AUSTRALIAN RAINS CHANGE OUTLOOK FOR 21 & 22 CROPS

CHINESE YARN AND FABRIC DEMAND TURNS WEAKER

INDIAN CFR BASIS FIRMS AS ICE FALLS

US WESTERN COTTON PRODUCTION IN PERIL AS WATER CUT

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

CHINA COUNTERS XINJIANG COTTON BAN WITH THREATS TO ALL WESTERN BRANDS AND RETAILERS - FOLLOW PARTY LINE OR LEAVE!

The Chinese government has had a very limited response to the US and Western actions to ban imports made with Xinjiang cotton since they were launched by the Trump administration. It was clear they feared an even greater retaliatory action by the much-respected Secretary Pompeo's China team if they took any action. President Trump, while launching the toughest actions on record against China for human rights violations, focused open dialogue on trade, allowing China to hold face at the diplomatic level. Thus, China engaged, and a trade agreement were reached. Then came the Biden administration, which continued the previous actions to the shock of China, moving the human rights dialogue into the open and expanding the effort to include other allies. Still, there was limited response until last week when

it appears that China's restraint ended with the failed China/US talks in Alaska, which ended their hopes of a reset. Many Chinese observers based on the Chinese state press before the meeting said that China had requested the meeting and lost face when the US abandoned protocol and comforted China in the opening statements. The actions that followed by China suggest this is true, and a very aggressive response is underway to show China will not accept it. The cotton trade knows full well from years of experience the importance of ceremony and protocol in Chinese relations. Now we are seeing what that means when violated on an international stage. China's reactions also appear to be emotional and not calculated as had been the case in the pre-Xi era.

The Alaska talks ended on Friday, and China took no time in responding. The week began with China taking aggressive actions in the hotspots to assert itself following the failed talks in Alaska. It sent three naval ships, including a missile destroyer, into the Sea of Japan in the Strait of Tsushima in what appeared to be an attempt to intimidate Japan after standing with the US and also proclaiming publicly it would assist the US in the defense of Taiwan. It continued a buildup of over 200 ships on a South China Sea reef claimed by both China and the Philippines and attempted to take control. This was followed by further intrusions in Taiwan's air space. All this occurred before Europe, Canada, US, and the UK issued their first coordinated sanctions against Chinese officials over Xinjiang. It remains to be seen if the move was calculated by US Secretary of State Blinken or if it just occurred. Secretary Blinken last week continued to visit Europe and seek coordinated actions against China for its widespread human rights violations in Xinjiang, Hong Kong, and aggressive actions in the South China Sea and against Taiwan. At the same time, a major effort has been building in many European capitals as well as the UK and Canada to seek sanctions and bans on imports as a result of the Chinese aggression, especially in Xinjiang.

The EU announced sanctions on four Chinese officials and one institution for their role in the Xinjiang genocide. All were officials of Xinjiang, and the institution was the Xinjiang PCC Security Bureau. China and the EU have agreed to an investment treaty that has not yet been approved by the various countries. China reacted aggressively to the move by the EU by announcing sanctions and travel restrictions on ten key European officials. These included Reinhard Butikofer, who is the chair of the EU Parliament Delegation on relations with China. *The Global Times,* Chinese state media, attacked Reinhard and accused him of being behind the riots in Hong Kong and of interfering in Chinese affairs. Then, France summoned the Chinese Ambassador for his attacks on French lawmakers. China's reaction and sanctions very much cast doubt on the chances of the investment treaty being signed into law and also triggered anger in Europe. It was clearly an overreaction, illustrating further China's attempt to intimidate any opposition to its actions.

Chinese social media post of a burning Nike shoes

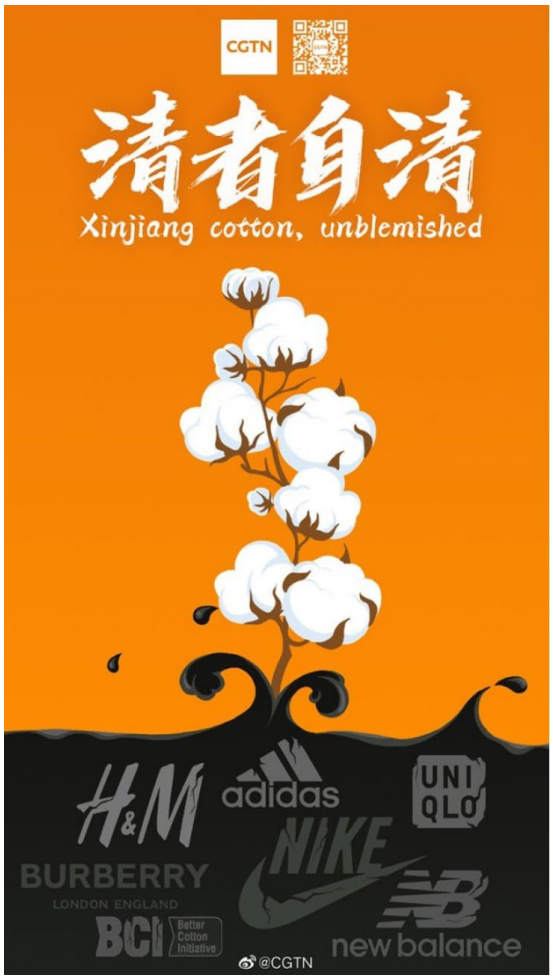
Canada followed and issued sanctions against four Chinese officials and one entity over their role in the Xinjiang genocide. The UK also acted against China for what is happening in Xinjiang. Several bills are also moving through the Dutch and other European parliaments to clean up the supply chains that would

impact imports from Xinjiang. The actions further pressured European brands and retailers to end sourcing in Xinjiang and the move to make supply chains Xinjiang-free. The efforts to ban Xinjiang cotton from the supply chains has drawn mostly silence from China up to now. In Xinjiang, a record cotton crop was produced in 2020 and acreage is set to expand in 2021, which means there is no visible impact on cotton. The 2020 crop has been rapidly shipped East and sits in Trade warehouses.

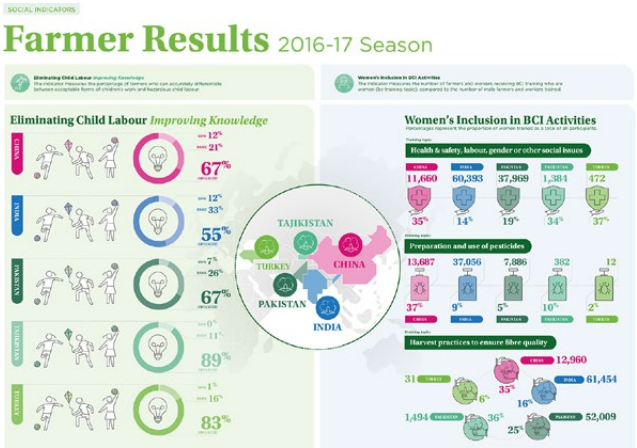
It appears that a two-fold strategy is evolving. First, direct attacks on the EU, Canada, UK, and US for their sanctions. Second, the launch of a Communist Party propaganda campaign against the Western brands and retailers who have announced an end to sourcing in Xinjiang and also have large operations to sell to the domestic market. This includes social media calls to boycott products, calling on Chinese Ecommerce platforms to remove their products, and even some calls for the firms to exit China. The first intimidation campaign has been launched against the Fast Fashion giant H&M, a major part of the Chinese apparel market, with 520 stores. This compares to 593 in the US. The Chinese Communist Party Youth League pulled up a statement by H&M in 2020 in which it said, "it was deeply concerned about reports of forced labor in Xinjiang" and has launched a concerted effort to make an example out of the firm. The campaign against H&M was launched on the social media platform Weibo and was followed by a host of other attacks, including a commentary on CCTV which said, "H&M you are no longer fashionable." The Wolf Warrior editor of the state media *Global Times* said that the Western companies need to be highly cautious and not malign China's Xinjiang. The attacks led to some on social media calling for a boycott of H&M products and also for it to exit China. Media reports said one online retailer has pulled all H&M products. Reuters reported that its official store on the Alibaba TMall was not accessible. A Chinese actor announced he had ended his contract to promote H&M products. WWD reported that as of late Wednesday H&M products had been blocked and pulled from all Chinese Ecommerce sites.

Nike China sales

It was hoped this was not the start of a major intimidation campaign, but that quickly ended on Thursday. It has come when Fast Fashion sales in China's booming domestic market are declining. H&M sales are reported to be down 17%. The GAP, which has been popular in children's wear, is rumored to have put its China stores up for sale, and the WWD reported that Old Navy is pulling out. Inditex, which owns Zara, also announced that its Bershka, Bull & Bear and Stradivarius brand stores will all close by year end. Local brands are rapidly taking market share because of design differences, body types, and apparel more suited to the Chinese climate. Uniqlo, the Japanese Fast Fashion, remains in the top five retailers of Women's and Men's apparel. As the campaign against the Western companies expands, both Adidas and Nike have a lot at stake as the top sportswear retailers in China with over 4 % of the total market. Many of the Western brands and retailers have also declared their supply chain Xinjiang-free.



By Thursday, the campaign to defend Xinjiang had expanded and engulfed all foreign apparel brands and retailers in China, which moved the China/Xinjiang ban into an entirely new economic sphere. In 2020, China's apparel market had sales of 190.23 billion USD, and in 2021 it is on track to easily exceed 200 billion USD. The Chinese luxury market in 2020 had sales of 53.5 billion USD. Since October 2020, China's monthly apparel sales have exceeded the US for the first time. One estimate says Adidas and Nike alone have a 4.3% share, which puts their sales in the billions of USD. Nike reported sales of 4.6 billion USD in China in 2020. Thus, these two brands alone have nearly 9 billion USD in sales at risk. The Japanese fashion giant Uniqlo is estimated to have a 1.2% share of the Chinese market and is number 1 in Women's wear. The Social Media campaign expanded to every foreign-owned brand or retailer who has made any pledge to stop using Xinjiang cotton and even to the Better Cotton Initiative and any member of BCI. A number of Chinese and Hong Kong celebrities announced they were no longer willing to act as brand ambassadors to any Western brand, such as Nike or Adidas, that had made the pledge on Xinjiang cotton. The social media campaign to boycott these companies spread to Phillips Van-Heusen and its brands, Converse, Burberry, New Balance, and all others. The Chinese Ministry of Foreign Affairs and Commerce Department joined the call for the brands and retailers to reverse their stance or leave China. In one broadcast, it carried photos of US cotton picking in the 1800s. The effort went on to attack BCI and call on its members to resign or leave China. Anita, the largest domestic sports brand in China, announced it was proud to use Xinjiang cotton and would resign from the BCI. The state media issued a call specifically for Adidas to quit the BCI. The state paper, *Global Times*, called out Inditex for quietly removing its statement on Xinjiang from its English and Spanish websites. One Japanese retailer bowed to the CCP pressure and drew praise as it said



BCI China 2016-17

it sourced cotton from Xinjiang. Hugo Boss also said it uses Xinjiang cotton and that Xinjiang ELS was of top quality. Hong Kong's *Apple Daily* compared the entire event to the Boxer Rebellion and China's past use of attacks on the West.

The WWD reported that Nike made an undated statement in which it said it, "does not source products from the Xinjiang Uyghur Autonomous Region and we have confirmed with our contract suppliers that they are not using textiles or spun yarn from the region." "Nike takes very seriously any reports about forced labor and we have been engaging with multi-stakeholder working groups to assess collective solutions that will help preserve the integrity of our global supply chains," the brand added.

In the domestic stock market, the shares of the domestic companies sourcing in Xinjiang drew buying. Heilan, the large home textile retailer, shares rallied 6.42%. One performance stood out. Xinjiang Sayrah Modern, which is traded on the Shanghai Stock Exchange, surged 10%. It grows and gins cotton in Xinjiang and has a textile operation. It traded a record volume of shares. Li Ning shares gained 10.74%, and Anta gained 8.40%. The clear endorsement of Xinjiang slave labor and the use of Xinjiang cotton brings into question a host of issues for US ETF's and Funds investing in Chinese stocks considering they have made an ESG pledge.

China's move to use social media and the economic pull of its domestic apparel and luxury market has taken the Xinjiang cotton ban influence to an entirely new level. The move to make Western brands and retailers endorse the CCP party line is not new, but what is new is the demand that they endorse well documented human rights abuses. The magnitude of the current drama is that it is not just a CCP policy or Chinese tradition that this group is being called on to endorse. It is genocide as labeled by the US, Canada,

UK, and others. Most if not all of the brands have a similar or larger footprint in the US market where they have made major stands on human rights and rights of minorities. After being pressured and encouraged by the US import ban, they have made important statements against the slave labor in Xinjiang and the abuses taking place. It would appear that maintaining the moral high ground will be costly and to abandon it will draw a significant backlash in the US, Europe, and other regions. The effort has been extended to attempt to destroy the Better Cotton Initiative, which has been adopted by almost every major brand.

ANTA Sportwear pulls out of BCI.

For global cotton trade, this entire unfolding event has shaken confidence to the core. Both China and the US are to blame, and the US violated protocols setting the storm in motion. The China of Xi is not the China of Deng, and instead of being reserved and calculated it unleashed a host of emotional actions that are dangerous, making it very difficult for dialogue. China, while a very powerful and important market, is not self-sufficient and depends on food and raw materials from the West. Trade with the West drives its economy, and the Chinese business community wants stable relations. China's domestic cotton and textile market fell sharply last week, and a negative sentiment has spread across the industry following the last week's actions. The destabilizing by China has occurred when domestic cotton use was headed to a record, cotton yarn and fiber imports were robust, and the Chinese industry had hoped for a reset in US relations. Sourcing in China is now expensive as record freight rates continue. They are four times higher than 2019, and the risk appears simply unmanageable. The freight delays and cost have made it quite uneconomical to source in China. It will be hard for US companies and Wall Street to face the truth after companies have come to rely on China for the simplest of products.

Cotton prices have collapsed, falling to levels not seen since December of 2020, and it is the result of the emotion. We have warned for years of the danger cotton trade carried with too much focus on one market. The China/US trade deal reduced that risk and brought a period of robust trade for US and non-US cotton. We have, over and over, stated the importance of a year two of the agreement continuing. However, the Biden administration has hardly said a word and has not made trade any part of its priorities. The first quarter of 2021 is complete, and China's purchases overall have reached only a third of the total commitment, according to Bloomberg. The events of the last week certainly make a renewed commitment by China appear difficult. We hope stability returns to US/China relations, but fears are increasing that the lack of a Xi/Biden meeting before the party meeting may lead to even bolder actions to make China appear strong. By Friday, no signs of easing of tensions were evident. China launched its largest ever incursion into Taiwan air space, and China sanctioned nine UK individuals and four entities for their actions and vocal support against Xinjiang. Moreover, social media threats against the individuals and H&M store locations were removed from all Chinese map Apps, including Apple. The US signed a Coast Guard agreement with Taiwan.

While the emotional action of China raises the fear that it could spread to a ban on cotton imports from the US, there is also another risk the actions have for China. In 2020, China exported one of its largest volumes of textiles and apparel on record, driven by fabric and PPE textile exports reaching 291.2 billion USD. This makes exports still larger than the domestic market. The brands and retailers being targeted by China are the largest in the world and are thus major sourcing companies with most focusing heavily on sourcing in China. If they are forced to exit China or the boycott continues, it is very likely this business will be switched to other locations, with the change likely permanent due to the additional investments required. The attacks on the EU and US will also influence other sourcing decisions. For the first time it appears that economic considerations that have maintained China-US relations are no longer the main consideration for either China or the US, which takes us into uncharted waters.

AUSTRALIAN RAINS TURN HEAVY IN NSW/SOME QUALITY/ YIELD LOSS LIKELY

Garah, New South Wales

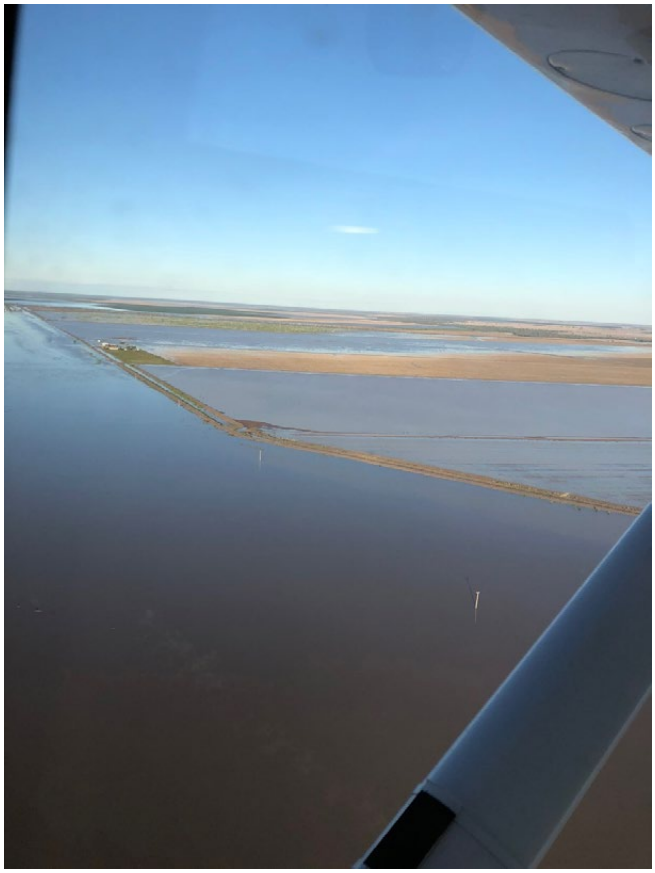
Mungindi, New South Wales border region

Last week, Australian weather was violent even by Australian standards as a tropical cloud and a tropical system collided to produce a rainfall event of biblical magnitude, causing significant economic losses. The previous week we discussed in detail the building wet pattern that had begun to prevail in parts of the cotton belt and the concerns it raised. This was followed by a record-breaking event that produced a lot of 100 mm to 500 mm cumulative rainfall totals in a short period. Comboyn, north of Port Macquarie on the coast, received 889 mm from March 18th to the 22nd. The rains caused considerable devastation along the coast, but the cotton belt is further inland. However, the heavy rains did reach the cotton belt, with much of the large state of New South Wales and Southeastern Queensland under flood warning and rainfall alerts for a period. The cotton belt was spared the devasting rains, but rainfall was heavy with near 170 mm or more reaching into the heart of the northern NSW cotton belt. The city of Moree experienced major flooding, with parts of the city evacuated when the Mehi river overflowed. Moree reported record rainfall 150 mm in 24 hours, the heaviest since 1894. Roads all across the cotton heartland of the north to the Queensland border were closed and flooded. The Gwydir River overflowed, as did most other rivers, as the rivers are not deep, and moderate rainfall triggers flooding which spreads rapidly across the flat landscape. Farms were underwater, and water was standing in many cotton fields.

The rains shifted south by March 23rd, which eased the panic, but rivers will rise for a few days as the heavy flows move south. Assessing the impact of the rains cannot be summed up in a simple statement due to the 2021 cotton crop being in a variety of stages. Irrigated fields are well drained, and producers have an extensive network of pumps and on-farm storages to pull water into storage as soon as the flooding starts. A 2020 survey in NSW placed the number of on-farm storage units at 1,833 with a capacity to hold 1,395 Gigalitres. 1,320 of these are located in the areas where the heavy rain hit, and many are likely rapidly filling. One farmer posted that he had been building a new 20,000-cubic yard, on-farm storage unit in NSW over the last two years and just finished it. In two days, it was filled. In Queensland, the early crops were picked, and the next group of acreage was ready for defoliation, which was delayed, but some bolls were open. In northern NSW, the crop had reached the point

Flooded farmland near Moree

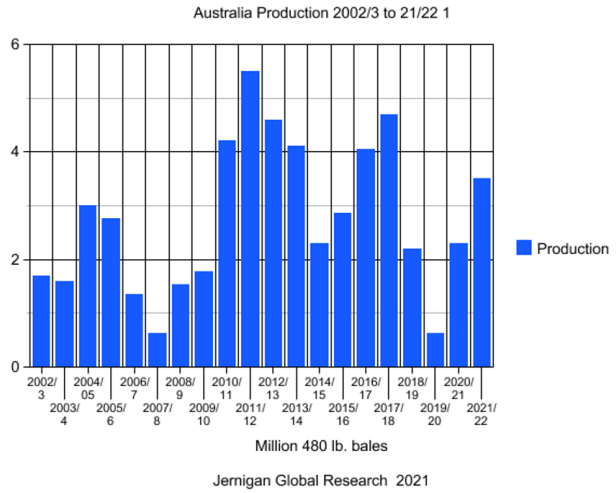
in many areas where defoliation was planned, and some bolls were open. Normally, picking starts in mid-April in north NSW and accelerates and moves south.



On Farm storage fills up

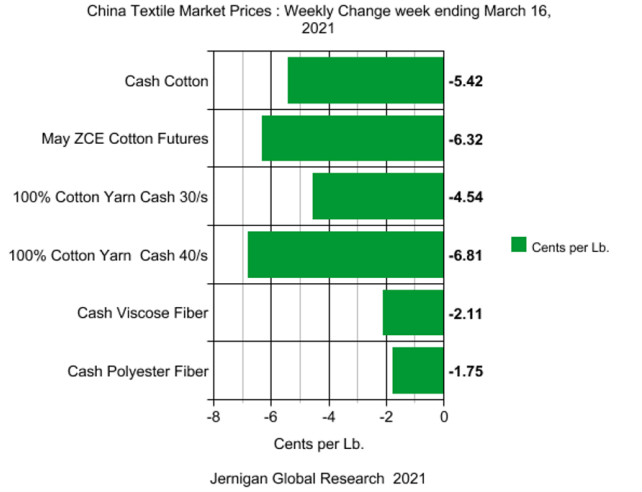
Two principal impacts can be taken away from the event as of now. First, in regard to the 2021 crop, some quality loss occurred when bottom portions of the plant went under water and losses occurred. Yields looked extremely good and will be trimmed back some. Cotton was open, and the volume of Strict/Good Middling color grades will be lower. Second, defoliation was delayed and so has picking for few weeks. This means the crop will be exposed longer, so the weather during the next 60 days will need to be clear and sunny. The Southern Valleys of NSW were spared, and the crop there had little adverse effect. It is now dry, but another rain event would cause major problems.

The second impact is that the 2022 crop has the best water outlook in years, with on-farm storage units in Queensland and NSW full or close to it. Water is flowing into all dams, and many are full or rapidly filling. In Stanthorpe, Queensland, the King Dam was bone dry. For a year, residents had depended on water being trucked in, but it is now at 25% capacity and rising. This sets the stage for a large increase in irrigated acreage for 2022, and if more rain comes a record dryland crop. Look for 3.5 million bales and growing.



Mill reaction to this event has been very timid, and the CFR basis for the 2021 crop remains weak. Increased offtake was noted into Indonesia but at attractive basis levels. Australian SM 1 5/32 is offered on par or at a discount to Memphis/Eastern GC 21-3-37. In the previous two years it was at an 800–1200-point premium.

CHINESE YARN AND FABRIC DEMAND SLOWED OVER PAST 30 DAYS



The rather robust conditions all the way downstream in China's textile supply chain that prevailed 30 days ago have given way to slower orders, an unwillingness of grey fabric buyers to accept additional price increases, and a slowdown of inquiries and purchases of cotton and cotton/poly blend yarns. A variety of reasons appear behind the change in mood and sentiment. First, Chinese domestic textile markets are very much influenced by the tone of US/China relations, and the most robust conditions always appear to occur when a surge of optimism in the outlook for improved relations occurs. The bull market in cotton, all fiber, and textile products began shortly before the US election, with a surge in new orders coming in from the US and Europe. Then, the market received a boost from the domestic state press pushing the narrative that a Biden administration meant a restart in US relations. The domestic press actually pushed that view up until the Alaska talks. Analysis showed that China had pushed for the talks and hoped to use them to present a positive tone at home. The failure of the talks and the exchange were presented in the domestic press as China defending itself, but the abrupt change in tone in the press was noticeable. This has added a cloud of pessimism over trade and caused all buyers to halt new procurement for the moment.

Another development is a weakening of the RMB against the USD. It has moved to 6.54, and even this small move has hurt importers. An increase in order cancellations and postponements has surfaced due to the third wave of the Covid-19 virus that has resulted in new lockdowns in Europe, which is China largest export market for textiles and apparel. Finance is again being mentioned following a move by the Central Bank to deleverage the economy and pull in any areas of hot money. The stimulus launched last year worked but caused pockets of excess and debt. For the first time in a while, we have heard cotton spinners say that some buyers are seeking 30-90 days of credit on purchases, and some contracts have a risk of default.

New orders are reported difficult in both yarn and fabric. This has caused mills to halt most new purchases of domestic cotton, and they appear to be waiting as most have inventories to run 30-60 days without additional purchases. The strong trade of October-February resulted in the movement of the record Xinjiang crop into Trade hands, and with each passing day more of the volume is in Eastern warehouses. Fabric mills are said to have pulled out and slowed yarn purchases. One bright spot appears to be the high-count cotton for 50-60 counts and above yarns. Generally, these yarns continue to move, with demand from domestic buyers. The robust demand also began in October and has not slowed down. Demand and run rates actually appear to have improved since return to work after the New Year holiday. Supply has been limited, keeping mills operating at high capacity and demand strong. New investment in the needed equipment has not kept up with demand, limiting capacity. Demand from export markets for high end cotton luxury products has been strong from Europe, Japan, US, and South Korea. Another development appears to be new sub-contract orders from other Southeast Asian mills that received orders from buyers but lacked the needed equipment to meet the quality requirements. These mills have quietly subcontracted to China. The tightness in stocks of ELS cotton is an issue. Domestic ELS Xinjiang cotton from the last crop contained a much smaller supply of 37 mm, with most of the crop 35-36 mm, which has increased import demand. Limited supplies are available from the bonded warehouses. Indian ELS yarns have not experienced much demand because of quality issues, and also the price is too high relative to quality. Indian DCH ELS prices are very firm, and yarn prices have been higher than Chinese domestic yarns. Vietnam has exported a small volume of high-count yarns that have found demand in China.

China's domestic cotton fiber and cotton yarn markets all moved sharply lower last week. Cash cotton prices retreated as did ZCE cotton futures. The weaker prices were driven by the slowdown in orders, the heavy

inventory of 2020 Xinjiang crop that is in Trade hands, the increasing Xinjiang crop, and the fact the Trade is holding the largest inventory in years. Cotton yarn prices were weaker, and the sharp decline in US/China relations sent a chill across the market. In addition, bonded warehouse stocks are heavy, and more cotton continues to arrive as these stocks have been building as traders became bullish on consumption prospects since October. The May ZCE cotton contract closed the week at 14,535 RMB or 102.03 cents for a loss of 6.32 cents for the week. The China Cash Cotton Index closed at 15,148 RMB a ton or 106.34 cents for a loss of 5.42 cents for the week. Cash cotton yarn prices also declined falling from 9-15 cents a kg. Viscose fiber lost 2.11 cents a lb., and polyester staple fiber lost 1.75 cents a lb., with cash closing the week at 48 cents a lb.

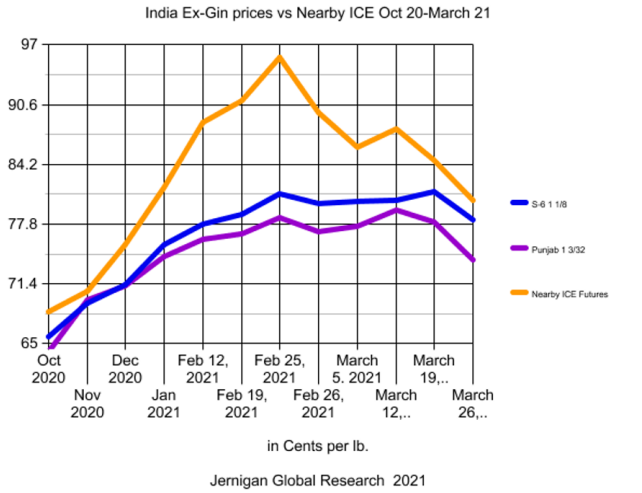
TURKEY'S ROBUST TEXTILE/APPAREL TRADE SHOCKED AS CENTRAL BANKER FIRED/LIRA COMES UNDER MAJOR PRESSURE

The Turkish economy has been performing well under the leadership of Naci Aghai who was appointed last year. The Lira/USD exchange rate had moved from a low of 8.58 to 7.0 as interest rates were raised and the economy grew. The Lira closed the previous Friday at 7.22 per USD, and the Lira's strength had allowed cotton imports to increase and be managed. The abrupt firing of Aghai on Saturday morning sent the country into shock, with the Lira collapsing on Monday, falling over 16% to 8.385 before it began to recover around 7.8. The country's stock market fell 10% and overnight interest rates soared. Such actions have undermined confidence in the economy and raised serious fears regarding the large USD debt that companies hold. The currency swings brought cotton

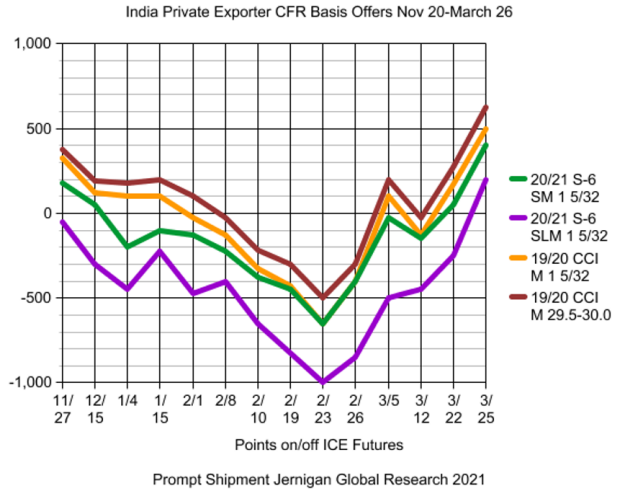
trade to a crawl. More stable conditions returned by the end of the week, but it remains to be seen how this will affect the exchange rate longer term. It appears that the well-respected central banker ran afoul of the President following several increases in interest rates.

Turkey was an active buyer of US styles in the week ending March 18th, which was ahead of the Lira collapse. Mills are well covered for nearby through summer and will likely be quieter until economic conditions calm.

INDIAN CFR BASIS LEVELS SOAR FOLLOWING SHARP FALL IN ICE



For the past five days through Friday, the CFR basis levels of export offers from Indian exporters have moved steadily higher, and by Friday gains of 350 points or more for the week were evident. On Friday, the spot price of a Shankar-6 1 1/8 ex gin briefly moved to a positive, while ICE futures were at their lows compared to a record low of over 1300 points. Indian S-6 SM 1 5/32 offers reached 400 points On Friday while SLM 1 1/8-1 5/32 offers reached 200 points On. CCI SM 1 5/32 offers reached 500 points On May. These basis levels reflected dramatic changes. The private offers of a S-6 SM 1 1/8 reached a low on February 23 of 550 points Off May. Daily arrivals continue below 50,000 bales a day. Export trade in Indian styles was very quiet last week as the sharp appreciation in the basis gave the advantage to African Franc Zone styles. January cotton exports reached 131,553 tons led by shipments to Bangladesh and China. Cotton yarn exports reached 82,229 tons. The blockage of the Suez Canal is impacting Indian apparel export shipment to Europe, creating 4- to 5-day delays.



BIDEN ADMINSTRATION AND CALIFORNIA CUT WATER ALLOCATIONS FOR CALIFORNIA GROWERS TO 0–5%

California is in crisis, with the state's agriculture industry, which produced gross sales of 50.116 billion USD in 2019, at risk of a sharp contraction. The state's leadership for years has been focused on environmental concerns, allowing billions of gallons of water to flow out to sea in order to boost Salmon runs and a host of other environmental concerns. Revenue from Google, Apple, and Silcom Valley allowed agriculture interests to be ignored, all for the greater good. No attempt for long-range planning was made, and for years unregulated pumping left farmers to fight to find groundwater. The federal government's influence through the Federal Bureau of Reclamation was affected briefly by a pro-farmer administration but overall was ruled by a pro-environmental lobby for at least eight out of the last twelve years. Now, the Biden administration has allied with a state that has ignored farmers' interests for at least ten years to cut off most water. Farmers in California receive most of their irrigation supplies through a very complicated system. The three sources are the Central Valley Project, State Water Project, and from ground wells. The Central Valley Project was established in 1933 and the State Water Project in 1960. Both were well-planned projects with a vision that captured the mountain snow melt as a way to bring irrigation water to farmers. The scheme created the most productive agriculture region in the world. It allowed the US to supply a large amount of its vegetable, fruit, and other crop needs. Eventually it made the US a global exporter of nuts, especially almonds. It was a key part of US food security.

As the state enjoyed record growth, its population soared. In 1960, when the State Water Project was launched, it had a population of approximately 16.5 million, while today it is over 39.5 million. Despite this growth, no major longer-term planning was done to meet the water needs. Only 11 desalination plants operate. Instead, water intended for agriculture was switched to meet human needs and to meet the goals of the environmental lobby, which attacked farmers as the evil ones. If you read the laws that funded the water projects, they were intended for irrigation, not other projects. Due to the lack of any political leadership for at least thirty years and little federal guidance, no planning was made. During the last centuries of drought, the problem continued to be ignored and was addressed through half-hearted measures always looking to take more from agriculture. Farmers were forced to find water for the most valuable crops from ground water pumping. By 2020, this resulted in a significant depletion of the underground aquifers. As the underground water dried up, major environmental problems with sinking land occurred. For the first time a law was passed to regulate underground pumping of wate. It required each water district to have a plan to replenish the aquifer before pumping can occur. This means in 2021, as a drought rages, very limited ground water is available.

The Sierra Nevada Mountain snowpack is far below normal was the shocking news from last week. The Central Water Project cut its water allocation to zero, and the State Water Project allocation went from 10% to 5%. These cuts as the season for snowpack accumulation is ending means very limited water. The nut producers that face major economic disaster without water to keep the orchards alive are fighting to buy up any supplies. For many, no matter what the price bid for water, there is simply a very limited supply. The new restrictions on underground pumping have added a crisis to supply. 27 million people and 750,000 acres of farmland will fight over an allocation of 210,000 acres of water from the State Water Project. The environmental impact was clear. Shasta Lake is a part of the Central Valley Project and is near 50% capacity but still will not release an allocation

for environmental reasons.

These cuts suggest California upland cotton acreage could fall to nominal levels, while Pima acreage will fall sharply. This is not a matter of crop price, there is no water. US Pima planted acreage will be the lowest in centuries. The issue will not be solved easily since the entire crisis seems not to be drawing any attention from the state's leadership or the US Department of Agriculture. Both have their priorities elsewhere despite the 50 billion USD agriculture industry that is at risk or the food security concerns.

ICE VALUES FIND SUPPORT AFTER AN EMOTIONAL WEEK

When the focus on Xinjiang concentration camps and forced labor began to gain momentum, we were very concerned that cotton would become too much of the focus. We pointed out then that the issue was far greater than cotton and that the global industry should prepare itself to be ready to refocus the issue in a broader context. At that time, the subject was something no one wanted to talk about, and the hope was that it would not disrupt trade. Well, our greatest fears have been realized, and even the Better Cotton Initiative has been dragged into the drama, with China demanding brands and retailers cancel their memberships. The positive for cotton in general is that China's entire social media campaign has made wearing garments made with Xinjiang cotton patriotic, and advertisements referring to beautiful Xinjiang cotton have filled the media. Thus, young Chinese consumers who are responsible for much of the spending are reading labels and looking for cotton. This government sponsored campaign could force cotton's market share up several percentage points and change the spending habits of millions of Chinese consumers. This, of course, would benefit global trade, increasing imports due to the consumption deficit. The negative though is the fact that China's propaganda machine has dragged out American cotton farming photos from 150 years ago showing cotton in a negative light in the US. With all that being said, cotton is in the spotlight, and the degree of the emotional exchange going on between China and the US has cotton trade in the crosshairs, with US exports to China near five million bales in 2019/2020 and 2020/2021. Then, outside of this trade there is the brisk Brazil, Indian, and African Franc Zone cotton imports and the cotton yarn demand for Pakistan and Indian yarn. The risk of disruption caused ICE futures and ZCE Chinese cotton futures to collapse, along with cash prices. Losses in China's ZCE before Arb trade Friday actually exceed those of ICE. As we discussed in our earlier commentary, the Chinese domestic textile industry wants and needs improved relations with the US.

The collapse in ICE futures Thursday and early Friday was due to panic as the news of the Chinese boycott of Western apparel brands shook not just the markets but the world. Share prices of the brands impacted declined, while those of the Chinese domestic apparel brands and retailers soared. For all parties both Chinese and Western, the last few days were full of emotion. The break to near 77 cents in May and 75 in December appeared to us to be overdone and placed both 2020/2021 and 2021/2022 crop prices in the undervalued camp. We hope spinners cleaned up On Call fixations, and it appeared a lot of new sales were made. This entire break in prices has been good for the longer-range price prospects, keeping prices at levels where market share can slowly continue to climb. The US remains on track to commit the entire

inventory of old crop stocks and enter 2021/2022 with the tightest free stocks in many years. The current break may have created some major sales of US and non-US through 2022 shipment.

Many have quickly said the bull market for cotton prices will return, and supply and demand favor this as well. CFR basis level have firmed as prices have collapsed, indicating the behavior of futures have become over done on the downside and thus Friday's rapid recovery. At current price levels, cotton consumption in 2021/2022 will exceed supply, which is a major supportive feature. The greatest unknown for the market is something very different and difficult for traders to get a handle on. On Saturday, the headlines of the *Financial Times* led with "US Fears China is Flirting with Seizing Control of Taiwan." A review of the feature told of US officials telling the *Financial Times* that the Biden team had reached the conclusion over the last 60 days. This story followed Friday's move by China to send 20 warships into Taiwan's Air Defense Zone. This was the largest incursion ever. Adding to the anxiety is the experience of Xi Jinping in Hong Kong. Under his leadership China violated an International Handover Agreement on Hong Kong and announced the 50- year agreement made by Chinese leader Deng was no longer valid. He then has moved to unravel every protection provided, and today Hong Kong is quickly becoming like any other Chinese city. What price did China pay? Zero. The UK did nothing, and China's trade surplus with the US and Europe broke all records in January/February. The US has given mixed signals. It has talked tough, but US investment banks continue to be the lead for the surge of Chinese IPOs from Hong Kong, providing the country with a flow of USD funding. Against this backdrop and the emotion now prevailing and with an unproven US Team now in place, such an event does not seem as farfetched as it did just 90 days ago. Taiwan is a major global economy, a leading chip maker, and has an agreement in place that says the US will defend it. No matter how you look at this, a Chinese attempt to seize it would unleash a "Black Swan" event that no one can fully forecast. This will overhang our market as well as the global economy.

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