CONCERN BUILDS OVER BRAZILIAN 21 CROP YIELDS

US TEXTILE/APPAREL IMPORT DEMAND SURGES IN MARCH

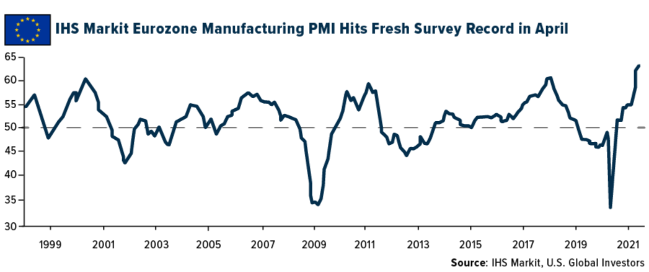
INDIA COVID CRISIS EXPANDS IMPACTING EXPORT SHIPMENTS

INDONESIA RECESSION CONTINUES WITH EXPORTS FALLING

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

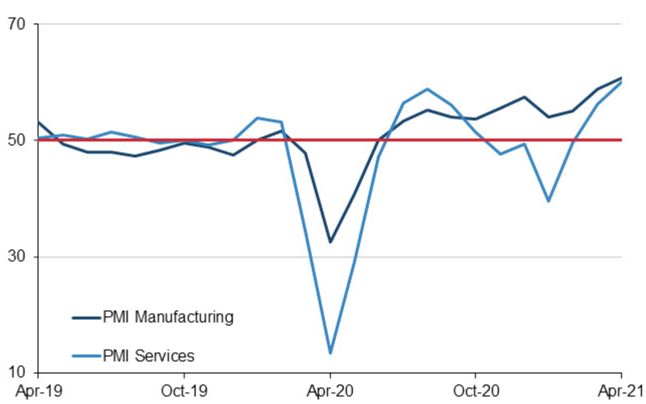
STAGE SET FOR RENEWED SURGE IN EUROPEAN APPAREL DEMAND

WHICH SOURCING ORIGINS WILL BENEFIT?



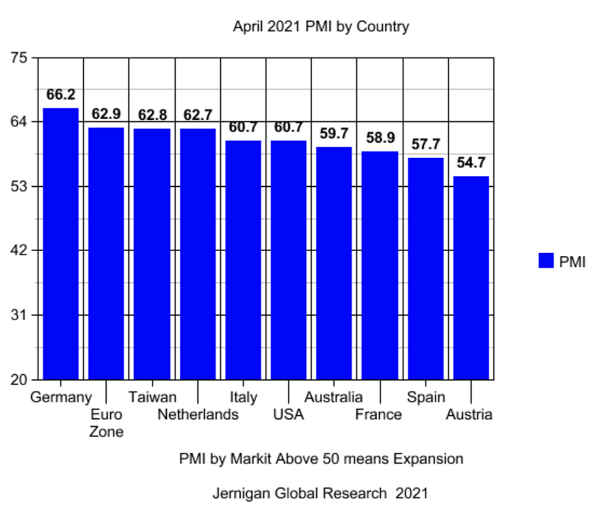
The European Union is home to over 450 million people, making it larger than the US. As an apparel market, it is also larger in terms of imports of textiles and apparel. In pre pandemic 2019, the EU recorded over 122 billion USD in textile and apparel imports compared to the US's 111.033 billion USD that same year. The EU is also a large producer of textiles and apparel and a much larger exporter than the US. Their exports in 2019 reached more than 74 billion USD. This very important market has been in an extended period of economic contraction due to shutdowns from the first wave of the Covid virus and then a second wave that caused the region to experience a double dip recession. The EU's economy shrank .60% in the fourth quarter of 2020 and again shrank .70% in the first quarter of 2021 led by a 1.7% contraction in Germany, the EU's largest economy. Despite this setback, March and April are showing strong signs that a recovery is underway. The recovery comes after a very long period of consumers being locked down, which included the major holiday periods. In Germany, March total retail sales posted 11% year-on-year growth, and textile and apparel retail sales posted an impressive 27.7% YOY growth. April data was even more promising, with the Purchasing Manager Index (PMI) of industrial production and economic activity soaring to 62.9 for the Eurozone as whole, which is a record, showing rapid economic expansion. The growth was led by Germany with a PMI of 66.2, Netherlands 62.7, Italy 60.7, Spain 57.7, and France 58.9. A measurement above 50 signals expansion. This comes as the drive to maximize vaccination has made progress, and more and more of the region is opening up.

For the global textile and apparel market, the return of growth to the EU and the prospect of revenge spending stimulating a surge in purchases of consumer goods, as happened in China, US, and UK, means a significant boost for orders from the main suppliers to the region. The traditional largest spenders from the key economies regarding apparel are Austria, Italy, Netherlands, Belgium, Denmark, and Germany. France now lags Germany in terms of expenditures per household despite the large French luxury market. In terms of the largest markets in total, its Germany, France, Italy, and Spain. However, Poland is emerging as an important market.

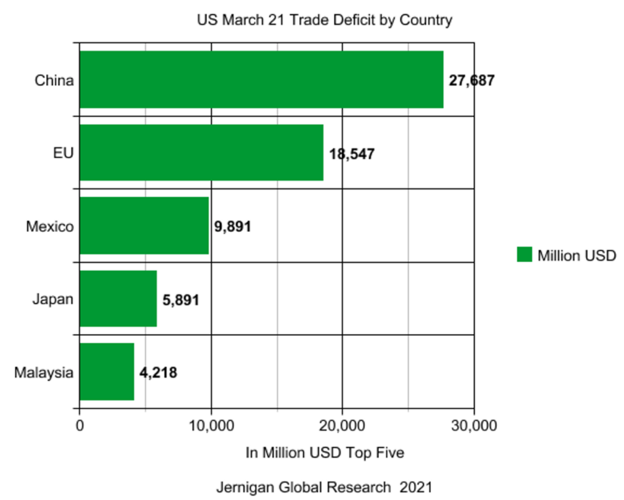


United Kingdom April PMI

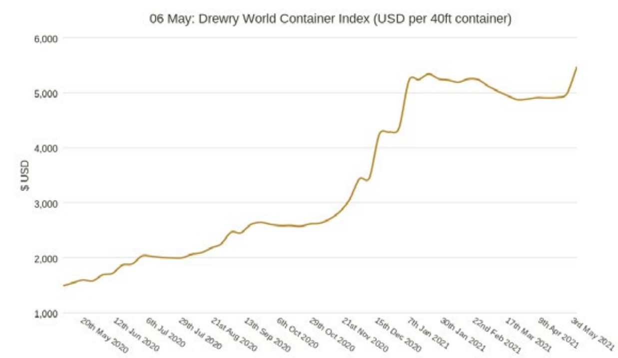
The inventories at brands and retailers are low, and the pipeline is practically empty. The same is true in the UK where the economic reopening is expanding rapidly. The UK was the largest spender on apparel in the trade bloc before it left the EU. Thus, the combined return of demand from the UK and the EU will have a major impact. Traditionally, the largest suppliers to the bloc have been China, Bangladesh, Turkey, and Vietnam, with imports from Cambodia and other regions increasing. The return of demand from the EU follows the revival in the UK and the extended rebound in the US. In the US, demand has exploded and is accelerating following the release of the 1.9 trillion USD stimulus, which is having a large impact on trade. These funds and consumer savings have resulted in a shift in spending from services to consumer durables. March container volume at all the major US ports hit record levels as the US trade deficit hit a record of 74.4 billion USD in goods and services. US imports of goods hit a record. The net deficit in goods and services in March compared to a deficit of 47.243 billion USD in March 2020 as the pandemic hit and 48.94 billion in March of 2019. The deficit increased from 2019 was 52.8%, simply shocking. The largest trade deficits occurred with China 27.687 billion USD, EU 18.547 billion, Mexico 9.891 billion and Japan 5.891 billion USD. The January-March trade deficit with China reached 78.554 billion USD.



This import surge has taken a large volume of the total global shipping capacity, with importers in the US fighting and attempting to outbid competitors for space on ships. Now you have the increasing imports from the UK which also focus heavily on Asia. Then, the reawakening from Europe is about to test all limits as these importers all fight for container and cargo ship space. Despite the building of record port capacity, China's ports are far past capacity. You might remember it already released its trade data, which showed record exports in the first quarter and phenomenal growth. China's March exports posted 31% growth to 241 billion USD, and the top market was the US at 38.658 billion USD followed by the EU at 36.558 billion USD. Early release of China April exports showed 263.92 billion USD in exports as the world outsourced to China.



These volumes have turned the global freight market upside down. Early in 2021, shipping rates on a per container basis hit new records. A small setback followed. Now, rates are again moving to new record highs and normal protocol is turning into a free for all as over 50% of the global economy begins to rebuild inventories and return to normal. The EU is just beginning. The disruptions, delays, and increased cost this is now creating is set to change global sourcing patterns for years to come. Shipping lines are rapidly expanding, and new container orders have hit records, along with higher cost. Iron ore demand and prices have reached new highs, and this is playing a role. However, this alone will not solve the problem since new ports are not being built in the import markets, and expansion of all ports faces major constraints and extended time considerations. Any port expansion takes time. The surging demand has created bottlenecks past the port with a shortage of trucks and drivers. There is also the environmental toll of each new ship that is larger and holds more containers and burns more fuel placed on the oceans. The size of the container ships is increasing and thus the number of containers each can carry. The infrastructure is not set up for these huge ships. The Suez Canal blockage that disrupted the world was the result of one of these ships finding it difficult to move through the canal, which was built for much smaller ships. The same is true for many ports.



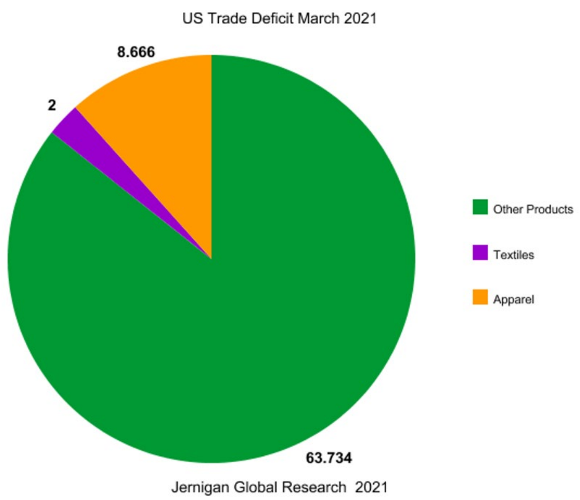
It is hard to imagine in this day of algorithmic systems and all the risk management models that the large companies did not seriously calculate the risk of placing much of their sourcing in one country or location. Few made the investment in their own supply chains near the source of demand, but the greed of cheap imports allowed all other factors to be overlooked. Now, the dangers of this are being exposed and paid for. Change will occur, but it will come with economic pain. European manufacturing companies are now experiencing long delays in securing raw materials and parts, resulting in a record buildup in uncompleted orders and higher prices. The Rotterdam to NYC rate for a 40-foot container hit a new record last week of 3,500 USD. The Shanghai to LA and Rotterdam also hit new highs. Spot rates are exploding as companies attempt to outbid each other for a container for May, with payments of 10,000 USD or more being made to guarantee delivery. The surge in US imports is one reason. It is reported that the record US imports are

Container ships waiting to unload at LA ports, May 7, 2021 moving on through to consumers, and no inventory buildup has yet occurred. Attempts to use transshipment hubs are filling up and no longer providing a relief. With the US West Coast backed up rates to the East Coast are moving sharply higher, with some increasing 1350 USD a container last week. Hapag-Lloyd announced a 1,000+ USD per container surcharge on top of the rate to get guaranteed space on a ship.

It has been reported that reliability of the schedule at all the major first and second ports are down to 61.9% for the best shipping line to 26.2% for the poorest. Against this backdrop, European brands and retailers are likely to focus new orders in Turkey and North Africa to reduce delays and lower cost. Turkey has many companies that can offer European buyers the full package at a rate that will be much cheaper due to the ability to delivery by rail or truck. This is confirmed by the fact that Turkish mills are running at full capacity despite the Covid shutdown. We expect strong expansion in the sector, which will take cotton consumption to new highs. The ability to avoid a port will provide an important strategic advantage. In addition, China/EU relations are taking a major turn for the worse, with the EU announcing last week that the effort to ratify the EU/China investment treaty has been put on hold due to the change in sentiment. China's human rights abuses continue to cause serious problems, with an increasing number of brands and retailers also now avoiding sourcing from Xinjiang. Turkey could replace China as the top supplier to the EU in 2021/2022. The UK has just announced a new trade agreement with India that will increase its sourcing from that country and away from China as well. Bangladesh, Pakistan, and Vietnam are likely to receive many of the orders that had been going to Myanmar. The incentive to change sourcing locations has never been greater, with shipping rates now 5-6 times the pre-pandemic rate and going higher, plus the other problems with delays and congestion. Many companies have had to air freight products, which takes cost to entirely new levels. These conditions will also force companies to finally consider investing in their own supply chains closer to the main markets, which is being played out in the semiconductor chips market where outsourcing caught the world short of supply. The key producers are making record investment in US plants to create a more reliable supply chain.

Overall, the rebound in Europe combined with the US recovery will have a very positive impact on 2021/2022 global cotton use. A new awareness in the supply chain will also put a greater emphasis on natural fibers.

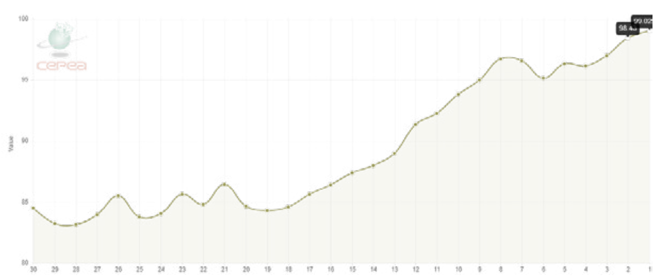
US TRADE DEFICIT HITS RECORD IN MARCH, US COTTON EXPORTS INCREASE



The US trade deficit in goods and services hit a record 74.4 billion USD in March, which is up from 47.243 billion in March 2020 and 48.914 in March 2019. Cotton fiber exports totaled 408 million USD and reached 1.419 billion USD for the first quarter of 2021, which was an impressive accomplishment. Cotton fabric exports in March hit 143 million USD against imports of 99 million. However, in synthetic fiber, fabric imports increased to 488 million USD. Exports of finished textile supplies totaled 255 million USD against imports of 564 million in March. Apparel and textile imports in March made of non-cotton or wool reached 5.451 billion USD and first quarter imports reached 13.743 billion USD, up 1.655 billion USD from a year ago. Apparel and Textiles made from cotton imports in March reached 4.062 billion USD and totaled 10.114 billion USD for the first quarter 2021 reflecting an increase of 575 million USD from year ago levels. Apparel imports with non-textile products totaled 1.746 billion and have surged from a year ago to 4.324 billion USD for the quarter, up more than 50%. The weakness was in apparel made from wool, which totaled only 138 million USD and 415 million USD in the first quarter for a decline of 187 million USD from a year ago. In total, the US exported 1.018 billion USD of textiles, yarns and fabric in March against imports of 3.018 billion USD. Apparel imports were 8.942 billion USD against exports of 276 million USD.

In summary, the US had a trade deficit in textiles and apparel in March of 10.666 Billion USD which represented 14.3% of the total US deficit.

BRAZIL ESALQ REFLECTS EXTREME TIGHTNESS OF OLD CROP STOCKS



ESALQ Index 42-4-35 Landed Sao Paulo

The Brazil ESALQ Index of a 41-4-35 grade landed Sao Paulo has plenty of critics, as does most indices, but it is the only continuously published price of cotton landed the domestic mill. Last week by May 4th, it stood at 96.14 cents a lb., which was just off the seasonal high and just over a 900-point premium to the July ICE close on that day. By May 6, it had moved to a new high for 2020/2021 at 98.43 cents or just shy of a 1,000- point premium to ICE. This would imply that old crop uncommitted stocks are extremely tight and that for exports to compete merchants would have to pay 800-900 points On July, FOB Santos for export. However, that is not the case, and the FOB basis for the 2020 crop is from 200-400 point On July, FOB Santos. This suggests the index is out of line and shows the difficult short squeeze the domestic mills are having filling nearby needs. Sales to domestic mills normally command a premium over export and can have more credit risk. Tightness of credit always limits mills' ability to cover needs when the crop is moving in volume. The current 2020 crop CFR Asia basis for June and July shipment is firm. Middling 1 1/8 is quoted at 1025 points On July and SLM 1 1/8 at 925 points On, and recaps offer even more attractive basis levels. Merchants with unsold inventory face the same problems with the invert if they carry stocks past July.

Brazil is focused heavily on the Safrinha corn crop where this season's weather has departed from the norm and planting of much of the crop was far outside the needed window, making the crop late with pollination occurring in the normal dry season. April was drier than normal and so has been May. The big trouble areas are outside Mato Grosso in the small cotton states of Mato Grosso Do Sul, Goais, and in the very important states of Parana and Sao Paulo. Mato Grosso, which is a very large corn producer, appears to have fared much better, while 10-12 MMT or more is feared lost in the other areas. Economic losses in Parana are going to be very severe. In Mato Grosso, the concern for cotton is that it was also planted late, and April rainfall drops sharply as the month progresses. Unless late rains occur, this month's yields in the 2021 crop will be off more than many expect. The regular nature of the Brazilian rains has resulted in Mato Grosso growers experiencing record rain grown

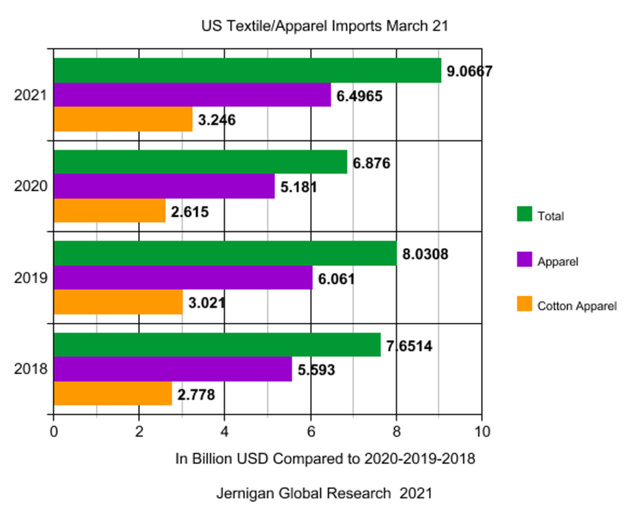
Corn Field under major stress

yields, but this year marks the first time in many seasons the schedule of the rains has been off. The forecast is very concerning, with complete dryness forecast for Mato Grosso through May 20th as well as for central and northern Brazil.

New crop export basis remains quite competitive but in a wide range. 2021 crop Middling 1 1/8 offers for August and September are offered on July at 875 points, and October-December offers move to Dec at 950 points On Dec, while some merchants are as high as 1100 On or more. Middling 1 5/32 offers are at 1150-1200 On Dec. The basis at times can have wide variances as cotton obtained through crop input finance is offered much more aggressively than outright grower purchases. A large volume of each crop moves early in pre crop finance barter. Because of concerns over yields, growers remain very reluctant sellers of 2021 crop, with the FOB Santos basis very firm at 300-500 points On Dec.

A sizeable volume of the 2022 crop has been sold forward by growers, and now merchants are offering; the CFR basis is at 1000-1150 points On Dec 2022 for October-December 2022 shipment for a Middling 1 1/8 and a 50-point discount for a SLM. BBM sales have reached 308,392 tons or 1,416,901 bales of the 2022 crop. The FOB Santos basis is at 300-450 points On Dec 2022, and the basis is reflecting the undervalued nature of the Dec 2022 ICE futures.

US TEXTILE AND APPAREL IMPORT DEMAND SURGES IN MARCH, STIMULATING NEW ORDERS

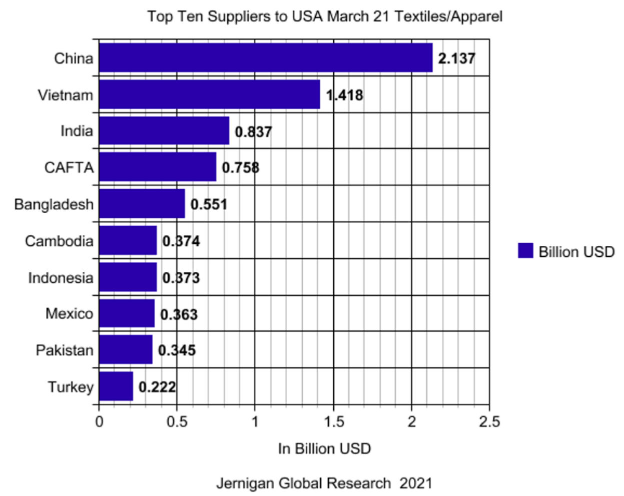


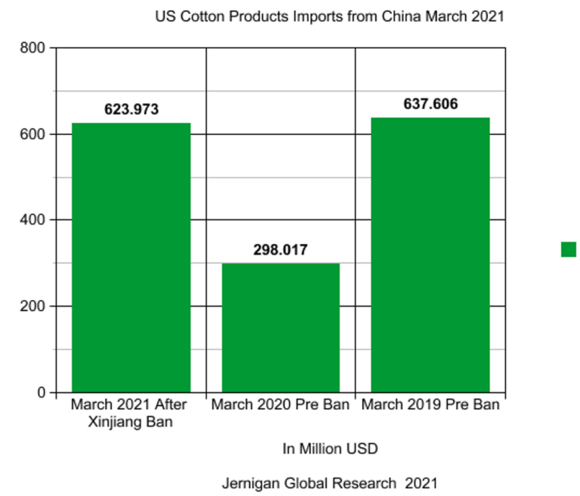
The US complete data of textile and apparel imports in March illustrated a robust revival in demand and highlights even more of the issues with port delays and surging shipping cost. The data is very good news for textile and apparel exporters around the world as US orders moved sharply higher. In volume terms, March imports rose 61.1% from a year ago to 6.746 billion SME. In value terms, imports increased to 9.0667 billion USD. This was up 31.8% from year ago levels, which were reduced as the pandemic began to hit. However, the import value also exceeded that of March 2019 by 12.8% and March 2018 by 18.65%. Apparel imports rose 48% in volume from a year ago and were also higher than the same month in 2020, 2019, and 2018. Cotton apparel imports rose 39.5% in volume and were also higher than the levels of 2019 and 2018. The rebound was impressive.

The rapid increase in textile imports showed no signs of slowing, as the US lack of fabric capacity showed up clearly. Textile imports increased 70% in volume, with growth in all segments. Fabric imports increased 55.3%

in volume, with China and India the key suppliers. The top supplier, despite all the talk of switching sourcing, was China with imports increasing 195% in volume and reaching 2.137 billion USD, which was up 133%. Imports were also higher than 2019. Despite the Xinjiang ban, cotton product imports from China reached 624 million USD, which was up 109% from a year ago but down 2.13% from the March 2019. The rebound in imports from China far exceeded that of any other supplier. Vietnam was the second largest supplier with imports up 34.8% at 1.418 billion USD followed by India with imports up 18.4% at 837 million USD. The CAFTA region was the fourth largest supplier at 758 million USD, and Bangladesh rounded out the top five at 551 million USD. Two other major features were noted. First, Indonesia is rapidly losing market share, with imports in March falling 5.2%, the only major supplier to see a decline. Second, the rise of Turkey, which is now the tenth largest supplier to the US with March imports up 48.5% at 222 million USD, which is being driven in non-apparel products.

In big news, cotton's market share in the apparel imports reached 50%, which is well off the bottom and compares to 48.68% in March 2018. Each percentage increase adds consumption volume with a similar trend expected in other markets. Vietnam is now the largest supplier of cotton apparel to the US followed by China, Bangladesh, and India.





US EXPORT SHIPMENTS REACH SEASONAL HIGH DESPITE PORT ISSUES

US cotton export shipments reached a new high for the season in the week ending April 29th as upland shipments reached 456,000 running bales and Pima 24,700 running bales. The shipments included 155,000 running bales of upland to China. The average weekly shipment volume needed for the remainder of the season to meet the USDA's target is only 268,756 total bales, suggesting the US will exceed the USDA's estimate, which we have been expecting. Total sales reached 16,398,761 480-lb. bales, with shipments of 12,179,300 bales. Sales in the week ending April 29th totaled 135,300 running bales of upland with cancelations of 71,700 running bales, reducing net sales to 63,700 running bales. China and Vietnam were responsible for most of the cancelations. The net buyers were Pakistan, Bangladesh, Indonesia, Mexico, and Turkey. Despite the record prices, Pima sales were 11,300 running bales. 2021/2022 export sales totaled 61,200 running bales of upland and 200 of Pima.

Despite the tightness of stocks, US recaps remain very competitive, and it is clear from merchant's offers that many warehouses are going to be empty with a mixture of crop seasons offered as stocks are cleaned out. It is interesting to note that several seasons of California Acala, both Saw Ginned and Roller Ginned recaps, are being offered with some interest appearing for Pima blending.

The latest On Call sales data showed that a large sale of 689,700 bales had been made On Call the Dec 2022 through July 2023 contracts. This is likely a mixture of US and non-US cotton. CFR basis levels are very attractive, and so is the invert in the futures. On Call sales on the Dec 2022 futures also increased 66,000 bales. These sales are suggesting forward coverage is extending but in unfixed contracts.

CHINA/US TRADE AGREEMENT TALKS NOW EXPECTED

It has taken the first quarter of 2021, but the Biden administration has now indicated it will schedule new talks on continuing the China/US trade agreement. It remains unclear how the US will deal with the failure to meet the terms of the first-year agreement. It appears China will use the Covid Virus as the escape outlet for the lower volume. In the first quarter of 2021, China purchased 8.289 billion USD of agriculture products, which would go to any likely new agreement requirements. Soybeans accounted for 3.483 billion USD, corn 936 mllion, sorghum 623 million, pork 520 million, and cotton 481 million USD. The 2020 first year agreement was very good for cotton with over 5 Million bales sold. The previous trade representative did an excellent job of protecting the interest of US cotton farmers. In the new talk,s much less emphasis on agriculture products is expected and more on such items as intellectual properties. Agriculture trade has not been at the front of the Biden agenda, thus agriculture product purchase requirements could be reduced or given great flexibility.

INDIAN COVID CRISIS CONTINUES WITH SHIPPING IMPACTED

India on May 6th reported 412,000 new cases of Covid, as the virus continues to expand and impact almost every aspect of life. One major new economic concern is the affect that the epidemic is having on export and export trade. Ports have begun to ban crew changes from crews who have been in India and sometimes banning ships that have visited Indian ports. The move is related to the high infection rates of the Indian crews and the breakdown in testing and vaccination of the crews. India is also one of the largest suppliers of container ship crews in the world. The important port of Singapore and the UAE Port of Fujairah banned ships from changing crews that have traveled to India. Singapore widened its ban to include Pakistan and Bangladesh. Zhoushan Port in China banned entry to ships or crews that have visited India or Bangladesh in the past three months. A ship that traveled from India was quarantined in Durban, South Africa after its crew was confirmed to be infected. These conditions and the shortage of workers at the ports mean problems for Indian exports and trade.

Textile and apparel exports will be impacted if disruptions increase. They are already under pressure. S&P Global forecast that the second wave of the virus will shave 2.8% off India's GDP growth in 2021. The Committee on Cotton Production and Consumption lowered the 2020/2021 crop to 36 million 170-kg bales and lowered consumption to 30.3 million bales. The government also set a food production target for 2021/2022 at 307 MMT, which is up 13%. Cotton production is targeted at 37 million 170-kg bales. The USDA's Agriculture Attaché placed the 2021/2022 cotton crop at 29.5 million 480-lb. bales, or 37.8 million 170-kg bales, which is up slightly from its reduced 2020/2021 estimate of 28.3 million bales. It lowered 2020/2021 consumption to 23.5 million bales and raised 2021/2022 to 25.3 million bales.

Domestic cotton prices have held steady with low new crop arrivals, S-6 at the gin at 79.47 cents a lb. on May 6th. Export offers continue to experience wide swings out of Indian merchants as ICE Futures post swings in prices. Out of international merchants, a steadier basis continues, with very competitive offers noted in India where a CCI Middling 1 1/8 from 2019, 2020 and 2021 crops.

CHINA'S DOMESTIC SPORTSWEAR BRAND'S SALES SHOW STRONG GROWTH DURING LABOR DAY

Last week, we discussed in detail the potential impact that China's sports brands turning to cotton products could have on Chinese cotton consumption. The data from the just completed May Day holiday as analyzed by Credit Suisse revealed very strong growth in sales by the major domestic sportswear brands. It appears the big winner was sales by the premium arm of Li Ning called China Lining, which saw sales on the ecommerce platform TMall post 419% growth in the April 27th to May 3rd period. Credit Suisse also reported that April online sales of China Lining posted 815% growth, while the entire brand sales increased 92%. Li Ning was founded by the famous Chinese gymnast Li Ning and is the fourth largest sportswear brand in China behind Adidas, Nike, and Anta. Shares in the company, which is traded in Hong Kong, reached a new record high Friday at 72. 95 HKD a share. Despite the company endorsing the use of Xinjiang cotton, it has received significant investments from US Mutual Funds. As of Friday, Fidelity, Vanguard, John Handcock, Wells Fargo, and iShares Mutual Funds were major shareholders with collectively more than 6.5% of the company.

In April, online sales of Anta sports products on TMall posted 59% growth according to the Credit Suisse report. 361 Sports apparel was not included in the data, but its shares did come under some pressure in Hong Kong as the week ended. The study showed a sharp drop in TMall sales for Adidas, which declined 79.3% in April, and a 57.5% decline for Nike, while Uniqlo sales fell 21%. This weakness took total sportswear sales on TMall down 11% for the month.

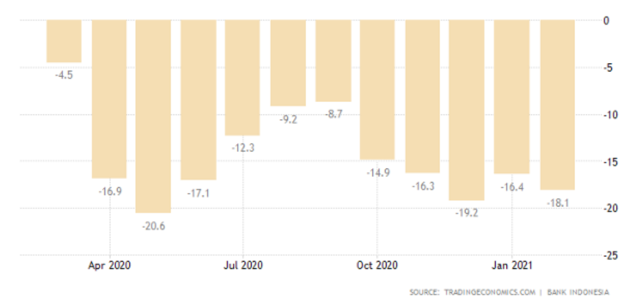
COOL WEATHER AFFECTING DEFOLIATION IN AUSTRALIA

The cold front which moved into the Australian cotton belt last week brought very light rains and cool temperatures. In northern New South Wales, rainfall amounts were 20 mm or less and dropped to 1-5 mm in the Southern Valleys. In Queensland, a few showers occurred near Dalby. Cooler than normal temperatures at night are a concern as defoliation expands, with lows dropping to 4-6 degrees C, and another cold front will impact many areas in the week ahead. The difficulties during defoliation have raised concerns regarding leaf content. Normally, the Australian crop is excellent, with 1-2 leaf. However, these conditions may provide more three leaf grades. The next cold front will also bring a chance of a few light showers this week to the southern areas of NSW.

The surge in ICE July futures Thursday caused the FOB basis for the 2021 crop to plunge to the lowest level of the season at 180 Off July, which produced a cash Australian Dollar per bale price of 570. The fact that the surge in July was not linked to any widespread renewal of demand left merchants to reduce the basis. The merchant's long position on the 2020 crop is thought to be very large and being made more difficult every day by the lack of Chinese offtake. Relations with China appear to be moving toward very difficult times for some products. The Morrison government is undoing earlier illegal agreements made by Labor governments in the states that undermined Australian national security. First was the end of the Belt and Road agreement signed by Victoria's very pro-Beijing PM, which triggered new anger from Beijing. Then, it announced that the illegal lease of the Port Of Darwin by the territory government of Northern Australia to a Chinese company is currently under review. The review indicated the company pledged to make its resources available for any use needed by the CCP. China has issued new threats and ended a larger economic agreement. Against this backdrop, no thaw in trade appears likely. The Chinese mills need the Australian cotton to use in the higher yarn counts and to blend with Pima. However, it remains to be seen if any backdoor trade occurs.

The 2021 crop CFR basis was under pressure as the week ended following July's large gains on Thursday. Offers ranged from 1200-1400 On July for Middling 1 5/32. Light offtake has been noted in a few markets, but markets such as India and Bangladesh have been quiet.

INDONESIAN COTTON USE WEAK AND EXPORTS FALL



Indonesia monthly retail sales

Indonesia remains a weak market, with the first quarter GDP shrinking .74%, making it the fourth straight contraction in the economy. Household consumption of apparel and textiles is very weak, and new lockdowns are again occurring, which is halting travel during the important EID holiday, normally a time of increased spending on new apparel. Domestic apparel sales have fallen sharply since the first virus outbreak occurred and have not yet recovered. Cotton use is extremely weak, and exporters are continuing to lose market share in the US, which is a very important market. Indonesia is the sixth largest supplier of cotton apparel to the US, but first quarter 2021 imports are down 14.26%, with China, Vietnam, and Pakistan taking market share.

August–January cotton imports declined to only 222,026 tons, which is down sharply from imports of 301,311 tons in the same period in 2019/2020 and 343,036 tons in 2018/2019. Indonesia also appears to be reducing higher count yarn production and is very focused on price. Brazilian is the top import. Demand for Australian has fallen, with 2020/2021 imports through January only 8,575 tons, which was down from 20,605 in 2019/2020 and 32,004 tons in 2018/2019.

CHINA'S ZCE COTTON FUTURES LEAD WORLD PRICES HIGHER

July/Dec ICE Futures spread

China's ZCE futures were closed until May 6th, and during that period ICE futures clearly lacked direction, volume, and were unable to provided price leadership. May ZCE futures opened firmer as did cash cotton prices along with increased take up of local Xinjiang cotton and cotton from the bonded warehouses. Bonded warehouse stocks are heavy and at near full capacity. We expect a block of the sliding scale import demand to be met from these stocks, which would allow spinners to avoid shipping delays and port congestion and just in time delivery. The selection of higher-grade US cotton or Brazilian might be better than old crop stocks at origin. The China cash index closed the week at 113.56 cents a lb., which reflected a 2.76 cents gain, and the Sept ZCE futures also posted a 2.60 cent gain for the week. ZCE cotton yarn futures moved sharply higher Friday on improved volume. ICE futures ended the week with gains in July of 1.58 cents and 1.83 cents in Dec. ICE trade was bizarre, with July surging 325 points on Thursday and retreating 92 points on Friday, while Dec gained only 132 points on Thursday and gained 17 points on Friday.

Export trade continued in select markets. Bangladesh remains in the market, taking up African Franc Zone and US recaps. Forward sales of Brazilian 2022 crop are also occurring. Turkey continued to seek US styles as consumption remains quite robust, which we discussed earlier. Pakistan remained a light buyer of US recaps. As we discussed earlier, the On Call sales report showed a major sale of 2021/2022 crop unfixed on the Dec 2022 through July 2023 contracts. The invert remains an issue for all growths as offers face significant losses in moving to Dec, which may increase prompt sales in the period ahead. 2021/2022 crop basis levels are generally attractive and offer spinners opportunity. The Australian 2021 basis remains much undervalued, with new crop offers at par or below a Green Card Memphis Territory 31-3-37.

The Trade Net Short position suggests a very large Non-US old crop stock position is being carried by the trade. It stands at 14.220 million bales, with 6.1022 million bales hedged in July. This is in line with the fact that as prices rallied to near 100 cents all origins sold their inventories to the trade. This included a record old/new crop position in African Franc Zone cotton. This inventory is needed by spinners to handle the expanding cotton use into the October/December period when the US/Brazil begins to move in volume. However, the invert remains a problem that can be very costly for the trade if it is maintained the next 30-60 days.

Dec 22 ICE nears record discount to Dec 21

The demand developments of the last week were especially constructive in the consuming markets of

Europe and US, as we discussed in detail. US import demand is back and stronger than 2019 or 2018. Moreover, it is not going into inventory as consumers switch to durable goods from services. Cotton is also gaining market share. Europe is reawakening, and the same pattern is likely to take place. Thus, cotton consumption at this point will increase in a significant way in 2021/2022, and the battle for grain acreage means cotton production will not exceed demand and stocks will tighten. The two major exporters US and Brazil will enter 2021/2022 with some of the leanest inventories of unsold old crop on record, while mills have very limited forward coverage. These conditions suggest prices will continue to move higher. The Covid crisis is the main inhibitor to more robust action as it continues to keep confidence low.

We have said this for some time – the ICE 2022/2023 futures are not currently reflecting true values. They are discounted due to ICE liquidity all in the front and no forward covering by spinners. These discounts offer spinners a real opportunity to take advantage of the invert and discount.

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