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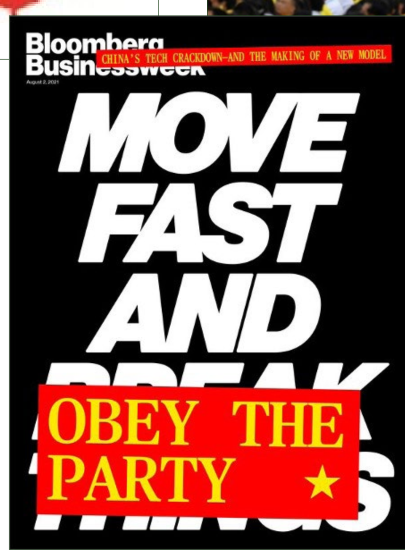
CHINA FATIGUE – ARE SOURCING PATTERNS CHANGING FOREVER?



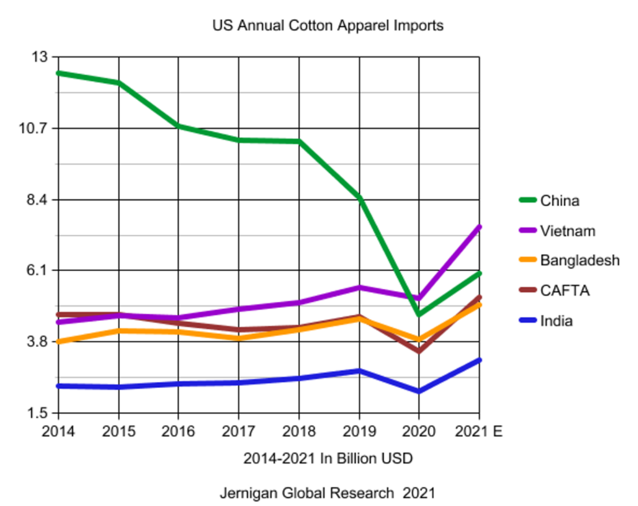
The Sea Intelligence freight group last week released a review of port congestion at the world's largest ports and the two largest ports in the world, Ningbo-Zhoushan and Shanghai, were reported to be experiencing serious congestion as ships load and unload due to a combination of weather, record freight, and Covid control measures. At the same time, Orient Overseas Container Line (OOCL), one of the world's top container lines headquartered out of China, announced a new service to assist with the congestion. It was a combination of intermodal rail and container. The service begins in Xian, China by freight train to Kaliningrad, Russia, where the containers are transshipped via feeder service to the Bremerhaven port in Germany. From there they will be loaded on OOCL ships for delivery to Port of New York or Port of Savannah, Georgia. Let this sink in; the route from Xian to Kaliningrad is 6,864 kilometers and is estimated by freight forwarders to cost 16,000-18,000 USD per 40-ft container and takes 11-12 days if there are no delays. The trip to Bremen is 1,142.3 kilometers by road, and from there to Bremen to Savannah, GA will take 20 or more days and cover 4,948 nautical miles. First there is the cost for the freight service, then the environmental impact, and then all the additional cost of movements through the port to ship and finally from the port in the US to final destination. The question is what product is worth such a cost and environmental impact? It also begs the question if the economics make sense for a shift to investing in the supply chain and manufacturing the product closer to its consumption. Plus, dealing with China, you have all the extra risk of delay, and then there is the "Xi Risk."

A common statement among US companies is, "I am done with China." This comes after delays, a 500% increase or more in freight rates, and now the uncertainly created by the policies of Xi. A *Bloomberg* editorial says, "China's hubris is a threat to its economic future."

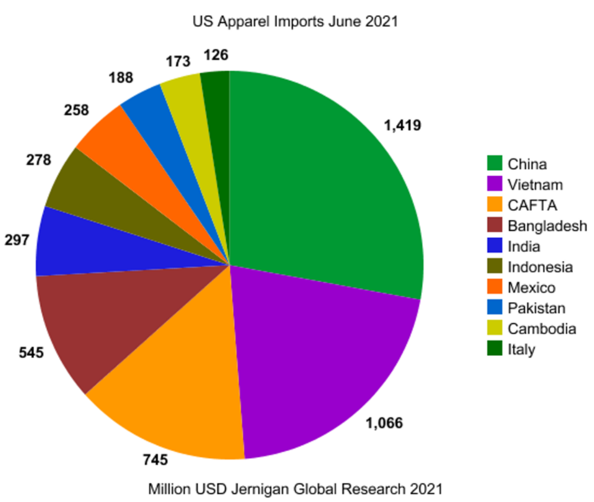
"The new oppressive top-down approach to economic policy making signals a departure from decades of market opening and engagement with the world," said the Atlantic Council Briefing. In the boom times prior to Xi, the NDRC would host large meetings and invite the world's top economists and businesspeople to discuss ideas. This gave rise to very innovative policies by Beijing, but today such exchanges are a thing of the past. Dexter Roberts, the Beijing bureau chief for Blomberg for decades, now says that China has changed dramatically, and that China is intent on hurting the US and that relations will continue to worsen. These comments are coming from someone who lived in China for decades and interacted with top Chinese officials and could be considered a fan of China. Moreover, the

foreign policy of the Biden administration in Afghanistan is now expected to further embolden Beijing.

The latest drama has been the containment methods used to attempt to contain the new outbreak of Covid. Presently, operations at Chinese ports are being impacted. At Ningbo's container terminal, the second largest in China, the Meiding Terminal was shut down due to Covid. This began to impact activity across southern China. Several container lines said the warehouses in the Free Trade Zone have been closed as well. A total of 1560 ships were at all Ningbo-Zhoushan port terminals when this terminal closed. The COVID measures appear to have an even larger effect on air freight. Brands and retailers who want to ship goods by air freight to assure delivery now face capacity restraints, a sharp increase in rates, and delays. Cargo lines have canceled hundreds of freight flights to the US and Europe. Significant labor shortages are being reported and major restriction on the crews working the freight. It was reported that 43% of all Beijing flights have been canceled, a third of all Shanghai flights, 65% of all Xiamen flights, and 100% of all Wuxi and Suzhou flights. Jiangsu has been badly affected. Chinese Airlines have led the way in canceling flights to the US. It is estimated that a third of all air freight capacity with China has been canceled. Rates have shot up, increasing 10-12 USD a kilogram last week, and fears are they will go higher as importers scramble. Adding to the woes were additional flooding disruptions last week. Hubei was hit by massive floods and destruction, while it appeared the Chinese government attempted to keep it out of all media.



For US apparel importers, the June import data revealed that China remained the top supplier of apparel to the US with shipments of 1.492 billion USD, replacing Vietnam as the top supplier of cotton apparel for the month with imports of 490.938 million USD. While these numbers suggest brands and retailers have much more work to do, they do indicate a sharp fall from 2019 import levels. In cotton apparel, June imports were down 39.43% from the same month in 2019. The US imported over 10 billion USD worth of cotton apparel from China in 2017 and 2018, but that volume declined to 8.47 billion in 2019 and fell to 4.591 in 2020. 2021 volume appears on track for 5.0-5.5 billion USD. The decline in total apparel imports will be smaller, likely falling to near 20 billion USD from 24.913 billion USD in 2019. The freight rate chaos and China's policies are expected to reduce the volume in the second half of 2021. The impact of increased enforcement of the ban on products made from Xinjiang raw materials is expanding and forcing many companies to continue to switch from China. The area where the ban has not yet been effective is in fabrics. Cambodia uses almost 95% Chinese fabric and remains the 6th largest supplier of cotton apparel to the US. It is almost a statistical impossibility that much of that fabric was not produced in Xinjiang or was at least partially made in Xinjiang. Xinjiang is also a key supplier of Viscose fiber. Thus, it appears that the US Customs and Border Protection (CBP) is not yet inspecting a large enough volume to affect trade. In total apparel imports, in addition to Cambodia, Jordan, Sri Lanka, AGOA, and other major exporters source much of the fabric used from China. China is the largest fabric exporter in the world.



Cambodia is a very important region for the CBP to focus on due to its lack of any fabric production and its porous border with China, making it a perfect region for the use of fabrics from Xinjiang or Xinjiang cotton. The US imported 852.454 million USD worth of cotton apparel from the country in the first six months of 2021, with over 256 million USD of that knit shirts and blouses and over 269 million USD of cotton pants and nearly 78 million USD in cotton nightwear and underwear. The issue of Chinese fabric used in apparel cut and sewn in other locations will likely be the next major disruption to Chinese sourcing. At last week's Magic Trade Show in Las Vegas, the hot topic was the CBP enforcement and the disruptions it was causing brands and retailers sourcing in China. The fear in the discussion was the risk importers now had in having containers blocked or delayed. The new act to ban all imports from Xinjiang was also discussed. Lobbying efforts continue in an attempt to weaken the blocking but given the bills moving through Congress these actions are not going anywhere.

The move from China in cotton apparel has had mixed results. with some having been a farce. In cotton sweaters, China had more than an 80% market share of US imports when the trade dispute began as its sweater city cluster dominated the world. In 2019, the US imported 456.352 million USD of cotton sweaters from China, but it fell to 222.4 million in 2020. January-June of this year, imports are at 71.75 million USD. Thus, it will likely be more than half the 2019 level for the year. However, volume imports have switched to Hong Kong, likely transshipped, and Cambodia, also likely transshipped, or made 100% with China components. A small volume has moved to India and Bangladesh. The difficulty is that the China cluster ran all other suppliers out of business, and these companies now have no faith in the supply chain to reinvest in the facilities. The Chinese sweater cluster offers significant advantages in cost and government export incentives, with all supply chain components located within the cluster. In cotton men's/boy's knit shirts, imports from China in 2019 reached 329.6 million USD compared to January-June imports, which are down to less than 47 million USD and will end up less than a third of the 2019 level for the year. The business switched to Bangladesh, Vietnam, India, and Mexico. In women's cotton knit blouses, CAFTA is now the second largest supplier, and China imports will be down over 40% from 2019. In knit shirts and blouses, the switch is much easier, and the cluster advantage of China can be offset. For some products to switch, a supplier must make a major investment. Without firm US or other markets duty protections from China or firm supply chain commitments, such investments are unlikely.

Vietnam has been a success story, but still its major weakness is the lack of investment in fabric production and dyeing and finishing. US cut/sew in any volume is limited by the same issue. One of the features that brought CAFTA success was its investment in fabric production and dyeing/finishing. Vietnam will have to make such investments to expand its apparel sector. The massive burden on shipping cost, infrastructure, and the environment means that shipping the yarn to China and the fabric back is an unsustainable model long-term.

China fatigue is building and expanding, and the next important moves will be more long-term, for there are no simple solutions. Turkey has been one region where record expansion is occurring and will likely continue. However, other regions such as Bangladesh will require massive new investment in port, rail ,and road infrastructure. The current export volume has port capacity stretched to its limit. Others face similar obstacles.

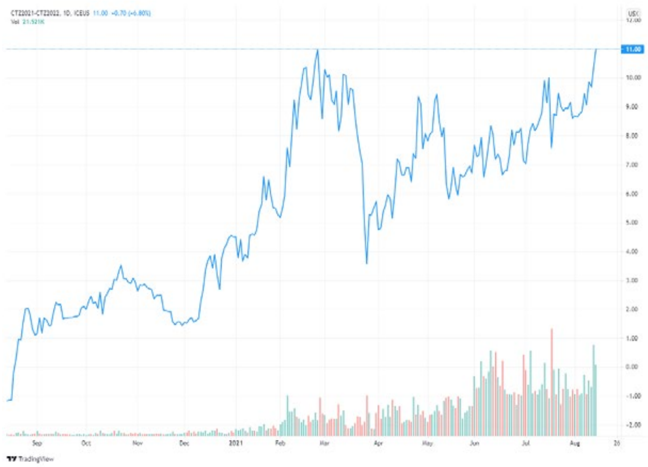
US CROP IS LATE - HOW WILL THE US MEET EXPORT SHIPMENT TARGETS?

The crisis in logistics is combining with a US crop that is 2-4 weeks late, assuming no more major rain events or extended cool periods, to raise a serious question of how the US can ship 15-16 million bales for export in 2021/2022. Normally such a question would not be raised by slow August-November shipments as 400,000- bales shipment weeks later in the season made up for the early delays. The US cotton export infrastructure has in the best of times been stressed when export shipments move above 15 million bales. Much of this was the old warehouse system designed for a time when the US stored large volumes in the CCC loan for long periods and not for just in-time delivery. In 2017/2018, the US exported 16.281 million bales, and export shipments in the August through November period of that year were quite slow. This placed the burden on later shipments and was the last time the US exported over 500,000 bales of upland for several weeks, in weeks ending May 31st, May 3rd, and March 1st. In 2019/2020, the US exported 15.512 million bales, and that year weekly upland shipments only exceeded 400,000 bales eight times. In 2020/2021, US weekly upland export shipments only exceeded 400,000 bales two times. Since May 1, 2021, weekly upland shipments have only exceeded 300,000 bales four times.

The US begins the 2021/2022 season needing to average total Pima and upland weekly export shipments of 288,462 480-lb. bales. This is a big challenge just to export 15.0 million bales. Under the current chaos of logistics, weekly shipments of 200,000 bales for the August-November period would appear to be a difficult target. Outside of the carryover sales, the US has very limited stocks which can be sold or shipped prior to November at the earliest and probably later. At 200,000 weekly upland exports through November means December-July shipments would have to reach 342,157 bales, and if average shipments fall to 150,000 bales in the early period, then it increases sharply. The shipping chaos and the domestic US logistics problems will not be solved overnight, and some forecast them to endure through 2022. To solve the problems will require a sharp fall in US demand or a major investment in onshoring or nearshoring. Under the current conditions, a weekly target above 300,000 bales will be very difficult. Despite the woes, no one is yet addressing the critical problems or infrastructure. Thus, the improvement remains an elusive target. Adding to the woes is a Biden administration proposal floated Friday that would require Covid vaccination proof for interstate travel. Such a move would probably be the final straw regarding the US's internal logistics chaos.

We therefore have a lot of concern regarding the US's ability to meet export shipment targets and also regarding the lack of China sales. At this point, it will be very difficult for anywhere near the 2020/2021 import volume by China of US styles to be repeated. For both these targets the clock is ticking, and with each passing day of slow shipments and no major sales to China the hurdle becomes greater. Export shipments for the first week of the season totaled 198,300 running bales, which was far below the average required. We expect the needed volume will remain difficult through the remainder of 2021.

DEC 2022 ICE DISCOUNT TO MAY/JULY BIG PROBLEM FOR 2022 AUSTRALIAN CROP



Since ICE took over the NYBOT the entire structure of trade has changed. Since the matching engine assumed the role of the trading pit and Algometric systems, and High Frequency Trading systems assumed the role of locals, the efficiency of ICE as a hedging tool has eroded. No one any longer monitors the market for its effectiveness as a hedging tool or its use by the Trade. As a matter of fact, it has been years since ICE even solicited comments from the Trade or had a representative attend a Trade event. It spends near zero on any interaction with the Trade. Instead, the contract's success is measured strictly on the daily volume generated, as exhibited by the record profits of ICE. One of the many failures of the Commodity Futures Modernization Act was the lack of any Trade oversight of ICE or any exchanges. It has been simply shocking that even in Beijing's system the ZCE commodity exchange has developed into a much more effective tool for the cotton Trade than has ICE. One of the problems with the ICE HFT/Algo-driven model is that it is focused only on volume and cares little as to where it is generated. Thus, the generation of 90%

of the Open Interest in the first 4-5 months of the calendar strip offered is accepted. This leaves the next ten contacts illiquid and unable for efficient hedging. No end user will use these contracts for direct hedging given that ICE polices have driven the consumer hedger from the market, the ICE immediately raised trading limits and introduced intraday margin calls and moved to increase price volatility. This has pushed the consumer to use On Call purchase contracts, which are now more popular than ever. The futures Open Interest past the Dec 22 contract was only a surprising 402 contracts early last week. Gone are the days when a NYCE or NYBOT official could be found at ever major Trade event promoting hedging. Instead, ICE spends zero on Trade efforts.

Despite this, no Trade group has attempted to confront ICE or to generate interest in congressional oversight concerning the for-profit exchange. Also, they have made no effort for Trade oversight of the hedge markets or to provide input. Any input today can easily be ignored and overlooked, which brings us to the discount of the Dec 22 and forward futures. Dec 22 today is at a near 950-1000 discount to Dec 21, at an 800–900 point discount of May 22, and at a 700-750 discount to July 22. This inversion is based on the inefficiencies of ICE. No US growers are selling the Dec 22 and 2022/2023 crop futures at a discount. For US growers, the soybean and corn crops for the same season are far more favorable for hedging. This should have erased the discount, as would an active forward hedge consumer use. However, it has not, and the only outside paper has come from the Brazilian Trade. Despite the discount, the Brazilian growers have aggressively forward sold the 2022 crop, with more than 1.6 million bales having been forward contracted. If this was 100% hedged on ICE, it would reflect over 93% of the current Open Interest in Dec 22. For Brazilian growers, it appears all about a flat price contract of currently over 85-86 cents regardless of discount. With yields of 7.5-9.0 bales per hectare expected, this price FOB Santos means great profits net the farm gate.

Thus, the market is made up of the selling provided by Brazilian hedging and the buying by mills via fixations of increasing On Call purchases. This leaves the US with an ineffective hedging tool for the US industry. US merchants could introduce offers of US 2022/2023 crop to incentivize spinners to take up US and hedge via buying ICE, but this is not being done as most sellers are international merchants and are offering the Brazilian. The US crop has more risk from weather. Outside of this, the discount continues. We now have another adverse impact of the invert and ICE's inefficiency, and that is on the Australian 2022 crop. Today, the 2022 Australian crop has already been forced to a record low CFR basis by the lack of Chinese buying interest. The 2022 Middling 1 1/8 for May and June shipment will likely join the A Index when eligible. A Middling 1 1/8 is offered at 1050 points On May and July, and an SM 1 5/37 is offered at 1200 points On. These levels are a discount to both US and Brazilian for the same shipment period, and they also represent a 500 point or more discount to the basis levels encountered prior to the Chinese embargo.

The 2022 Australian crop will be 4.5 million bales, and all will move for export, which means this will play an important role in global export trade during the following 12 months, which of course extends into October-March. The invert, therefore, has a significant impact on trade for August shipments forward. In August, the lead ICE contract will be Dec 22, and Brazilian Middling 1 1/8 is offered at 1125 points On Dec. At a 700-point invert this equals 425 points On July, which compares to an Australian M 1 1/8 at 1150 On July. During the time of robust Chinese demand such a premium of Australian and its higher strength could be maintained, or least a sizeable percentage of it. If the 2022 crop must move into the more commodity markets, it must compete with Brazil for the first time in years in volumes. A 4.5 million Aussie crop will be ginned from May to December, so all cotton ginned and not shipped by July could face sizeable losses in basis levels. The invert began as a bull market occurred in the front months, and no liquidity was in the forward months. It has now evolved into a major feature of world trade. First are the expectations of a record 2022 Brazilian crop that should move in volume by October and growers who want to sell an 85-cent fixed price FOB. Second, you have a delayed US crop and tight stocks nearby, with US offers heavily focused on Dec and forward, which would suggest the need to move larger volume into 2022. And third, there is the large Australian crop. All this makes the invert a tricky beast, with China Reserve buying or restocking playing a pivotal role in 2022. For now, the invert is adding to the pressure on the Australian 2022 basis, as well as the US forward basis.

The FOB basis for the 2022 crop moved to new lows last week as ICE rallied. The level hit over 200 points Off May 2022, which compares to a Brazil 2022 basis for a Middling 1 1/8 of 450 points On Dec. This put the May/Dec effective invert in to only 225 points on August 11th. A correction in the invert would add significant gains to the Aussie FOB basis.

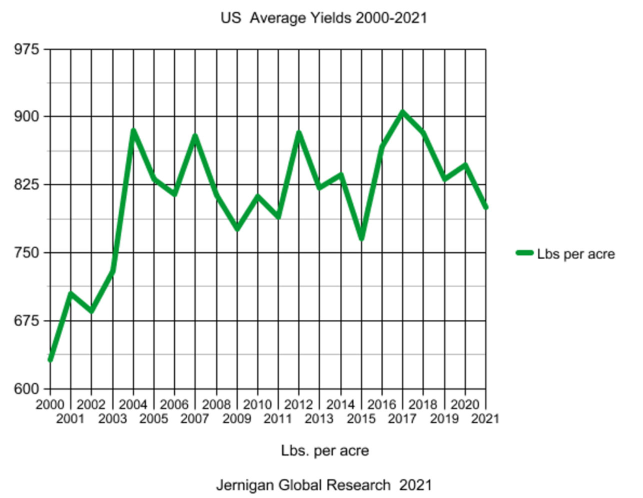
US MAKES FIRST LARGE SALE TO CHINA FOR 2021/2022 SHIPMENT

The first weekly export report of the 2021/2022 season brought brisk export sales of 357,000 running bales of upland and 10,200 of Pima. The largest buyer was China at 123,800 running bales of upland, which pushed total 2021/2022 upland sales to China to 642,200 running bales following carryover unshipped sales from 2020/2021 of 240,300 running bales. Turkey was the second largest buyer of 72,500 running bales of upland and these sales, along with 150,300 running bales of carryover sales, pushed Turkey's 2021/2022 sales to 614,900 running bales. Pakistan was the fourth largest buyer at 39,100 running bales of upland. Along with carryover sales of 299,400 running bales, this brings total sales to the country to 961,300 running bales of upland, making it the largest 2021/2022 market at this point. Pakistan was also the largest buyer of Pima at 6,700 running bales. The other major upland buyers were Bangladesh 39,400, Vietnam 30,500, and Mexico 18,600.

Total carryover sales totaled 1,300,900 running bales of upland and 88,800 bales of Pima. Total 2020/2021 export shipments totaled 16,083,000 480-lb. bales, which are short of the USDA 16.4 million bales target. 15,300 running bales of upland was sold for 2022/2023 shipment. The issue for the season will be shipment levels.

HAS THE USDA UNDERESTIMATED THE US CROP AT 17.264 MB?

The USDA August 2021 estimates were a shock, as expectations of a large increase were instead replaced with a 536,000-bale cut in production resulting in 2021/2022 output being placed at 17.264 million bales. Average yield was lowered to 800 lbs., with the average upland yield falling to 794 from 835 pounds per acre last year. If this estimate holds, it will be a shockingly low number at 4.125 bales per hectare, as compared to the CONAB estimate for Brazil earlier in the week of 7.87 bales per hectare, which was also down sharply from a year ago. The real shocker was the average Texas yield, which, despite the rains, was lowered to 620 lbs. per acre or a surprising 3.248 bales per hectare. These yield estimates are out of line with grower comments and the fact that the region has its best moisture profile in years. In the last USDA crop rating, 63% of the crop was rated Good to Excellent, which is much better than a year ago. Changes in Texas have considerable ramifications for the total US estimate. The average US yield was the third lowest in a decade and just above the 2010/2011 and 2015/2016 decade lows.



Yields outside of Texas were in line with private work and provided no surprises. The center of the controversy is Texas. At 3.248 bales a hectare, this is only slightly higher than India's 2.246 bales. This yield is coming from the highest seed technology in the world and the best Texas moisture profile in years. The USDA has a very poor track record in the post-Covid period, with offices still closed and staff working remotely. In the August 2020 report, the USDA placed the US crop at 18.1 million bales, but the final crop was 14.607 million bales. Last August, the average Texas yield was 777 lbs., with the actual falling to 686 lbs. In August 2020, the USDA overestimated the Texas crop by 1.630 million bales, quite a sizeable inaccuracy. The FSA released it acreage numbers, which are used for insurance purposes and are always different from the USDA as they adjust their numbers throughout the year. FSA's total August forecast was 744,000 acres below the USDA June planted estimate. Last year, the FSA estimate was 897,000 acres below the USDA's final estimated and was 400,000-450,000 acres below in August the previous two years.

The USDA lowered final US exports only 50,000 bales, far below the confirmed shortfall. This number could be adjusted in the future. The lower USDA production resulted in a 200,000-bales reduction in the export estimate to 15.0 million bales, with carryover falling 300,000 bales to 3.0 MB. A host of changes were made to the world estimates.

World trade for 2020/2021 was further adjusted, with imports raised by 571,000 bales to 48.392 million bales and with the main increases being Bangladesh +250,000 bales, China +250,000, and Turkey +100,000 bales. Exports were raised 44,000 bales. 2021/2022 world trade was increased by 290,000 bales in imports and 330,000 bales in exports. World production in 2021/2022 was lowered by a net 546,000 bales, with the major changes being Australia +500,000 bales, African Franc Zone +290,000, and Tanzania +100,000, which were offset by a 750,000-bale reduction in Brazil, 536,000 reductions in USA, and 150,000 reductions in Central Asia. World consumption was raised a net 184,000 bales.

CHINA'S DOMESTIC ELS PRICES SURGE, EVEN IN LOWER GRADES

Last week we discussed the fact that China's embargo of Australian cotton was costing Chinese ELS and high-count yarn spinners millions, and we are seeing the squeeze underway on supplies of all domestic ELS in the absence of access to Australian cotton. The Chinese supply of domestic ELS has been tight and will likely be exhausted in 2021/2022 as another small crop is harvested. ELS acreage in Xinjiang has failed to expand because it is much less profitable to grow than the upland. Xinjiang upland cotton has made very impressive advancements in yield and is now one of the highest in the world. Its next challenge is quality improvement. The ELS crop is focused in one area of Xinjiang, the Aksu area, which is also at the center of the Uyghur prison camps. ELS must be picked by hand, which means if regular paid labor is used it is very expensive. Then there is the issue with yields that have not advanced as seed technology has lagged due to the small acreage. Attempts to upgrade and bring in foreign technology ended when Xi's effort to force the Uyghurs into prison camps began making foreign companies and international groups unable to partner. This stopped PCC efforts to upgrade quality and yields. Thus, growers have faced lower yields and reduced incomes from ELS even at a higher subsidy price. There are many other issues associated with the smaller crop. Fewer gins are opened to gin the crop, and those gins are not investing in the needed technology for quality because the volume of seed cotton doesn't warrant the investment.

Against this backdrop, you have smaller acreage in 2021 and a very difficult start with the crop at Aksu because they were forced to replant several times. Comments have tried to suggest that growth has recovered, but we doubt it since the crop was very late and the heat has been excessive along with violent rains and winds. We expect no more than 50,000-55,000 tons of ELS, and that will require clear fall weather and a lifting of the Covid restrictions. The ELS crop must be handpicked, and this requires a lot of movement of people, management of the pickers, and bring the potential for massive Covid spreading events. All pre- harvest activity has already been halted for now. The upland crop is set to be 80% or more picked by mechanical pickers in 2021.

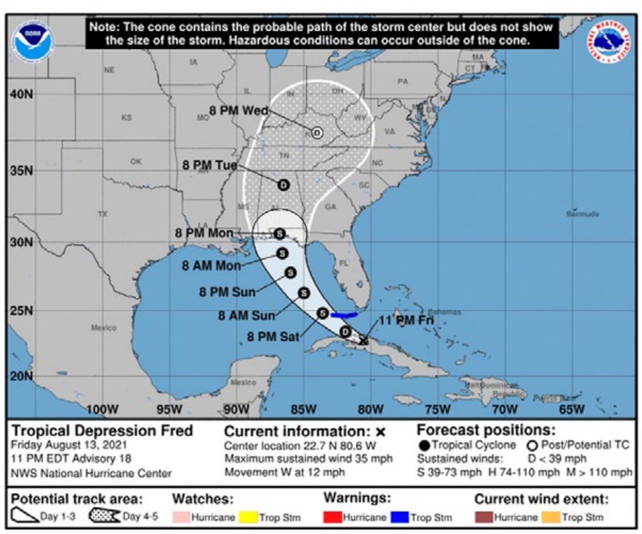
Domestic ELS also has contamination problems and issues with shorter staple and lower strength than US Pima. Australian high-grade 39/40 staple, high strength has always been popular to blend with the domestic ELS. Also, in recent years the supply of the top grade T137 has been in tighter supply. During the past three weeks, the domestic price of Xinjiang ELS has surged, with the T137 moving from approximately 191.00 cents a lb. to 197.00 last week. Another very interesting feature that reflects the impact of the lack of access to Australian is a sharp narrowing of the discount of the T237 second grade, which is usually much lower in quality. Three weeks ago, the price was at 182 cents or a ten-cent discount to T137, while today it has rallied ten cents a lb. to 192 cents which is only a 5-cent discount to T137.

ELS consumption in China is expected to be near 125,000 tons or about 575,000 bales. It purchased only 178,000 bales of Pima in 2020/2021 and has little stock, so it will be a battle for the remaining US Pima supplies. The US could sell 750,000 + of Pima if it had it. The crop is estimated at 371,000 bales and old crop stocks are only 132,000 bales. Thus, the US can sell only 450,000 bales no matter what the price. India, Pakistan, Peru, and others will need it as well. The move to bid up the second grade ELS to us shows the supply tightness underway. Remember there are no Xinjiang 29/30 mm stocks available in any volume.

China has several domestic brands that require ELS and they promote it, including the new products by the sports brands that need it. The pressure and need for Australian increases daily. Some Vietnamese Aussie high count yarn imports are likely, and if Vietnam expands ELS use rapidly this may be a way for the Chinese brands to get around the ban. China needs the Australian 2021 crop high-grade, longer staple.

US HARVEST GETS UNDERWAY IN TEXAS

The 2021 US harvest has gotten underway in the Texas Rio Grande Valley and the Coastal Bend. Early yield estimates have reports of above average 1100-1200 lbs. per acre in the RGV dryland and 1500 lbs. or more on the irrigated acreage. Coastal Bend moisture has been better that normally, which should also influence yields near or above 1,000 lbs. per acre. The crop overall is developing well and continues to need a clear, dry, hot fall in many areas. The attention last week was on Tropical Storm Fred, which is expected to move up through Florida over the weekend, brining rains to the Florida panhandle cotton areas, Georgia, and Alabama. A 5-day wet period is expected across the Southeastern belt along with much of the Mid-South. The rains will not be welcome, and a return to hot, dry weather



is needed.

West Texas continues to need more heat units and intermittent rains to finish the crop. The next five days will bring additional rains to the region. Texas average yield potential continues to be higher than suggested by the USDA. The current 620-bale estimate is the second lowest in the last six years.

INDIA'S CAI REDUCED 2020/2021 ENDING STOCKS BY 1.150 MB

The Cotton Association of India reduced 2020/2021 ending stocks by 1.150 million 170-kg bales to 8.25 million bales, which compares to 10.75 million a year earlier. It reduced the crop by 150,000 bales to 35.45 million bales and increased consumption by 500,000 bales to 33 million bales. Exports were raised to 7.7 million bales, with seven million of that total shipped. Stocks held by mills were estimated at eight million bales, and traders and ginners were estimated to be holding 4.5 million bales. May cotton exports reached 116,733 tons, with China, Bangladesh, and Vietnam the main markets. May cotton yarn exports were also brisk at 101,104 tons with China and Bangladesh the top markets. Yarn exports to Bangladesh are up sharply from a year ago. Arrivals have slowed to the point that the daily quote for a Sankar-6 is now ex warehouse with supplies tight. The spot price stalled out last week near 98-99.0 cents a lb. As of August 9th, unsold CCI stocks were estimated to have dropped to 870,000 170-kg bales.

Indian merchandise exports in July hit an all-time record of 35.2 billion USD. Total container movements out the 12 main ports were estimated up 27% in April-May and shipping lines are adding new capacity due to the export demand.

The monsoon remained weak in Gujarat where rains since June 1st have been 46%-49% below normal, while the balance of the cotton areas have been about 10% below normal. The nearby forecast has rains continuing below normal in Gujarat and much of the nearby areas. Planting remains slightly behind last year's pace with final acreage likely to be near unchanged.

US TEXTILE AND APPAREL IMPORTS REACH 8.94 BILLION USD IN JUNE

June US textile and apparel imports reached 8.94 billion USD, which was up sharply from a year earlier but slightly behind 2019. The volume of imports was up 83.9% from a year ago, with the growth centered on textiles whose volume surged 97.5% from a year ago. Non-apparel imports were up sharply in volume from even 2019. In value terms they reached 2.781 billion USD compared to 1.75 billion in 2020 and 2.229 billion in 2019. Fabric imports increased 186% in volume from a year ago and triple the volume of June 2019. The fabric imports were focused on low value products, with the value at just 630 million USD. Most of the imports were man-made fabric, but cotton sheeting fabric imports did total 29.573 million USD, illustrating the lack of fabric capacity in the US.

The top suppliers of fabric imports in June in volume terms were China 701 MM2, Turkey 379 MM2, Israel 297 MM2, India 201 MM2, South Korea 121 MM2, Vietnam 114 MM2, and Germany 88 MM2.

Apparel imports totaled 6.159 billion USD and China was the top supplier at 1.49 billion USD followed by Vietnam at 1.0664 billion. The CAFTA region was the third largest supplier at 745 million USD, followed by Bangladesh, India, Indonesia, Mexico, Pakistan, and Cambodia which were the other top suppliers. Cotton apparel imports accounted for 3.035 billion USD, which was a sharp increase from a year ago but below 2019. While China's cotton apparel imports are down sharply from 2018 and 2019, it remained the top supplier in June and is the second largest supplier in the first half of 2021. In June, China shipped 490.9 million USD of cotton apparel followed by Vietnam at 471.6 million and the CAFTA region at 421 million. Bangladesh shipped 418.7 million USD, with Indian, Pakistan, Indonesia, and Cambodia the other key suppliers. The shipments from the CAFTA region were the highest since July 2019. China's cotton apparel imports in 2021 are on track to be down about 50% from 2018 and 30% from 2019

ICE SURGES TOWARD 95 CENTS FOLLOWING US CROP REDUCTION

ICE was the star performer as it drew additional speculative buying when the USDA unexpectedly cut the size of the US crop. Dec neared 95 cents on Friday as the Speculative Funds extended their net long position to the highest level in some time. Mill buying slowed to a trickle as the CFR Asia price reached 101.85 in the Cotlook A Index, and the high-grade prices reached 105 cents or more. Nearby basis levels remain inverted as spinners in several markets still needed cotton for immediate shipment, with shipment logistics the focus. Prior to the USDA's report, prices encountered resistance as mill demand slowed or was focused on unfixed On Call purchases. The USDA shocked the market with its cut to US production, which was focused on sharply lower Texas yields despite the much-improved moisture and improved crop conditions. China's markets failed to follow ICE post report gains but had rallied prior to that, with the Cash Cotton Index up 2.62 cents for the week at a new high of 125.25 cents. The ZCE cotton futures posted gains of nearly 2.2 cents a lb. Cash cotton yarn quotes in China were higher for the week led by gains in the 32s carded yarns, while the ZCE cotton yarn futures moved lower in the September contract and were nearly unchanged in the January contract. Chinese demand for the Reserve auctions remained strong with 100% of the cotton offered again sold.

The size of the Unfixed On Call purchases position continued to increase during the last reportable period, which continues to provide support to values. Total unfixed On Call purchases reached 14.2319 million bales, one of the highest levels in the last ten years. Australian cotton was a major feature of trade last week. Even the higher freight markets showed interest because it is available now at attractive basis and then at even more attractive basis levels for shipment in May-July 2022. The rally in ICE and the invert further weakened the FOB basis, adding to the attraction of these styles. Chinese spinners inquired for US and Brazilian within the constraints of shipping deadlines for the TRQ or sliding scale quotas. A sizeable volume remains available from the bonded warehouse areas, with Indian a major feature. Mills across the major markets are showing increased interest in 2022/2023 shipment due to the invert and the attractive level of Brazilian and Australian styles. Australian growers continue to forward sell as cash prices, despite the weak basis, moved above 600 AD a bale for 2022 crop, and Brazilian growers are willing to sell 2022 at 85 cents and higher FOB and 81-82 cents FOB for 2023 crops. Both have weak currencies, and flat price levels are the key. This is giving spinners the ability to buy the discount, a feature we have discussed for some time as attractive.

The US crop is late, and again the focus for exporters is year-end and first-half 2022 shipment. This is a key driver in the invert with the CFR basis at its highest level for prompt and then declines into the May period. In May, one of the largest Australian crop in years moves, followed by what is expected to be a much larger Brazilian crop in August. There are a lot of unknowns on the horizon. If the USDA has errored and underestimated the US crop, which is a real possibility, then a larger US crop will be forced to move after January and will have to compete as we enter May and June. For now, spinners' coverage is not well extended, and several markets, such as Bangladesh and Vietnam, need cotton. Demand is good, but the Covid outbreak and other issues remain a concern. In the US, consumer sentiment has collapsed to the lowest level since 2011 following the covid second wave and the administration missteps in its management, lack of southern border control, and their foreign policy failure in Afghanistan. The full ramifications of the Afghan disaster are only beginning to be felt and will impact China relations. Fears are increasing that the change in sentiment, inflation, and logistics chaos will lower demand. China's Covid measures are also impacting economic activity in China, as well as its actions against several sectors of the economy. Amid these conditions, we are seeing warning signals for demand.

Thursday's price action created an outside range in Dec ICE, and Friday prices closed above the high, which means the technicals are positive despite the overbought status. A close back within Thursday's range would suggest caution, and the June 2018 post trade war high of 96.50 is a new point to watch. The COT report through Tuesday showed an increase of 5,803 new Managed Fund longs and 1,677 new longs from the other Funds and 1,990 new non-reportable new spec longs. These numbers all increased in the Wednesday-Friday period. The net Managed Fund long in ICE is 73,280 contracts, which is its highest since Aug 14, 2018. However, in the 2018 bull market prior to Beijing's ban on US cotton imports the net speculative long reached a record 108,162 contracts. Since that time, the Managed Fund net long has never been near that level and has peaked near 75,000 contracts. We are not at all sure why this is given the heavy speculative flow of funds. It's clear we are now above this level on Friday. The question is how much larger they will extend the position. They are the key, having been the sole driver since the 90-cents level. The net trade short is 162,561 contracts. In 2018, it peaked at 191,903 contracts, which also suggests the trade can sell more volume.

We have been cautious since 91 cents, and our caution continues tied into the events that are now impacting demand. Resistance is likely in the 95-96 region. The fund holds the near-term key, and any move toward a repeat of the 2018 record long levels would clearly move prices higher. To the US, caution is warranted at these levels.

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