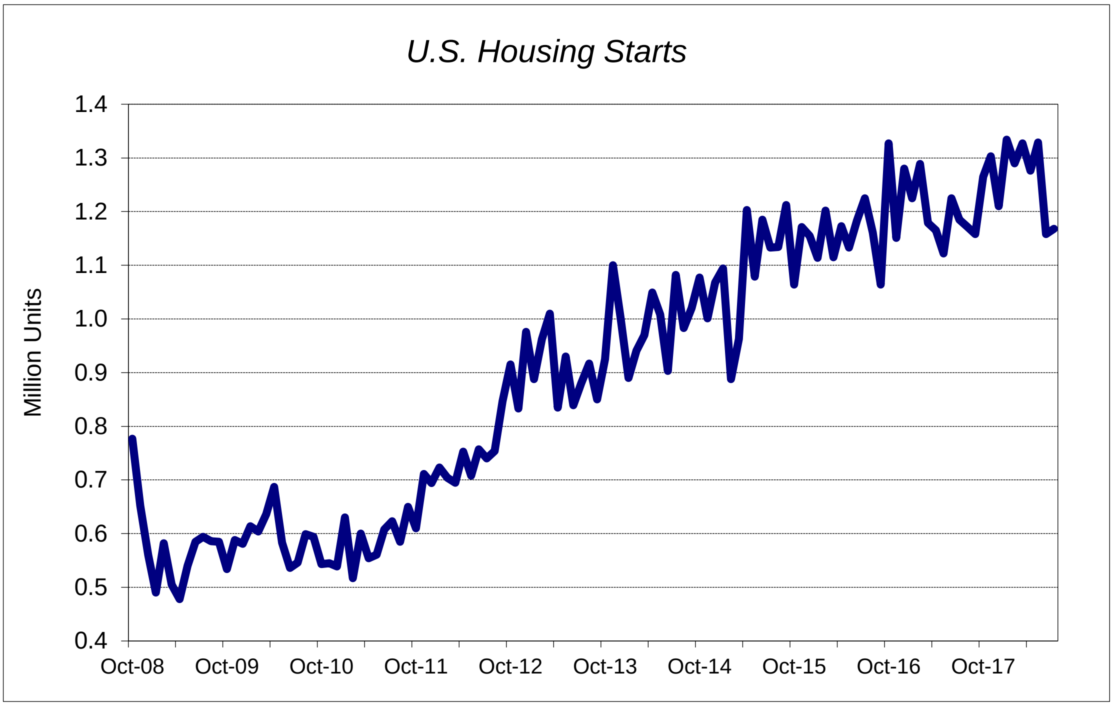
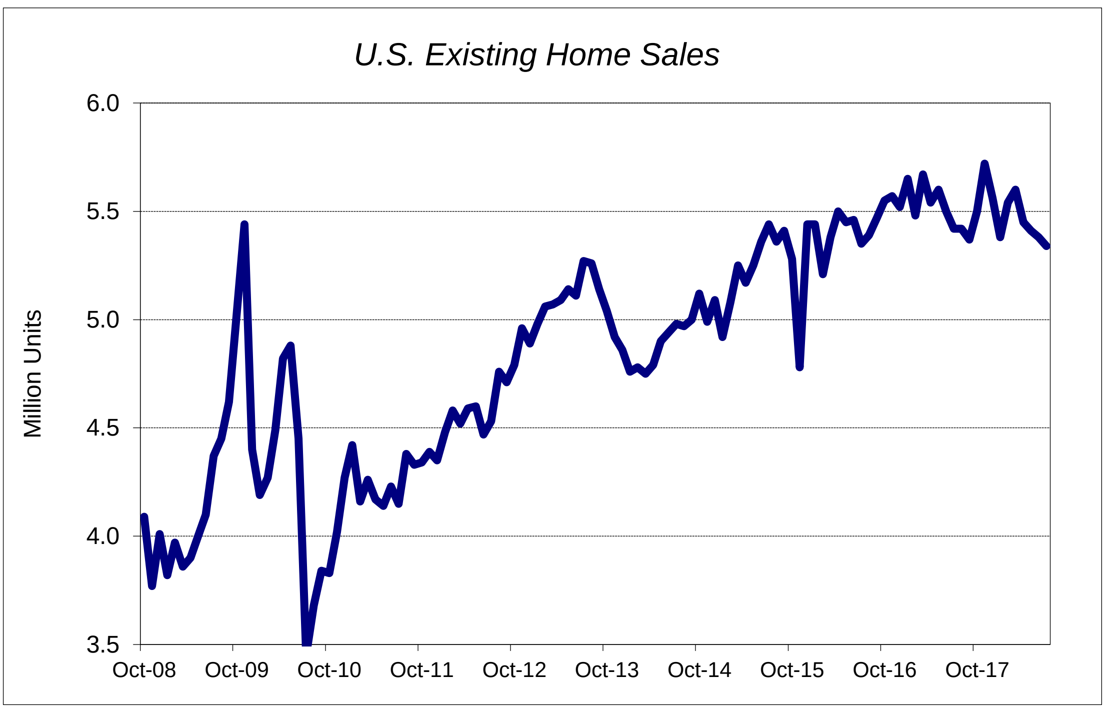


Seasonally Adjusted Annual Rate; Source: Department of Commerce



Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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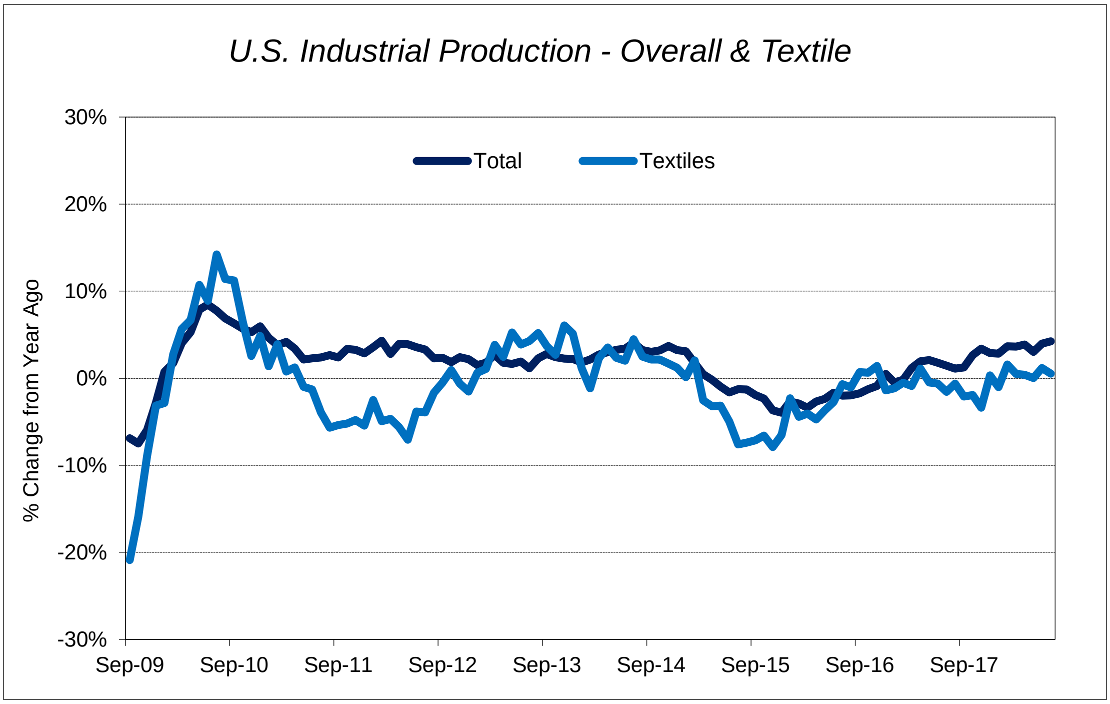
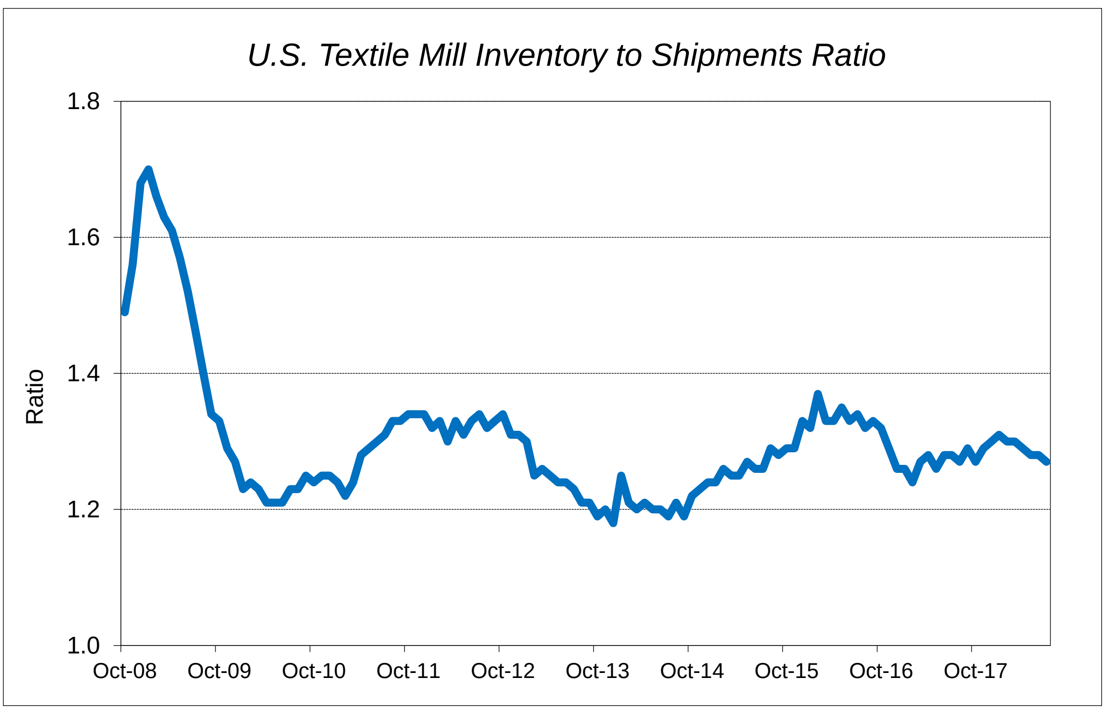


Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

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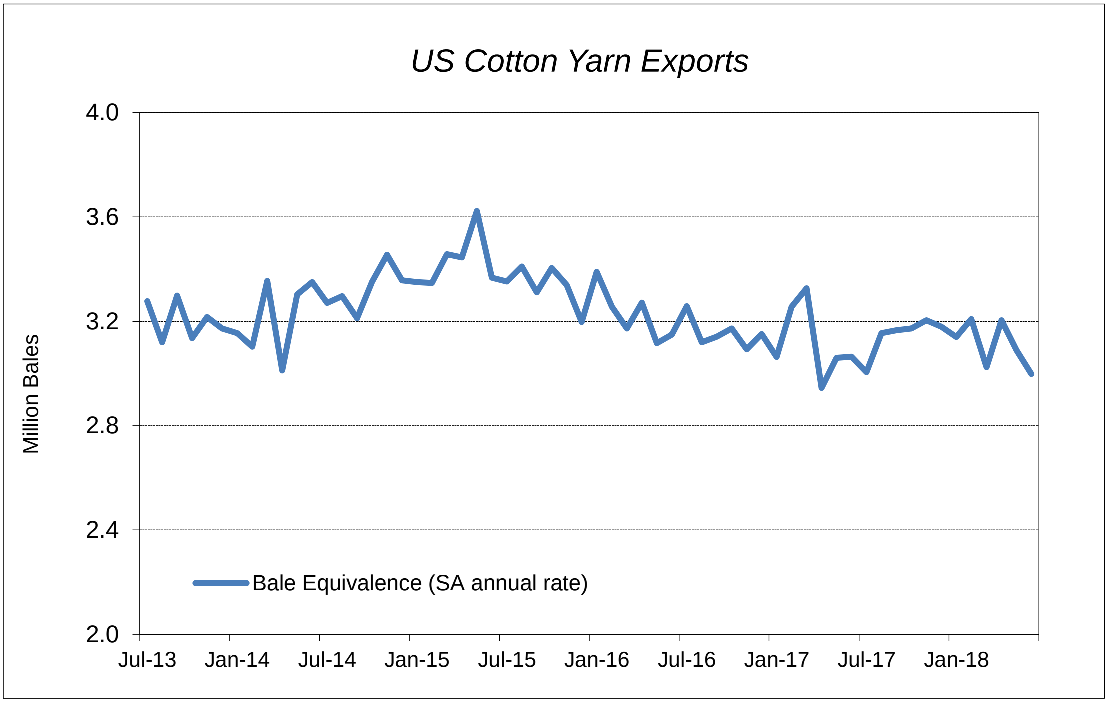
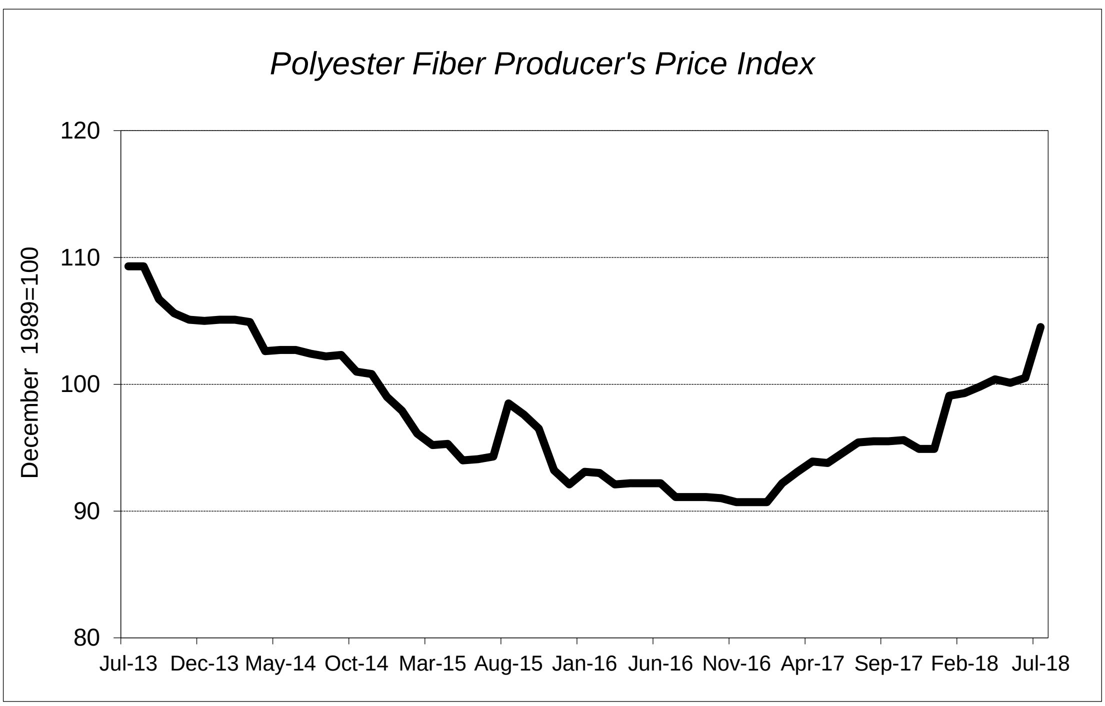


Seasonally Adjusted Annual Rate
Source: USDA ERS



Source: Bureau of Labor Statistics

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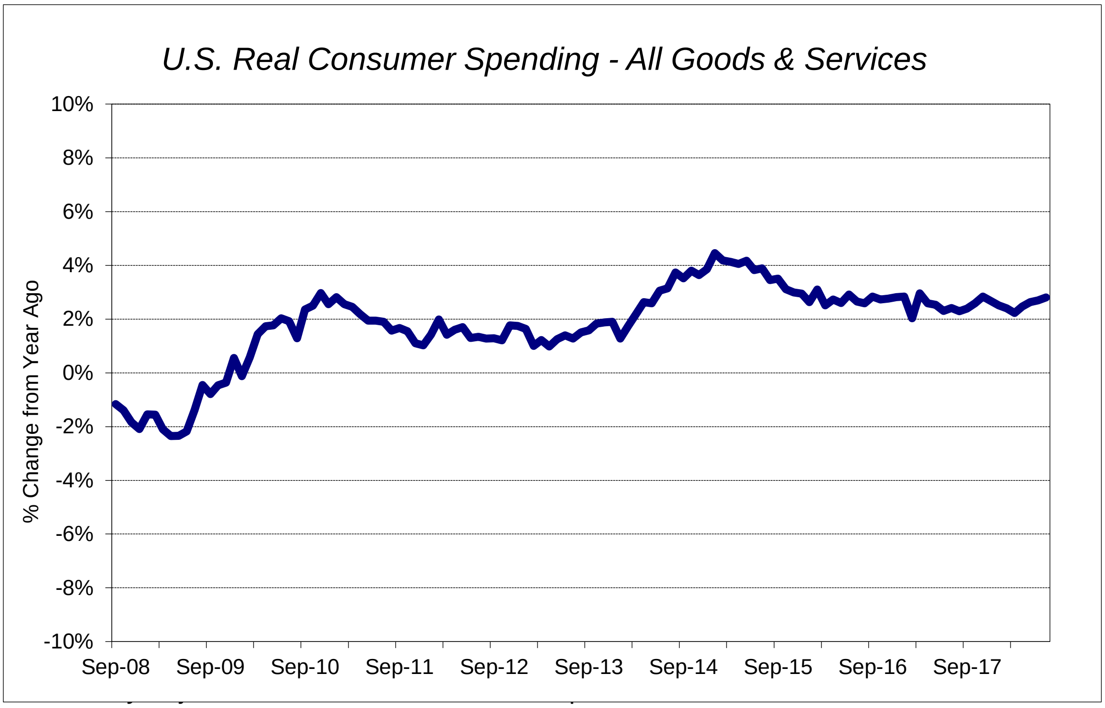

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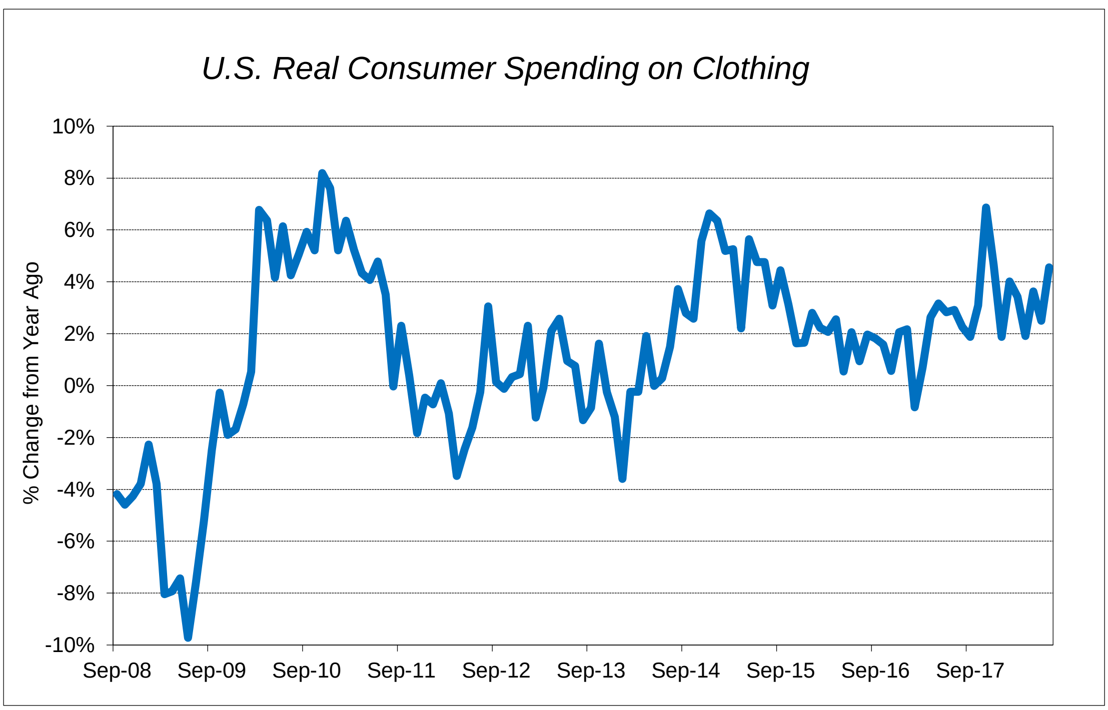

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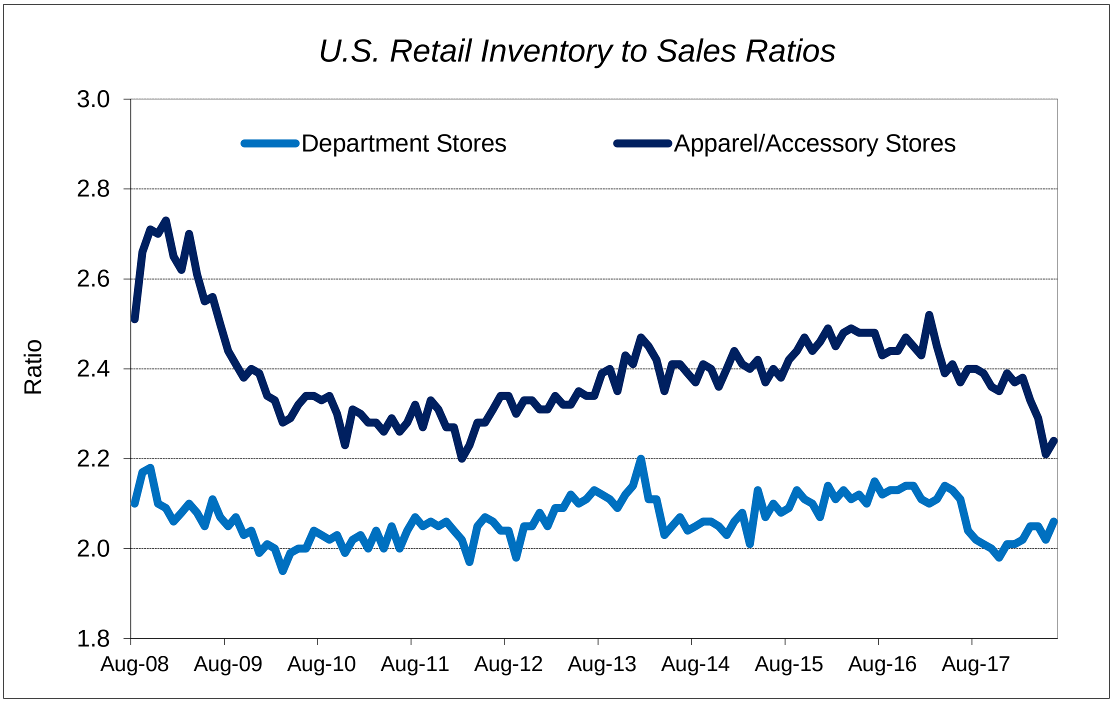

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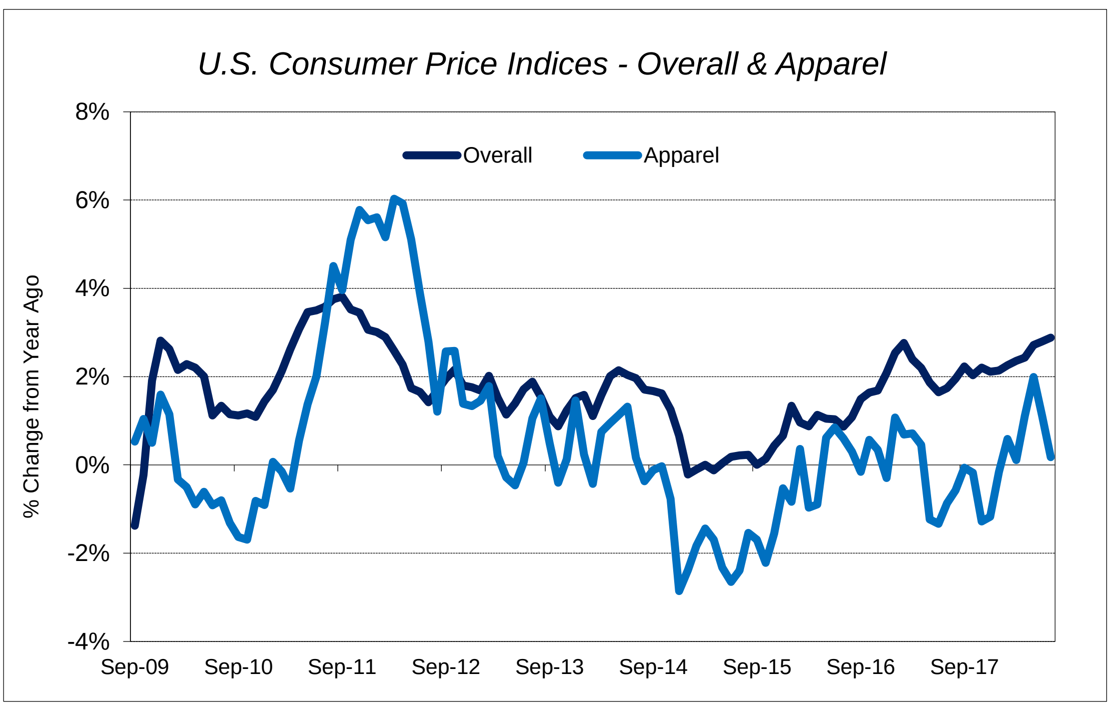

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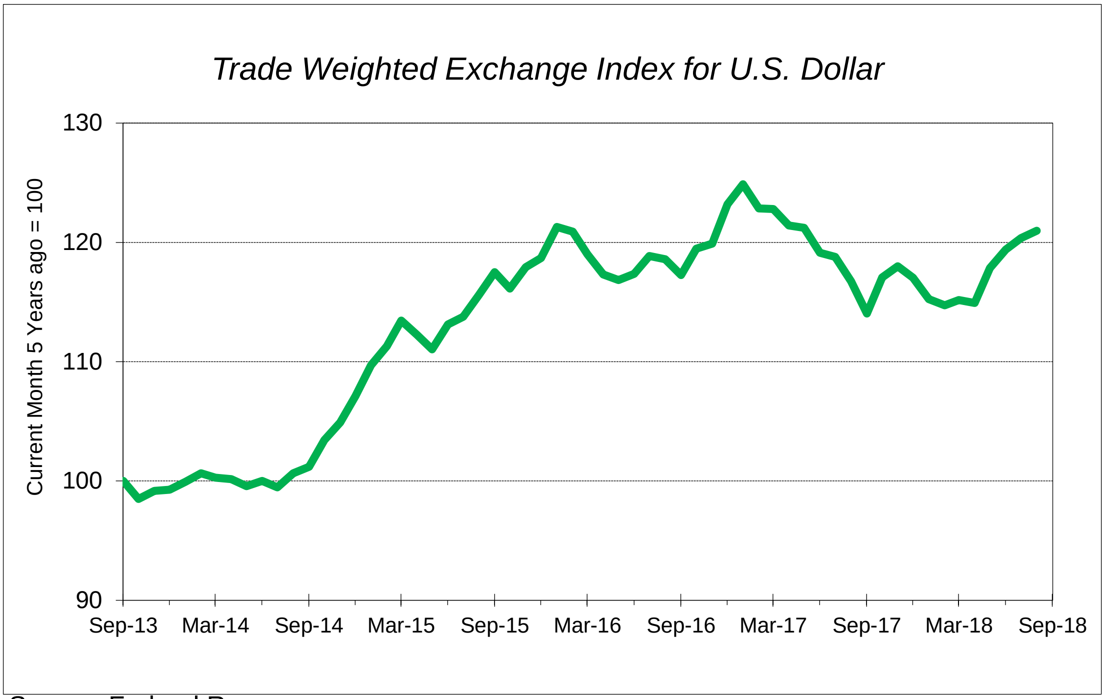

Source: Federal Reserve

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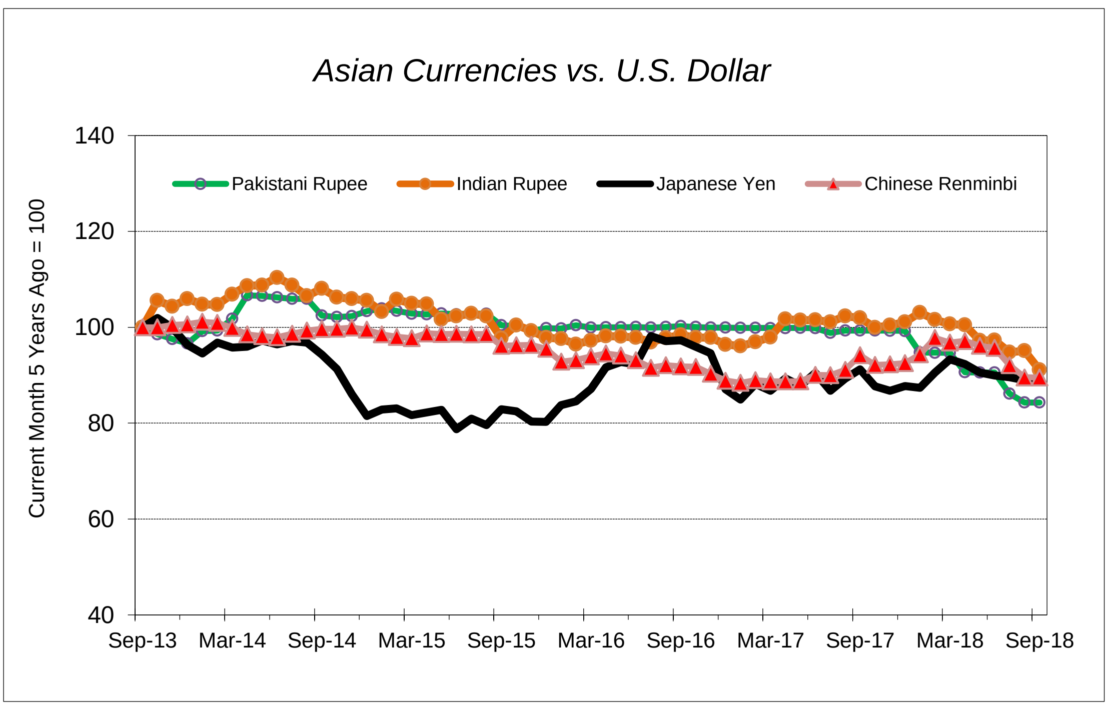

Source: oanda.com

Source: Reuters

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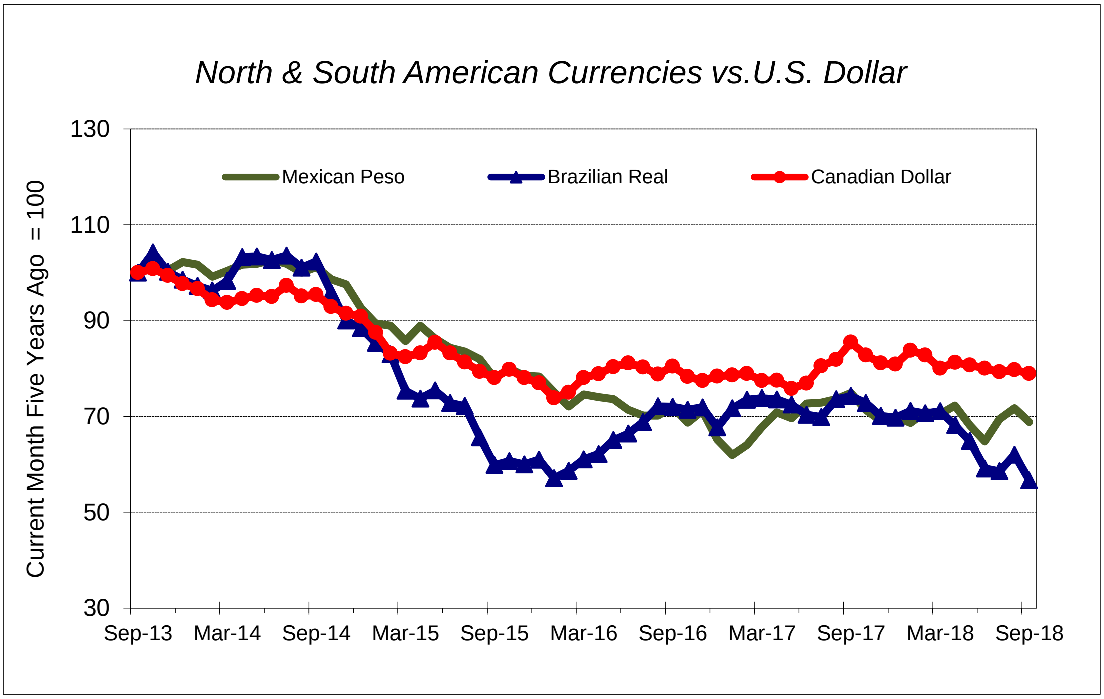

Source: oanda.com
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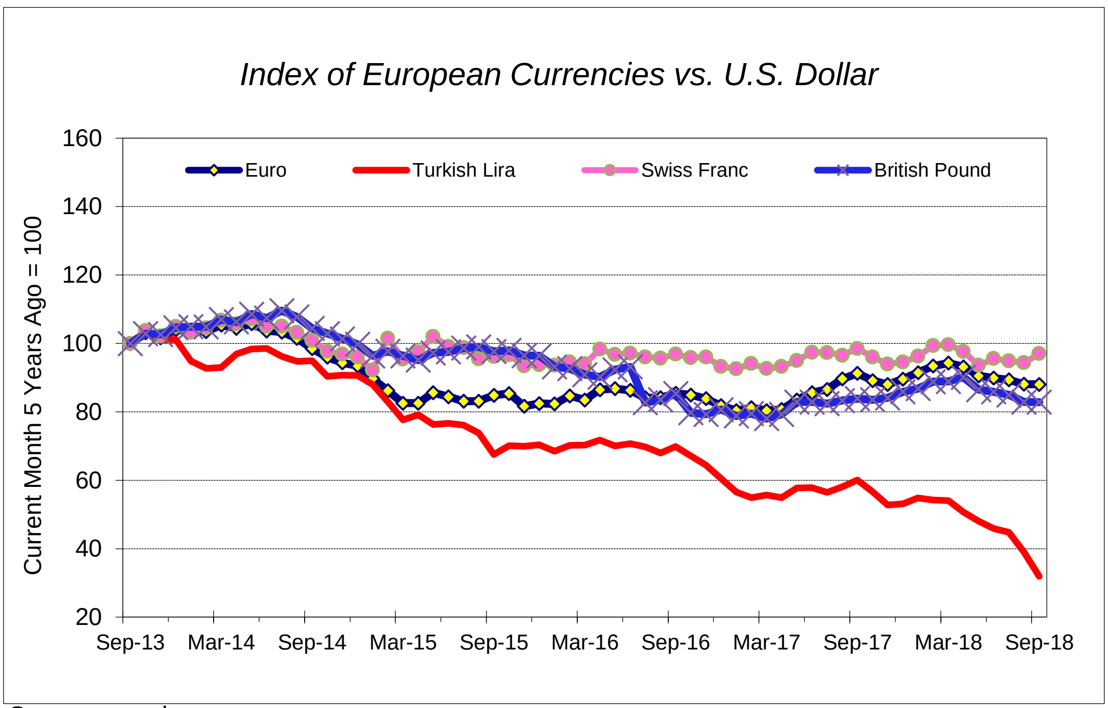

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Source: Reuters

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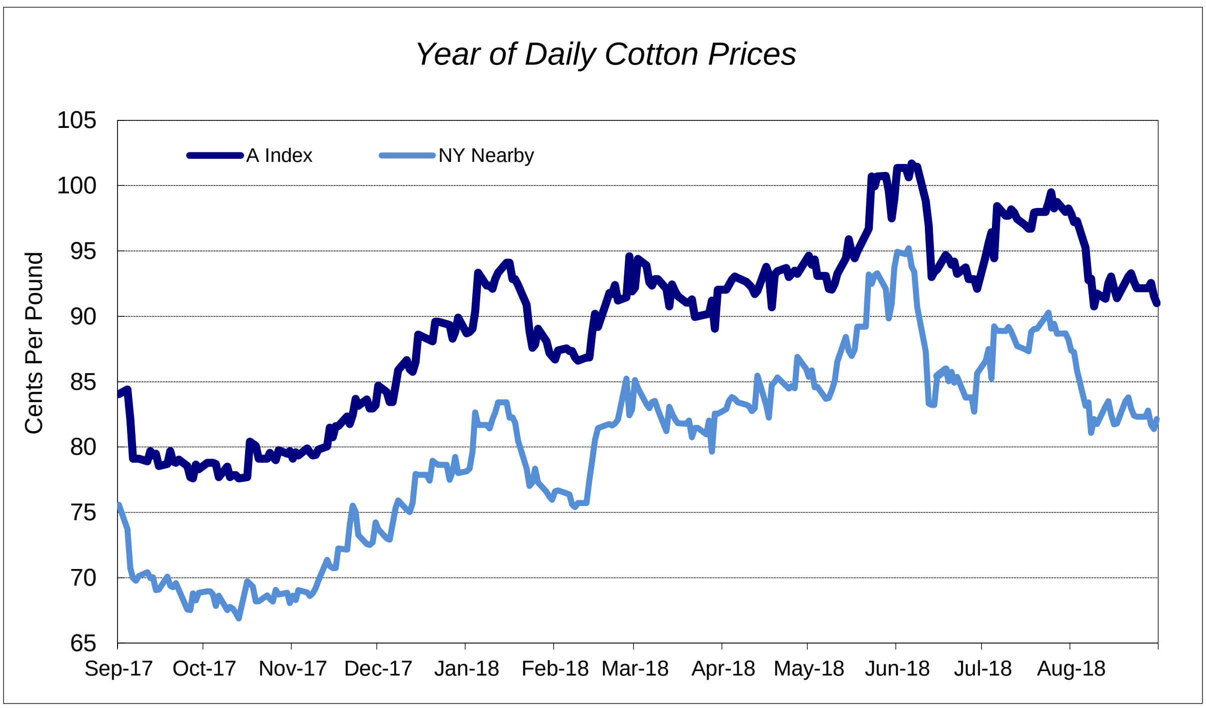
U.S. Balance Sheet

million 480 lb. bales	2014/15	2015/16	2016/17	2017/18	2018/19 July	2018/19 August
Beginning Stocks	2.4	3.7	3.8	2.8	4.0	4.4
Production	16.3	12.9	17.2	20.9	18.5	19.2
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	18.7	16.6	21.0	23.7	22.5	23.6
Mill-Use	3.6	3.5	3.3	3.3	3.4	3.4
Exports	11.2	9.2	14.9	15.8	15.0	15.5
Demand	14.8	12.6	18.2	19.1	18.4	18.9
Ending Stocks	3.7	3.8	2.8	4.4	4.0	4.6
Stocks/Use Ratio	24.6%	30.2%	15.1%	23.0%	21.7%	24.3%



Sources: ICE Futures U.S. & Cotton Outlook

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