



AUSTRALIAN COTTON NOW
A FEATURE OF TRADE



CONCERNS OVER SLOWER
ECONOMIC GROWTH IN
CHINA EXPANDS



SHIPPING WOES SLOW
US COTTON EXPORT
SHIPMENTS



PAKISTAN LOCAL COTTON
PRICES EXCEED 105
CENTS



JERNIGAN GLOBAL

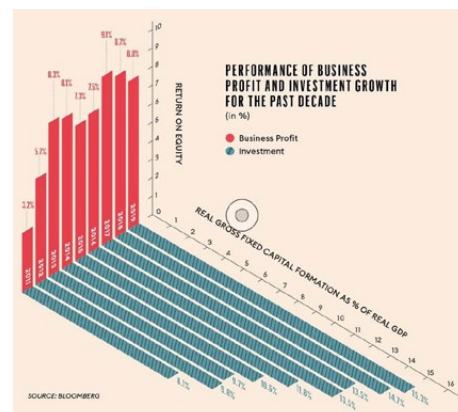
— KNOWLEDGE IS THE NEW CAPITAL —

JAPAN INTRODUCES TEXTILE AND APPAREL SOURCING STANDARDS TO DEAL WITH FORCED LABOR AND ENVIRONMENTAL CONCERNS

JAPAN IMPORTED 37 BILLION PLUS IN 2019; 55% FROM CHINA



Japan is the world's third largest textile and apparel import market and also the third largest economy in the world with a GDP much larger than Germany. Moreover, it is emerging as a key ally of the US in its fight against Chinese aggression in Asia. Recently it drew lots of attention when it discussed defending Taiwan against an invasion by China. The aggression and discussion of a Taiwan invasion has begun to break the economic bonds with China as Japan's sovereignty is seen at risk. In recent years, its role in textile and apparel trade has taken a reduced visibility as China's domestic apparel market has expanded. However, it



Japan The Hidden Strength of the Economy

remains the third largest import market, with the World Bank placing 2019 imports at 37.158 billion USD, placing it behind only the EU and US. The US imported 111.022 billion USD of textiles and apparel in 2019. This makes Japan a very important market for every exporter. Their massive investments in China and role in contributing to its economic development have meant it was the preferred sourcing locations for textiles and apparel. In 2019, over 55% of all imports or 20.667 billion USD came from China, which makes it a very important market for Chinese exporters and one that is not easily replaced. Exports of textiles and apparel to Japan will equal 7.5% of all Chinese textiles and apparel exports in 2021.

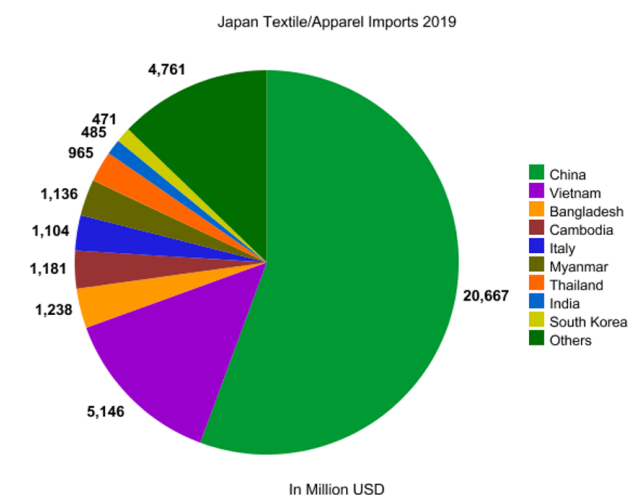
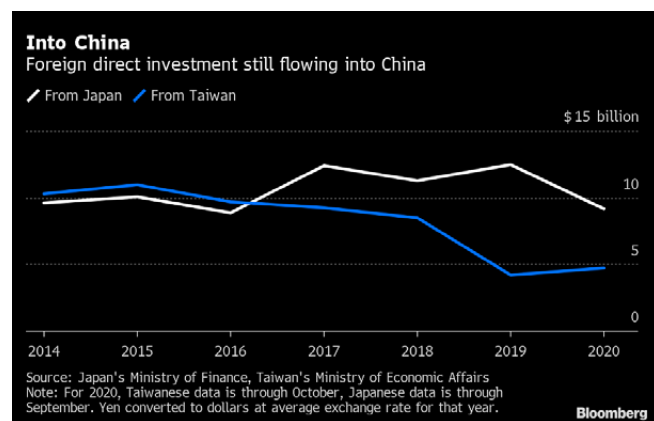
Up until 2020 the human rights abuses in Xinjiang drew limited reaction from Japanese retailers and brands, even as many manufactured in China and exported to the rest of the world. As the US, Australia, and others revealed the extent of the genocide, the attitude began to change. Then came the US Xinjiang ban, which drew little attention at first. After all, the textile supply chain was never transparent, and the US lacked the resolve to make the ban a serious issue. That attitude was shown to be wrong, and the US Customs and Border Protection (CBP) is proving an effective tool to stop the imports and more than willing to embargo even Japanese companies caught importing goods made in Xinjiang. The technology is in place to test any apparel product and know the origin of the fiber. Thus, there is no slippage if the CBP checks your shipment. That made Japanese companies see the issue as serious and they begin to react. Then came the change in foreign policy by the Japanese government when China threatened Taiwan and Japanese islands they are attempting to claim illegitimately. A white paper on defense released by Japan further highlighted the risk imposed by China's actions in the Taiwan Strait, which of course drew additional rebuke from Beijing and even a threat to attack Japan.

Against this backdrop, the Japan Ministry of Economy, Trade and Industry asked the Japanese textile industry to issue guidelines to address human rights violations and environmental issues. This means Chinese sourcing is at risk and a lot of Japanese brands and retailers are already moving to review supply chains. Many are faced with a delicate balance due to their economic interest in China where they have retail stores or sell their products domestically. However, as the issue with Taiwan continues, these companies will have to have a contingency plan. The China press launched an assault on Japan, pushing it to focus on making money in China and stay out of the Taiwan issue. Of course, that cannot happen, because Japan would be under significant threat from any such aggression and invasion.



The mention by Japan's directive of environmental concerns is a major new liability for China as the global weather patterns continue to cause havoc around the world, and their practices are driving much of this. A new study was released last week by China's own Sun Yatsen University that studied greenhouse gas emissions from 167 major cities in 53 countries. It found that 25 mega cities were responsible for 52% of all the world's urban greenhouse admissions, and 23 of those cities were in China. Moscow and Tokyo were the only non-Chinese cities on the list. The number one emitter was Handan, China, with emissions of 199.71 megatons of

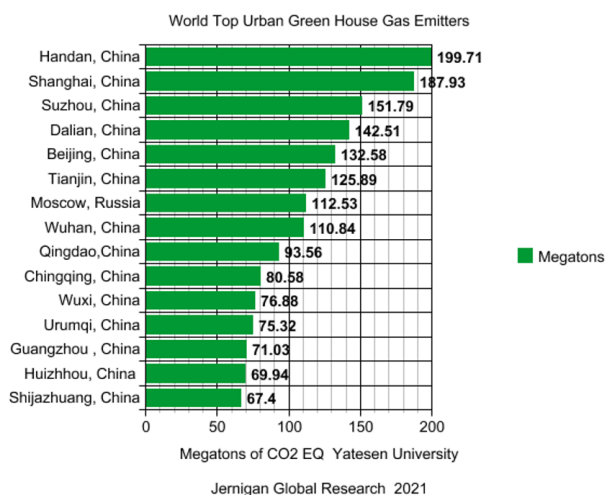
CO2 equivalent followed by Shanghai at number two with 187.93 megatons. Suzhou, Dalian, Beijing, and Tianjin rounded out the top seven, with Moscow at 112.53 megatons and Tokyo number 17 with only 66.08 megatons. In the US, NY City was number 26 at 51.31 megatons and San Diego at number 41 with 35.02. The report was a shocker and added further evidence that the key to fighting the climate disaster has to focus on China. One solution floated is to allow companies to sue at the WTO for damages due to economic harm caused by Chinese companies through their non-environmental compliance. For example, China is the world's largest in fabric manufacturer dyers, and finishers. Its older plants employed very limited environmental controls, and even today many of the newer plants are lax in these standards and oversight. This allows the Chinese exporters to undercut most other exporters. In Vietnam, the practice of exporting the yarn to China and then importing the finished fabric is driven by the Vietnam government's fear of allowing Chinese companies to install operations that will cause the environmental damage like that done in China to be repeated in Vietnam.



The advantage of weak environmental compliance has been an important part of the Chinese Price since their manufacturing sector became the factory of the world. China's small attempts to force compliance have provided major shock waves as older, cheap-output plants were forced to close, unable to afford the new equipment. For others, it has raised the cost of production. There are Chinese companies building plants that meet the global environmental standards, but they are the exception and not the rule. The issue would be of significant importance to the Chinese people if they were aware of the health risk that is occurring. The air standards in the major Chinese cities are unsafe. It is unclear just how much the Japanese industry will address this issue, but we expect it to be the start of a major issue globally.

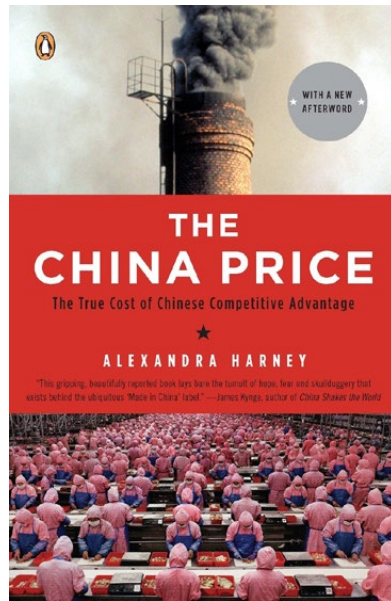


Uniqlo has more stores in China than Japan



Another international issue was also exposed, an environmental disaster created by Chinese actions. Geospatial satellite images showed that hundreds of Chinese-owned ships were dumping sewage and human waste onto the reefs and into the ocean near the disputed Spratly Islands in the South China Sea in Philippine territory. These actions threaten to spread disease and impact the health of the reefs. It appears

China has violated yet another international treaty, since it is bound by the London Convention of 1972/1996, which bans the dumping of waste at sea by ships. The scenes of the waste being released into the sea were quite shocking and caused anger from the Philippine government and global environmental groups.



For now, the risk for the Chinese exporters is the fact they are forced to use imported cotton, or they will lose the Japanese business. Vietnam was the second largest supplier in 2019 at 5.146 billion USD and will see increased business. The big winner may be Bangladesh and India. Bangladesh exported only 1.238 billion in 2019 and India 485 million. India, as part of the QUAD, may benefit the most and could see exports expand ten times the level of 2019 over a period of time.

President Biden issued additional warnings to those

US companies that still have supply chains in China's Xinjiang region. The US administration said it believes US companies are not taking the risk to their supply chains being tainted by Xinjiang slave labor seriously enough. It warned the US would be prosecuting any company that violates the prohibition. It warned of the reputational, economic, and legal risk faced by any company sourcing from Xinjiang. The State Department then released a statement that agriculture, construction, cotton, sugar, textiles, toys, footwear, and electronics were all products that would now be under review by the CBP. The warning also warned US investment banks, venture capitalist and private equity firms that it was illegal to provide financial support to any firm involved in surveillance in Xinjiang or on the blacklist. This appears to mean that Blackrock, Vanguard, Goldman Sachs, and others will have to liquidate some investments. A subsidiary of a US NYSE-listed Silicon Valley company was also on the list.

The Wall Street Journal last week provided additional hard evidence of the inhumane treatment of the Uighurs in Xinjiang when it featured the arrest and disappearance of prominent businesspeople just because they were non-Han Chinese. Their research revealed that more than one million people had been sent to a concentration camp in Atush, Xinjiang alone, which is located in Kyrgyz prefecture. Such coverage is making sourcing in China a huge liability.

The US also issued a new warning against US companies that continue to operate in Hong Kong. It cited risk from

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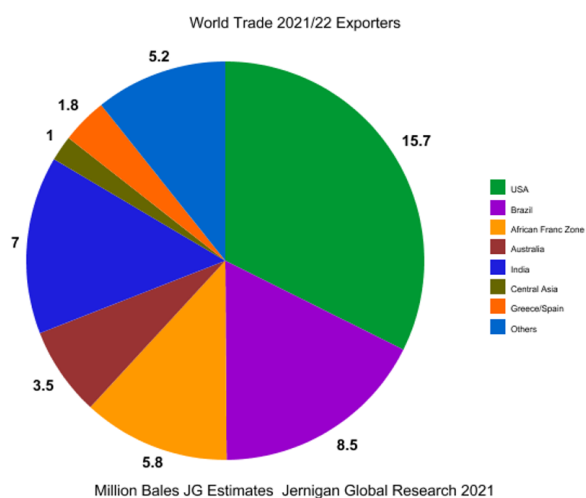
WHY COTTON?
Comes from Nature, Returns to Nature

the CCP gaining access to the data of foreign companies operating in Hong Kong, with the new law that China will persecute any company that imposes sanctions imposed by other governments or enables penalties on Chinese company. This policy affects every US bank and company operating in Hong Kong.

These combined actions have further increased the risk of companies sourcing and operating in Hong Kong or having a supply chain that includes Xinjiang or the use of Uyghur forced labor. The US Senate late Thursday

unanimously passed the Uyghur Forced Labor Prevention Act. The act banned all imports from Xinjiang unless the importer can prove without any doubt their products were not made with forced labor. It also required the US to impose sanctions on foreign companies who engage with companies using forced labor. Business groups will also have to disclose all business relations in Xinjiang. The bill is expected to pass the House soon and be signed by the President. It is unclear how it will affect the host of companies with subsidiaries or joint ventures in Xinjiang that do not export to the US.

AUSTRALIAN COTTON NOW A FEATURE OF TRADE ACROSS SEVERAL MARKETS



The volume of Australian cotton being sold across the non-Chinese markets is continuing to expand. One market where Australian cotton is now very popular is Vietnam. The reasons being the basis level, availability, and we suspect Vietnam spinners offer a way for Chinese firms to import Vietnam yarn made from Australian cotton duty free and free of any embargo. We have long suspected this might be how the Chinese mills get the needed quality offered by Australian cotton and also provide a workaround to the embargo. Vietnam in 2020 exported 1.050 MMT of cotton yarn with 869,000 tons going to China. Exports in 2021 are up sharply, and China remains the top destination. In 2020, Vietnam exported in cotton yarn about 85% of all the cotton it consumed due to the very limited domestic fabric production capacity. Capacity is slowly increasing but has been rather stagnant for some time. Thus, the increased use of Australian cotton will be very welcome for the Chinese yarn importers.

In May, Australia exported 27,996 tons of cotton, and

Vietnam was the top destination at 13,344 tons. In the August 2020 to May 2021 period, Australia exported 47,657 tons to Vietnam, which was up sharply from 24,005 tons in the same period a year earlier. That also made it the second largest export destination. Indonesia and Thailand have also been notable buyers of Australian cotton recently. Cotton use in Indonesia is rebounding, but the Covid shutdown continues to limit growth. Basis levels have also attracted an increasing volume of Turkish mills as buyers, as cotton consumption increases and demand for cotton apparel exports is showing record growth. Freight cost issues are limiting sales in Bangladesh and Pakistan, which would be major buyers if shipping was normal.

Amid this demand, the CFR basis has stabilized and firmed slightly, but long basis position in Australian remains a pressure point as merchants pay growers and begin to encounter storage and insurance cost. In most of the Asian markets (excluding Pakistan and India) 2021 crop SM 37 is offered at 1350-1400 points On Dec and Middling 1 5/37 at 1250-1350 point On Dec. A wide arrange of grades are offered up to 40-inch staple length. SM 40 staple is offered at 1500 points On Dec reflecting a record discount to Pima. Low mike offers are also noted, with the discounts placing a Middling 39 3.2 mike at 1100 points and a 3.0 mike at 1000 points On Dec.

A few fields have yet to finish harvest, but the domestic FOB cash price reached 600 AD a bale which triggered some grower selling, while the 2022 crop price reached 585 AD a bale. Another round of rains moved across the belt last week further providing a boost for 2022 water levels but causing problems for the few late fields. The 2022 CFR basis for a SM 1 5/32 is 1200-1300 points On May 2022, and a Middling 37 is at 1100-1200

points On May. These styles are near the same level as a GC E/MOT 21-3-37 or at a slight discount.

A major rain event hit the New South Wales and Queensland cotton belt last week with heavy downpours at the end of the week when a large system brought very heavy rain and wind across south

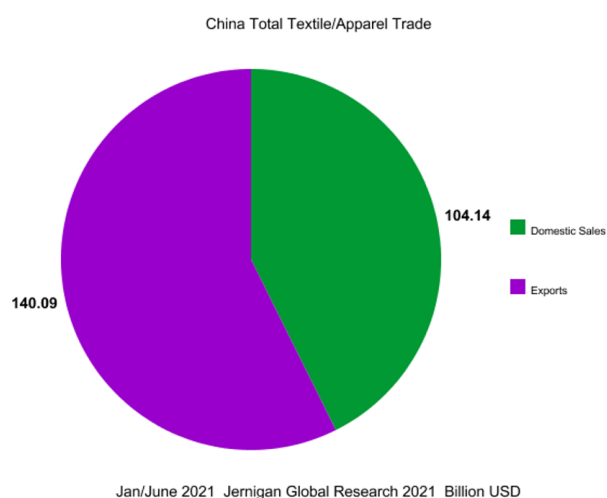
Australia. Flash flooding was reported, and some areas received significant downpours. This rain will further fill dams and on-farm storage. In the Riverina, large blocks of unpicked fields remain, and the rain is lowering grades and yields as cotton is pulled out of bolls and turning grey.

CHINA'S RETAIL SALES OF APPAREL EXPAND 12.3% IN MAY; FEARS OF ECONOMIC SLOWDOWN INCREASE



China's total retail sales in May increased 12.4% from a year ago and 9.39% from 2019, with sales of apparel and footwear posting 12.3% YOY growth, reaching 113 billion RMB or 17.451 billion USD. This was followed by June retail sales of 112.74 billion RMB or 17.425 billion USD of apparel, which represented a growth rate of 12.89% from a year ago. Total first half 2021 retail sales of apparel, footwear, hats, and textiles reached 673.8 billion RMB or 104.14 billion USD, which is up 33.7% from a year earlier Covid reduced sales. China second quarter GDP grew 1.3% from the first quarter, which was less than expected and full second quarter GDP grew 7.9% year on year. The data overall continued to raise concern about economic growth. Fixed asset investment in textiles slowed to 15.2% YOY from 17.1% in January-May.

June textile and apparel exports reached 27.66 billion USD, which was a 4.7% YOY decline as the export of textile PPE slowed. Textile exports fell 22.5% to 12.52 billion USD, while apparel exports increased 18% to 15.15 billion USD. January-June cumulative textile and apparel exports reached 140.09 billion USD, which, when June retail sales are reported, means that exports



accounted for approximately 57.3% of textile and apparel output in the first half of 2021.

China's overall exports in the first half of 2021 were a record. June exports increased by 38.6% to 281.417 billion USD, with the growth led by shipments to the US, which increased a shocking 42.6% to 46.9142 billion USD. This exceeded shipments to the EU of 43.097 billion USD, which showed 35.9% growth. China's trade surplus in June was 51.52 billion USD. Exports to the ASEAN trade block were strong at 40.363 billion USD, and exports to Japan reached 13.676 billion USD.

Concern is building over the level of outstanding debt and the recent actions to crack down on the Tech sector. The Rhodium Group and Atlantic Council released a new study of the possible impact of the recent actions on Tech companies and the economy. The study stated China was losing economic dynamism due to the state's overreach and control. The report said China has a corporate governance problem. It cited that since 2016 China ADR's have led world stock values up until now. The exertion of control on the Tech

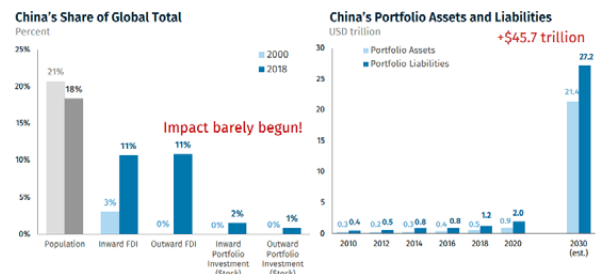
companies will allow the CCP to have more control, but the profit motive will be lost. The actions to halt foreign listing of Chinese companies on US exchanges are seen as capital protectionism. The move will have a major impact on cash flow into Chinese companies. Chinese companies have raised 26 billion USD in US listings in 2020 and 2021. The investment flow has coincided with China's beginning to attract foreign funds into their domestic stock and bond markets.

The report stated that under Xi several market reforms have been started but stopped, and China's total debt under his management has risen to 276% of GDP. It now takes 10 RMB of new credit to create 1 RMB of growth. Others, such as German analyst Anne Stevenson-Yang, call the moves against the Didi listing in the US a "tectonic shift," and say it inserts serious risk to any Chinese investment. She said that Xi, since 2017, has unleashed major wrath on private conglomerates and brought them to buckle to party control. Several were destroyed financially and their assets sold to military controlled companies. The Rhodium Report estimates that collectively the new risk now introduced could cost the Chinese economy 45.7 trillion USD by 2030. What makes this important is the entire 2020 GDP was 17 trillion USD. This is linked to the in and out flow of capital into China. The moves have already pushed the NASDAQ Golden Dragon Index of the largest Chinese listed companies

in the US to lose 145 billion USD in July. Since these actions started, China's Central Bank has cut its reserve requirement for Chinese Banks, which was the first reserve cut since the high of the Covid pandemic in China, with the requirements now back to the same as 2007. Economists cited that the reserve requirement is never cut when the economy is strong and fear the government is signaling it expects a slowdown. This risk is all occurring with the FT estimating that foreign holdings of Chinese bonds and equities are at a record 806 billion USD, up from 570 billion a year earlier.

Far more room to grow

China's current and potential global financial integration



Source: National Bureau of Statistics, IMF International Financial Statistics, State Administration for Foreign Exchange.

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USDA JULY WASDE ESTIMATES FURTHER REDUCE GLOBAL STOCKS

The USDA July World Supply and Demand Estimates carried several major changes. The first was that US harvested acreage was increased to 10.50 million acres from 9.63 million following the improved conditions in Texas. The average yield was reduced, providing a crop of 17.8 million bales for an 800,000-bale increase. US exports were raised 400,000 bales to 15.20 million bales, resulting in a 400,000-bale increase in ending stocks to 3.3 million bales. On a global basis, 2020/2021 production was lowered a net 702,000 bales and consumption increased 549,000 bales for a reduction of 1.481 million bales in ending stocks. 2021/2022

global production was raised a net 515,000 bales, while consumption was raised 594,000 bales for a small decline in global ending stocks. The USDA made several changes in Indian estimates, which lowered Indian ending stocks.

The only negative feature was the USDA lowered 2021/2022 world trade due to a reduction of 1 million bales in Chinese imports, which was done due to the slow release of the sliding scale import quota. We continue to expect world trade in 2021/2022 to exceed USDA estimates.

INDIAN MONSOON REACHES GUJARAT; DOMESTIC PRICES ADVANCE TO NEW HIGHS

The Indian monsoon advanced last week with good rainfall over most of Gujarat, while there were scattered showers over much of the Northern Zones. As of July 9th, India had planted 8,645,000 hectares, and by July 13th planting in Gujarat had reached 1,843,366 hectares. As of July 15th, the monsoon has covered the entire country, accelerating the completion of planting and easing worries. Demand continued at the daily CCI auctions as its stocks continue to drop. On July 15th, the ex-gin yard price of S-6 1 1/8 in Gujarat reached a new high of 53,900 Rupees per candy or 92.24 cents a lb. Adding to the woes of spinners is an increase in truck rates, which have reached the highest level in five years.

Concerns are building over China exporters dumping Viscose fiber filament yarn. Since Viscose demand has fallen in China, prices have declined, and mills have huge inventories of unsold yarn as demand switched



to cotton and poly/cotton yarns. Chinese exporters have been selling VFY at prices below the cost of production in India, shutting down Indian mills' capacity, which is estimated to have fallen to 65%.

New export interest in India cotton is noted from Bangladesh as it

is the only option for spinners who need cotton for immediate use due to continued shipping delays on imports. The Indian government and Bangladesh are expected to shortly sign a MOU for the CCI to sell a million bales of cotton annually to Bangladesh. April cotton exports were brisk at 134,444 tons with China, Bangladesh, and Vietnam the top markets. August-April exports have now reached 1,066,074 tons, with Bangladesh taking 437,838 tons and China 413,713 tons. April cotton yarn exports were also strong at 89,190 tons, pushing August-April exports to 797,308 tons as China, Bangladesh, Peru, and Vietnam were major markets.

SHIPPING WOES SLOW US COTTON EXPORT SHIPMENTS

US weekly cotton upland export shipments reached only 185,900 running bales in the week ending July 8th, which of course included the July 4th holiday. It was also the lowest weekly shipment volume since the week ending November 26, 2020. Pima shipments totaled only 3,400 running bales, leaving shipments below the average needed to meet the USDA export targets. The US has now shipped 15,226,337 480-lb. bales in 2020/2021, with 3.3 weeks remaining in the season. Weekly sales need to average 357,171 480-lb. bales to reach the USDA estimate. Total export sales are at 17,423,261 480-lb. bales, and the issue is the shipping backlogs with trucks and the port congestion. The US has a host of logistical issues slowing cotton shipments. Mills need the cotton, and the delays are hurting spinners. The problems start with soaring trucking cost and a shortage of drivers. Then you have delays with the railroads and container transport. Plus, the ports and container shipping are in total disarray due to years of slack regulation and no US owned/devoted shipping lines. This is now having its full impact.

Importers are currently facing chaos as they try to arrange shipments for arrival before year-end and the important Christmas season. It has become a literal bidding war. While the Drewry Freight Index official price for the Shanghai to Los Angeles route rose only 1% last week to 9,733 USD per 40-ft container, we talked to importers who had to pay up to 18,000 USD to secure space to meet the Christmas timeline. Such record prices are making it even more difficult for US exporters to secure an empty container and get it loaded. The official quote from LA to Shanghai is 1,358 USD. Thus, the shipping lines will forgo a return fee of that level to get the container back to China and loaded and returned to the US at 15 times or more the inbound rate. Years of deregulation and lack of enforcement of rules have left the mostly all foreign-owned shipping lines with full control and now seeking to capture record rates and profits. The US is making feeble attempts, but without US-owned carriers who are focused on the interest of the US exporter or importer all actions will do nothing to ease the crisis. This is another example of outsourcing at the extremes and the use of asset light models in which the companies own little in the logistics space, which focuses only on their interest. Home Depot, the US building supply retailer, drew lots of attention when it leased its own container ship in an attempt to address the cost and delays. Still asset light with no discussion of investing in on shore manufacturing.

For the US cotton industry and the global cotton

industry, the issue will remain at the forefront in the year ahead. In Australia, the shipping lines have cut service and increased rates to the point that cotton exports to the Bangladesh, India, and Pakistan region are blocked by excessive rates which price cotton at 500 points above the Southeast Asian markets. Australia, like the US, has also focused on an outsourcing model with limited development in any logistics or manufacturing. The US exporters face a serious challenge in shipping the nearly 1.5 million bales of carryover sales that need to be shipped ASAP. Then the issue is how much additional cotton can be shipped in the August-November period before the import surge at least subsidies. Last year before the import surge gained momentum, the US shipped 2,183,647 running bales of upland in August and September but then only 1,027,809 in October and 833,710 in November. Even a repeat of this performance will be challenging. First are the shipping issues, then the crop is late, and old crop recaps and inventories uncommitted will be very tight. This is already slowing new crop sales because of the inverted CFR basis which is large premiums for August, September, October, and November shipment before the basis begins to drop for December and is attractive again for January-March. Logistics and the control of supply chains are the new focus for both exporters and importers.

In a move that will further disrupt shipments, Union Pacific Railway announced Thursday that it was suspending service from the Port of Long Beach, Port of Los Angeles, Port of Oakland, and Port of Tacoma to relieve congestion at inland intermodal terminals, especially Chicago. Up to 4,000 containers are estimated to be sitting in Chicago without chassis and they are blocking traffic. This move triggered one large container line to announce that delays will then occur on ships waiting to unload or on containers sitting on docks at those ports. It also warned about delays on new shipments from Asia as a result. One estimate is that 40,000 20-ft containers will be stranded at the West Coast ports because of this suspension, which is now set to last a week. The California ports are major cotton export ports for Asia, as well as imports. The import volume at the Port of Los Angeles was up over 60% from a year ago this week, and next week's imports are expected to be up over 80%. US imports from China in June reached 46.914 billion USD, which was a 42.6% increase, a number mind-blowing in itself. June imports were larger than the entire GDP of Tunisia.

New US export sales reflect these issues as sales slowed to 34,500 running bales of upland for 2020/2021,

116,400 running bales for 2021/2022, and 13,200 for 2022/2023. Pima 2020/2021 sales were brisk at 6,000

bales, taking total sales to a shocking 833,700 running bales for the season.

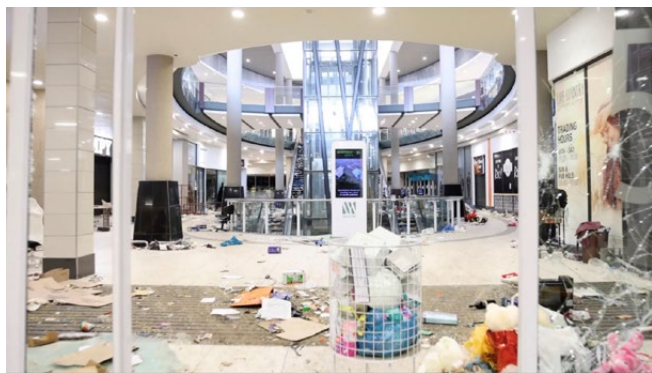
PAKISTAN LOCAL PRICES REACH 105 CENTS AS DEMAND REMAINS STRONG

Very strong demand is evident for new crop Pakistan arrivals as imports face delays due to the shipping issues, causing some larger mills to seek local cotton. The price reached 100.41 to 105.37 cents a lb. The new crop acreage is down from last year, but yields appear up. Concern was evident last week from Sind where an acute shortage of irrigation water has occurred, but monsoon rains have arrived in most cotton districts. The situation in Afghanistan is extremely unstable as the US military exit is completed and the Taliban take control of larger areas. The US exit appears to have been a disaster, with Taliban taking control of the key town that links Kandahar to the Pakistan ports, which is a large crossing for trucks to and from Pakistan, but it is now closed. They have also taken control of the main trade routes with Turkmenistan and Iran. This, for now, halts all

ideas of the import of Central Asian cotton or yarns via the roads through Afghanistan. Speculation is that China will enter the country via its investments in Pakistan and extend Belt & Road investments. Xinjiang also shares a border with Afghanistan.

Active trade in imported cotton has continued to be noted. Old crop US styles have remained popular, but supplies are now tight along with new crop E/MOT styles. African Franc Zone old and new crop continue to move, but CFR basis levels on the old crop are now expensive. Tanzanian has continued to move in volume. Brazil SLM 1 1/8 has sold while Argentine styles have sold in volume at firm basis levels. A small amount of US Pima and Egyptian has sold, but a larger volume of Central Asian ELS continues to be sold.

SOUTH AFRICA'S OVER 3 BILLION TEXTILE AND APPAREL IMPORT DEMAND IMPACTED BY MAJOR RIOTING & CHAOS



South Africa experienced a period of extreme chaos, lawfulness, and riots last week, which were the worst in the country's history. The mass unrest, which started in Durban and then spread, appeared to be caused by allies of the past president Zuma who was sentenced to prison. The allies of Zuma used the event to trigger an incredible wave of looting, with the police inept and overwhelmed and the government slow to send in the army. The Covid lockdowns have created record unemployment and economic pain. The event turned the beautiful city of Durban into a war zone as well as other parts of the country, including Soweto



near Johannesburg. The destruction, which was filmed and broadcast worldwide, was unprecedented, with the looters destroying all economic hope. Trucks were burned and the major Hwy N 3, the Durban to Johannesburg truck route, was closed as rioters burned trucks and destroyed tolls booths. The looting closed Durban Port, the largest port in Sub-Saharan Africa, with looters filmed burning warehouses and breaking open containers. The most shocking aspect was the total lack of any effective police or army protection for these vital assets.

Modern shopping malls were completely ransacked, and many burned. The China Mall was burned to the ground after being plundered. Many communities and business owners came together to mount their own defense as a way to save and protect themselves. Losses from retail and business will near a billion USD. The unrest spread to agriculture areas of the Cape, with sugar cane fields set afire and sugar mills reporting shortage of cane. Livestock was stolen from farms and fruit shipments were halted causing fruit to rot. Many farmers had to provide defense of farms with local armed groups.

The event has undermined business confidence, which will be difficult to overcome, and left many areas of Durban simply destroyed. South Africa is a very important economy that in 2019 before Covid imported 3.3 billion USD of textile and apparel officially, with additional shipments not accounted for. The hope of creating sizeable cut and sew operations in the country

failed, with imports destroying local demand. The largest investment in apparel operations occurred in the small kingdoms located within the borders of South Africa, Swaziland, now called Eswatini and Lesotho. Lesotho has been an exporter to the US with exports of over 257 million USD in 2020. The top supplier to South Africa has been China, with shipments in 2019 of 1.509 billion USD. The other suppliers are scattered – Lesotho, Swaziland, Mauritius, India, and Bangladesh.

Retail demand was already weak, and now there are great doubts about the spending power, with the government actually cutting some emergency aid before the riots. In the hard-hit areas, it remains unclear if the malls will be rebuilt. The images of no police or army and complete chaos will not be easy to forget. The government also faces a significant hurdle restoring confidence that it can rule. Overall, a sharp decline in textile and apparel imports is likely.

DEMAND AT CHINA'S RESERVE AUCTIONS REMAINED ROBUST

It has become clear that demand from spinners at the Reserve auctions has been increased by the NDRC lack of release of the announced sliding scale import quota. Many spinners had feared the delay, and it has come to pass. By Thursday, the average price paid at the daily auction had reached 16,795 RMB a ton or 117.93 cents, which was a premium to the cash index despite the fact that over 95% of the cotton sold was from the 2013 crop. One lot was from 2019, and it was a long staple Xinjiang lot that sold at 17,900 RMB a ton or 125.68 cents. The T328 equivalent price was 17,989 RMB. All this suggests there are major quality issues with the remaining 2020 unsold Xinjiang lots that make up the majority of the cash index sales. The Cash Cotton Index reached a new seasonal high of 17,066 RMB or 120.81 cents a lb. on Thursday and moved slightly higher on Friday to 17,072 RMB. Some conjecture is that the offering of lots from the 2019 crop were only a small volume and purchased based on quality demands. It also suggests the Reserve may add import purchases of high grades in the future. In addition, the continued issues with Xinjiang cotton with exporters suggests additional sliding scale quotas may be issued when the current allocation is filled, which is expected soon after the spinners actually receive them. By the end of the week, the Reserve had sold 95524.8 tons or 438,888.7 bales, which is 100% of what has been offered.

China's cotton inventories held by spinners and

estimated by Beijing Cotlook are 844,600 tons, the lowest level in six months but higher than a year ago. Spinners are expected to boost inventories with imported cotton once the sliding scale quotas are issued. The delay in the issuance of the quotas has pushed port stocks to a record of 700,000 tons or more. These 3.216 million bales of mostly US, Brazilian, and Indian cotton are expected to meet much of the sliding scale quota import demand due to shipping issues. The Beijing Cotlook survey of commercial stocks outside of spinners at the end of June stood at 3,017,300 tons, which was down sharply from the previous month and below year-ago levels.

ZCE futures moved higher following the cash prices and ended the week poised just below their February 25th contract high in the September contract. Yarn futures also moved higher, boosted by further gains in cash cotton yarn prices. The polyester and PTA contracts were mixed in two side trade. The Cash Cotton Index gained 4.01 cents a lb. for the week closing at 120.90 cents a lb. The lead September ZCE contract gained 3.58 cents a lb. for the week, closing at 119.03 cents.

High temperatures continue to cause problems in Xinjiang, with July now experiencing an average reading of over 6 C above normal. The northern belt has been hit very hard. In the East, major floods hit Sichuan, Hebei, and Hunan.

ICE FUTURES DRAW LARGE INCREASES IN OPEN INTEREST AS THEY REACH NEAR 90 CENTS



Dec 2022 Discount to Dec 2021 ICE Futures

ICE futures remained over 500 cents a lb. below their February highs. However, the global accepted measurement of physical cotton prices made a new high for the year of 98.70 in the 2020/2021 Cotlook A Index. This divergence should be noted. When the ICE futures surged last February, the rally was driven by speculative buying. At the time, CFR basis levels on non-US cotton were collapsing, with the Indian discount reaching extremes. The Trade aggressively sold the ICE rally as it held record inventories of non-US, and some export business went from the US to other growths. It has been confirmed that one of the largest volumes in years of Indian cotton moved to China at the discount. This basis weakness stopped the rally in ICE and eventually left the market with a near-term top. Today, we have a totally different set of dynamics. The physical price has outpaced ICE futures, which have overall been slow to draw speculative volume buying. CFR basis levels for all growths for shipment before November have appreciated, and the basis for prompt is near extremes. The fact that the lead contract on ICE is for Dec has kept it from reflecting this tightness at the current extreme. Spinners have continued their near record purchases for 2021/2022 On Call and unfixed, and the latest unfixed On Call purchases for Dec 2021 through July 2022 stand at 11.923 million bales, the second highest level in ten years. This provides the market with strong underlying buying on any weakness.

Demand levels continue to increase, and cotton is expanding market share. The importance of this should not be overlooked. If one were to look for the greatest

negatives to the outlook, the search would suggest two looming unknowns. First, the impact of the current logistical nightmare that continues to unfold that is seeing a bidding war for container space. This has driven the prices paid to double the official quotes. This is being accompanied by a surge in truck and rail rates and major delays. How will this impact trade until at least November? Second is the tension with China and the US, Australia, Japan, and other countries. The threats that come out of the state press are very disturbing, as are what they are doing in the South China Sea. The actions are now showing an impact on the Chinese economy, not on immediate trade but on confidence. These developments have the potential to provide a Black Swan event to the outlook and need to be monitored.

Futures for sure have support from cash markets. In India the spot price for a Shankar-6 1 1/8 hit a new seasonal high of 92.81 cents a lb. on Friday, with premiums for the top qualities. In Pakistan, up to 105 cents or more has been paid for their top-quality new crop, and Brazil's ESALQ Index of a 41-4-35 hit 99.06 cents on July 14th. China's Cash Cotton Index of a Middling 1 3/32 closed the week at 120.89 cents, and high grade 2019 crop Xinjiang at the Reserve auction sold at 125.69 cents. The CFR basis for old crop African Franc Zone has moved to lofty levels. In the most active market, Pakistan, a Manbo/s 1 1/8 reached 1150 On Dec for August and September, which is double the basis at one point. These prices are behind the Cotlook A Index move to new highs, with the index actually lagging.

The lack of forward coverage has allowed the Dec 2021/Dec 2022 ICE futures spread to continue to widen, reaching near 1000 points. We continue to believe this offers spinners real opportunity to buy the discount. Brazil 2022 crop is offered at very attractive levels, which, when combined with the nearly 10 discount, provides attractive coverage.

Dec ICE ended the week only a few points off the contact high of 89.97 as it worked its way through selling near 80 cents, a 2.22 cent a lb. gain for the week. This lagged the performance of China's ZCE of 3.58 cents a lb. Overall, the market continues to lack a large-scale commitment from the Funds, as Friday's volume was again light. We continue to expect prices to work higher with the earlier mentioned developments, something to monitor for influence.

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