



AUSTRALIAN 2022 BASIS UNDER PRESSURE FROM FREIGHT ISSUES



ETHIOPIA APPAREL SOURCING IN DOUBT



LOGISTICS CAUSING MAJOR PROBLEMS FOR IMPORTERS/EXPORTERS



INDIAN SPOT PRICES CONTINUE TO ADVANCE



# JERNIGAN GLOBAL

— KNOWLEDGE IS THE NEW CAPITAL —

## CHINA: HENAN FLOODING IMPACTS TEXTILE AND APPAREL SECTOR AND COTTON STORAGE WAREHOUSES



The recent flooding and destruction in Henan in Eastern China appear to be much greater than the official reports suggested. This has been verified by CCP undercover police charged with preventing foreign journalists from covering the worst hit areas, while social media also carried some photos and reports of Chinese citizens who posted photos being arrested. The death toll is being reported in the thousands with an estimated 10,000 death in a tunnel flooding during rush hour. The BBC World Service carried reports that the Chinese government was attempting to prevent the truth from being known. What became apparent last week was that the floods impacted the massive textile and apparel industry, including the important cotton spinning operations and cotton warehouses and transport of cotton. Electrical power shortages resulting in blackouts were also being reported. Henan has been an important center for the Chinese cotton industry since the CCP begin. It



was a major cotton producer on the North China Plain sharing large production with Shandong. Because of this production, large investments began in cotton spinning followed by fabric production and then development of the entire supply chain. It is home to many famous Chinese textile and apparel brands and trademarks.

The textile and apparel industry has expanded with sales in the province nearing 500 billion RMB or 77 billion USD or more in sales, with investments in PTA, nylon, polyester, viscose, and all fiber production. It is hard to understand just how important Henan is to the Chinese economy with a GDP near 5.5 trillion RMB or 835.4 billion USD, which makes it larger than Saudi Arabia and about the size of Turkey. Of that total, 1.16 trillion RMB or 178 billion USD of GDP was in the capital of Zhengzhou. Retail sales in the capital were 532.4 billion RMB or 82 billion USD. The capital suffered significant damage when the downtown flooded. China's rapid building of infrastructure has been done without any transparency or proper review, resulting in a large-scale disaster from this 1,000-year rain and flooding event.

Zhengzhou is home to the Zhengzhou Commodity Exchange, which trades cotton, cotton yarn, polyester staple fiber, and PTA contracts. The Zhengzhou region is home to cotton storage warehouses and many textile and apparel companies. Henan is the third largest eastern province for cotton storage with their warehouses holding a large block of the commercial cotton inventory warehoused outside the Reserve and spinners' inventories. In addition, it has Reserve cotton warehouses and cotton warehouses owned by spinners. Transportation from the warehouses has, of course, been disrupted, but the damage to warehouses and the stored cotton is unknown.

Henan is home to at least five major textile and apparel clusters and thousands of textile companies, including key cotton spinners. One of the clusters is the QIAO Project which has more than 6800 factories in 20 cities, and another is the Settlement Project which contains many famous Chinese brands. The region has the fifth largest number of cotton yarn spinners, making it very important to cotton yarn production, including many famous and important textile and apparel groups. The city of Xinyang was also hit by torrential rains and flooding. That is where Henan No. 2 Textile Machinery Company is located. The company was founded in 1970 and is estimated to have

manufactured 40% of all cotton spindles currently in use. The Zhoukou City Textile Park, which operates five million spindles and 1500 companies, is located near the Ying River and has been impacted. It was ranked as one of the 100 billion RMB industrial clusters in Henan.

Flooding damage was reported in many of the major areas north of Zhengzhou in areas near the Yellow River. One hard-hit area was the Huixian textile and apparel cluster. This major industrial cluster suffered sizeable losses to its cotton spinning plants as well as cotton yarn and fiber storage warehouses. Stocks of cotton, cotton yarn, and textile equipment were under water for two days or more before it could be pumped out. Employees in the area had to return to nearby villages to fight the flooding and attempt to save their homes, which ended up dislocating most of the workforce. It is unclear how long it will be before many of the mills reopen since they will have to replace equipment and restock cotton inventories.



Henan fashion show

Against this backdrop, the Chinese domestic market reacted on Tuesday with sharp gains in the cotton fiber and textile markets as concerns over yarn supply and cotton supply hit the market. In this age of attempted government blackouts, no substantive details were given, but the market reactions said it all. On the ZCE, the cotton yarn contract normally experiences dull trade with light volume of 10,000-15,000 contracts. On Tuesday, it led the market higher, reaching the daily limit with volume swelling to a record for recent years of 44,357 contracts as the September contract reached a new contract high of 27,330 RMB a ton and closed with a gain of 1,170 RMB a ton or approximately 8.16 US cents a lb. gain in the yarn. Cash yarn prices also surged 700-800 Yuan a ton, reaching their highest levels of the year. It is very unusual for cotton yarn to lead cotton higher. The Reserve auction drew large demand with the average price gaining 405 RMB a ton and reaching a new high of 17,450 RMB or 121.77 cents a lb. This equaled a 328 base grade price of 18,720 RMB

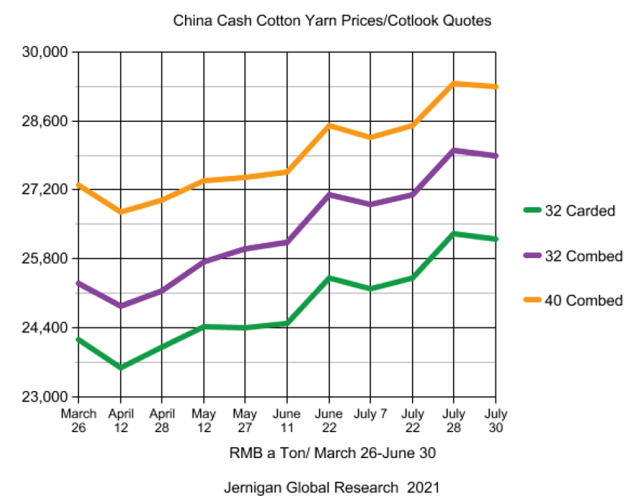
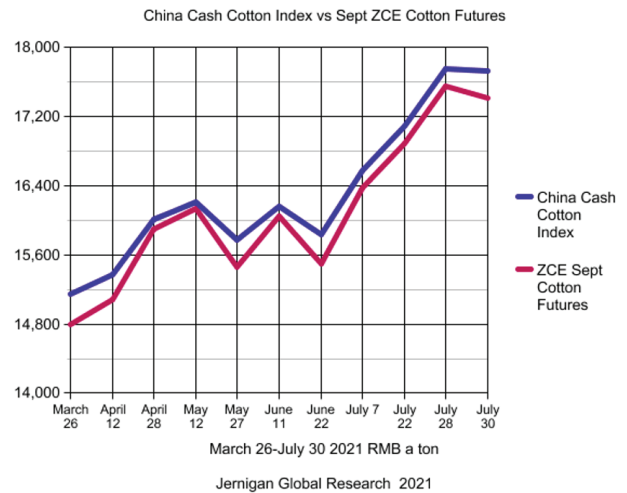
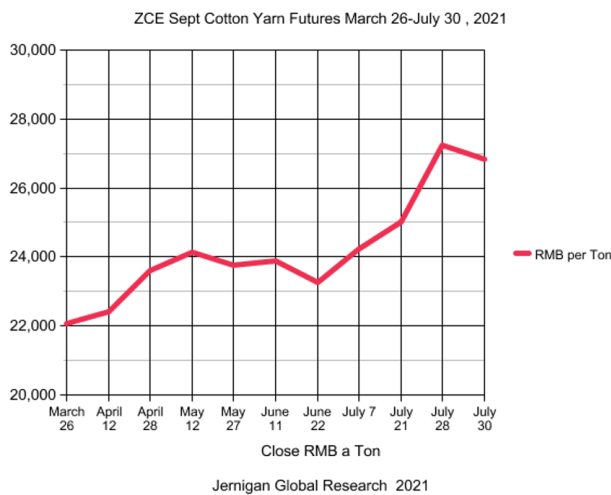
**Deadly flooding in central China**





a ton or 130.63 cents, which compared to the cash cotton index of 123.90 cents. The large premium of the Reserve continues to suggest much of 2020 Xinjiang machine-picked cotton has quality issues. The ZCE cotton futures gained 355 to 500 RMB a ton or 2.48 to 3.49 cents a lb. on heavy volume of 997,503 contracts, which was more than double the normal volume. The lead September contract closed at a new contract high of 17,480 RMB. These gains were followed by smaller gains on Wednesday, with the ZCE yarn contract advancing 290 RMB a ton and the ZCE cotton 75 RMB a ton.

anticipated. A typhoon hit Shanghai and Zhejiang last week, bringing more videos of flooding and power outages. Ocean freight transport was delayed at the region's major ports. Both regions, along with Anhui and Jiangsu, are a new flood concern. A large number of ships were waiting at the Shanghai and Ningbo ports as the typhoon hit.



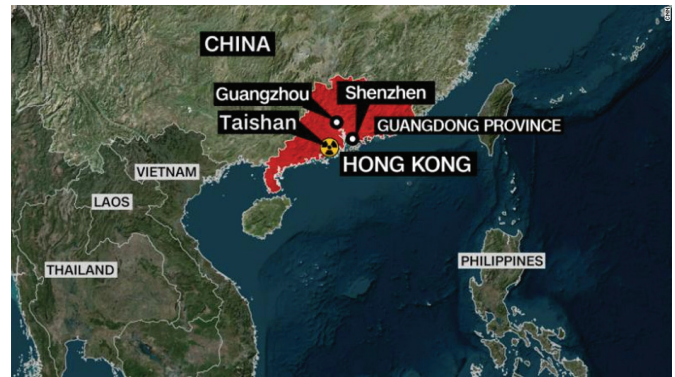
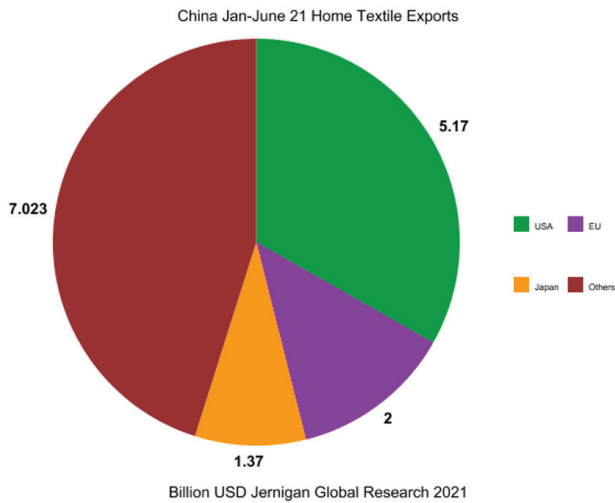
Despite the widening spread between international prices and local prices, Chinese spinners focused their buying interest last week on imported stocks held in the bonded warehouses. By the end of the week, total bonded warehouse stocks declined to 600,000 tons or 2.756 million bales, which was a 100,000 ton or 459,400 bales reduction since the issuance of the sliding scale import quotas. As expected, the bonded warehouse stocks have been the center of attention due to their immediate availability, more attractive basis level, and the ability to avoid any freight or logistical issues. The NDRC's long delay in the issuance of the quota made purchases for arrival before October or so almost impossible for US or Brazil new shipments. Demand for imported cotton yarn appeared to remain steady, with Uzbekistan yarns continuing to enjoy robust demand from the home textile sector. China's home textile exports reached a record 15.58 billion USD in January-June, which reflected strong growth compared to 2020 and 2019. The US was the top export market at 5.17 billion USD in exports, followed by the EU at 2.0 billion USD. China's fabric exports in the same period reached 3.838 billion yards, which was an increase of 34.21% over a year ago.

What makes these gains stand out is the fact that they occurred so quickly and without much comment from the Chinese trade media, which appears very hesitant to draw the attention of the NDRC in its efforts to halt commodity price gains. Cash coal prices are also advancing since transport of domestic coal to power stations have been affected. The general behavior of the government in its attempt to cover up the economic destruction suggests the economic losses are going to be much greater than

Cotton yarn prices ended the week firm, but the rally halted as grey fabric mills began to show resistance to the sharp gains. The fabric mills were reported to be having a hard time passing along the increase. Cotton spinners, however, maintained tight inventories due to reduced capacity from the floods and shutdowns, which help hold

offering levels. The textile sector had new concerns as the week ended. The government announced it was finally shutting down the Tianshan Nuclear Plant, which has been a concern for weeks when its French part owner warned it was unsafe. The plant going offline will cause significant decline in power availability in the massive Guangzhou, Shenzhen, Tianshan, Guangdong, industrial corridor. More than 60,000 major factories are expected to be affected, along with problems at the ports adding to the logistical issues with exports. Amid these conditions, the cotton fiber and cotton yarn markets retreated to end the week off their highs.

carded. The quality specs for the contract were revised in October 2019, which improved volumes, but overall, only 10,000-15,000 contracts trade daily. Last week, volume surged to a new recent record of 47,593 contracts and was heavy all week. The September contract reached a high of 27,520 RMB a ton before ending the week at 26,870 RMB a ton, which was at a premium to the average cash price of 26,280 RMB. Cash cotton yarn prices also posted large gains that were trimmed at the end of the week. The average cash yarn prices for 32/1 carded and combed and 40/1 combed gained from 12-13 cents a kilogram for the week.



Taishan nuclear power plant

Regarding fiber, the China Cotton Cash Index ended the week at 125.31 cents for a gain of 2.90 cents for the week and the highest level of the season. The ZCE September cotton futures ended the week at 17,415 RMB a ton or 123.28 cents for a gain of 2.00 US cents a lb. Concerns over the quality level of the certificated stocks made up of 2020 Xinjiang cotton have increased the discount of futures to cash. The September ZCE cotton yarn contract led the rally reaching a high of 27,520 RMB a ton on July 28th. The contract calls for delivery of a ring spun 32s

Strong demand continued for the Reserve stocks, with all stocks offered sold last week, bringing the total for the season to 191,116.7 tons or over 878,000 bales. The market took up approximately 3.2 million bales of cotton in July from a combination of the Reserve sales and the bonded warehouses, which may explain the lack of additional import interest. In addition to these sales there was the regular physical trade.

## HEAT WAVE OVER NORTHERN XINJIANG EXPECTED THROUGH AUGUST 6

Northern Xinjiang is under the grips of a major heat wave with daily highs reaching from 35 to 45 C or 95 to 113 degrees F from July 24th through August 6th. Northern Xinjiang in 2021 accounted for approximately 48% of the record cotton production. The Xinjiang Production and Construction Corps (PCC) accounted for approximately 1.45 MMT of the output and coop growers 1.22 MMT. The coop growers concentrated production in the Tacheng, Changji, and Bortala areas, while the PCC is focused in Shihexi, Karamay, Manus and Shawn, Ili Prefecture, and Changji. The Ili Kazakh Prefecture, home to nearly 500,000 tons of output in 2020, has been hard hit by the heat wave and a shortage of irrigation water as a result. It is in the extreme north on the Mongolian, Russian, and Kazakhstan border. The shortage of water is likely to impact yields. Temperatures in the Ili Kazakh region have been increasing in recent years, which is stretching water supplies. Water requirements

have been increasing in this area not only from cotton acreage increases but also expansion in corn and wheat acreage since 2010.

The highest temperatures from this heat wave are occurring in the Turpan and Hami areas. These regions are referred as part of the southern Xinjiang cotton belt and produce about 60,000-70,000 tons. The area is always affected by heat and water requirements that have increased as cotton acreage was expanded. The fear is that the heat waves are causing boll shed, increasing the water stress, and contributing to increased insect pressure. A new system brought heavy rains of 20-48 mm, with isolated amounts of up to 70 mm expected across the northern cotton belt on July 29th through August 1st. The combination of the heat and rain increased the concern over the loss of blooms and young bolls.

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**WHY COTTON?**

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## XINJIANG EXPORTS TO EUROPE INCREASED DESPITE HUMAN RIGHT ISSUES

The China to Europe railway service via Xinjiang is booming as ocean freight costs soar and port backlogs expand. Last week on July 26th, the 20,000-train passed through the Alataw Pass in Xinjiang as another China/Europe freight train headed for Germany and other European locations. In two weeks, the train will arrive in Germany. The January-June China/Europe freight train traffic via Xinjiang reached a record 3,033 trains. The Chongqing to Xinjiang to Europe route has become quite popular. When the dry port opened, ocean freight was much cheaper, but today the rail service is cheaper and faster. It has been one of the most successful parts of the Belt/Road program.

January-June exports from Xinjiang to Europe, which does not include goods from other regions which moved through the inland ports, was up 131% from 2020 and up 103.5% from 2019. The top market was Germany +143%, Italy +52%, Netherlands +187%, Belgium + 1,591%, and the UK + 192.2%. Exports totaled 373.2 million USD. The top export product was tomato paste at 54 million, which moved to Italy where it is rebottled and then exported. The other main products were cotton apparel, artificial fibers, and wind power equipment. Germany, Spain, and Italy each imported near 10 million USD worth of PBT, a product in textiles similar to spandex. The largest EU export to Xinjiang was 80 million dissolving wood pulp from Finland, which is used to make Viscose fiber.

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## APPAREL SOURCING IN ETHIOPIA IMPACTED AS UNREST CLOSES DJIBOUTI RAILWAY



Ethiopia has been a major part of China's Belt/Road projects, and one important feature was the construction of the Addis Ababa to Djibouti electric railway at a cost of 3.4 billion USD and a light rail system for Addis Ababa. The Chinese investment opened the way for massive Chinese investments in industrial parks and a host of other infrastructural and industrial projects. The investments had at one time made the country a major source of additional investment in apparel manufacturing as the new infrastructure combined with very cheap wages to attract companies. The new rail system lowered cost and allowed products to be transported by rail for export. Before the system could gain real momentum, another civil war broke out due to the current government actions to disenfranchise the Tigray minority that had been running the company. This eventually led to clashes and then a full-scale war as the central government forces attempted to bring the Tigray province under its authority. That move served to trigger unrest, battles, and destruction of new infrastructure in Tigray, with apparel industrial parks destroyed. Thousands were displaced and starvation became an issue. The Tigray forces have retaken the province and moved to expand the war and have now attacked central government forces in Afar, a transit point for imports and exports via the railway to Djibouti.

An estimated 95% of all exports flow on the railway and roadway to Djibouti port. The railway and road were closed last week as protestors attempted to block the tracks with large boulders and destroy parts of the track. This halted exports, including apparel



*Blockage of Addis Ababa to Djibouti train tracks*

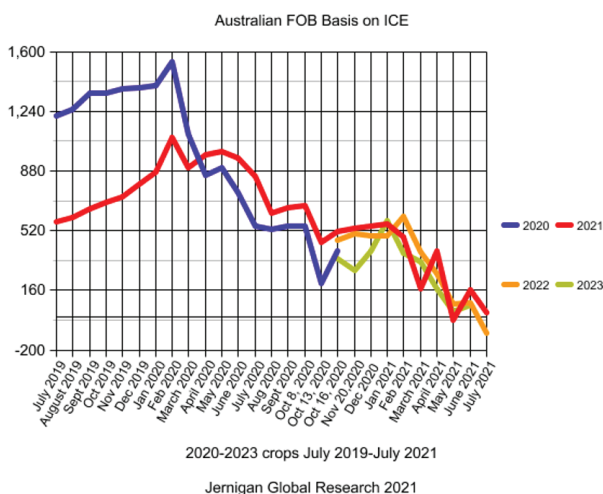
shipments. The blockage occurred following a central government special forces attack on a town near the Somalia border killing approximately 300 people. Tigray TPL forces have extended their control into the important Amhara region.

If this new modern railway is damaged or closed, a major economic blow will occur to the apparel sourcing that remains. The momentum in exports to the US has slowed, with January-May imports just over a 100 million USD. The US government has attempted to address the slaughter in Tigray with sanctions. China has been very quiet. It has not publicly made many efforts to protect its massive investments in the country or attempted to force the parties to a peace settlement. The country now owes China over 16 billion USD. China had deep relations with the TPLF from Tigray when it ruled the country, and when the fighting broke out thousands of Chinese workers had to flee south, and some Chinese investments were destroyed. Still, it was a very low-profile compared to the US, which attempted to influence a peaceful settlement via sanctions. One theory is that Russia is attempting to gain influence, and China wants to buffer that.

Companies operating plants in Ethiopia or sourcing there are facing new risk, and it remains to be seen how long brands will

continue suffering. All the fighting has been mostly to the north of the major industrial parks. However, night shifts have been stopped at times to avoid workers traveling at night. If the railway to Djibouti is closed for any length of time, it will have a serious impact. Any attempt to truck exports by other routes would be very expensive and time consuming. The unrest has also damaged hopes of increasing commercial cotton production. In 2019, before the fighting broke out, there was optimism that cotton acreage and consumption would both increase, but that has not happened. The Tigray region that was devastated by the fighting had large-scale commercial farms that could have been expanded to cotton. In cotton spinning, 12 new spinning plants were being discussed before the fighting and none have begun. Small holder farms and gins were also affected by the unrest. It would appear that Kenya may be the region where some of the sourcing switches to, since it has AGOA access to the US market and is investing in new infrastructure.

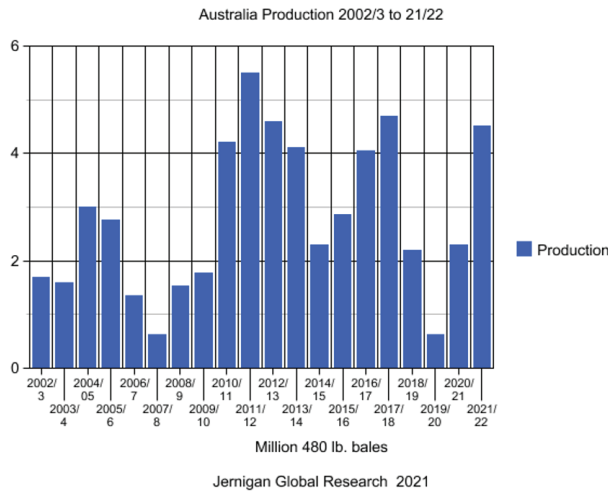
## AUSTRALIAN 2022 CROP BASIS FALLS TO EXTREME DISCOUNT



More rain has fallen in parts of the main Australian cotton belt during the last week, with the moisture outlook improving the prospects for the 2022 cotton crop that will begin planting in October. With that improved outlook, which suggests that 4.5 million plus bales could be produced, has come new basis weakness. The FOB basis at the farmer level last week as ICE neared 90 cents fell to 100 Off May 2022 futures for a new FOB basis low and left the cash price at 598 AD per bale. At that level, grower selling was noted, as such prices with normal yields are very profitable. The weather outlook suggests more rain is possible before planting, which raises the prospect of record dryland acreage. As merchant long basis positions increase amid little Chinese demand, so does the willingness to discount the CFR basis to stimulate offtake. Australia has never produced 4.5 million bales and not had China as the major market for export. Australian cotton quality has made Australia the top growth of choice,



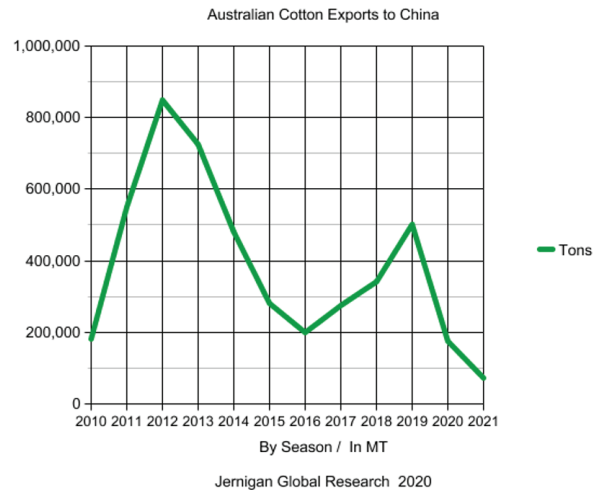
and, in the age of 210 cents for US Pima before VAT and import duty, should mean record demand.



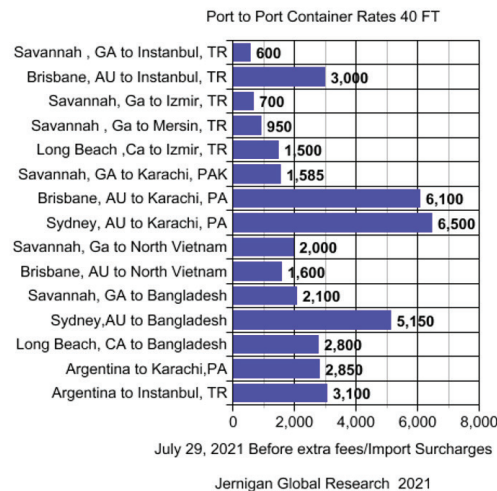
In XI's China, he has made the humbling of Australia a top priority, and his trade embargoes have all been against products China could obtain elsewhere, while the key exports continued and will reach a record in 2021. While it is impossible for Chinese mills to find the needed replacement volume for Australian, they have been forced to avoid purchases. Today, if the Reserve moved to rebuild inventories prior to January, Australian would be the only machine-picked style they could buy in any volume. For now, it is silence and new threats against the sovereignty of the country. In the two seasons 2017/2018 and 2018/2019, Australia averaged 3.773 bales in production, and in 2018/2019 over 60% of exports moved to China.

For the other products embargoed by China, new markets over time have been built up and replaced China in many products. For cotton, however, the global chaos in shipping logistics is the largest obstacle for that to happen. The rush to fill the record demand for some routes such as the US and Europe, where container rates moving into each of those markets has become a bidding war, the container lines have halted or reduced service to the smaller importing markets and focused on attempting to increase the volume they can obtain of the record container rates. This has Australian

cotton for now priced out of the Pakistan and Bangladesh markets and at a major disadvantage in the Turkish market. These three markets represent more than 18.7 million bales of import demand or 41% of all world trade. The China embargo shuts Australia out of at least another 25% of world trade. Under these conditions, the battle for exports is very difficult.



In Pakistan, where import demand is increasing, the freight rates from Australia have soared, with the dock-to-dock cost today for a 40-foot container before import surcharges or any special fees from Brisbane to Karachi at 6500 USD and 6100 USD from Brisbane. The cost from Savannah, Georgia is 1,585 USD. Even Argentina has an advantage in cost from the



major export port at 2850 USD. This is five times more expensive than the Los Angeles to Shanghai rate. The same is true to Chittagong, Bangladesh from Sydney, with a base of 5150 USD, but from Savannah it is 2100 USD. Again, US styles enjoy significant cost advantage in each market.

The US enjoys a major freight advantage to the very important Turkey market. The rate from Savannah to the main three ports varies from 600-950 USD, while the rate from Brisbane is 3000-3500 USD. To make these markets work, the merchants must absorb the extra freight, creating large losses, or supplies have to tighten to the point the spinners take the supplies at the higher levels.

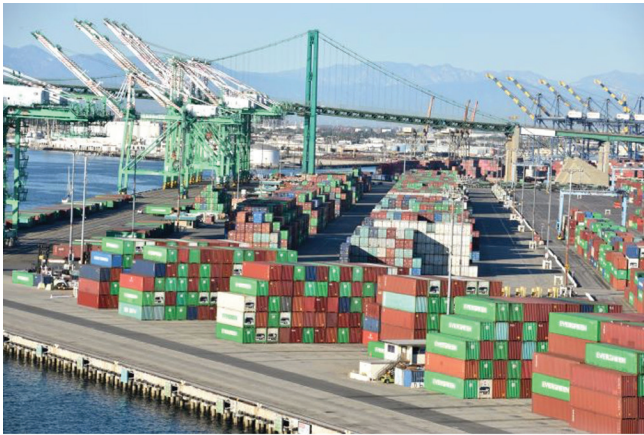
From Brisbane to northern ports in Vietnam it's about 1500 USD, but that is only the official port-to-port charges as quoted by the container line. The rate from Savannah is 2,000 USD. Australia also enjoys a freight advantage to Indonesia and other small Southeast Asian markets. The problem is that neither Australia nor the cotton industry has any control. Australia has no flagship container line. In 1956, the country briefly formed the Australia National Line known as ANL and was briefly a feature in Japanese trade. It was sold in 1998 to the French container line, CMA CGM. Ironically, in 1999, China Shipping Australia was formed in Australia, which became COSCO, one of the largest container lines in the world and a state-owned Chinese company. This line plays a major role in Australian trade. As the disputes with China and the risk of conflict increase, this may prove a security risk. A new study released cites the possible refitting of large COSCO ships for use in a Chinese invasion of Taiwan, which is

becoming a serious possibility. As a state-owned company, COSCO operates at the will of the CCP before commercial profit. COSCO shipping ports are a subsidiary also listed on the Hong Kong exchange, and it operates 357 berths at 36 major ports worldwide.

Merchants last week showed a willingness to discount 2022 Australia Middling 1 5/32 for May 2022 and July 2022 shipment CFR into the lower freight markets such as Indonesia and SE Asia at 950-1000 points On, with official quotes at 1200 On and a 100-point premium for a Strict Middling. The discount to a US E/MOT GC 31-3-37 is 300-400 points in the same markets. The Australian exporters need to open a new logistical line to gain access to the Pakistan and Bangladesh markets, which would create massive export opportunities. Turkey may be a market that could begin to take up volume, and a discount would offset much of the higher freight. It would also give the higher count yarn spinners a superior product.

2021 crop basis levels have found better support from brisk demand. There's been a general firming of all CFR basis levels and some reduction of the final 2021 output caused by crops still caught in the fields in the Southern Valleys by the constant rains. A Strict Middling 37 is offered at 1350 for September and October, a 38 at 75 points premium, and a 39 staple at 1500 On Dec. This offer is extremely cheap and a record discount to a Grade 2 Pima, which reached 210 cents last week. The 2021 harvest is complete in the northern belt, with the cotton now beginning to be trucked to Dalby for ginning.

## LOGISTICS CAUSING PROBLEMS FOR SPINNERS; US HAS OVER 1.7 MB SOLD BUT UNSHIPPED

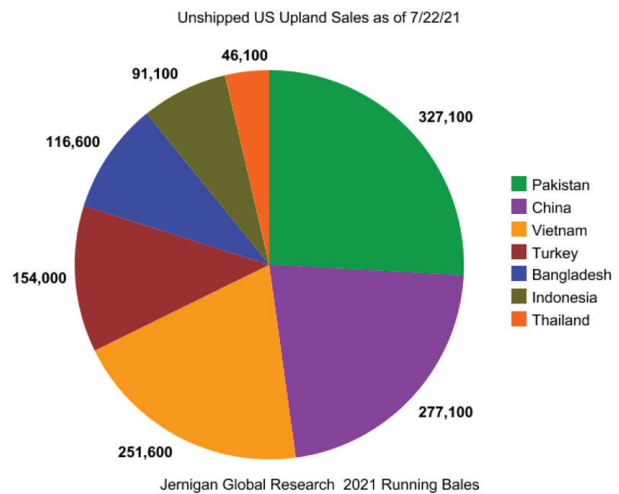


*US port congestion expanding*

Bangladesh, Pakistan, Vietnam, and Turkey all remained in the market last week even as CFR prices moved north of 100 cents a lb. Booming consumption and low inventories were two motivating factors, and delays in the arrivals of purchases was another. US 2020/2021 outstanding sales to these four destinations stand at over 938,000 running bales of upland. This cotton was purchased at cheaper prices and needs to be shipped ASAP, but the issue is the logistical delays that start with US trucks, rail intermodal ports, and end with delays in their home ports. Much of the offtake last week was focused on shipment before year-end except for US E/MOT for first quarter 2022. Old Crop African Franc Zone, East African, Brazilian, and Argentine sold in volume. It appears Argentine exporters who have been holding large stocks are now selling these in volume at firm basis levels into Pakistan and Turkey to fill a void of US offers.

The logistics issues at US ports and railways experienced additional chaos last week. It was reported that 26 container ships were waiting to unload at the Port of Long Beach and Port of Los Angeles. The ports reported vessel bunching up, chassis shortages, and excessive container dwell times. In January-June, the volume of imports handled by the Ports of Long Beach and Los Angeles increased 41.1% from a year ago to a record. Both ports are now reporting excessive dwell times for both local deliveries and for rail shipment east. Many containers are awaiting railcars and trains to move to

the central US. Union Pacific and BNSF railroads were metering intermodal shipments as a result. Importers are allowing containers to sit at terminals for long periods, which is increasing demurrage charges. Distribution centers are reportedly overwhelmed. A shortage of marine chassis is occurring, with 50% of more chassis dwelling for over seven days and some as long as 30 days. To clear as many import containers as possible the ports are sending them to off dock storage yards. As of Friday, the JOC reported that rail containers were building up in Long Beach because railways cannot handle them.



These conditions continue to make it difficult to move the committed US cotton. Adding to the drama is the tightness in stocks and the cleaning out of warehouses, which adds to the issues. The USDA weekly export data suggests that US final exports for 2020/2021 may only reach 16.0 million bales, which would suggest a possible 400,000-bales increase in the US carryout. However, the Census Bureau and USDA data must be reconciled. The China Cotton Association has raised Chinese cotton imports for 2020/2021 by 650,000 tons, placing them at 13,783,500 bales, which is 1.283 million bales higher than the USDA. This adjustment, if the USDA follows, might mean a higher census bureau export, thus reducing the size of any upward adjustment in stocks.



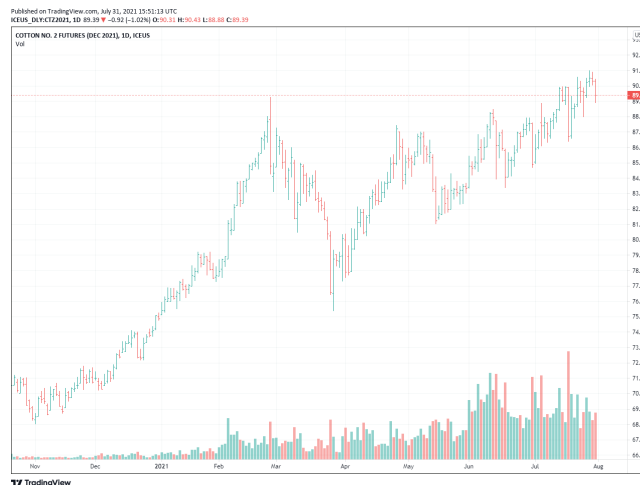
## STRONG DEMAND FOR CCI AUCTIONS AS INDIAN SPOT PRICES HIT 98 CENTS

Cotton stocks continued to move off to spinners last week even as prices moved higher. The ex-gin yard price of a Shankar-6 hit near 57,500 Rupees per candy or 98 US cents a lb. Despite these prices, additional cotton is moving to Bangladesh, because it is the only cotton available for immediate arrival. Planting is advancing slowly with the monsoon active. Rainfall in Gujarat remains near a 30% deficit below normal for the season,

and last week's rains continued that pattern. More heavier rains are needed, but the nearby forecast has rainfall continuing to be light. Attention is beginning to turn to the early movement of the crop in the Northern Zone with expectations that seed cotton prices will trade at large premiums to the new higher MSP. Stock levels are tight, and very strong demand is expected for the new crop as it begins to move.

## ICE FUTURES FIND RESISTANCE AT 91 CENTS AMID NO CHINA IMPORT DEMAND

The 2020/21 season has ended with the Cotlook A Index expiring at over 100 cents, which capped a very bullish season. As the season ended, a serious concern overshadowed the market, a reemergence of the Covid virus and developments in China. In recent weeks, we have provided in detail mounting concerns regarding China's economy and the actions of the Xi administration. Last week's move against the publicly traded education companies by Beijing spread to further actions against the Tech sector, private delivery services, and the property companies. The Chinese and Hong Kong equity market suffered one of their largest declines on record, as there was a rush to exit by international investors. Even an attempt to calm the selling did not stop new selling from occurring on Friday. Bloomberg reported that the Chinese markets lost nearly one trillion USD in value last week, which would equal about 1/15 of the country's GDP. When you include the economic losses from the flooding, it was a very bad week for Beijing. Adding to the anxiety was the arrogance and lack of respect by the Chinese government during a meeting with major US diplomats when China insulted the US Vice Secretary of State during a visit with her Chinese counterpart in Tianjin. They snubbed her by forcing her to meet with a lower ranking Chinese official. China then issued a list of demands on what the US



had to do before China would consider repairing ties, followed by reports of China staging war games on the invasion of Taiwan. This came as a well-known China expert said in an interview that he expected China to move against Taiwan as early as the fall of 2022. There were also warnings from Australia and others concerning possible invasion plans and the refitting of Chinese commercial shipping lines to move the troops. For

the cotton sector, all this occurred against a backdrop of demand for the week centered internally on the Reserve auctions which sold out every day and purchases of the bonded warehouse stocks. China continued to be absent from international forward purchases, so for the US another crucial week has passed and no sales.

Demand from the non-Chinese markets slowed but continued as spinner inventories were still needing additional coverage, and shipping delays caused tightness in nearby stock levels. Pakistan, Bangladesh, Vietnam, and Turkey all remained active. US styles are difficult and somewhat limited prior to first quarter, but that could change. While the US crop is catching up, it remains late. Fall weather is an unknown, and logistics promise to be difficult through at least Christmas. African Franc Zone, Australian, Argentine, and Brazilian are the feature for any shipment before October, along with

the small East African crops. The Brazilian harvest is advancing but yields in Mato Grosso remain in question. Weather makes everyone nervous considering a major snowstorm blanketed southern Brazil on Friday.

The reemergence of the Covid variant across most major markets and new lockdowns appearing have added to the caution about being aggressive on extending coverage. This, combined with the logistics problems and China/US relations and actions, has meant an increasing focus on unfixed On Call purchases, which are likely to hit record levels. Unfixed On Call purchases as of July 23rd stood at 13.643 million bales, and this level may increase past 15 million bales under current conditions.

The divergent US and Chinese markets were evident when Dec ICE futures encountered, as we expected, very heavy resistance at 91.00 cents. Dec closed at 89.39 for a loss of 27 points for the week as compared to a 2.90 cent gain in Chinese cash cotton prices and a 2.0 cent gain in the ZCE Sept cotton futures. The reason for this was the absence of any fresh Chinese import demand either for US or non-US cotton. Instead, the China demand was focused internally on the Reserve stocks and the imported bonded warehouse stocks and then domestic cotton. This left ICE supported by On Call purchase fixations, a small amount of fresh export trade,

and new speculative buying. Open Interest in ICE futures increased to 249,355 contracts as of July 29th, which reflected a 7,314 contract increase in the previous four days with at least 1,500 of those gains from Exchange for Swap new positions. The COT report for the week ending July 27th confirmed our thoughts. Swap Dealers were net buyers of 1,876 contracts, increasing their net long to 56,907 contracts. The Managed Funds purchased a net 4,944 contracts, increasing their net long position to 64,437 contracts while the Other Reportable Funds purchased a net 4,153 contracts, moving their net longs to 22,847, which may be a Chinese Hedge Fund. The Non-Reportable small specs added 385 contracts, and Index Funds added 843 contracts of new longs with their net long now at a hefty 84,191 contracts. The Trade was the sole seller, adding an additional 11,358 new shorts with the net Trade short position now at 15.6461 million bales. As the week progressed, the increases in Open Interest suggested the trend of SWAP, and Speculative buying continued along with Trade selling. Last week we discussed our shift to the belief that we could be entering a 91 to 84 cents trading range in Dec due to the logistical chaos, China issues, and the renewed Covid outbreak causing caution for now. With the US crop near 18 million bales and China with hardly any 2021/2022 US purchases, we continue to see this as a problem. We remain of the opinion that a trading range lies ahead.

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