CHINA TEXTILE PRICES TURN WEAKER DESPITE COTTON GAINS

USDA RAISES US PRODUCTION WHILE EXPORT ESTIMATE IS IN DOUBT

US PIMA SUPPLIES SET TO FALL TO NEAR ZERO

WILL ICE INVERT HOLD AS LOGISTICS DELAY SHIPMENTS?

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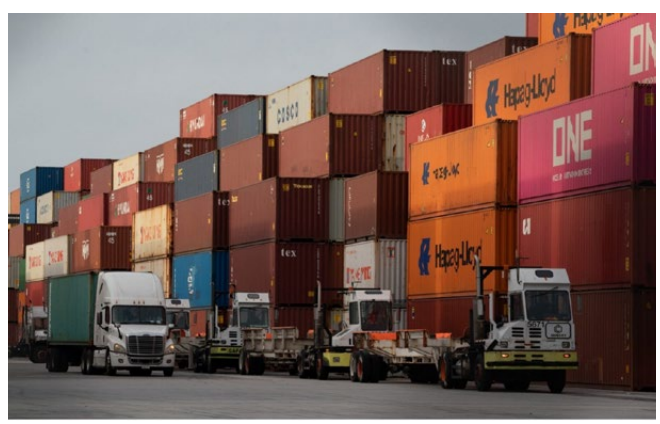
KNOWLEDGE IS THE NEW CAPITAL

SUPPLY CHAIN WOES EXPAND AS ALL AREAS FEEL IMPACT

Consumers Feel Impact as Resistance to Shareholder Model Expands

Across the global supply chain hardly a segment of any major industry is unaffected. Either the impact is driven by zero investment in the supply chain, a focus on globalization that outsourced every component to the cheapest origin regardless of logistics, or a lack of training or investment in the workforce. In the 1980s, the world began the pivot toward a single goal of maximizing shareholder value. That model has given the world the chaos and shortages of 2021. By the late 1990s, minimizing capital while maximizing efficiency and use of other people's money had become the requirement of the banks and corporations. The Financial Times supply chain editor says this practice was much the same as that adopted by Wall Street for securitization of mortgages and CDOs, which led to the 2008 US housing crisis and then global financial

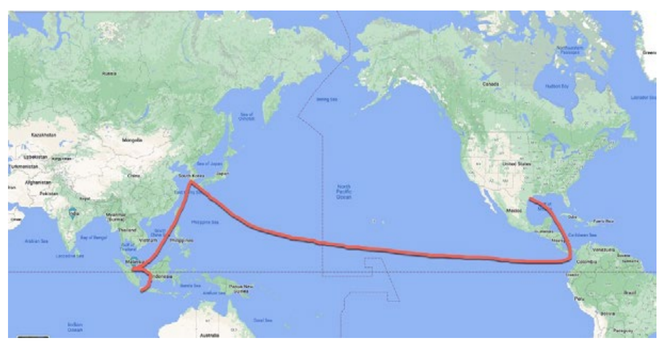


meltdown. Today's logistics crisis has expanded into an entire global supply chain crisis that is affecting every corner of the US and Europe. The move to maximize shareholder value led only a few companies in the US investing in their employees and training. Instead, it was always about the cheapest wages, reduced benefits, and no money for training. Then, manufacturing either was entirely outsourced down to the most obscure product or the US and European plant became, in reality, nothing but an assembly plant. Under this model, each input was sourced in the cheapest region where the manufacturer bore all the burdens and provided the assembly unit with the needed inputs just in time. Above all else, it was capital efficiency and return on investment that drove all decisions.

This model has given the world the new global financial crisis, this one centered on logistics and resulting in shortages of just about all products. In the US, it has spread to all the essential services, including food. After decades of this model, workers have revolted and will no longer work for cheap wages and no benefits. The results are everywhere, with even shortage of chicken nuggets at fast food restaurants because of the shortage of workers at the processing plants and the shortage of workers at restaurants to sell and service the customer. Just visit a restaurant in the US, UK, or other major markets and witness the lack of workers and the shortage of several food items. Seafood in the US is now difficult to find in many restaurants, and prices are soaring. In Europe, a serious supply chain squeeze is hitting all major industries. Even in a powerhouse like Germany the index of expectations fell to its lowest level in 1 ½ years as record energy prices, shortages of semiconductor chips for the auto and electronics industry, and even construction materials have impacted the market. Companies such as IKEA report shortages of something as simple as screws, which are taking three months or longer to obtain because they come from Asia. Shipping cost is up 700%, and importers have used trains to move product from China, along with air freight. A survey showed that a shortage of material and equipment was occurring in Autos 60%, Electronics 50%, Machinery 45%, Computers 42%, and the list goes on. The Financial Times quoted an Italian auto brake company reporting that it was enjoying an advantage because it was increasingly sourcing locally.

German companies reported 70% were experiencing a shortage of material and equipment. The past model is now a disaster. The world outsourced all semiconductor chips to Asia to avoid investment and maximize shareholder value. In the ranking of major countries investing in production of chips, the US was dead last. Now, the US is suffering and rushing to secure local production. The possible invasion of Taiwan is a significant risk for US supply. A shortage of chips has resulted in large US plants shutting down, as highlighted by the Nissan auto plant in Smyrna, TN, which has been shut since August 15th and will not reopen until September 13th because of chip shortage. Assembly, not actual manufacturing of the needed components of the supply chain, has brought companies to their knees. Other product groups in the US are in the same boat due to total reliance on inputs from around the world. Illustration after illustration of can be found, including a Volvo loader plant in the US that was just an assembly plant sourcing parts from 226 suppliers in 17 countries.

Unlike the global financial crisis there are no Central Banks to come to the rescue of corporate supply chains. Companies are making it worse by attempting to build stockpiles, and governments are attempting to become self-reliant in what some are calling "every man for himself." The problem is that the solution is something foreign to many companies, and it takes time. The US is the worst of the lot, with all talk and little action. The previous administration attempted to forewarn industry of the over reliance on Chinese sourcing, but the alert fell on deaf ears and the business groups battled every effort to change the model with all the lobbying power they had. Even today you have those lost in the wilderness calling for an end to China tariffs and more outsourcing. These groups are quite shocking. The *Financial Times* cites a new mood. "Mainstreet is in no mood to be the victim as in 2008 of a system that enriched shareholders at their expense."



One container from Jakarta to Houston: two transshipment points then Panama Canal

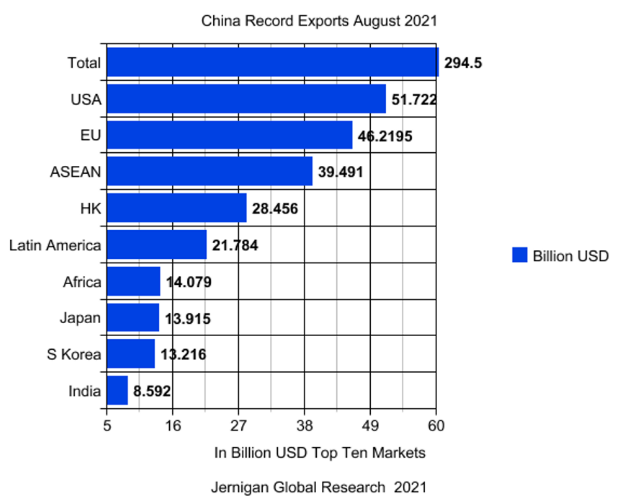
***"Many people believe the shipping chaos will continue thru Summer 2022"* – Director of Long Beach Port**

***"We think the chaos will last at least thru first half 2022 and all of 2022 will be strong"* – Past Director of Georgia Ports Authority**

The lack of leadership or vision in the US is unbelievable. This was illustrated in the recent actions of the powerful House Armed Services Committee. The committee has 59 members and controls part of the military spending. It reviews the annual National Defense Authorization Act. In this year's review, a bold leader, John Garamendi, a Congressman from California, introduced a Buy American push to the spending that required more domestic sourcing of defense needs. Congressman Garamendi introduced incentives needed to restart US shipbuilding for the Navy. The motion was not acted on. Instead, an amendment was introduced that contained defeatist and weak language that illustrated why the US was in its current state with a record trade deficit. The amendment stated, "Domestic sourcing of US Navy ships was too complicated and needed further studies." This surprising statement could be heard across boardrooms where the complication of supply chains has the US in crisis. For many popular products in the US or Europe there are only one or two possible locations from which to source today. For many there is only China, and those supply chains cannot be moved unless someone invests in a new complete supply chain. Even a new supply chain runs the risk that China will simply undercut the new supplier and buyers will have no loyalty but, driven by greed, they will continue to source in China despite all the talk. For companies and brands this means either stop selling the products or build and invest in their own new supply chain.

The very important US semiconductor chip industry has been outsourced, and only 12.5% of all global manufacturing capacity of this industry is in the US. 79% is in Asia led by Singapore, Taiwan, Japan, and others. Of the firms headquartered in the US, only 40% of their production comes from the US. In 2019, no new plants were opened in the US while four large scale plants opened in China. A large, key plant will open in Phoenix, owned by TSMC, the world's largest contract chip maker headquartered in Taiwan. It is rapidly moving its manufacturing equipment by container ship to get the plant open ASAP as the Taiwan invasion risk increases. The movement of this plant to Phoenix has triggered a boom, with over 120 suppliers to the plant now following to set up operations to supply the plant. Other Taiwanese companies are presently showing interest in the region. Such a movement secures the supply chain for US needs (including national security), provides a lot of high paying jobs, and expands all service industries.

The trade data indicates the crisis has not yet peaked. Even as China becomes a greater and greater security risk to the US, the addiction to sourcing in China continues and it appears the idea is to just get past this crisis and then we will assess. However, what happens if the China risk becomes so great that companies do not have time to change the supply chain before a major disruption occurs? The events in Afghanistan have increased this risk as US moral authority is undermined, confidence lost, allies worried, and enemies emboldened. China's intrusions of Taiwan's air space have increased, and China is also challenging the US in other locations. When pressed this past week, one of the most respected authorities on such matters cited the probability that Xi would move on Taiwan just after the Winter Olympics in Beijing, which would follow a similar move by Putin against Crimea under the Obama Administration. The August trade data for China is quite amazing, with exports rising 25.6% to an all-time record for any month of 294.3 billion USD, and its trade surplus reached 58.3 billion USD. The US was the largest importer at 51.7223 billion USD, a 48% increase, and a 37.685 billion USD trade deficit, or nearly 65% of the total trade surplus. George Soros, the legendary investor, issued another warning in the Wall Street Journal that the US investment in China is a national security risk. It does not take much imagination for one to imagine the impact on US store shelves, warehouses, and consumer sentiment if a couple months of more than 50 billion USD of import flow came to a halt. The current chaos is just over delays, but what would happen if the imports were halted by a Taiwan invasion? The risk to the US supply chain has never been so great, but the pivot away from China will take some time and cause a great deal of anxiety.

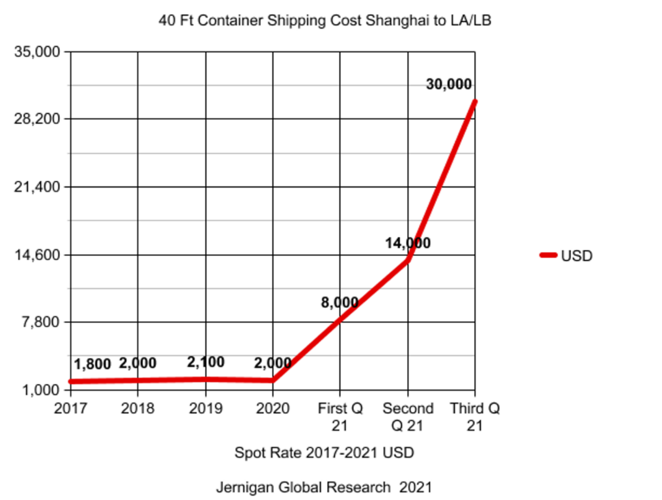


China monthly exports, billion USD

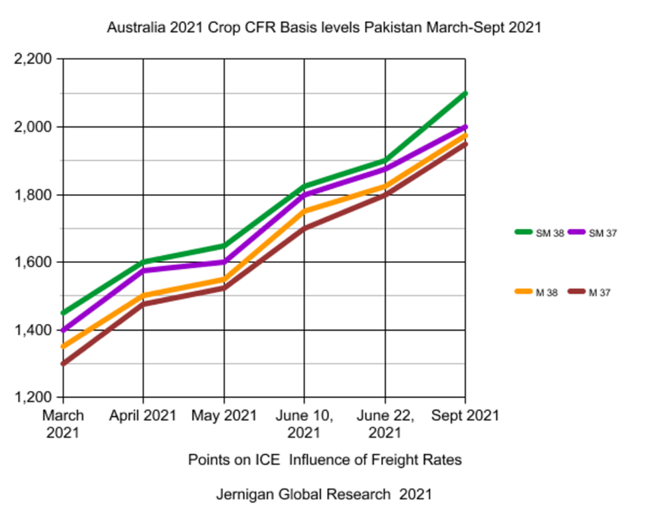
China exports to Europe in August reached 46.2195 billion, which was only slightly smaller than that of the US and a 32.3% YOY increase. Germany was the largest market followed by Netherlands, Italy, and France. Exports to the UK reached 7.723 billion USD and, when combined with European shipments on this route, even exceeded the US, leaving little mystery why the shipping routes are overwhelmed. Exports to the ASEAN trade block reached 39.491 billion USD with an additional 13.915 billion moving to Japan, 13.216 billion to South Korea, and 28.245 billion USD to the Hong Kong port. 8.592 billion went to India, 21.78 billion USD to Latin America and 14.076 billion to Africa. Thus, record volume around the globe all using the same logistics networks.

For the apparel industry, the addiction to Chinese sourcing remains a problem as well. Total August exports of textiles and apparel from China reached 30.124 billion USD. July US apparel imports reached 6.9887 billion USD with 1.82 billion or 25.75% still from China. The US imported over one Billion of non-apparel textiles from China in July. Vietnam was the second largest apparel source, and at least 75% of the fabric used came from China, as was the largest volume of apparel from Jordan, Egypt, and others, also made with Chinese fabric. In cotton apparel, the import levels were staggering given the Xinjiang ban as imports reached 552.36 million USD making it the second largest supplier with the most imports since January 2020. Vietnam was number one by a small margin at 571.6 million USD, with 80% Chinese fabric and Vietnamese yarn. The volume of imports from China was larger than from CAFTA, which reached 530.8 million USD.

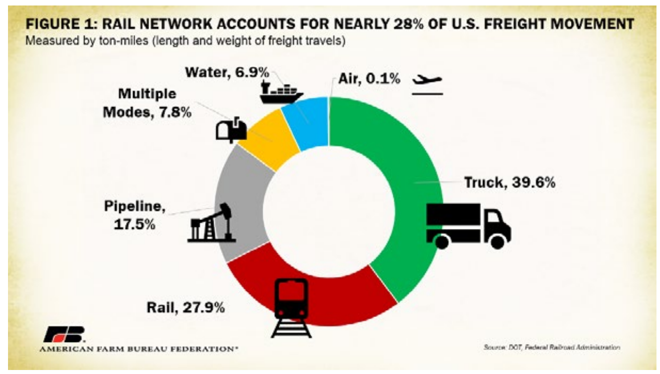
Still, the move to create a manufacturing center as part of the supply chain instead of an assembly plant is moving slowly, and the US is moving slower than many in Europe. Moves to charter container ships, use of train freight, and other means are not addressing the underlying problems. The first signs are beginning to appear in the US in those companies who are investing in their workers' training, health care, benefits, etc. In the food service, this is found in Chick-fil-A, Chipotle, Starbucks, and a few others vs. the average restaurant chain. This will occur more with each passing day. For the cotton apparel industry, the impact of the crisis has arrived. Merchants report very difficult trading conditions as they face major problems meeting demand for 30-60 day or even longer if the trade requires use of a container through a port, which 90% of the trade does. Freight rates continue to climb, and it is like the Wild West as shipping lines just want to send a container from Asia/China to US or Europe and then back again to obtain the rates that have this route 15 times more lucrative than US to Asia. Even a suggestion to stop and let a container be loaded with cotton draws laughter sometimes as the importer doesn't want anything to slow the process with the Christmas rush underway. Last week, September 7th, merchants could not offer US or Brazilian cotton for shipments to China for fourth quarter, and the earliest was first quarter 2022. That is 90-120 days and has never happened without massive sales on the books for nearby, which is not the case. As we have been saying, this has massive ramifications for US export shipments and spinners' sourcing patterns. If the US can only ship 200,000 bales weekly through December, there is a problem, since in January half the season is gone.



The issue is that conditions are not getting better. *The Journal of Commerce* stated that, "the slowdown in the circulation of containers and chassis is draining capacity and driving spot rates to new highs and conditions are worsening." The spot rate from Asia to the US West Coast has now exceeded 30,000 USD a container plus fees. *The Journal of Commerce* went on to quote shipping groups that said the problem will continue through all of 2022, and it will not be until 2023 that normal circulatory



flow will return. One major shipping line has increased the capacity by 20%-25% on the transpacific route, but it has all been lost to congestion and delays. If the chaos continues through 2022, the global cotton trade cannot manage trade without making some significant adjustments and investments. Such movements will increase basis levels as costs are increased. The entire model of receiving cheap freight piggybacking on imports is no longer working well.

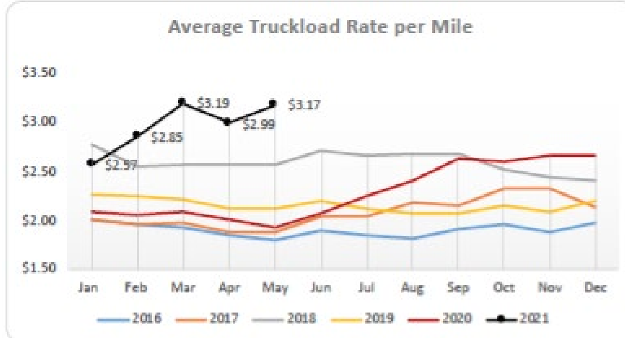


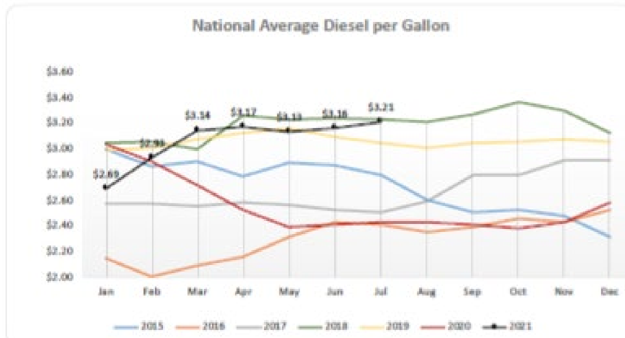
This week, the impact of deregulation and allowing massive consolidation and allowing public service companies to all be driven by shareholder value is now destroying the small shipper. All the arguments of how this would foster competition have proven false. The US Railroads are an excellent example of this failure as the consolidated lines have near monopoly pricing power and very limited oversight. In China, massive investment in modern rail has been made, and it was clearly understood the importance the rail would play in logistics. In the US there was no planning and no new influx of capital or services, and the companies were allowed to consolidate with a few shareholders, driving them to squeeze cash. It is finally being discussed today in the crisis that they have placed shareholder value above all else. With this as a background, their recent actions against US shippers can be understood. Union Pacific, which now controls over 11% of US rail, has increased its surcharges from the Los Angeles/Long Beach ports for the fifth time. It is now at 5,000 a container, and it has dropped its volume discount. It previously applied the surcharge to small shippers. Thus, every small-/medium-sized importer in the US has been charged a major penalty, which has given the mass importers an even greater price advantage. A surcharge was also added for Dallas and Houston which will apply to only small/medium shippers. These conditions illustrate that the small-/medium-sized US business, including the US Ag exporter, has been placed at a major disadvantage. How can a small US cotton exporter mange such conditions?

Carrier	Surcharge Name	Scope	Amount	Effective Date*
CMA	Emergency Intermodal Surcharge	Containers moving on rail via US/Canada West Coast.	$1,000 per CNTR	8/20/2021
		Containers moving on rail via US/Canada East Coast.	$350 per CNTR	
Hapag	On-Carriage Congestion Surcharge	Containers moving on rail in the US, regardless East Coast or West Coast.	$350 per CNTR	8/1/2021
MSC	Emergency Intermodal Charge	Containers moving on rail in the US & Canada, regardless East Coast or West Coast.	$350 per CNTR	8/1/2021
			*Effective Date = In-Gate Date	

Container line surcharges for shipping by rail

These dynamics are serious. Brazil, while having tight supplies, will now have a record crop in 2022. If the US produces 18.5 million bales plus, exports will need to move. African Franc Zone exports are not set up to store upcountry. They can, as illustrated in 2020/2021, but it comes with risk. Spinners will need to stockpile to avoid issues. Overall, the supply chain crisis is here and will remain into 2022 and likely into 2023.



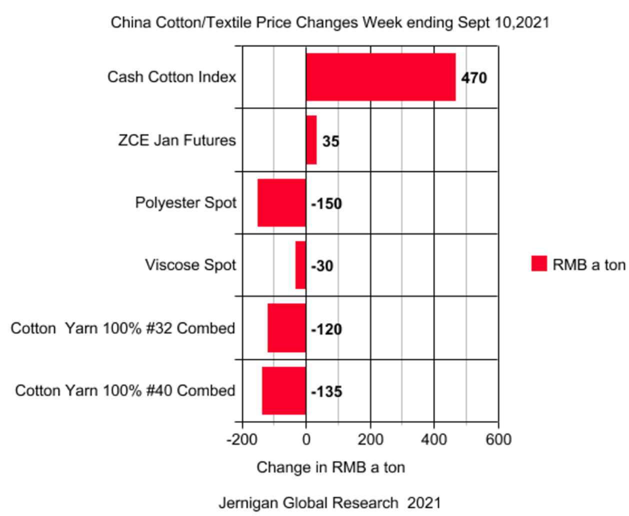


CHINA SEED COTTON PRICE DRAMA DRIVES ZCE BUT SPINNERS UNABLE TO PASS ALONG PRICE HIKES

China's cash cotton prices moved higher last week along with ZCE futures as speculation continued on the expected seed cotton price for new crop cotton and concerns over the size of the crop. The price of a T328 or Middling 1 3/32 rose 500-600 RMB a ton or 3.5 to 4.2 cents a lb. This outpaced the gains in the Cash Cotton Index, which is the price of all cotton averaged and landed the mill. Mills were slow to follow the sharp gains as the domestic price after adjustments is now near 12 cents a lb. premium to imported prices. Mills did continue to aggressively take up Reserve auctions of the 2013/2014 domestic crop, while the average daily volume was increased to over 15,000 tons a day with most of the increased volume coming from Eastern hand-picked stocks. It may be that the Reserve feels the 2013/2014 Eastern crop stocks need to be rotated out after more than seven years of storage.

Seed cotton prices remained a sporadic market as harvest and defoliation are just beginning to gain momentum. Over the last several seasons prior to 2020/2021, the opening seed cotton price did not change in a major way during the season. In 2019/2020, the machine-picked Xinjiang seed cotton averaged for the season about where the price began the season, at 5.69 RMB a kilogram. However, in 2020/2021 that changed. First, the record crop coincided with new gins opening, and secondly, domestic cotton demand surged from October to March, with spinners willing to follow the market higher. Machine-picked seed cotton in Xinjiang began the season at near 6.0 and hit 7.0 or higher before it finished. This behavior has changed growers' expectations. Hand-picked cotton supplies have been dropping. The premium paid has been ranging from as low as .30-.50 RMB a kilogram to over 1.0 RMB for the seed. Early handpicked cotton this season has been of very good quality and can be used in cotton wadding which is used in popular quilts. Prices have ranged from 9.4-9.6 RMB a kilogram, with some growers seeking 10.00 RMB. The prices would equal a cotton price of 19,800 to 20,000 RMB a ton. This compares to current cash prices of lint in Xinjiang of 17,600-18,400 RMB. The Machine-picked harvest will not start in volume till near Oct 1 and the price spread of seed cotton should be near .70-1.00 RMB a kilogram discount to Hand-picked, which will be in smaller supply this season.

The excitement for seed cotton has been a major influence on ZCE cotton futures. Prices in Monday through Thursday trade posted strong 300-400 RMB a ton gain. That was mostly erased on Friday when the January contract fell 335 RMB to end the week at 17,745 RMB a ton, which erased all but a 25 RMB a ton gain. The close was 122.53 cents a lb. vs. the cash index close of 18,416 RMB or 128.68 cents. All ZCE cotton contract fell sharply including spot September.

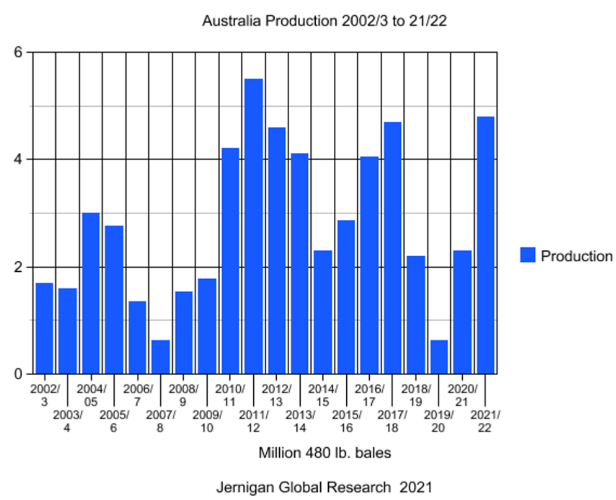


The decline followed an announcement by the ZCE that margins on the November and January contracts in futures would be raised from the current 7% of value to 10% of value. The move was to curtail excess speculation, as the excitement over seed cotton prices accelerates. Volume was heavy. The ZCE cotton yarn futures also fell sharply, with the January contract losing 540 RMB a ton, which gave it a 30 RMB a ton loss for the week. Cash Cotton yarn prices also declined slightly during the week.

The downstream demand for yarn and fabric is weaker as is the demand for Polyester Staple fiber. As we discussed several weeks ago, demand was pulled forward and the traditional increase in demand at this time has not occurred. This disappointing demand has occurred after the entire supply chain expanded following the very robust conditions that began in the fall of 2020. Spinners cannot pass along the gains in cotton in the yarn. Fabric stocks are now at burdensome levels. The Polyester Staple market along with PTA came under renewed pressure last week. January ZCE polyester staple fiber futures have fallen 12% since August 2 and last week experienced a breakout to the downside and are back near the lows of January 21 when the contract started trading. The cash price has broken down to 47-48 cents a lb., and the premium of the January future is gone. At the same time, PTA, one of the raw materials, has fallen 13% in the same period. However, MEG has rallied, which has hurt margins and cash flow, causing some production shutdowns. The premium of cotton to polyester has now reached 80 cents a lb.

The weakness in downstream demand raises doubts about the sustainability of the rally in Chinese Cash cotton prices.

THIRD LARGEST AUSTRALIAN CROP ON RECORD NOW BEING PLANTED



The early planting of the 2021/2022 Australian crop is underway in Queensland and will soon spread to New South Wales. ABARES forecast planted acreage of 496,000 hectares and production of 1,044,000 tons or 4.8 million bales. Weather is now dry. The FOB basis for the 2022 crop last Thursday fell to a new low for the season of 350 points Off May 22 futures compared to 330 points On Dec 21 for the 2021 crop and 200 Off May 23 for the 2023 crop. Even at the basis extremes, the cash price is 605 - 610 AD a bale. At these prices, however, the merchants' long basis position has increased as growers sell as freight rates continue to climb. In those markets with the most competitive freight rates, Australian cotton is dominating trade, and even other markets are inquiring due to the basis level.

July cotton export shipments from Australia reached 144,477 tons with very brisk demand from Vietnam, which took 114,477 tons. Indonesia was the second largest export market at 15,765 tons. Indonesia's textile sector remains weak despite brisk apparel exports to the US. Turkey was the third largest buyer at 12,066 tons, and we expect demand to grow from this robust and expanding market. The other major buyers were India, Bangladesh, and Thailand. China took 6,145 tons. Total 2020/2021 export shipments reached 391,103 tons, with Vietnam the largest buyer at 123,144 tons. Vietnam spinners are the best route to move Aussie yarns into China, bypassing the embargo.

The value of the 39/40 Good Middling Australian lots expands by the day as Pima prices move sharply higher. These growths are perfect for blending, and ELS spinners will be forced to bridge the gap in supply. Offers of a GM 39 21 crop are in circulation at 1650-1700 on Dec. At this price, this growth is over 117 cents discount to Pima. Increased demand from India is expected as a result. China's embargo of Australian cotton has been a very damaging move for the high-count spinners.

BRAZIL CONAB MAINTAINS 2020/2021 CROP PRODUCTION LEVELS

In September, CONAB raised its estimate of the 2020/2021 crop by 2,000 tons to 2.36 MMT or 10,843,020 bales. The quality of the late Mato Grosso crop appears more mixed than normal. Special merchant offers of Middling and SLM 1 1/8 low mike, 3.0 mike lots are now in circulation, while a standard mike Middling 1 1/8 is near 1300-1400 point On for October-December, 1200-1300 for January-March, and the low mike offers are at 975 points On March for a Middling 1 1/8. Containers remain extremely difficult to obtain at Santos and a trucker's strike has raised concerns. Merchants with free cotton are offering into the domestic market, which is at a premium to export. The spot price on September 8th was over 102 cents for a 41-4-35. When adjusted for a Middling 1 1/8 it was 300-400 points higher than export bids. The surging shipping rates and congestion have cooled the FOB basis to near 600 points On Dec.

Harvest is quickly winding down, and the attention is on new crop. September rains have been at about half of normal in Mato Grosso. October begins the rainy season, and an average of 7 inches normally falls in Mato Grosso in the month.

CHINA RESERVE MAKES US AND BRAZILIAN PURCHASES FOR EARLY 2022 SHIPMENT

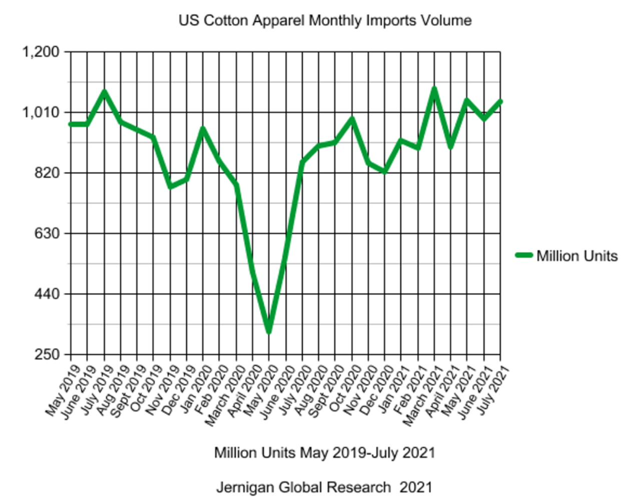
Speculation during the past week has been that Chinese state trading companies acting on behalf of the Reserve purchased up to 450,000 bales of US and Brazilian for shipment late 2021-April 2022 as it slowly begins to restock after the very brisk sales of the 2013/2014 crop stocks over the past several months. This follows what appeared to be possible purchases for the Reserve earlier of African Franc Zone new crop. A portion of those sales showed up in the weekly US export sales report for the week ending August 2nd. In addition to the purchases for the Reserve, a few Chinese mills have also purchased US and Brazilian styles. This pushed US export sales for the week to a robust 453,000 running bales of upland, with 261,500 bales moving to China. Other buyers in much smaller volumes were Pakistan, Indonesia, Guatemala, Turkey, and Vietnam. Pima sales were brisk at 12,100 running bales and absent any sales to China.

The problem is export shipments, which reached only 155,300 running bales of upland and 12,000 of Pima for a total of 167,300 bales. This is far below the average needed to meet the current reduced USDA export estimate. The shipping delays in the US are growing worse, with backups at intermodal yards, surcharges on train freight, and a record backlog at the West Coast ports. The weekly average to meet that target has risen to 295,213 480-lb. bales, and the US will likely struggle to average 180,000 bales for the next 10 weeks and over 200,000 into the January and February period. US Merchants are now not generally offering for shipment to China before February 2022 and offers in other markets before January-March are becoming light.

If the US averages near 200,000 running bales in shipments for the next 20 weeks, then shipments the rest of the season will need to average nearly 375,000 bales, which would be a first for US shipping. What happens if the shipping chaos continues into 2022? If US export shipments average 250,000 480-lb. bales for the rest of the season, the US will export 12.856 million bales. The US logistics system is broken, and the current models for both importers and exporters are not working. Small shippers are being mistreated as rail and container lines squeeze everyone and drive shareholder profits. On Friday, Union Pacific, a major rail line, added new surcharges for smaller shippers. The system has been built with limited safeguards for agriculture exports. The past system of piggybacking on returning containers worked, with an 800 USD or so rate for a return container compared to a 2000 USD rate back to the US. Now a 30,000 USD plus container rate to the US renders a 1500-2000 USD rate of limited value. Then, the rail lines in the US add to the problem, as does the congestion at the ports. A new record of 49 ships waited to berth at Los Angles and Long Beach ports on August 9th. One major importer remarked, "Can you imagine the extra delays and costs if container lines were required to slow down and forced to load agriculture exports?"

The USDA raised its export estimate to 15.5 million bales, which increases the weekly shipment target by 10,542 bales. This means even a greater burden if August-December shipments miss the USDA target by possibly a sizeable volume. The US has not shipped over 238,327 running bales of upland since July 8th.

US APPAREL IMPORTS SLOW IN JULY TO 6.987 BILLION USD



The volume of US apparel imports in July showed the effect of the logistics disaster, with imports only reaching 6.9897 billion USD. While this was up 17.6% from a year earlier, it was far below the July 2019 level of 8.813 billion USD. The momentum was in the import of textiles, man-made textiles. Textile imports surged 62.1% in volume terms, with the volume of fabric imports up 150.4%. Fabric imports were up more than three times the volume of 2019 in the same month. The largest product group is Synthetic Filament Fabric, which is often used in upholstery and carpets, and the largest suppliers are India, China, and Turkey.

In apparel, cotton and wool enjoyed the fastest growth rate compared to a year ago. In total apparel the top supplier was China, which shipped 1.802 billion USD. However, the imports were down sharply from 2019 levels, which had reached 3.168 billion USD. Vietnam was the second largest supplier at 1.259 billion USD, but this is a 1.3% decline from a year ago as logistical issues slowed exports. The third largest suppler was the CAFTA region, shipping 809.3 million USD, up 48.4% from a year ago. A shift to near sourcing is pushing CAFTA output, especially in cotton apparel where CAFTA is the fourth largest supplier. The CAFTA sourcing has seen a boom in man-made fiber apparel imports as new investment has been made in Polyester and other production in the region. Since CAFTA came into being, the growth of man-made fiber apparel imports has been much larger than cotton.

The fourth largest apparel supplier in July was Bangladesh, which shipped 569.9 million USD, followed by India at 284 million, then Indonesia at 266 million. Mexico was 7th with shipments of 263 million, while Cambodia dropped to the 8th largest as logistical issues reduced shipments to 236 million or an 18% from 2020. Imports from Pakistan surged 86.4% from a year ago to 193 million USD, and Jordan rounded out the top ten.

Cotton apparel imports hit 3.373 billion or a 48.26% market share. Vietnam was the largest supplier but by a small margin at 571.6 million, and in a shocker China was the second largest supplier at 552.363 million USD. This was its largest shipments since January 2020 and all despite the Xinjiang ban. It was down sharply from 2019 and a shift has occurred, but it does reflect some new orders as logistics and Covid impacted other regions. One new trend is increasing sourcing of cotton apparel from Turkey.

USDA WASDE ESTIMATES PROVIDE MORE SHOCK AND AWE

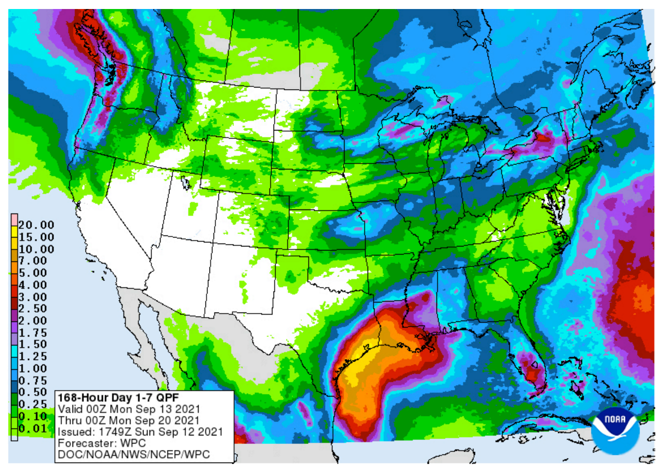
The USDA's habit of providing some shock and awe to its monthly estimates continued as it made several significant changes in its forecast. The first was a dramatic adjustment to its US production forecast when it changed its planted and harvested acreage estimates. They reduced planted acreage by 529,000 acres, which placed it at 11.19 million acres as compared to the FSA just-released estimate of 11.005 planted acres. Traditionally the FSA estimate is 161,000 to 692,000 acres below the USDA. This adjustment narrowed the difference considerably. Harvested acreage was lowered 434,000 acres and occurred mostly in the Mid-South and Texas. Texas planted acreage was reduced 350,000 acres and harvested acreage 250,000 acres. Remember our arguments that the average US yield in the August estimate was far too low and was driven by the Texas average yield at an unrealistic 620 pounds per acre. The Texas average yield was raised to 786 after an actual in field crop survey was completed. Total average US yield was raised to 895 lbs., which raised US production by 1.245 million bales to 18.51 million bales.

The USDA followed its traditional methodology of adjusting exports to larger crops by simply raising exports 500,000 bales to 15.5 million bales. However, they did not take into consideration the logistical issues that make such an estimate almost impossible without a dramatic new initiative. This appears unlikely. This allowed the ending stock estimate to be raised 700,000 bales to 3.7 million bales. At this stage, we feel a 14.5 million bale export estimate is a more realistic goal given the logistical issues that will be headwinds into January and February and possibly much longer. This raises the carryout to a possible 4.7 million bales.

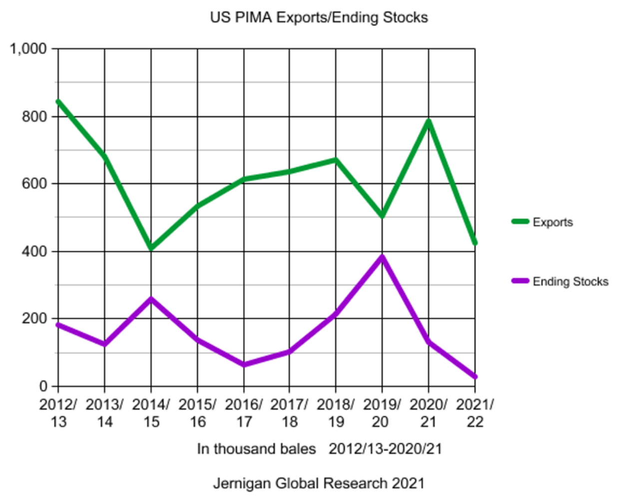
World ending stocks for 2020/2021 was reduced by 480,000 bales through a number of adjustments, with use increased 652,000 bales led by Brazil, Bangladesh, Indonesia, and Pakistan. A host of world adjustments were made for 2021/2022 which equaled out. World production was raised 745,000 bales, while consumption was raised 810,000 bales. The ones of note were a reduction in African Franc Zone production of 300,000 bales, and Indian production was lowered 500,000 bales just as CAI officials talked about an increase in yields. Australian production was raised 300,000 and Argentina 100,000 bales. In Pakistan, the USDA raised consumption by 400,000 bales and it left the domestic crop at 5.0 million bales, which may be at least 500,000 bales too low.

TROPICAL STORM WATCH AS RAINS LIKELY FOR TEXAS COASTAL BEND

The time has arrived when the US cotton belt likes to experience clear, dry weather for the remainder of the next 120-day season. That, of course, is not the case as attention is now on a tropical system in the Bay of Campeche that has a high chance of becoming a tropical storm Monday. The South Texas cotton belt will experience 1.5-3.0 inches of rains over the weekend, which will interrupt harvest. The RGV is near completion in picking, the Coastal Bend is well advanced, and the Upper Coastal Bend harvest is just beginning. The rain will be very unwelcome but manageable if they move out quickly. The rains will lower color grades, which have been excellent. The system is expected to then proceed into Louisiana, southern Arkansas, and Mississippi where the crop is open and the rain unwelcome. West Texas is advancing well at this stage. Overall, the weather currently is more about quality issues.



BATTLE UNDERWAY FOR REMAINING US PIMA SUPPLIES



US Pima export offering prices increased 8 cents to 228 CFR, and even at this price demand continues as supplies are limited. The USDA placed 2021/2022 Pima production at 335,000 bales and beginning stocks at 130,000 bales. US domestic use is estimated at 15,000 and exports at 425,000. US export sales are already at 165,000 bales, and over 47 weeks remain. If these estimates are accurate, ending stock will be a record low 28,000 bales. Thus, there is no room for more sales. US Supima is in very strong demand, and consumers prefer it due to its quality. The shocking aspect of the crisis is the lack of action by California and US agriculture officials. The US has a collapse of leadership across most fronts in addressing most major problems. California has become an almost failed state as it has run out of water, faces blackouts, wildfires, and crime while the Governor still may survive a recall. For agriculture the shock is mind blowing as administration after administration of the state have ignored the needs of agriculture and failed to develop a plan. Something as simple as building new water storage facilities that were approved in the budget years ago have not been completed. Then the lack of the use of desalination plants to meet some needs.

No imagination or vision has come forth. At the national level, there is nothing, despite all the focus on climate change not one solution or proposal on providing California with the needed water. For Pima, it is a real crisis, and the same water issues face the smaller producers in Arizona, New Mexico, and the regions of Texas. No place is available to make up for the lost California acreage. The reduced pumping now in effect is not likely to be solved as it requires aquifers to rebuild. This requires many wet seasons. An extremely wet winter that boosts water storage levels to 100% is the hope, but then you have to worry about a large portion of that water being wasted by California state mismanagement. If that occurs, then 2022/2023 Pima production could rebound in limited volume. Without a major rain event the battle for water with the nut producers will increase and Pima acreage may fall in 2022, which will leave the world with very tight supplies.

DESPITE LARGER US CROP ICE HOLDS 92 CENTS AS WEEK ENDS

It was a very dull week of trade in ICE cotton futures with the Dec contract closing 52 points lower despite a much larger US supply. The market lost momentum to move above 95 while continuing to find support near 92 cents. Just as the previous week, the decline Friday was halted at 92.01, which suggests large On Call mill purchases fixation order near that level and or new export trade. That level has been challenged over four times and held, making it an important technical point. The week was marked by firm CFR basis levels as the shipping rates continued to rise. The difficulty in shipping and cost has slowed merchant's willingness to expand basis longs too aggressively. The invert in ICE is a problem, and if a merchant buys off Dec and then cannot ship until March, it is a cost factor requiring a higher basis. The Dec ICE premium over March reached 118 points last week before narrowing. The inability of many merchants to ship US new sales until February or later raises the question how is the invert justified. The demand is being forced to first quarter due to logistics. Now, with a much larger US crop, this raises even more questions regarding the invert.

The Dec Open Interest is also very large and much of the long side of that are Index Funds and Managed Funds. Both will have to roll to at least March, possibly May or July, especially with the discount. The COT report for the week ending September 7th showed the Index Funds near record long positions may have peaked, and the Index Funds reduced longs during the week a net 2,129 contracts. The gross Index Fund's long position remained at 95,151 contracts or 35% of all long positions in cotton futures are held by an Index Fund. That is a higher percentage than the average in equity markets. The liquidation follows a decline in new fund inflows as well. The COT report showed that the Managed Funds added 1,666 contracts of new longs and now are a 91,107 contract net longs. The Other Reportable Funds added 1,409 new longs. When the net longs of the Managed Funds, Other Reportable and Non-Reportable specs are totaled, they represent nearly 45% of the Open Interest or longs. The Swap Dealers hold 18.4% of the net longs, which can be speculative or Trade but lean toward specs. This leaves Trade longs very small at less than 1.6%.

Dec/March ICE Futures Spread

The current market structure would appear to be overly reliant on the speculative longs, which is near record extremes extending that position. In the latest week, the Trade added a net 3,947 contracts of new shorts and now hold a net 173,616 contracts or 17.361 million bales short.

Dec 21/Dec 22 ICE Futures Premium

Mill demand was moderate last week and appeared on the price weakness. The largest feature, as mentioned earlier, was the China state groups which purchased US and Brazilian for 2022 shipment. The volume was good, and they appear to have more interest, but the fact that it is for shipments in the back half the season along with the shipping issues limits the advantage to the US balance sheet for 2021/2022. Other markets did some light buying, with Australian selling into several markets as did Argentine low grades while Brazilian sold. Unfixed On Call purchases remain a supportive feature. In the week ending September 3rd, unfixed purchased increased 3,144 contracts and Dec unfixed volume declined, with the increase in March, May, and July. This is a trend we expect to continue, with unfixed calls increasing in March, May, July, and Dec 22 following the centers of demand.

We remain of the opinion that prices face major resistance on move above 96 cents in Dec. We continue see problems with demand in 2022 and feel the shipping and logistics chaos are now a market factor. This leads us to believe the market invert in ICE may not hold, with carrying charges moving back into the market. The center of demand is on March, with that month possibility becoming more of a focus.

WE REMEMBER AND HONOR THE GREAT BILLY DUNAVANT

Passed Sept 11, 2021

Mr. Dunavant will be remembered as the World's Greatest Cotton Merchant.

He served the industry as a true selfless leader who always stood up for what was right.

He was mentor and friend to myself and countless others.

We will forever miss you.

– Ed Jernigan

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