BRAZIL COTTON CROP ESTIMATES FALL SHARPLY

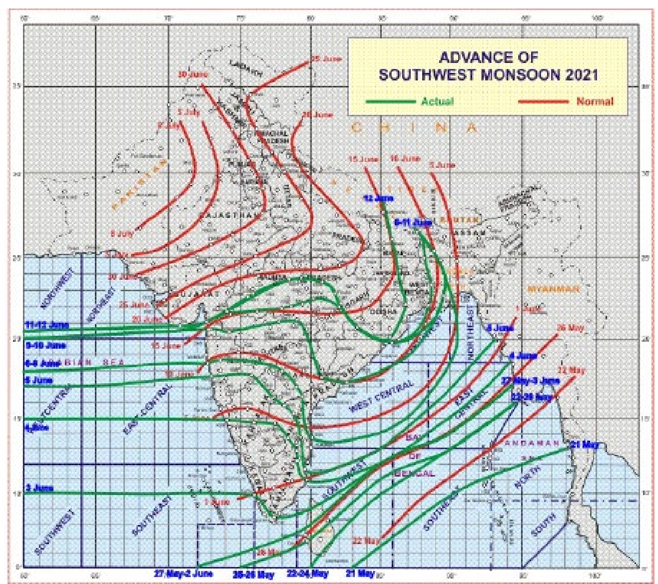
PRIVATE ESTIMATES OF XINJIANG CROP REDUCED 15%

TORRENTIAL RAINS HIT US MID-SOUTH REGION

ACTIVE TRADE NOTED IN AUSTRALIAN STYLES

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

REALITY IS THAT INDIA DOES NOT HAVE 16.78 MB OF STOCKS PROJECTED BY USDA AS PRICES CONTINUE TO SOAR

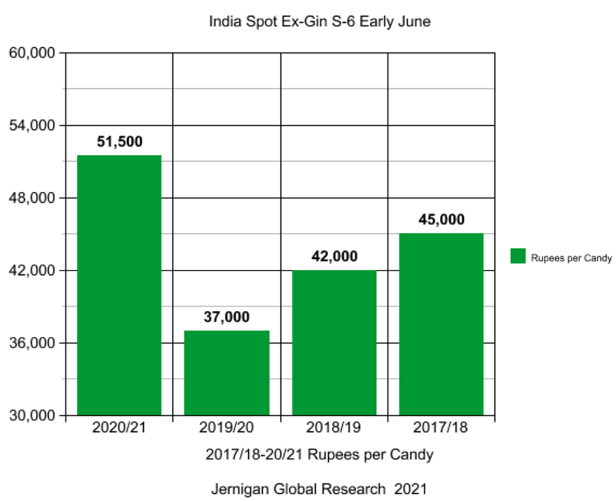


The debate has raged for years, but the reality is India does not have the volume of stocks projected by the USDA of over 16 million 480-lb. bales for the last two seasons. It does not matter about formulas, estimated inventories, or any of the statistical models one chooses to employ, the price action always tells the story. Indian cotton prices since April have ignored most international price developments and moved steadily higher, reaching the highest levels in over ten years, and moving to a premium to ICE futures after falling to a record discount of over 1100 points in

February. The rise in prices has been impressive by any standard, reaching near 90 cents a lb. base a Shankar-6 1 1/8 ex-gin. First, the rally should standout. It was not driven by gains in ICE futures or international prices. This means it was driven by Indian internal supply/demand developments. That is important to our argument.

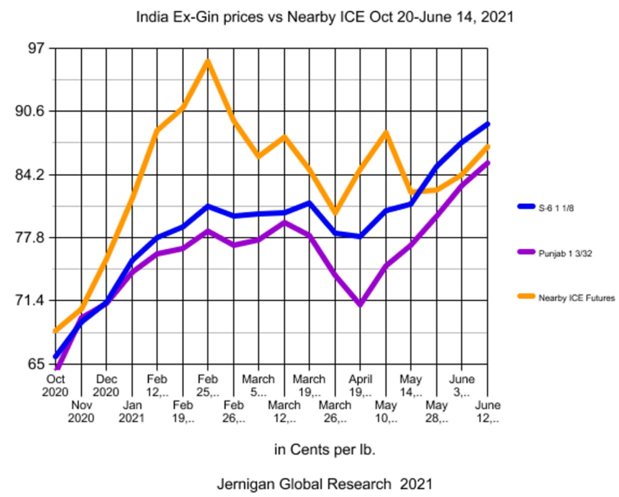
The USDA going into the June

WASDE has estimated 2020/2021 beginning stocks in India at 16.85 million 480-lb. bales, which represent 84% of 2019/2020 Indian Consumption (using USDA data). Then, it has 2020/2021 ending stocks at 17.18 million 480-lb. bales, which would reflect 73.1% of estimated domestic consumption. This raises a very logical question: Does the Indian market act like a market in which stocks are equal to over 70% of estimated mill use as of July 31, 2021? The answer is, of course, NO. The first argument that might be applied is that it is the result of the CCI purchases. The CCI has not been buying cotton for months as the price went above the MSP. Secondly, it has been selling stocks, and as of June 7 it was holding only 2.55 million 170-K bales or just below two million 480-lb. bales. This is clearly not the reason. New Crop deliveries of the 2020/2021 crop have been extremely light but still imply a shortfall of the crop below 36 million 170-K bales of only a minor amount. The bottom line if that either consumption is far greater than any estimate including Indian, or stocks have been greatly exaggerated.



Consumption could be slightly underestimated, but the CAI and others as well as the statistical data from the government suggest estimates contain no several million-bales errors. Thus, the error lies in the Stocks estimates. What makes the overestimation very difficult to understand is that the Indian Industry has brought it to the attention of the USDA and presented their arguments and data. The USDA did make some adjustments but continued to maintain stocks far above the Indian estimates adjusted and most private work. It was cited that the Indian pipeline required such volumes. Indian mills have neither the storage capacity nor financial strength to carry such inventories as the USDA suggests.

In Gujarat, arrivals at the end of May stood at 8,831,826 170-K bales. This reflected a 12.22% increase from a year ago. Most of the small daily arrivals over the last 30 days have been from Gujarat. Arrivals in the main cotton district of Saurashtra reached 5,476,461 bales, an increase of 20.3% from the previous year. Arrivals in the North increased 7.45% to 2,473,957 bales, while arrivals in the Main Line and Kutch fell below last season. The CCI sold additional bales last week as spinners viewed the CCI as the main source for domestic cotton. It raised the floor price several times last week, but most sales occurred at a premium to the floor price.

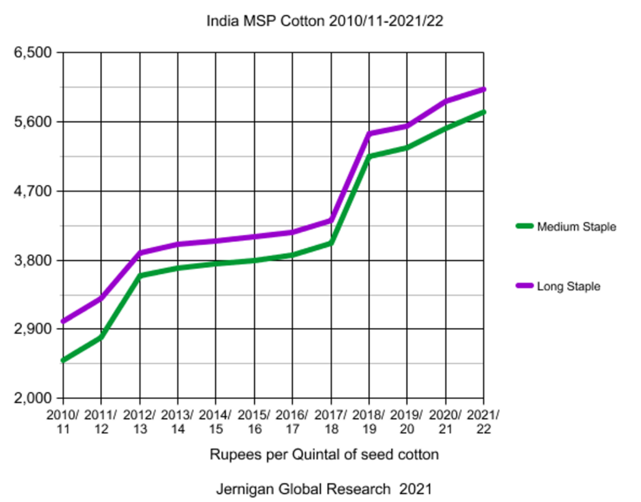


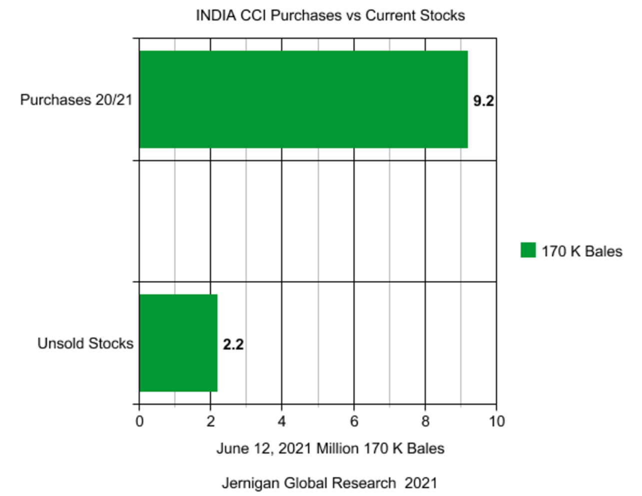
Today, mills in the north are paying cotton prices that are the highest in 10 years or more, some 37% above a year ago, and Southern Mills are importing cotton because it's cheaper than domestic cotton shipped south. Does anyone really believe this would be occurring if India was going to end the 2020/2021 season in less than 60 days with nearly 17 million 480-lb. bales or over 22 million 170-K bales? This is simply impossible. The overestimation of Indian stocks has impacted the behavior of Indian prices at times and also give the world the assurance of a greater cushion of stocks than actually exists. For 2020/2021, the USDA has Indian stocks at over 18% of total world stocks, or that 1.8 of every 10 bales in the world is in India, which is simply not the case. In the June WASDE, Indian 2020/2021 ending stocks were reduced slightly to 16.78 million 480-lb. bales. This estimate is approximately million bales overestimated.

India announced the MSP or Minimum Support Price for 2021/2022. The medium staple MSP was raised to 5,726 Rupees per quintal, which reflected an increase of 3.8%. The longer staple MSP was raised 3.4% to 6,025 Rupees per quintal. These MSP are the highest on record. The higher MSP was announced too late to influence cotton acreage in the Northern Zone. However, it should boost acreage in Southern India.

When adjusted for ginning outturn and cost, this should equal 76-77 US cents a lb., ex gin yard price for a S-6 1 1/8. This suggests Indian export offers for new Crop will find support at 80-81 cents CFR nearby markets. It is also far below current spot prices, suggesting the CCI will not be a buyer unless prices fall sharply.

The annual MSP level for cotton has been adjusted higher every year since 2010/2011. At that time the long staple MSP was 3,000 Rupees per quintal. By 2017/2018, it had increased to 4,350 Rupees per quintal. The MSP was introduced in 1966/1967 to boost Wheat production, and today it covers at least 24 crops.





The monsoon arrived and is rapidly spreading moisture. Very heavy rains hit Maharashtra causing flooding in Mumbai, which by June 9 has already received 195.6 MM. By Friday, the Monsoon had already reached South Gujarat. Over the next week much of the country is expected to be covered. The rains have raised hopes that average cotton yields can improve in 2021/2022.

The sharp rise in Indian prices since April 1 has slowed export offtake and raised doubts that the early export forecast will be met. The USDA estimated 5.9 million 480-lb. bales export for 2020/2021 or 7.556 million 170-K bales. This is not likely to be met and will fall below 5 million 480-lb. bales. International merchants who purchased CCI stocks are now reoffering back into India instead of export as the Indian premium expanded. The rally in ICE last week did narrow the Indian premium.

PERU ELS CONSUMPTION IS BOOMING: WILL A SOCIALIST VICTORY THREATEN IT?

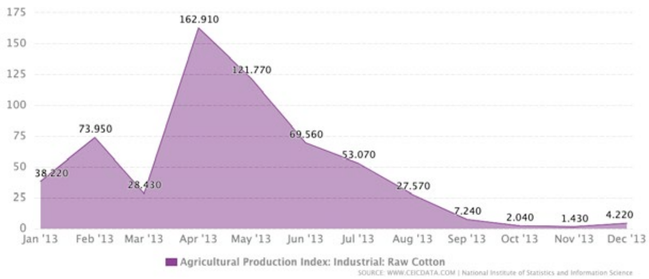
Peru election 2021

Peru Pima production has collapsed in 2021

Peru has emerged in the post pandemic world as a major go to sourcing option for SUPIMA products. The country's long history of consuming Pima and the focus on quality have made Peru attractive again. Peru was a booming cotton and apparel center in the 2006-2010 period. Its Own Pima and Targuis was known by brands and retailers and were in high demand. In 2006/2007, it produced a record 377,000 bales domestic crop and consumed 575,000 bales. Both production and consumption have fallen sharply since that period. In 2020/2021, consumption is estimated at only 240,000 bales, and domestic cotton production has collapsed to 30,000 bales. A host of factors have gone into the decline. The government has failed to provide any real support for cotton production, and poor seed technology has been a major problem. The average farms are small, and no effort has been made to modernize and adjust for mechanical picking. Cotton production was also spread out geographically, which meant logistics issues. For the mills, the domestic market has been and continues to be overrun by cheap imports of textiles from China and India, and the domestic apparel market has been dominated by cheap Chinese apparel. General apparel exports have been uncompetitive against the cheapest labor locations due to the higher Peruvian wages.

In the post pandemic world, the Peruvian mill groups have moved to focus on high US Supima products, which has been successful with Peru, now the largest ELS cotton consumer in the Americas and larger than Pakistan or Bangladesh. The free trade agreement with the US has aided in the expansion. The country is on track to consume over 50,000 bales of US SUPIMA in 2020/2021 and to likely expand it further in 2021/2022 if supplies are available. Up to now, it has purchased 50,300 running bales of SUPIMA as compared to only 19,000 bales on the same date a year ago.

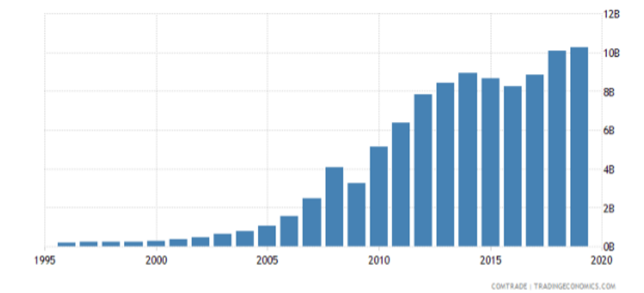
Peruvian politics has been volatile as has democracy across Latin America. The current election pitted a pro-business candidate who is under investigation for corruption and who campaigned while on bail against a Marxist/socialist who vows to redistribute the wealth. The count is razor thin between the two, but the Marxist has a small edge. The Peruvian currency has collapsed. On Monday, it hit a record low of 3.9451, which is down 12.3% over the last 12 months. The concern is that new socialist policies will destroy the economy and endanger the booming ELS consumption. It could also make relations with the US difficult. In 2019, Peru exported 705.126 million USD of textile/apparel exports to the US. Exports fell to 558.26 million in 2020. Total apparel exports in 2019 were 914 million, which meant the US accounted for 77% of all exports. First quarter exports to the US are at 170.82 million USD with cotton products accounting for 118.49 million USD of that total.



Collapse of Peru cotton production

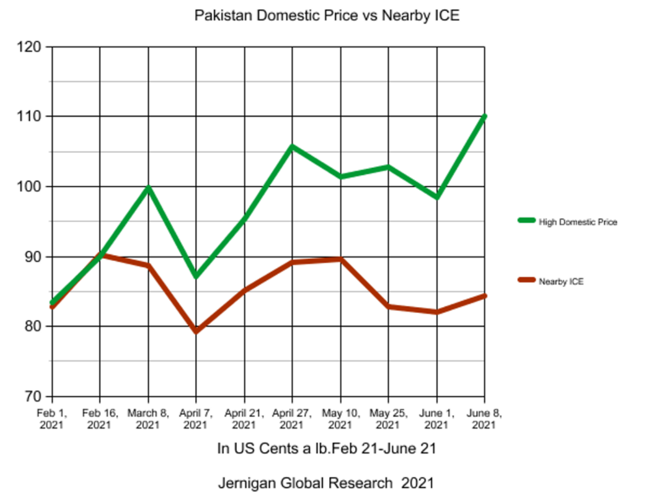
The hope is that any future government would do a better job of halting the dumping of Chinese textiles and apparel in Peru. In 2018, the latest data shows China exported officially 1.079 billion in textiles and apparel to Peru, and then there are the illegal imports. These imports are moved into the Peruvian market far below the cost of production of Peru-made products. They have been responsible for much of the collapse in cotton use and the failure of the domestic industry to expand. New investment in the sector has been inhibited by lack of faith that the government will offer protection or enforcement. China has moved to overrun the Peruvian economy with capital goods imports from China alone near four billion USD. China has also overrun the Chilean market with textile and apparel exports of over three billion USD, which has hurt attempts by Peru, Brazil, and Argentina to export to this market.

This market is very important for US cotton and apparel trade. In addition to the SUPIMA exports, Peru has also imported over 155,000 bales of US upland in 2020/2021. Thus, US cotton accounts for 87.5% of all cotton use, with domestic cotton making up the balance.



Peru imports from China: The overwhelming of a market

DOMESTIC COTTON PRICES IN PAKISTAN EXCEED 100 CENTS, STIMULATING IMPORTS



Old crop supplies in Pakistan are extremely tight, new crop arrivals are slow, and cotton consumption is near capacity. All of this has the domestic market continuing to move higher. Some of the smaller mills focus on domestic supplies or buy imports from the larger mills, which will usually sell some stocks. However, the absence of domestic supplies and shipping delays has the larger mills not willing to sell imported stocks. This has created a bidding war for any old crop stocks and the small volume of new crop arrivals reaching the market. Prices opened the week at near record highs, with reports of the highest price on record being paid for new crop seed cotton. Lint prices hit 13,200 to 14,000 rupees per Maund, the highest since 2011. These prices equaled 103.71 to 110.00 cents a lb.

In February, Pakistan domestic cotton prices were at a slight discount to ICE and International values, but that all changed as we moved into April and domestic prices began to move to a premium to ICE. By late April, the premium had reached 10 cents. This put imports at par or a discount, and by the end of the month imports had moved to a 5-8-cents a lb. discount. By June 8, the discount of imports had reached 15-18 cents a lb. This triggered widespread import interest with a new growth beginning to draw interest in Australian. It is not an open-end cotton, but it is the cheapest high grade in the world. Pakistan mills normally buy 3-5,000 tons of Australian annually, and we expect that could double or more in the months ahead. African Franc Zone are increasingly difficult to secure shipping nearby, and thus US styles along with Argentine and East African are popular for the open-end mills and others. Spinners may also be attracted to any low mike Australian styles that will be offered as ginning expands.

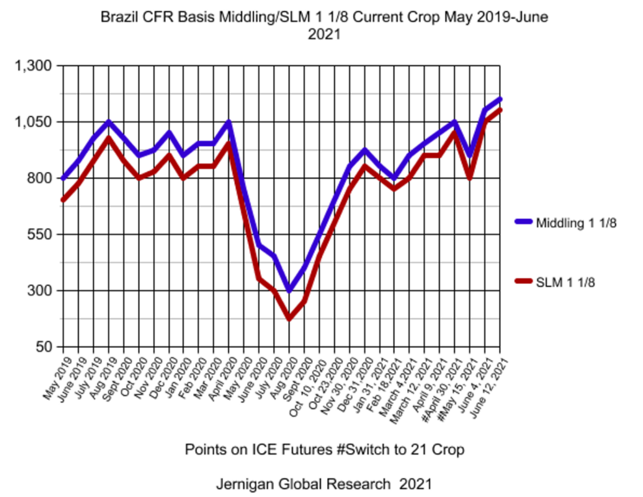
Pakistan is expanding exports to the US. April exports to the US reached 285.2 million USD, which exceeded both 2019 and 2018 levels in the same month as well as last year. Cotton apparel exports to the US are up over 30% from 2019 and 2018 levels. Pakistan is now the 7th largest supplier of cotton apparel to the US.

BRAZIL HARVEST BEGINS IN BAHIA/EXCELLENT YIELDS & QUALITY EXPECTED

The 2021 harvest in Bahia is underway and it appears to have been a good season. Most of the crop in Bahia is full season and thus was planted on time, received good rains, and yields are estimated to be slightly above last season at near 9 bales per hectare. That is a great yield for a crop that is mostly rain-grown

with irrigation on some acreage. Western Bahia has been compared to Australia's eastern cotton belt. The climate is arid with a wet season and then dry. Irrigation has been expanding but is limited to just over 50,000 hectares or 16% of planted acreage. 266,662 hectares were planted in 2020/2021 which is down slightly from 305,351 hectares last year. With the arrival of new advanced technology seed, the industry has boomed as quality improved, and the past issues were resolved. The region is well known for its production in recent years of 37 and 38 staple styles mostly in Middling color grades.

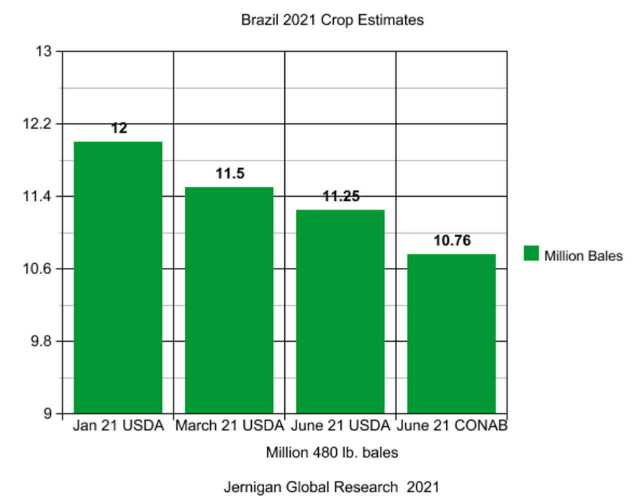
Merchants over the past few weeks have increasingly introduced offers of Bahia Middling 1 5/32 in their offers for August- September and October-December shipment. Offering levels are 1200-1300 points on Dec. This is in line with US Green Card 31-3-37 offers as well. For the first time, Australian 21 crop Middling 1 5/32 is offered cheaper at 1100 points or so on Dec. Traditionally the premium has been near 600-1000 points on for the Australian.



The largest inhibitor to an extended expansion in Western Bahia cotton acreage is the transport issue. The cotton must be trucked to Santos, a 1680-KM journey taking 24 hours or more. There is a highway to Salvador ports, but the cost is high and container service is very limited. Thus, only a small volume moves through these ports. Talk of including container service at the northern grain ports has not resulted in any viable options. Bahia has poor roads generally and lacks infrastructure. ABRAPA estimates 2022 cotton acreage will expand 5%, which would still leave acreage below 2019/2020. Bahia is also a major producer of soybeans.

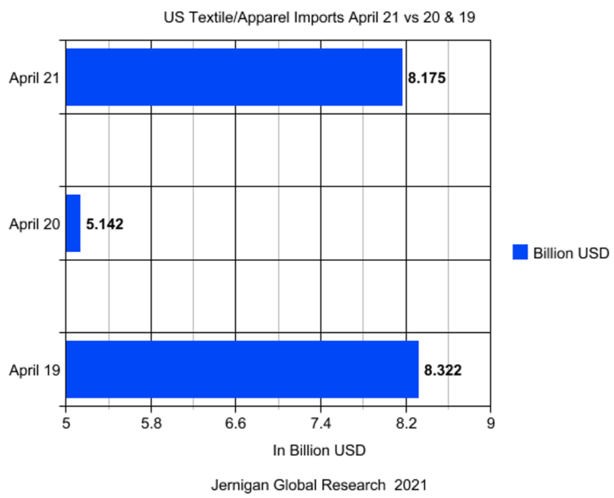
The 2020 Bahia crop was the longest staple on record. 43.17% of the crop classed 1 5/32 staple length, and 19.24% reached 38 or longer staple. This compares to only 24.18% of the crop in 2015/2016, which reached 1 5/32. The crop also had low leaf content with 52.05% having a 3 or lower leaf and 24.62% 4 leaf.

CONAB, in its June estimates, lowered cotton sharply to 2,342,000 tons or 10,760,319 bales, which is below all other estimates. It reflected lower production than last season in every state. Mato Grosso production was placed at 1,608,000 tons or 7,387,956 bales. This was slightly lower than IMEA estimate of 1,620,121 tons. Bahia was placed at 507,700 tons or 2,332,628 bales. This places the crop below the USDA 11.25 million bales and below the ANEA estimate. This will mean lower export availability for shipment for July throgh June and will likely tighten basis levels further.



Domestic cotton prices remain firm with the ESALQ index of a 41-4-35 landed Sao Paulo ending the week at 97.93 cents, off its highs. The 2020 old crop basis firmed out of the cheapest sellers last week, with the Cotlook quote increasing to 1065 points on July. which reflected a 150-point increase. This move by Cotlook was overdue, with the 2020 crop basis in the A index undervalued for weeks. This brings the old and new crop basis together as the seasons merge. Brazil 2021 crop will face an opportune selling period in the July/ October period when its competition with the US will be very limited as the US sells out and new crop is delayed. The main competition will be with the Australian crop during this period.

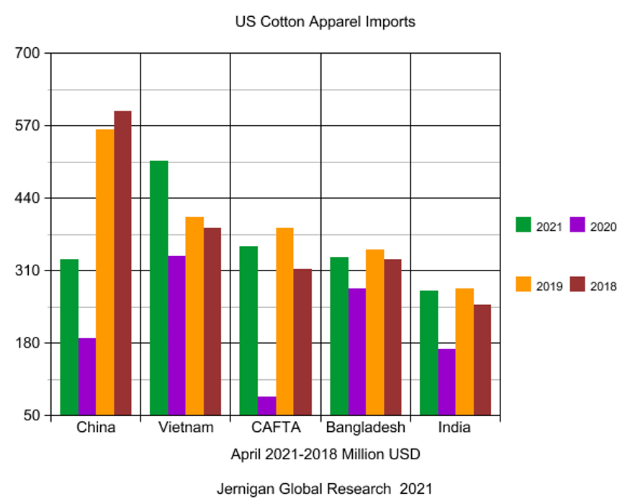
US TEXTILE APPAREL IMPORTS SURGE IN APRIL/ IMPORTS FROM TURKEY HIT A RECORD



US textile/apparel imports reached 8.175 billion USD in April, which compared to only 5.142 billion in 2020 but remained slightly below the April 2019 levels of 8.322 billion USD. In volume terms, imports increased 70.6% from a year ago in apparel and 46.4% in textiles. Cotton apparel imports increased 77.5% in volume terms from a year ago, outpacing the rebound in man-made apparel and other fibers. Cotton's market share stood at 43.62% in volume terms, an improvement off the record lows. The top supplier of cotton apparel was Vietnam at 505.8 million USD, which was up sharply from 2020 and also 2018 and 2019. Imports were up 22.65% from April 2019 levels. The second largest supplier was the CAFTA exporters. In 2020, imports from this region collapsed as the virus raged, falling to 84.235 million in April. April imports in 2021 soared to 353.162 million USD. The third largest supplier was Bangladesh with imports of 333.2 million USD.

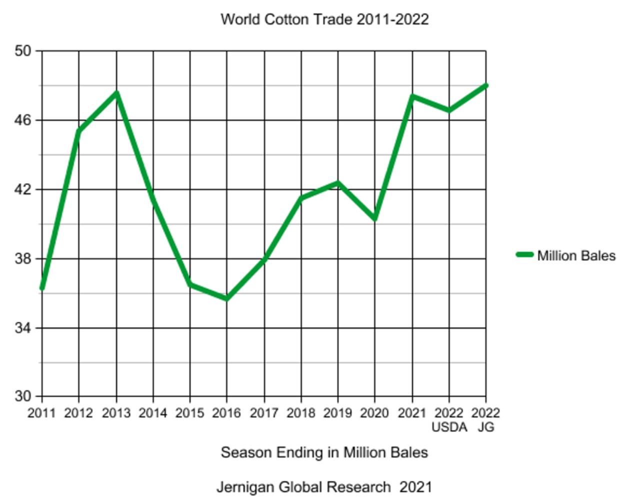
The fourth largest supplier was China, with imports reaching 329.7 million USD. This was up sharply from last year but reflected a large decline from 2019 and 2018 levels. Imports were down over 41% from April 2019 levels, reflecting the Xinjiang ban impact. The fifth largest supplier was India. Imports from India reached 272.5 million USD, up sharply from a year ago and back near 2019 levels.

In regard to total overall sourcing, China has maintained its edge. Total imports of textiles and apparel from China reached 1.785 billion USD, keeping it firmly as the top supplier followed by Vietnam at 1.213 billion USD. India was third at 871 million USD. Imports from Pakistan reached 285.2 million USD, a record for the month and up 125% from a year ago. Monthly imports from Turkey were also a record at 233.912 million USD. This compares to 147.2 million in 2019. Cotton apparel imports were also a record at 70.341 million USD, which was up over 60% from 2019. The growth was in men's/boys knit shirts, women's/girls knit blouses, men's/boys cotton trousers, and women's/girls cotton slacks. Outside of this, a surge in man-made floor coverings has occurred as well.



The April import data showed that Mexican consumption was rebounding, with exports to the US at 322.4 million USD in all products. This exceeded imports from Cambodia, another growth market. Imports from Indonesia also showed growth, which was hopeful for that market getting back on its feet. Imports from Italy also showed a major rebound at 163.2 million USD. Buyers also switched from Burma; imports fell over a million USD from the depressed levels of 2020 to 6.5 million USD. Imports from Ethiopia also fell sharply.

USDA WASDE INCREASES WORLD TRADE FOR 2020/2021 & 2021/2022



The two most important features to the USDA WASDE estimate for June were, first, it increased world trade to near a record for 2020/2021 at 47.41 million bales and increased 2021/2022 to 46.591 million bales. Secondly, it's clear that Indian ending stocks are again far overestimated as is Indian exports for 2020/2021. World trade for 2020/2021 was increased 1.4 million bales to 47.41 million bales. That is just shy of the 2012/2013 record of 47.63 million bales. The USDA raised Bangladesh imports to 8.250 million, an increase of 750,000 bales. It raised Chinese imports 500,000 to 12.5 million bales and Turkey imports to 5.1 million for an increase of 300,000 bales. The USDA increased exports 1.2 million to meet this demand. The most controversial move was to raise Indian exports by 400,000 bales to 5.90 million bales. We doubt that Indian exports will exceed 5 million bales, thus 900,000 bales will have to be relocated to other exporters. The US exports were increased to 16.4 million and may yet be raised by 100-200,000 bales. Brazil exports were raised 300,000 bales to 11 million, which may be the limited. AFZ exports were increased 100,000 bales and may increase further along with several small exporters.

2021/2022 World Trade was placed at 46.591 million bales, an increase of 1.083 million bales. The USDA adjusted imports and exports as trade occurs and thus the early season estimates are seldom the final numbers. We expect 2021/2022 trade may reach a new record of 48 million bales or more. The USDA increase in imports came from China at 11 MB, an increase of 500,000 bales, Bangladesh at 8 million bales for an increase of 400,000 bales, and Turkey was increased 200,000 bales. The increased exports were spread across many regions: Brazil +250,000, Australia +200,000, Tanzania +100,000, USA +100,000, African Franc Zone +200,000.

The USDA lowered 2020/2021 US ending stocks by 150,000 bales to 3.15 as it increased exports by the same amount and lowered 2021/2022 ending stocks by 200,000 bales to 2.9 Million bales, raising exports by 100,000 and increasing unaccounted for by 50,000. In regard to production, Brazil 2020/2021 production was lowered 250,000 bales to 11.25 million bales, while Australian was raised 300,000 bales. For 2021/2022, China production was cut 750,000 bales and consumption raised 1.0 million bales to 41 million. Total 2021/2202 world ending stocks were reduced 1.690 million bales.

PRIVATE ESTIMATES CUTTING XINJIANG CROP BY NEARLY 15%

The 2021/2022 Xinjiang crop has gotten off to its worst start in ten years or more with both April and May turning cold, rainy, windy, causing much of the crop to be replanted three times or more. Some growers planted the first time in the first week of April but ended up planting the final time at the end of May. This resulted in planted acreage being reduced from earlier ideas as late replanting went to corn. A survey by China Grain Futures in Southern Xinjiang has shown cotton planted acreage declined 5% due to a switch to grain. Weather in June has been much better, but problems continue. Last week, the Northern crop areas near Yili and nearby areas experienced more heavy rain and hailstorms. The south was hot, with daily highs near 40 C. Recent surveys continue to show the growth in the ELS acreage in Aksu has been better than upland, which will be quite interesting if that holds through harvest.

Overall, most survey work on the Chinese side is showing yield reductions of about 15% from last year and approximately 5% lower acreage. This should put the Xinjiang crop at 21.3 to 22.6 million bales, which suggests a reduction of 4 million bales or more from 2020/2021. The crop would still fall within a normal range for the last five years. 2020 was a year of record production and yields. As of April 29, total cotton ginned from 2020 stood at a record 5.780 million MT or over 26.5 million bales with production from the local coops exceeding the PCC.

The lateness of the crop means that weather for the remainder of the season will be important as will a hot open September. The reduced crop will put pressure on imports, and the quality of the crop will be very important given the lower quality of the 2020 carryover from Xinjiang.

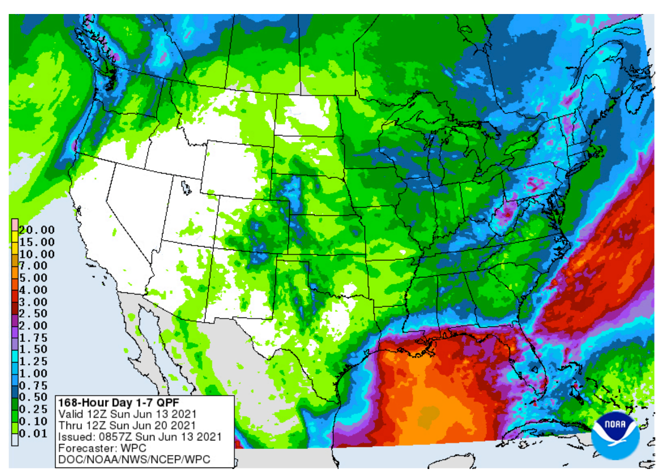
TORRENTIAL RAINS HIT US MID-SOUTH COTTON BELT

The 2021 cotton season is marked by the "Big Wet" from Texas East and a century drought in the Far West. Last week, additional heavy rains covered much of West Texas before the area cleared and temperatures surged to 105 degrees F as growers rushed to finish planting. In the Mid-South, a slow-moving system brought record rains to parts of the cotton belt causing flooding and raising the prospect of early crop losses as water covered young seedlings. The rains hit Wednesday/Thursday and begin to clear Friday. The hardest hit area is the Mississippi cotton belt. Greenwood officially received a record 7.81 inches Thursday, and locations in the region received near 20 inches from the system. As of June 10, Greenwood had received 12.09 inches so far in June. Southeast Arkansas was also impacted, with Pine Bluff receiving 6.90 inches as of June 10. Lesser amounts fell in the Northern regions, with monthly rainfall as of June 10 of 2-4 inches in many areas and drier in areas north of Memphis and East. The hard-hit areas have lots of flooded fields with cotton under water. It remains to be seen how stands hold and if the seedlings live after the water drains. The speed of the drainage will be very important. The area should clear by Saturday. Dry weather is expected this week.

Mississippi cotton field under water

The hardest hit areas of Mississippi appear to have been the heart of the cotton belt in the north the District Ten, which includes Tunica, has received over 10 inches in June. To the south, district 40, which includes the Greenwood area together with district ten, normally contain about 50% of all Mississippi cotton acreage. This has raised fears over potential crop losses.

West Texas has turned hot and dry with no major rains expected over the next seven days. The Upper Coastal bend could continue to receive moderate rains adding to the problems with excessive moisture in the region. The Southeastern belts will be experiencing beneficial rainfall



across the Georgia Cotton belt over the next seven days.

Overall, the level of US acreage and production is in doubt. Prevented acreage will be much larger than previous seasons. Secondly, losses after planting are now a concern in the Mid-South, and the Texas acreage and production are very much still undetermined as weather has remained unusual to say the least.

AUSTRALIAN COTTON BELT HIT WITH WINTER STORM THAT BRINGS RAINS

Major cold front hits Eastern cotton belt

The Australian cotton harvest is about 75-80% complete. However, late unharvested acreage still in the field was impacted by a major cold front that hit last week. The Orange area of NSW, a grain, not cotton area, experienced a rare snow. In the NSW cotton belt, pockets received over 60 MM, very rare for June. Moree received 41 MM, Gunnedah 61 MM, and Narraberi 69 MM, with rainfall falling to 20 MM or less in the Southern valleys. The rain, very cold temperatures, and some frost brought all picking to a halt. The area is clear and will be dry this week. The cold and rain extended into Queensland, with the Eastern Darling Downs reporting 19-36 MM. The rains will impact color grades and increase the volume of SLM color grades.

The 2021 crop FOB basis firmed last week, and the cash price reached 585 Australian dollars a bale. The CFR basis firmed as the week progressed, with widespread interest now noted from many Asian locations. Demand also was evident from Turkey. This suggests the basis has bottomed and will continue to appreciate. We have argued for months that the 2021 and 2022 Australian CFR basis is undervalued. Last week began with a Brazilian Middling 37 offered at a premium to Australia. This was the first time such a discount has ever occurred, illustrating the absurd level of the basis. The weakness in the basis will be likely viewed in the future as a rare occurrence linked to the China embargo. Just as occurred in barley, wine, and other products embargoed by China, it is the Chinese consumer or commercial buyer who has lost as new markets are expanded and the price is restored. China's embargo of Australian coal has cost the China billions and created electricity shortages as Australia found new markets. In May, Australia exported 13.68 billion USD of products to China and enjoyed an 8.7 billion USD surplus.

The 2021 crop is now estimated to reach 2.8 million bales. Given the crop issues developing in other regions, this larger crop will be needed. 2022 crop prospects are now over 4 million bales.

STRONGER CFR BASIS LEVELS AND HIGHER PHYSCIAL PRICES LEAD ICE & ZCE FUTURES HIGHER

CFR basis levels generally moved higher last week following brisk export offtake, a difficulty of obtaining additional supply from some origins, and a continued increase in logistics cost. The cheapest CFR basis levels increased 100-150 points last week, led by 2020 crop remaining Brazilian offers. African Franc Zone, EMOT old crop, and Australian CFR basis levels were also all firmer. Export markets were active with India, Pakistan, Vietnam, Bangladesh, Turkey, and others were all active. China saw some activity, but generally mills appeared to be waiting for the receipt of the sliding scale quotas announced some time ago. Rumors were in circulation that the Reserve would begin daily auctions of Reserve stocks on July 1, offering 600,000 tons. No confirmation of this has yet occurred. The featured growths included Australian, where the 2021 crop sold in volume across several Asian markets. African Franc Zone, US recaps, and New Crop 41-4-36 GC were popular along with Brazilian 22 crop. China's domestic cash cotton prices moved steadily higher last week, with the Cash Cotton Index ending Friday at 114.57 cents a lb. This reflected a gain of 2.4 cents a lb. for the week. ZCE Sept Cotton futures also moved higher, ending the week at 16,045 RMB a ton or 113.71 cents a lb. This reflected a gain of 1.88 cents a lb. for the week. These gains outpaced those of ICE where the Dec contract gained 1.68 cents for the week.

ICE futures last week also had two internal focuses that moved trade. The first was the rolling of positions out of July, which is quickly moving to First Notice Day. The July/Dec spread was very active, trading nearly 65,000 times during the week in a range of 13 to 93 Dec premium. The second focus was the expiration of the July options that expired Friday, Friday's option volume was heavy, with the 87-strike active. Open Interest in July should be near 20,000 or less after Friday. Thus, it is quickly fading away.

The USDA has already lowered the US carryover for 2021/2022 to 2.9 million bales, a tight balance. That is based on a 17 million-bales crop and exports of only 14. 8 million bales. The uncertainly of production and the low carry in stocks will combine with a much smaller than expected Brazilian crop that moves in July through June 2022. CONAB lowered its crop to 10.760 million bales as compared to the USDA 11.25 million. The combination of the two largest exporters having more constrained supplies will have an impact. At the moment, Indian prices are far above the new higher MSP and not an export feature. This leaves the African Franc Zone and then the smaller suppliers. The balance is such that any move for China Reserve purchases would have major ramifications. Up till now, the cotton market has taken comfort from the widespread shortages in many commodities by the large balance sheet. However, that balance sheet is not as abundant as the numbers on paper suggest.

As of today, both ICE and the ZCE futures are absent much speculative excitement, and the net long in ICE is small. It increased last week, but it is still small. ZCE excitement has been contained by the government directives on speculation, and last week's gains were steady but unexciting. The general markets appear to

Dec 2022 discount to Dec 2021

be dancing with the much higher inflation in the US and elsewhere and at the factory gate in China with little fear. It should be noted that if cotton attracts much new speculative interest there will not be the aggressive origin selling that has been evident over the past 12 months, as much of the old crop-free stocks are now in trade hands and it is new crop selling alone that will provide the selling. Amid these conditions, the speculative movement must be monitored closely and respected.

We continue to see a move higher in prices with adjustments. The Dec 2022 curve of prices are discounted still near 800 points, and this is unjustified and is offering spinners a major pricing opportunity.

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