BATTLE FOR US ACREAGE UNDERWAY

SOURCING APPAREL FROM CHINA COULD FACE HIGHER TARIFFS

US: CBP BEGINS TO INSPECT APPAREL MADE WITH CHINESE FABRICS

OTHER FIBERS NOW IN THE FOCUS OF XINJIANG BAN

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

CCP'S ATTACK ON WESTERN BRANDS RATTLES GLOBAL COTTON TRADE

XINJIANG COTTON WAS THE CENTER OF ATTENTION AT CHINA FASHION WEEK

The Chinese apparel market in 2021 has been hot, and total retail sales have continued the trend set in October 2020 of exceeding that of the US for the first time. Its luxury market was the envy of the world and stimulated strong sales gains for all the major luxury brands. Many made new investments and commitments, and new flagship stores have opened or have been announced as the rest of the world battled Covid. The rapid decline of New York and Paris under the pandemic made Shanghai a real candidate to soon become the Fashion Capital of the world, a title these two cities have dominated for years. Chinese designers

have reached global acclaim introducing major lines, which is drawing praise and international demand. Their new place in the limelight was illustrated by the opening of Burberry's first social retail store in the tech capital of Shenzhen in 2020. The store is state of the art in every way and outshines any such store in NYC or other places with its personal shopping features that reward customers with social currency. It was powered by Tencent Technology and blended the physical and social worlds. It also showed the world the new level of sophistication of China's middle-and-upper-class consumer. It fit in well with the tech hub of Shenzhen.

For the West this reflected the new China and the potential it has for economic growth and leadership in the world. Nowhere did the image of the Chinese Communist Party's role in the fashion industry or the extensive control the party had over all aspect of business or social media enter the picture. The Western brands and retailers have been captivated by the previous image and the ever-growing sales while totally ignoring the fact that there was little if any rule of law or that their business could be threatened at a moment's notice by the CCP. This attitude has led the titans of many groups to ignore the call for actions on the expanding human rights abuses. If one spent their time in the luxury stores of Shanghai or Shenzhen or other key cities or their top restaurants and hotels, one would feel very comfortable with the confidence in the market.

The CCP, however, succeeded in changing that when it unleashed state-sponsored social media attacks on first H & M and then on most of the other Western brands and retailers, which has caused significant problems for the Western companies. Research by the Apparel Insider uncovered just how extensive the party network is. It reported that a Chinese group purchased five million IP addresses to use to send messages from, and it established 10,000 accounts on the Weibo social media platform and 1,000 on Twitter, Facebook, and YouTube. It reported that some of the CCP apps could post up to 60,000 comments a minute, which were all dominated with state-owned party groups that are on the platforms to censor content and post party friendly comments. The power of this force was unleashed on H & M and continued through the end of the week with attacks on an attempt by H & M to show respect for China.

H & M appeared to be the largest target of the attacks. They confirmed that Chinese landlords abruptly canceled store leases and were forcing stores to close in 20 locations, including Urumqi, the capital of Xinjiang. H&M billboards have been removed. Other major brands continue to be attacked. Hugo Boss deleted an unauthorized post by a Chinese employee that said it supported the use of Xinjiang cotton. Hugo Boss showed courage and fortitude and posted a statement: "Hugo Boss does not tolerate forced labor and expects all suppliers to follow suit." It also said it does not source in Xinjiang. It was immediately attacked and its social media influencer, which is supposed to have 60 million followers on Weibo, ended his association with the company. A host of other statements in Chinese state media followed and dominated news the remainder of the week. Some believed that the attacks on Nike and Adidas had eased, and many of the state Olympic teams that have Nike sponsorship have been quiet. The speculation is that the relationship with Nike is too extensive and commercial to have any long-lasting impact.

The largest impact from all of the CCP propaganda occurred at the very cultured China Fashion Week, held March 24-31. With the rest of the world still locked down or only beginning to recover, this was the premier fashion event of 2021 so far. 64 brands introduced their Autumn/Winter lines, and the week contained 300 events. This year's event included designers from 16 countries including India, Japan, Australia, Canada, and others. A special group of 14 Pakistan designers was invited to celebrate 70 years of China/Pakistan relations. A special online platform was provided with 50 South Korean brands links to Chinese buyers. No global event has matched it since 2019.

SCENES FROM CHINA FASHION WEEK 2021

As we mentioned earlier, Chinese designers have been gaining widespread praise, leading to robust new sales and being viewed with great respect. China Fashion Week 2021 was pulled into the Xinjiang Cotton controversy. The highlight of the event for the international press was the support Chinese brands and designers expressed for using Xinjiang cotton. We cannot find a fashion event in recent years of the scale of China Fashion Week that focused so exclusively on the use of cotton. For Chinese designers, it appears that it is their patriotic duty to use and promote Xinjiang cotton in their collections. The greatest attention was on designer Zhou Li, the chief designer and founder of the fashion brand Sunbird. She became known in 2020 for her embroidered silk face mask, which became a fashion item. The mask was made of silk and met N-95 standards and was designed with embroidered floral designs that allowed her to catch international press coverage. She was prominently featured at the show, photographed onstage with a cotton bouquet with her fall line behind her. Her collection was slick minimalist design with ruffles and ancient Chinese characters.

She told the press her garments are made with Xinjiang cotton, and her designs show support for people from the region. She was quoted as saying, “As far as I am concerned, I think Xinjiang cotton is my sweetheart, my love, which is to say I am very grateful it has brought me such happiness.” For designers making similar pledges, it will spell trouble on placing such lines in the

US and other Western locations. For the non-Chinese designers, it highlighted a risk for the large Chinese apparel market.

Zhou Li is a newcomer to the list of top designers, and her display of Xinjiang cotton loyalty will likely offer a lot of PR benefit to those boutiques and stores featuring her line. Natural fibers have been used as a feature by many of the top-ranked Chinese designers, and in most cases it has centered around wool which is a popular winter apparel item. Yiging Yin is one of these designers who received the Woolmark Award, and his line is featured in ten Corso Como stores in Milan, Joyce department stores in China and Hong Kong, and at shows in Paris. Uma Wang is another Chinese designer whose work can be found in London and Europe. Ban Xiao Xuc, whose line is inspired by nature, also received the Woolmark Award. Mask Ma is a Chinese designer whose lines are displayed in Paris and have been worn by Lady Gaga and Naomi Campbell. Huishan Zhang, another designer, has been featured in Barney's New York. Many Chinese designers have been featured in the UK where several devoted boutiques have been opened.

It is unclear how all this controversy will impact their international expansion. The main problem may be only in the US. For cotton, its being featured in the fashion show will likely expand market share and result in a greater inclusion in collections. As we have mentioned before, the entire focus on cotton as a patriotic apparel and its natural features is very likely to increase cotton's market share in the domestic market, and the percentage could be sizeable. The Australian wool industry, which has already done an excellent job in working with Chinese brands and designers on the use of wool and cotton, will be a natural expansion of this. Australia's Wool Innovation launched a TMall campaign to promote Merino Wool in September-November 2020, which was quite successful. It created 581 social media impressions and 300 million views of the Wool Pavilion, which resulted in 353,000 Woolmark-certified apparel items sold. The China Cotton Association has also announced that it will use this opportunity to push its certified trademark, "Made with China Cotton," in products and that it fully supports the Xinjiang cotton industry.

Amid this increased focus on cotton, the unknown is how the entire effort of boycotting Western brands and retailers will end. If some are forced to abandon the Chinese market it will have serious ramifications for commerce. By the end of last week, it was evident that the entire debate is spreading beyond just this market segment and those hypocritical positions by companies

Chinese designer Yiqing Yin draws international attention

Chinese designer Ban Xiaoxue launches merino wool collection

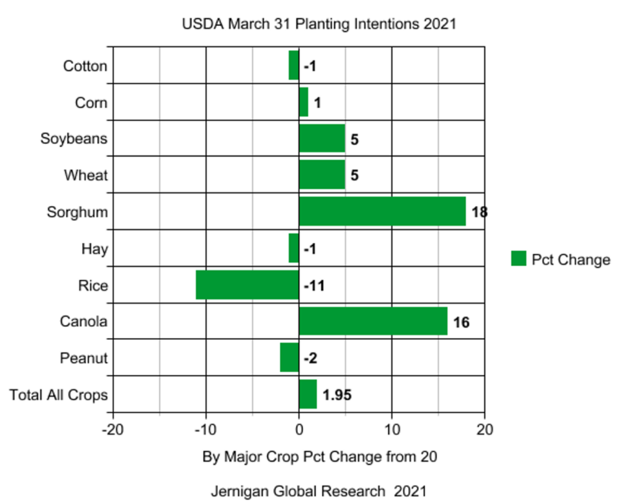
New World Wool China

will not be tolerated. Delta Airlines drew national attention when the CEO criticized the State of Georgia over a voting registration requirement law while still operating into China and voicing no concerns about the genocide occurring or human rights abuses in a market it serves. The application of a double standard for China is quickly becoming out of vogue.

Despite the growing international efforts against Chinese actions in Xinjiang, the government launched a new effort to justify its actions in Xinjiang. That is to say, terrorist threats are its driving force. On Friday the CGTN TV service, the international arm of the state broadcasting company, broadcast the fourth and final part of a documentary series on the terrorist threat in the region. This effort comes as the international community has concluded the opposite is true. The US in 2004 added the East Turkmenistan Islamic Movement to its terrorist list. The US just removed the group from the list and said they no longer posed a threat.

Considering these conditions, Chinese exporters will need to increase cotton imports to meet the needs of a Xinjiang-free cotton. Moreover, the move to apply the US ban to apparel, which we discuss later, means that fabric exporters will also have a need for non-Xinjiang yarn and cotton. Use of Xinjiang cotton for the domestic market will take up some of the demand weakness. For the moment, additional measures to increase usage of Xinjiang in the domestic market can also be expected. The role the CBP ban is playing is a major driver and thus this may continue to draw US cotton trade into the dispute. Again, any disruption to China of US cotton will mean that markets served by Brazil will switch to the US. However, with five million bales in sales for the last two seasons, this will remain very emotional and concerning to the cotton trade unless relations return to a greater calm.

BATTLE FOR US ACREAGE RAGES ON AS MARKET NEEDS MORE ACREAGE IN CORN AND SOYBEANS



The USDA March planting intentions reports sparked fears of inadequate US crop acreage as total planted acreage to all crops reached only 316.1 million acres, which reflected only a 6.050 million-acre increase from 2020. The breakdown per crop showed cotton planting intentions were on par with expectations, while both corn and soybeans fell. It was clear the previous rally in price had not been enough to draw acreage from pasture, hay, or other crops. Corn planting intentions were a shocker at 91.1 million acres, which is only a 1% increase and below estimates of over 93 million acres and the USDA Outlook Conference number of 92.0 million acres. The recent high was 94 million acres in 2016. For the Mid-South, corn acreage did increase in every state except Missouri. Soybean planting intentions were 87.6 million acres, which was below estimates of 90 million acres and the USDA Outlook Conference of 90 Million acres. Cotton acreage intentions came in at 12 million acres compared to 12.093 in 2020, and a USDA Outlook Conference estimate of 12.10 million acres.

In the important Mid-South battleground, cotton acreage fell in Arkansas, Louisiana, and Mississippi, as both corn and soybean acreage increased in those states. In Tennessee, cotton acreage increased 10,000 acres while soybeans and corn did as well. Missouri intends to increase cotton acreage 85,000 acres, returning to 2019 levels while decreasing both corn and soybeans. In Texas, cotton acreage was left unchanged at 6.8 million acres, while the state increased sorghum acreage by 200,000 acres.

The CME grain futures reacted quickly to the release, with limit gains in both corn and soybeans. The June planting intentions report now takes on even greater importance. The expectation is that some cotton acreage could still be lost to corn or soybeans in a price battle. Thursday, the final trading day of the week, brought confusion as old crop corn futures lost 2.5 cents and new crop gained only 7 cents. In soybeans, old crop futures lost 31 cents while new crop gained

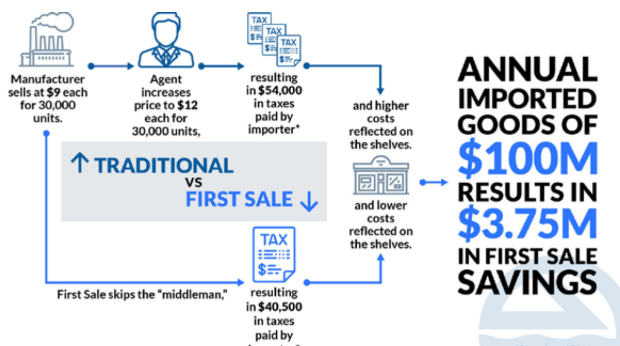
7.5 cents. This behavior followed a variety of theories circulating on the USDA survey. Regarding cotton, the battle really remains the 6.8 million acres in Texas and the 3 million acres that will either reach a stand or fail in dry soils. The moisture conditions in the eastern plains and the Rolling Plains have improved, so the possibility of failed acreage is reduced. However, the entire High and Rolling Plains regions need a great deal of moisture. The forecast of a major rain event is still in the outlook for the next two weeks before April 15th, which has raised hopes.

The March planting intentions also placed Pima acreage down 30% at 142,000 acres with California at 110,000 acres. Given the late cuts in California's water, that estimate may be 25-35,000 acres too high. One of the largest growers cut acreage intentions as water supplies are simply not available. The region faces a crisis, which is all about water and not price. The new restrictions on ground water pumping have changed everything, and supply is extremely restricted. The already record 25,000 acres to be planted in upland may also decline.

Thus, expectations are that June planted acreage for cotton will likely decline from 12 million. The wild card, as usual, remains Texas. A major drought-ending moisture event during the next 60-90 days could bring some other acreage back to cotton. The drought features to cotton and the crop insurance provisions make it difficult for other crops to make significant headway with acreage. These conditions place total cotton production estimates where they have been in a very wide range depending on Texas weather. If the drought is not altered, then the US could produce 16-17 million bales, while a change in Texas' weather outlook could push production to near 20 million bales. The March acreage intentions reveal that outside of Texas it is a battle for acreage. The current 7-day forecast is dry for West Texas for now.

SOURCING APPAREL FROM CHINA COULD FACE 10%-15% HIGHER DUTIES IN US FROM COURT RULING

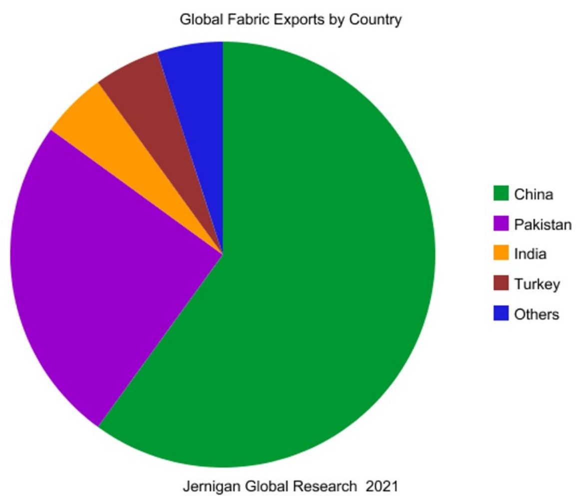
US apparel sourcing has always faced a myriad of complicated tariffs and duties that have allowed a special group of import lawyers and experts to emerge. One rule is First Sale, which is a method used to reduce tariff liability. Under a set of conditions, importers are able to value goods for custom purposes on the basis of an earlier sale in the chain of transactions before being imported. The US Customs' value law says that an importer can value goods for import on the price actually paid or is due to be paid when sold for export to the US. Lawyers were able to get the law interpreted as the import price or any earlier sales in the chain of transactions leading to the import. Legal precedent was set that said a First Sales had to fill these criteria: 1. Involve a sale for exportation, 2. The sales value to be used for the customs value must be a bona fide sale, and 3. Be at arm's length. The US Court of International Trade, in a case in 2020, has ruled that a First Sale used to determine Customs value must also meet a fourth principle; it must be free of any distortive nonmarket influences. This is based on a nonmarket economy, and Vietnam and China are officially holding that status in the US. The ruling was based on the fear that the Custom price was being depressed because of a subsidy somewhere in the supply chain.



Actually, this was set as a requirement in a 1992 case, but the requirement had been overlooked so the new ruling puts it into play. It has been appealed, and if that fails it will be used to calculate customs duties. Of course, China has huge risk. As we have often discussed, many parts of China's textile and apparel supply chain receive subsidies. In cotton production, each bale of cotton receives large subsidies, and Xinjiang cotton is the most subsidized crop in the world. The entire Xinjiang textile chain is subsidized from top to bottom, including labor. Then there are the transport subsidies. This even brings into the calculation of free forced labor from the Uyghur workers. Then, in polyester and Viscose, there are subsidies. It is estimated that the new subsidy calculation would raise duties on Chinese textiles and apparel by at least 10%-15%, probably more. China's elaborate subsidy schemes for the textile and apparel sector have allowed it to dominate the world and have been a key part of the China Price advantage since it joined the WTO.

The impact on Vietnam import would be much less since Vietnam imports its cotton and man-made fibers and receives limited subsidies.

US CBP BEGINS TO DEMAND PROOF THAT APPAREL MADE FROM CHINESE FABRIC WAS NOT MADE FROM XINJIANG COTTON



Reports surfaced that the US Custom and Border Protection (CBP) held up a shipment of Bangladesh apparel that was manufactured with Chinese fabric.

The CBP demanded the Bangladesh exporter show proof that the cotton used was not Xinjiang and asked for receipts that showed the workers that picked the cotton were paid. Of course, this is an impossible task. First, a large portion of the Xinjiang cotton crop is machine picked, and secondly, after the cotton is picked, purchased by a gin, processed, and the lint shipped to a spinner it is almost assured that the documented supply chain details of who ginned the cotton are limited. It would likely be impossible to trace the cotton to the grower, and the only distinction would be handpicked or machine-picked, which would have been reflected in the price of the lint. Xinjiang ginners mix a large number of growers' cotton, many growers are small, and the cotton comes from a host of seed varieties. The 2021 Initiative to improve cotton quality is focused on greater links to individual growers and the seeds used. However, the change will be slow and was not in place for 2020. If this is going to be the standard applied by the CBP, then all users of Chinese fabric across the global cut/sew center face a major challenge.

For Bangladesh's exporters, the problem can be easily solved since the majority use domestic fabric and can stop using Chinese fabric, which is sometimes sold into Bangladesh below the cost of domestic fabric. An issue with illegal imports free of duty is also a problem. This case should provide a real boost to domestic Bangladesh fabric consumption and yarn use that will be good for their industry. The CBP, as it has increased its inspections and has new technology at its disposal, is believed to have uncovered a big problem with apparel and textiles from China being mislabeled as coming from other origins. This has also become a major new risk for importers and exporters.

The issue of apparel exporters providing proof that Chinese fabric is free of Xinjiang cotton is a significant problem. Vietnam exports cotton yarn to China and then imports the fabric, so these groups could likely provide proof of identity proving the yarn used was not Xinjiang cotton. But for Cambodia this is a big problem as Cambodia has been providing an increasing volume of apparel to the US since the Chinese duties and trade dispute occurred, and most of it uses Chinese fabric. 2020 US textile and apparel imports from Cambodia reached 3.278 billion USD. Jordan, which exported 1.53 billion USD to US in 2020, and much of the AGOA African exporters who exported over 1 billion USD to the US in 2020 also depend on Chinese fabric. Disruptions to these sourcing patterns will have major consequences. China dominates the high-end fabric exports, and it will not be easy to find quick alternatives. Chinese exporters may work with their yarn suppliers to provide proof that the fabric was made with imported cotton.

If the CBP tightens down on the origin of fabrics, this will have a very large impact and will increase the use of imported cotton as well as boost cotton consumption in fabric producers like India, Pakistan, Bangladesh, and also increase investment in the equipment to produce the higher quality fabrics. Over the last century, China has dominated all high-end fabric equipment investment, and India, Bangladesh, and Pakistan have lagged, resulting in some companies in these regions actually having to subcontract to China for the needed high-end fabrics. The CBP enforcement or the danger of becoming ensnarled in the enforcement may be just the incentive for investment. Vietnam needs sizeable new investment in fabric production and dying/finishing.

COTTON TRADE DRAMA - PAKISTAN AND INDIA TRADE REMAINS STOPPED AND RUMORS OF CHINESE PURCHASES OF US COTTON SURFACE

Last week was one of stress for the global cotton trade as a host of events shaped the week. First were the continued actions by China to boycott H&M and other brands and retailers, which highlighted the use of Xinjiang cotton, raising fears of cotton trade being impacted. Then there was the approval by Pakistan to allow the import of Indian cotton yarn and fabric, only to have it halted the next day by the cabinet. This was followed by a large cancellation of purchases of US styles by Indonesia, and the week ended with ICE posting large losses even as trade rumors suggested one of the state-owned Chinese trade houses purchased a large block of US cotton. The move by Pakistan's cabinet to block the opening of trade with India in cotton yarn and fabric now suggests the debate is over until next season. The reason it was blocked was due to opposition by spinners and also fears that imports

would depress domestic seed cotton prices as the new crop begins to move in June, affecting grower's income at a crucial time. For the Trade, the block was frustrating as some offers had already been made.

The weekly USDA export sales summary for the week ending March 25th revealed gross sales of 239,000 running bales of upland for 2020/2021 However, cancellations reduced net sales to only 78,400 running bales. The cancelations were led by Indonesia, which reduced net sales by 119,500 running bales. Cotton use in Indonesia has been very weak during the last 12-15 months, and a large block of unshipped outstanding sales has been noted for some time. Total sales of upland to Indonesia after the cancellation stands at 666,000 running bales, which is down sharply from 988,100 bales sold in the same period in 2019/2020. 269,200 running bales are still unshipped. Indonesia cotton imports in August-January totaled 1,020,098 bales, which is down from 1,384,374 bales in the same period a year earlier. In the same week, China net sales totaled only 13,500 running bales for 2020/2021 after cancelations and destination changes. US net export sales fell to 78,400 running bales of upland, which is the lowest sales since the week ending August 6, 2020. The US has to make no additional sales to meet the USDA export target even with accommodation for carryover sales. Export shipments also remained above the levels to meet the export estimate as well at 324,700 running bales of upland and 14,300 of Pima.

Rumors were in circulation that a Chinese state trading house made a large purchase of US cotton last week on price weakness. Details are lacking as is confirmation. Physical trade in China was quiet last week, but expectations remain that the NDRC will soon release sliding scale import quotas as mill demand for imported cotton has increased due to the Xinjiang bans. Despite these rumors, ICE futures posted sharp losses in Thursday's trade, which impacted confidence.

VISCOSE FIBER AND POLYESTER FIBER HAVE EXPOSURE IN XINJIANG AS WELL; MAJOR VISCOSE FIBER PRODUCTION EXPOSED BY SCMP

The pressure is building for the US CBP to expand its Xinjiang ban to also include Viscose and other fibers following a substantial link to the region exposed in a South China Morning Post feature last week. China is the world's largest producer of Viscose fiber, estimated at 65% of global production. A large government subsidy scheme launched the industry in Xinjiang, and a large investment was made by the Xinjiang Production and Construction Corp and another state-owned group. In 2015, a 5-year plan was launched to double Viscose fiber production in Xinjiang, and it appears to have been successful. The SCMP research revealed that Xinjiang imports the dissolving wood pulp used to manufacture the Viscose fiber. It stated that between 2017 and 2020 the largest source of the dissolved wood pulp was Finland, with much smaller imports coming from Indonesia, Canada, and Brazil. The SCMP research showed that the main supplier of the Finnish pulp is Stora Enso, but after this was disclosed Stora Enso announced it will divest its dissolving wood pulp unit and end its involvement in Xinjiang. The company also has a lease on a large forest in Guangxi China.

At the center of Viscose production in Xinjiang is the state-owned company Zhongtai Chemical, which is the largest Viscose fiber producer in China and the world.

It is a major partner with the Xinjiang Production and Construction Corps. Its plant in the southern part of the PCC's administration part of Xinjiang is the largest company in the region. The largest Viscose fiber plant is located in the heart of the cotton and textile belt at Korla. Zhongtai is also the joint venture partner with the PCC in its large Tajikistan cotton production and textile park.

Ground breaking for new PET plant in Xinjiang

The Viscose fiber produced in Xinjiang is consumed in Xinjiang and made into yarn and fabric that is either put into textiles and apparel in Xinjiang or shipped east to the Eastern textile belt. This makes the yarn and fabric very difficult to trace, and it also means that given the volume of yarn and fabric produced in Xinjiang the odds favor a large portion of all Viscose fiber apparel items exported from China will contain Xinjiang Viscose. The SCMP report indicated that the Viscose plants are located very near the Uyghur prisons and reeducation facilities, and the use of this labor is very likely. The SCMP research also pointed out that the production of Viscose is very environmentally damaging and uses carbon disulfide in the manufacturing process. The US outlawed its use as it was found to cause workers exposed to it to become insane, so it is highly likely Han workers who migrated from East China would not work in such conditions.

In other research, it was found that Zhongtai Chemical also operates a 1.2 MMT annual production plant for Pure Terephthalic Acid (PTA), which is one of the main petrochemical feedstocks for polyester in Xinjiang. The plant is a joint venture with a German group and is located in Urumqi. The plant was opened as part of the Belt and Road Initiative.

These developments are adding to the momentum for a full ban on any product from Xinjiang, with the burden of proof on the importer to prove it was not, which will be difficult. A bill was introduced last week to ban the use of Xinjiang solar products in any US-funded green energy project. Xinjiang is the largest supplier of solar equipment to the US.

BENEFICIAL RAINS FORECAST FOR BRAZIL'S MATO GROSSO

April is an important month for the 2021 Brazilian crop, which was planted late. The wet pattern normally withdraws from Mato Grosso in April, but this year a normal withdrawal would cause issues due to the late planting. The forecast has 1-2-inch rains over most cotton areas of the state this week, which will be welcome to corn and cotton growers. The FOB basis at Santos for both the 2020 and 2021 crops is firm, and the CFR basis is showing little movement. The Real/USD exchange rate is weak and hovering off its record lows as political uncertainly occurs and the virus continues to rage. The ESALQ Cotton Index of a 41-4-35 landed Sao Paulo closed on April 1st at 83.78, reflecting a 583-point premium to ICE, which is not far from the 500 points on May paid for a block of 2020 crop recently, FOB Santos. Additional rains have benefited the Argentine crop, which is starting to open.

ICE FUTURES LEAD WORLD PRICES LOWER AS CHINA MARKETS STABILIZE

The behavior of ICE futures was quite bizarre last week, with rather erratic movements that appeared heavily driven by HFT and Algometric systems front running any Trade paper and attempting to use the headlines to create price movement. The action served to further undermine mill confidence, as did the ongoing expansion of the Xinjiang cotton controversy. May ICE closed with losses of 2.4 cents for the week and saw its premium to Dec disappear. May also traded out to a 138-point discount to July, allowing Trade hedges to begin to be rolled. The contract was first influenced by the beginning of the rolling out of March by the Funds. Putting the rumors of a Chinese trading house buying a block of US aside for the moment, it is also suffering from a reduced demand for cotton from spinners. The panic to cover has subsided, and cotton yarn prices have been in some retreat. The behavior of May and all ICE values also seem to have a negativity that was also inspired by other events. One speculation was that some selling may have come from the impact of the massive liquidation of positions of Archegos Capital. The selling may have been direct or indirect and could have come from positions or Swaps or Derivatives. For the moment, the entire episode is clouded in mystery and intrigue. What occurred was a Hedge Fund that is estimated to have had assets of as much as 20 billion USD, leveraged those with off the exchange derivatives, such as Swaps, to have a market exposure of 100 billion USD. To put this in perspective, this is near the level of the entire GDP of Slovakia. The forced liquidation of this group shook the financial markets last week and also exposed the hidden willingness of Prime Brokers to provide off the exchange derivative products that hide positions from regulators and increase the risk of the positions ten + fold. It also exposed the lack of inter-broker risk controls on off the exchange products. One bank providing Prime Broker service to the group has reported a 10 billion USD loss. The liquidation of a 100 billion USD in positions, which was believed all in several key stocks, has impacted many companies. It is unclear how such liquidation would stretch into cotton, but the grain markets also saw unusual selling on Friday. Swap dealers carry a large position in cotton, which is reported in the CFTC report each week, and the Swap dealers held a net position of over 45,000 contracts long in cotton as of March 23. The impact of this event is only beginning to be made clear. Whether or not this was behind Friday's unusual wave of selling in the agriculture futures will likely never be known. However, it might do well to keep the event in mind when reviewing the week's activity.

China's Cash Cotton prices and ZCE futures all ended the week with little change. The Cash Cotton Index ended the week at 106.44 cents, which was up .10 cents. Most of the crop has moved from ginners into Trade and mill-owned warehouses, and there is limited selling pressure. ZCE cotton futures finished the week at 14,750 RMB a ton or 101.85 cents, which was up slightly in RMB but lower due to the weaker RMB in US cents a lb. Cash cotton yarn prices were weaker but have not fallen to the extent of cotton, and the ZCE cotton yarn contract ended the week positive in light volume.

Most CFR basis movement was steady last week with the exception of Indian which firmed. The impact of the cancelled reopening of Pakistan trade may cause it to weaken somewhat. For the moment, the Indian offers have lost their competitive edge and business is quiet except in markets such as Bangladesh where the availability of land shipment is attractive due to the port congestion. Spinners remain with light coverage for the third and fourth quarters of 2021. This should keep demand steady on price weakness. The China/ US relationship remains an uncertainty, and the fears over a Taiwan invasion or a major flare up in the South China Sea remains strong. In addition, tensions are high in Europe over a Russian military buildup along the Ukraine border. These geopolitical events impact mill confidences.

In regard to ICE, the May contract last Tuesday, Wednesday, and Thursday experienced an outside range each day, which is quite unusual, and suggests we may be near a turning point. A close below the low of the 77-75 range could open the way for a test of 73-75 cents. A move and close above 81.50 would suggest a bottom was in. In some cases, such a congestion of technical occurrences outlines a near-term trading range amid great uncertainty. The Dec contract is showing signs of support as it nears 75 cents, a level that should offer major support. The COT report for the week ending March 30 did reveal that the trade purchased 5,699 contracts during the week, reducing the Net Trade Short to 132,115 contracts. The trade increased its long position by 3,318 contracts or 331,800 bales. 2,149 contracts or 214,900 bales of that new trade long occurred in May and July futures. This may be linked to a new sale of old crop to China as rumored, just speculation, but an unusual increase. The report showed that the speculators were sellers in Managed Funds, Other Reportable and Non- Reportable, as well as in the Index Funds. Swap Dealers were buyers.