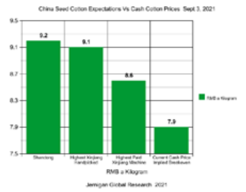


CHINA'S DOMESTIC COTTON PRICES HINGE ON 21 SEED COTTON PRICES

CFR BASIS LEVELS RISE AS SHIPPING CHAOS EXPANDS

INDIAN MONSOON ARRIVES IN GUJARAT

US HARVEST ADVANCES AS CROP PROSPECTS HOLD

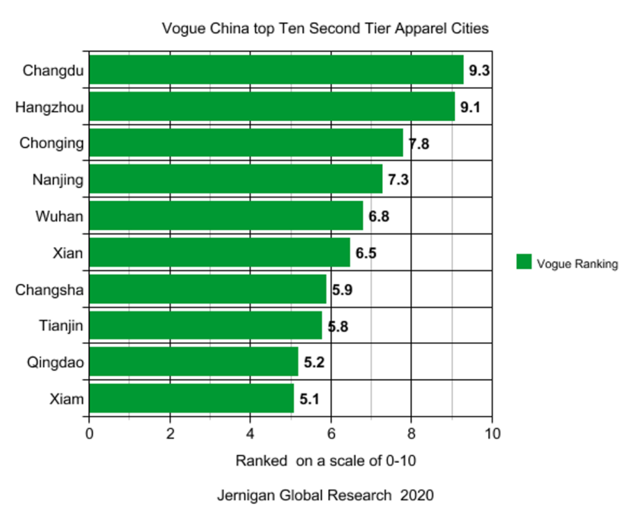
JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

NEW DOUBTS REGARDING CHINA'S LUXURY MARKET AS XI LAUNCHES NEW "CULTURE REVOLUTION"

China experts are now beginning to refer to the unfolding events in China as a new "Cultural Revolution" and, of course, the Mao's original Cultural Revolution were very dark days for China, lasting from 1966 to 1976 with the economy collapsing and up to 20 million people being killed. The similarities between then and now are quite alarming. The goal in 1966 was to increase Mao's power and worship of Mao thought and rid the Communist party of capitalist thought. Xi is attempting to rule for life. Recently, his administration launched an attack on private schools and school tutors followed by new requirements that all students down to the age of ten must study Xi's political thoughts to inspire worship of the leader. In the past 30 years there were no CCP propaganda in schools until middle school. The students from third grade through college must now take one class a week about Xi thought. At the same time, Xi's administration has been attacking one capitalist group at a time, which began with the Tech sector and Jack Ma.

With each passing attack it has become clear something much larger is at play. The war on capitalism is accelerating as highlighted by the fact that the Xi team has attacked one of the fastest growing cities in China, Hangzhou, the capital of Zhejiang. Its top CCP officials were arrested for violating discipline. This has set off a host of theories. The top official, Zhou Jiang Yong, was thought to be close to Xi and an insider known as part of the powerful Zhejiang faction of the CCP. An in-depth analysis by Japan's Nikkei Asia paints a very intriguing picture and postulates the leader is being sacrificed despite his ties to Xi as part of a concerted move against private companies. Four days before the Zhou arrest, Xi made a major speech in which he revealed the "Common Prosperity" theme, which was mentioned 15 times in the speech and followed a key CCP meeting.

Hangzhou, the tech capital of China under assault

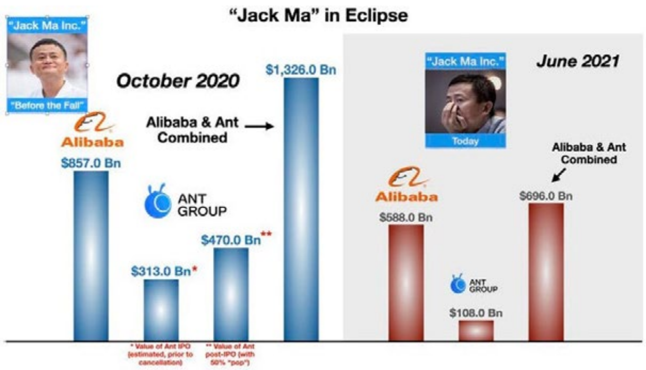


It is believed that Xi has targeted Hangzhou for an example as he makes a hard left turn to a new socialist China with the capital city and Zhejiang designated as the model for the new "Common Prosperity."

The city of Hangzhou and the province of Zhejiang are special, as Zhejiang is known as the birthplace of the country's private companies. It has seen rapid GDP growth, income growth, and prosperity, with the private companies helping to manage the city and province with the role of bureaucrats reduced. Hangzhou is the tech capital of China and has been compared to the Silicon Valley in the US. The city is the home of Alibaba, and many of the city officials are close to the company. The CCP leader under arrest was also close to Jack Ma. Up to now, this entire group was thought to be part of Xi's political base. A warning was issued to all officials to root out all conflict of interest or family connections to local business and 25,000 officials were ordered to submit to self-examination. Hangzhou is the center of China's most robust and successful global companies.

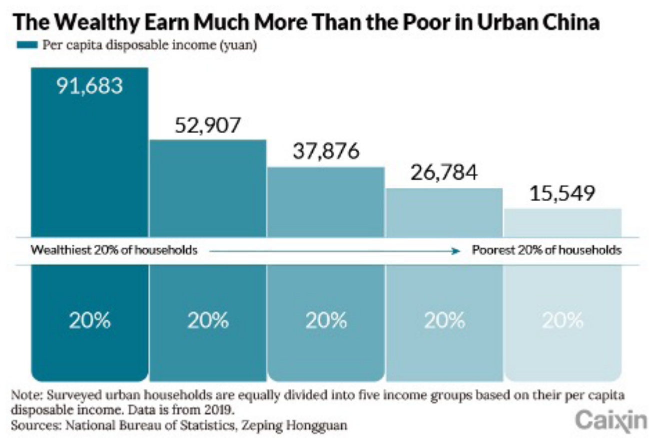
The move to make this booming tech capital and province an example has major ramifications for the economy and on all top non-state-owned groups. Hangzhou in 2020 had a GDP of 245 billion USD, which put it on par with the entire countries of Portugal and New Zealand. Retail sales in 2020 reached 91 billion USD, and Vogue Business in 2020 named it one of the top ten up-and-coming cities in China for fashion and apparel. It ranked it as number one for its talent pool and for innovation and development. The province of Zhejiang had a 2020 GDP of 936 billion USD, making it equal to being in the top 20 countries of the world, larger than Switzerland.

The attack against the private groups is ongoing and appears to be moving toward nationalization via share ownership by state-owned groups. Alibaba continues to be greatly impacted. It has announced that it pledged a gift of 15.5 billion USD to the "Common Prosperity" program without giving details. It was later announced that ANT Financial, owned by Alibaba and whose IPO was pulled, was being forced to nationalize its credit rating and sourcing service. It would have 35% ownership, while state-owned companies would own the balance. This company will have the power to provide consumer data and credit scores, a much greater control by the state. A new attack was also launched Thursday on the automobile service companies of Didi, Meituan, and Alibaba, citing that they had discouraged competition and disrupted the interest of individuals and drivers.



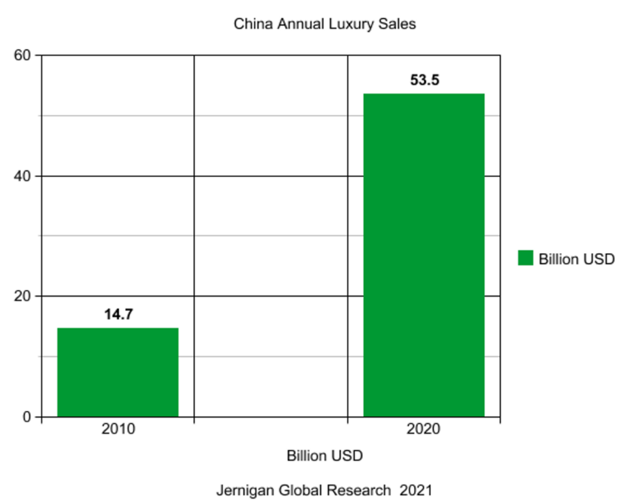
Forbes, the attack on Jack Ma

The "Get Rich First" philosophy of Deng Xiaoping which built modern China is now being replaced with Xi's "Common Prosperity" for all. In a major speech, Xi called for the regulation of high income and wealth distribution. This followed ten months of attacks on the largest private companies, so the marketplace knew it was for real. Since then, additional assaults are underway. A commentary last week covered in state media has clarified and added to the concerns. It called the Xi crackdown a profound revolution that was a return from the capitalist group to the masses of the people. It was the transformation from capital centered to people centered - a return to the original intention of the Communist Party. These are the words from the official Chinese media and not an interpretation or theory from the West. The editorial went on to state that the government would attack and reform the medical and housing sectors next and that the government needed to "combat the chaos of big capital." These groups have significant Chinese and Western capital invested in them. It further stated that, "If China relied



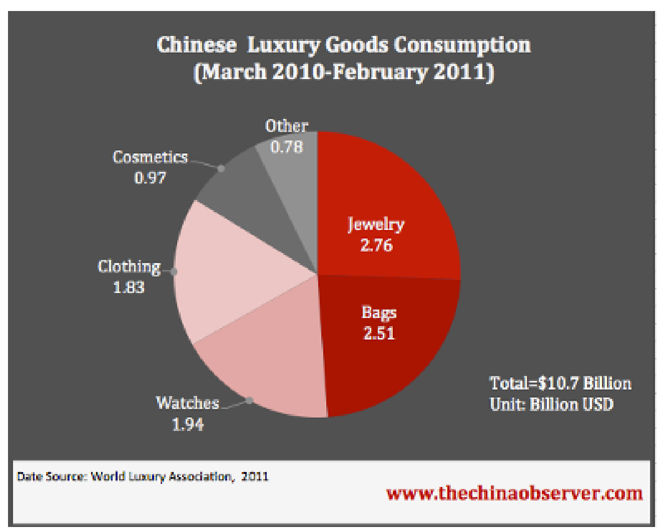
on capitalists to fight imperialism it could suffer the same fate as the Soviet Union." Overall, the entire editorial was a clear return to Mao's revolution. It should be remembered the great leader Deng Xiaoping was arrested and sent for reeducation in Mao's Cultural Revolution and then emerged after Mao died to become the leader that gave birth to modern China.

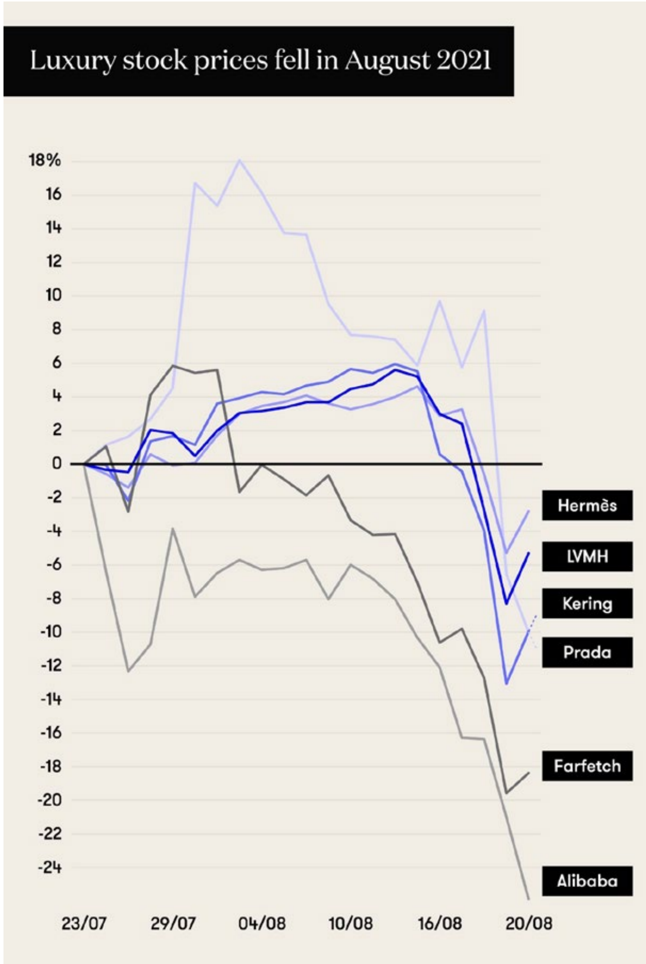
The attacks turned more cultural when Xi attacked the entertainment industry, with the government issuing 10 measures to address the issue of fan culture. The fan economy is estimated to have a value of 15.4 billion USD in sales of merchandise, tickets, concerts, etc. It then shamed and fined key players, such as Zhao We, a Billionaire actress and former brand spokesperson for Fendi luxury brand, who was fined 46 million for tax evasion. Her films were removed from video streaming



services, TV, and movies theaters. Several other big names also came under assault. The CCP wants to limit the influence of anyone besides Xi. The government issued additional new rules focused on the reporting of harmful financial information or any of what the CCP calls misinterpretation of financial data. This follows the sudden closure of the most influential private grain analysis groups earlier.

Further micromanagement of the people occurred Monday when the CCP announced the playing of video games by children would be monitored and limited to only three hours a week. This sent gaming stocks down 3%-8% and was followed by the collapse of entertainment shares of 50% or more. A trillion here and a few hundred billion there and soon it all adds up to a real impact on the Chinese economy and spending power. For cotton, it is the continued growth of apparel sales and consumption that has already slowed to a very low rate. Now, a new concern is emerging that is expanding into the world's luxury sector. In 2020 and 2021, China is the world's hottest luxury goods market with sales in 2020, even with Covid Virus, reaching 346 billion RMB or over 52.0 billion USD. Its growth made the largest luxury companies total sales expand and their share prices red hot, reaching record highs in June and July. The expectations that the market could soon reach 500 billion RMB resulted in record investment, the launching of new stores, and the most elaborate showcase stores and experiences in the world, all the way from adults down to children's apparel.





In 2021, Chinese consumers are expected to buy 45% of all luxury goods sold in the world. Research has identified 110,000 people in China that will be responsible for 25% of those sales, people who are extremely wealthy and display it. The Covid outbreak means the CCP has total control as the abroad spending has returned to domestic retailers. There are fears the government is moving to tax this wealth, reduce spending, and rein in the display of wealth. The evidence seems clear, and expectations are that it could introduce new taxes on luxury goods. The attack has already begun on celebrity influencers, and it could spread to others, while also launching curbs on advertising. The top 10% of Chinese are directly impacted by Xi's wealth redistribution plan. It is also noted that growth in luxury sales were hurt by a minor Xi campaign to halt gifts to government and CCP officials in 2013-2014.

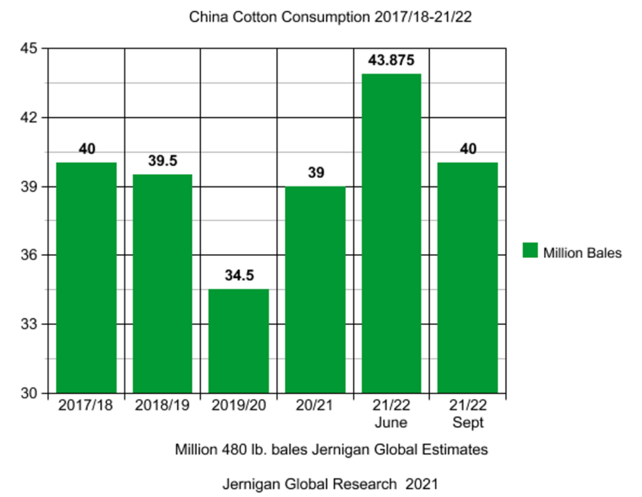
Global investors are now taking Xi's change of direction seriously. The shares of major luxury companies, which hit al-time record highs in June and July, are estimated by the *Financial Times* to have now collectively suffered a 70-billion-USD fall in market cap as a result of the Xi crackdown on wealth. That decline is larger than the estimated value of the entire Chinese luxury market. One reason is that research group after research group in the past six months have forecast record growth in the Chinese market, and these luxury names would have benefited but they have now fallen back to earth as the risk begins to be factored in. Another shock occurred last week when legendary investor and leftist George Soros wrote an editorial in the *Financial Times* in which he warned of the dangers of investing in Xi's new China. Soros is radical and pushes many controversial political ideas but in the investing world he is a legend. His warning on China should be taken very seriously and has been. He made several important points worth noting. The first was that Xi Jinping had collided with economic reality. He cited the efforts to rein in the property sector, which had enjoyed an economic boom for two decades. The largest real estate company is now near default, and its 2022 bonds are trading for cents on the dollar and have USD debt of 104 billion. He also cited the Chinese birth rate as overstated and population level overstated by a wide margin. The crackdown on business is real and not yet fully understood by Wall Street. He stated that Xi does not understand how the markets work, and the corrections his action has already created have gone too deep. He further stated that China's regulators were deceptive in trying to restore confidence. Xi regards all companies as instruments of the one-party state.

Caixin China Purchasing Manager Index Monthly

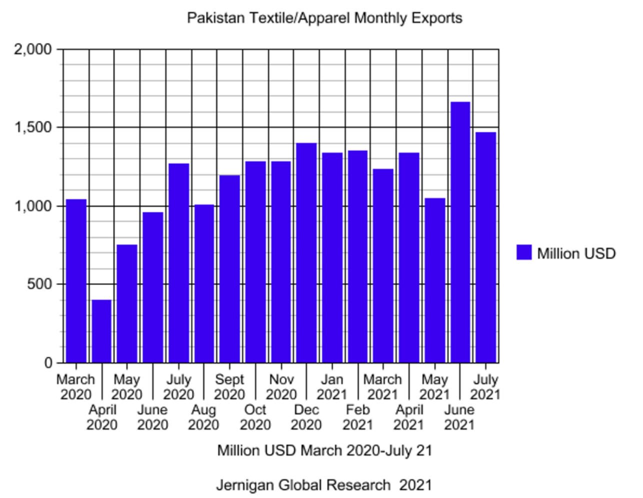
Soros went on to call for the US to force Wall Street to protect investors from the risk, and he discussed the MSCI All Country World Index and how Alibaba and Tencent were in its top ten companies. He also pointed out the problems with the ESG investing, citing Blackrock ESG investments ETF, which included Chinese companies for a third of the ETF. He said that Xi's China is not the China Wall Street had known and that Xi was putting in place a modern version of Mao Zedong's party. These are very shocking words from a long time Wall Street investor. These comments were followed by additional Bloomberg reports of the damage being done to the Chinese economy by Xi's action.

The evidence is mounting of a much slower Chinese economy as a result of these collective actions. The Official Purchasing Managers Index for August fell to 50.1, which is just barely in the expansive mode, and the services PMI fell to 47.5, which means the sector is in contraction and the lowest level since February 2020. The Caixin PMI measures small and medium-sized companies and focuses on private companies, as compared to the official PMI, which is more focused on state-owned companies, fell to 49.2, which was the lowest since February 2020 and also indicating business contraction. The arrival of Cultural Revolution 2.0 appears to be providing the needed stimulus for further supply chain movement. India's economy in the first quarter of 2021 grew at a record 20.1% and is expected to grow at an annualized rate of 9.2% in 2021, outpacing China despite the second Covid outbreak. India's first quarter manufacturing GDP grew by 49.6%. Prior to Covid, India also had a fast-growing luxury market.

Goldman Sachs estimated that a collective 3.1 trillion in market cap has been destroyed since Culture Revolution 2.0 started compared to China's GDP in 2020 of nearly 14. 7 trillion USD. The market losses occurred both to Chinese and international investors. If one assumes 50% was lost by Chinese investors, then losses equaled more than 10.5% of the GDP. It is clear loses are having an impact. On Friday another shock occurred of additional possible nationalizations. Rumors circulated that several state-owned companies would take a controlling stake in Didi, the company that went public in the US just a short time ago. If true, this will further shake confidence. These events bring into question the expanded cotton use we had expected due to the expansion of spinning capacity. It is already very evident that spinners face major hurdles passing on further higher cotton prices to the Fabric sector, which is facing weaker demand from apparel groups as spending slows.



PAKISTAN'S DOMESTIC PRICES HIT 105 CENTS BEFORE RETREATING



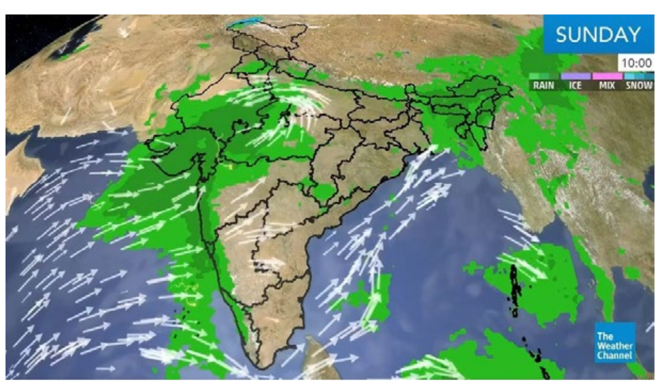
Logistics have created strong demand for Pakistan new crop, with prices of seed cotton in Baluchistan reaching a record 7,200 Rupees per maund or a cotton lint price of 14,500 Rupees. Generally, cash cotton prices last week ranged from 13,850-14,300 Rupees, which equaled 101.63 to 105.000 cents per lb. Daily arrivals reached about 30,000 bales a day before monsoon rains slowed movement. Sind, Baluchistan, and southern Punjab all received monsoon rains last week from August 31st to September 3rd. Prior to that, Karachi had reported very heavy rains the final week of August, with total monthly rainfall a record 484 mm. The rains did trigger some white fly and bollworms breakouts, but the high price of seed cotton has meant growers are willing to spend money on treatments and inputs. The Crop Assessment Committee estimated the domestic crop at 8.46 million local bales or 5.829 480-lb. bales. The USDA has the crop at 5.0 million bales. The PCGA released the first arrivals data of the season, and as of September 1st 1,791,125 bales had been delivered to gins and 1,510,537 bales sold, which illustrates the brisk demand.

Textile and apparel export demand has been impacted by a shortage of containers and reduced container ships stopping at Karachi port. The volume of freight moving through the port of Karachi in FY 2021 rose 25%. July textile and apparel exports fell to 1.471 billion USD due to the congestion and delays as compared to 1.1.658 billion in June.

Pakistan mills returned to the market for imported styles following the Tuesday break in ICE, with most of the purchases for first quarter 2022 and fourth quarter 2022. US styles featured in the trade with the popular E/MOT 41-4-36 selling for January-March shipment. Even though only a small volume has been harvested so far, merchants have also introduced US mixed lower grade lots at attractive basis levels for February-April shipment which are attracting interest. These include lower mike and bark. The current wet weather is raising expectations of more bark in the E/MOT crops as well as 41/32 color grades. For spinners needing fourth quarter 2021 Brazilian Middling 1 1/8 sold. Interest in Australian lower mike 2021 crop, despite the freight, is also noted because of the ability to ship now. New crop African Franc Zone remains popular as well.

INDIA NEW CROP STARTS TO MOVE/ PRICES DISCOUNTED FOR FORWARD SALES

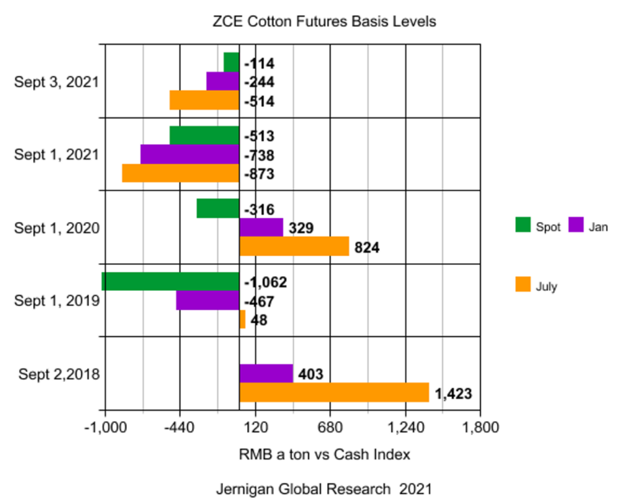
New crop movement in India is slowly picking up, and last week's good monsoon rains in Gujarat and Rajasthan have boosted spirits and the outlook. As forecast, the monsoon became very active over the Gujarat and Northern Zone cotton belt August 31st to September 3rd,



providing a major boost to crop prospects. The first new crop arrivals have been confirmed in Gujarat with 74 RD 29 mm trading at 54,300 to 54,700 Rupees per quintal and 75 RD at 55,000 to 55,200 Rupees. This was at a discount to the S6 ex warehouse price of 55,700 Rupees per quintal or 97.40 cents per lb. Mid-November forward sales of S-6 have been noted at 52,000 to 52,500 Rupees per Quintal. Daily arrivals are also increasing in the Northern Zone with J-34 new crop trading at near 88 cents as compared to old crop at 89.80. Forward mid-September sales have occurred at 85 cents.

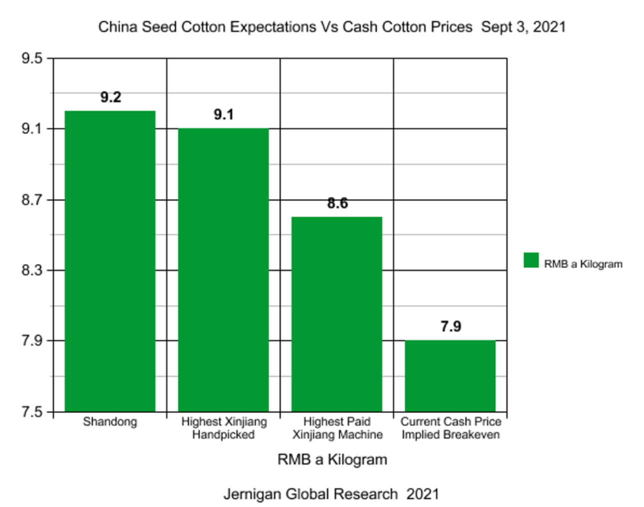
The monsoon remained very active and heavy rains are expected over Gujarat and Maharashtra as well as parts of the Northern Zone much of this week. This should provide a boost to yields but will delay crop movement.

CHINA ZCE FUTURES BASIS AT RECORD LOWS TO CASH PRICES



When the 2020 harvest became well advanced, we discussed our expectations that the ZCE cotton futures were likely to trade the rest of the season at a weak basis and discount to cash prices. That has occurred and continued into the 2021/2022 season and exceeded all expectations of the weakness. The weakness began because of the poor quality of the 2020 Xinjiang crop. Hedging of the Xinjiang crop is now quite advanced, and the electronic warehouse system of the ZCE has become a very important part of ginners and trade financing. About half the approved warehouses for delivery are in Xinjiang, and it dominates all certificated stocks and deliveries. The ZCE has done a great job in maintaining the contract. However, the standard grades used for delivery sometimes have a large variation. When the crop was the quality of 2020, the lowest standard grades are certificated, and the shortage of high grades established cash premiums for the best lots from the best gins. The base grade for delivery is T328 or near a Middling 1 3/32, but the Chinese grade has a wide spread of qualities and does not cover every feature. This has meant that, just like ICE, when the general crop is of high quality it will trade steady to a premium to the cash index, and when it is poor it moves to a discount. The ZCE contracts have moved to a discount to cash in past seasons, and most of the time the discount is limited to the spot September contract, which is in delivery. At this time of the year, the September contract has been at a discount to cash for the past three seasons.

The issue in 2021 is the discount of the lead January contract and all contracts through the July 21. The January contract reflects the quality most of the time of the new crop. As of September 1st, the January 2021 contract was at an 873 RMB a ton or 6.13 cents a lb. discount to cash compared to an 824 RMB a ton or 5.79 cents a lb. premium in 2020. In 2019, January was at a 467 RMB discount to cash, and in 2018 it was at a 403 RMB a ton premium to cash. The July 2021 contract is at an 873 RMB a ton or 6.13 cents a lb. discount to cash. The 2021 futures strip discount suggests concerns over the quality of the 2021 Xinjiang crop, and it is also hard to align the weak futures with expectations from growers for Xinjiang seed cotton prices this season. On Friday, ZCE prices experienced a sharp reversal with strong gains which narrowed the basis discount. The spot September rallied 365 RMB narrowing the basis to 114 RMB discount to cash while the January futures rallied 410 RMB, narrowing the basis discount to 244 RMB.

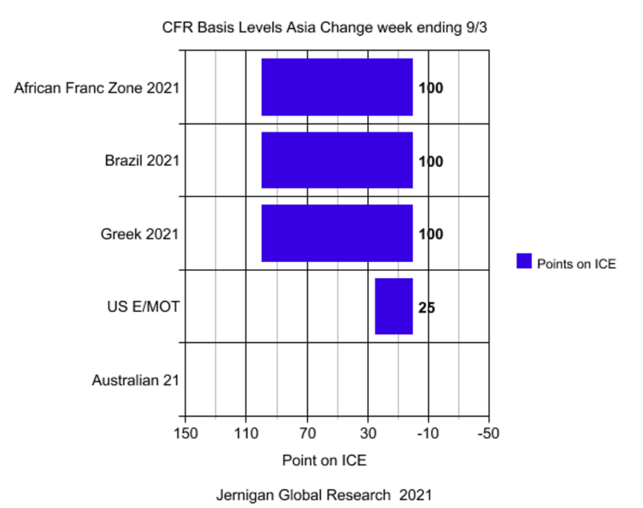


Early indications from growers in Xinjiang are that they expect seed cotton prices paid at the gin to reach 8.5-9.0 RMB a kilogram, which would mean a sharp increase of over 2.0-2.7 RMB per kg. from last season. The stage for this has been set by last season's strong seed cotton market. The Han Chinese growers are increasing in technology, with their farming increasingly mechanized with drones and precision satellites. They check seed cotton prices between gins on their phones and when they sell, they can normally get paid by electronic payment on their phones. Gone are the old days of IOUs. In Xinjiang, when a sector of the market is allowed to develop free market features, it becomes a vibrant marketplace. The government always intervenes and attempts to control speculation. Last season the marketplace worked well, with the ginner actively bidding for a record crop, growers being paid what appeared the maximum value, and ginners halting seed cotton purchases when they were out of line for very long with cash prices.

The Xinjiang government last season stopped approving applications to open additional new gins due to overcapacity concerns. However, it did allow gins still under construction to be completed. This means that, even with the 2021 crop smaller than last year's record crop, the number of gins bidding for seed cotton will be at a record. Big investments have been made and throughput needed. At the same time that growers have reduced cotton acreage, the government reduced irrigation allocations and forced the retirement of land that has become exhausted. Yields are expected to be lower, and cotton growing cost is the highest on record. These factors have growers expecting seed cotton prices to move sharply higher. A seed cotton price of 7.8 to 8.0 would require a lint price of approximately 17,800 RMB, and an 8.2 seed cotton price pushes the lint price near 18,500 RMB a ton. The first trade of a seed cotton price of 8.6 required a near 19,000 RMB cotton price, but the 8.6 was paid on a very early seed cotton lot to test new gin equipment. The issue is, as of Thursday, cash 2020 crop prices of lint in Xinjiang were 17,100 to 17,800 RMB a ton, the Cash Index was 17,983 and the January ZCE, on which ginners would be hedging, is 17,260 RMB. Seed cotton price that makes these prices work would be far below growers' ideas.

The very weak basis for the ZCE contract is occurring when the volume of certificated stocks is the lowest in over four years for Sept 1st. In 2021, it was 8,254 40 tons lots, in 2020 it was 14,464 lots, 11,794 lots in 2019, and 11,396 in 2018. Thus, it is not about volume. It appears to be about quality. This internal drama is important because of its influence on China's cash prices and the profitability of ginners. If growers are disappointed or suffer an income loss, they could switch from cotton in 2022. It should be remembered that a target price program is in place that protects growers from sharply lower seed cotton prices and would cushion any sharp decline. We would suspect the government could adjust and offer additional subsidies to maintain grower income in this region. The Xinjiang crop is the most heavily subsidized in the world, driven to stimulate development in this region.

CFR BASIS LEVELS MOVE HIGHER AS SHIPPING COSTS CONTINUE TO RISE



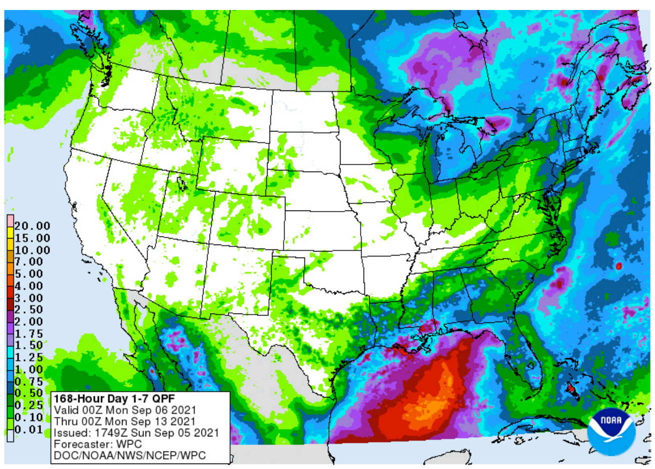
Merchants last week raised the CFR basis on many styles following the continued upward movement of container rates, congestion fees, and trucking cost. The largest increases occurred in African Franc Zone, Greek, and Brazilian 2021 crop. CFR basis levels for African Franc Zone new crop were raised from 50 to 150 basis points, which pushed the standard Middling/s 1 1/8 Ivory Coast Manbo/s to 1025-1125 points On March compared to level of 900 point in July and 950 mid-August. The seasonal low in this basis appears to have been 850 points On, with the low in the 1 3/32 lots of 750 points.

Since 2021 crop African Franc styles began to be offered in volume, container lines have cut capacity at the major regional ports and made container space much more difficult and expensive. The greatest squeeze on rates is for prompt, but exporters now fear the rates will hold through at least first quarter of 2022. Brazilian Middling 1 1/8 CFR basis levels have advanced at least 75-100 points since mid-August, and some shippers have withdrawn. August export shipments from Santos fell sharply, with container space extremely difficult to find and rates quite expensive. Local rates remain very elevated, with the price of a 41-4-35 landed Sao Paulo only a few cents cheaper than the landed price of a 31-3-36 in the Far East. Yields have declined on the late crop, and free stocks are tight. Greek Middling 1 1/8 CFR Asia basis levels have also firmed by 100 points, making it expensive and uncompetitive. This crop is likely to be focused on the robust Turkish market due to freight cost.

Many offers of US styles are also experiencing a higher CFR basis level. The increases have trimmed spinner interest in extending coverage. Australian style's competitive features are expanding as CFR basis levels are weak when compared to US and Brazilian for both the 2021 and 2022 crops. The fact that 2021 crop can be shipped now is also important. It has begun to move into some of the higher freight markets as the basis remains weak while others increase. The 2021 Mexican offers are drawing interest in Pakistan and other markets due to basis levels. The Mexican crop has received steady monsoon rains, aiding irrigation, and is expected to reach nearly 1.2 million bales. Chihuahua is the largest growing area, and it is irrigated and now being offered. SM 1 5/32 is offered at a very attractive 1150 On March for January-March shipment. Middling SLM 1 1/16 mixed G-4/5 mike is offered at 925 points On, and a mixed mike SLM 1 1/8 is offered at 1025 Points On. The discount may be due in part to seed varieties. No new GM seed has been approved, and old seed is being planted. The yields have been good this season amid the rains, and the crop is still profitable.

US HARVEST ADVANCES; SOUTH TEXAS CROP OF EXCELLENT QUALITY

The 2021 South Texas harvest is rapidly advancing, and the quality of the crop may be the best on record based on 95,356 bales classed last week with quite impressive quality. The region has missed the unusual storms and late rains. Thus, the color grades are 26.3% 11/21 Good/Strict Middling, 60.3% is 31 or Middling color grade, and only 12.3% is 41 or Strict Low Middling. Staple length has averaged right at 37 or 1 5/32, and no major bark problems have occurred. The average strength is 30.55 and an average 4.48 mike. Harvest in the RGV will finish this week, and the Coastal Bend region will see some interruptions from light showers but should progress.



Hurricane Ida produced less than expected rain and winds in the cotton belt, and the Mid-South and Southeast region are hot and humid as the crop is finishing. A week of rather beneficial weather lies ahead with some attention on forming gulf moisture. West Texas weather is good, and the crop is developing well. Attention is now focused on the USDA September crop surveys.

PHYSICAL COTTON PRICES STEADY AS ICE CONSOLIDATES; CONCERN OVER DEMAND INCREASING

During the past week, confidence in global demand waned as a host of issues increased in influence. The August US jobs report out today reported new jobs created in August missed expectations by more than 500,000, shocking the market and forcing some to trim growth estimates. This followed some banks' downward revisions in US GDP growth. The concerns over the renewed Covid outbreak were a driver as was the collapse in any creditable US leadership following the Afghan disaster. The US pulled its last troops out last week, leaving behind Americans, US allies, and Afghans who worked for the US. As reports of those left behind became evident, there was no US response, further undermining confidence as calls for massive resignations increased. Then in China it became even clearer that a second version of the Cultural Revolution was underway as the Xi administration launched attack after attack on private businesses and began to nationalize some companies by forcing majority stakes by state-owned companies. The economic data pointed to a contraction in the economy. Adding to the worries was the clear indication that Xi's moves did not figure economic considerations into the equation, and that they were focused on a modern version of Mao's Cultural Revolution, which of course destroyed the Chinese economy for a ten-year period. Adding to the concerns were additional chaos in the logistics supply chain in the US and worldwide.

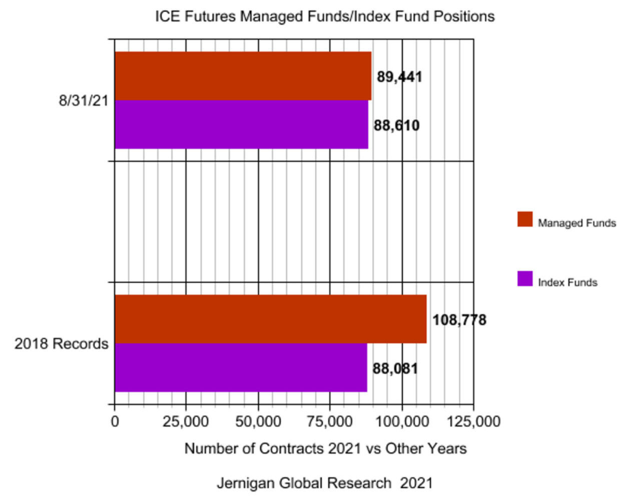
The poor level of spinners' coverage provided demand on the earlier price weakness, but the demand slowed to a trickle when prices returned to the highs. Price indicators all moved in their own direction, but the following developments appeared to occur. ICE futures lost 51-82 points for the week with little speculative liquidation being triggered. The early weakness held just above the 92.00 level in Dec, which kept the uptrend intact and avoided any major Fund selling. At the same time, global CFR basis levels firmed from 25 to 100 points as freight and logistics cost continued to move higher and container lines attempted to maximize the Asia/China to US and Europe routes as rates surged. The strongest gains in the basis occurred in the Brazil 2021, African Franc Zone 2021, and Greek 2021 styles. US basis levels moved slightly higher while Australian was stable. US weekly export shipments were poor as logistics and tight stocks kept shipments down by over a third from needed levels. One twelfth of the 2021/2022 season has passed. That means the average weekly shipment volume needed continues to increase. If the shipment logistical chaos continues into the first quarter of 2022, then the US export estimates will have to be trimmed in a significant way.

Then you have the Chinese markets which also lacked clarity. The cash price cotton index declined 1.84 cents for the week closing at 125.84 cents. ZCE cotton futures early in the week had fallen to record basis discounts to cash prices, but a rally on Friday trimmed those losses, with the January ZCE closing near unchanged for the week. Cash yarn prices were slightly lower, and the ZCE cotton yarn futures posted large losses before rallying on Friday and reducing the weekly losses to 318 RMB a ton. Overall, China's market is on edge regarding the prices paid for 2021 seed cotton crop and what that means for lint prices. The expectations are that a lower crop, the opening of new gins, and higher production expenses will mean sharply higher seed cotton prices. Let's start with cash prices of 17,400 to 18,200 RMB a ton on Friday. A ginner in Xinjiang paid over 9.0 RMB a kilogram for handpicked lots to start to test run gin equipment, which is about 19,500 RMB. Normal handpicked premiums are 500-750 RMB a ton minimum. In PCC-managed regions, growers demanded 8.5 RMB, which equaled about 18,900 RMB a ton for machine picked, and ginners are balking. An 8.0-8.2 price would be near the current cash prices. In Eastern China, handpicked Shandong seed cotton traded at 9.2 RMB a kilogram, an extreme price. The ultimate outcome of this battle is important to international markets.

The landed price of imported cotton after VAT under the 1% quota of a US Middling 1 1/8 is near 16,500, and still below 17,000 RMB with the sliding scale quota.

These prices have to be adjusted higher for the value of the quota, but you can see when seed cotton prices jump, they create new interest in imports. Last week, some US and Brazilian 2021 crop sold on the weakness and state trading companies were inquiring as well. If seed cotton prices fall back to levels near today's cash prices, then import interest will wane. Adding to the drama is the price structure of cotton yarn and fabric prices. Cotton yarn prices equal to the growers' expectations on seed cotton cannot be passed along to fabric mills. Order books are weaker, and the economy is weakening, which means spinners will post losses after a year or more of profits if they pay the higher lint prices. Thus, caution is advised in this drama, for it will take some time to shake out. Adding to the drama will be the final size of the Xinjiang crop and its quality.

As expected, the On Call positions continue to build. In the latest week the volume of unfixed On Call unfixed purchases increased a net 5,686 contracts to 15.25 million bales. The increase was concentrated in the March and May contracts and in the Dec 23. The unfixed On Call purchases in the Dec 23 increased 1,057 to 1,132 contracts. The On Call unfixed sales increased by 529 contracts to 1,569 contracts, and the Dec Open Interest is 913 contracts. The COT report revealed a 5,384 contract increase in the Managed Fund Net Long to 89,441 contracts. This exceeds the level of March 2018 and remains below the January 2018 record of a net 108,778 contracts. The Index Funds net long increased 1,770 contracts to 88,610 contracts, which broke the 2018 highs and is the largest since the 2008 records. The gross Index Fund Long reached 97,712 contracts. These levels suggest the speculative buying is at lofty levels and that any technical break could have major ramifications.



We continue to see prices in a trading range with heavy resistance in ICE at 96 cents and above. Demand concerns are denying the market the momentum to move higher at this point.

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