CHINA WEATHER CAUSES BILLION IN LOSSES

WHY IS CHINA NOT BUYING US COTTON? TRADE AGREEMENT-NO ENFORCEMENT

PAKISTAN TEXTILE/ APPAREL EXPORTS SURGE

CFR COTTON PRICES NEAR 100 CENTS AS ICE RALLY STALLS

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

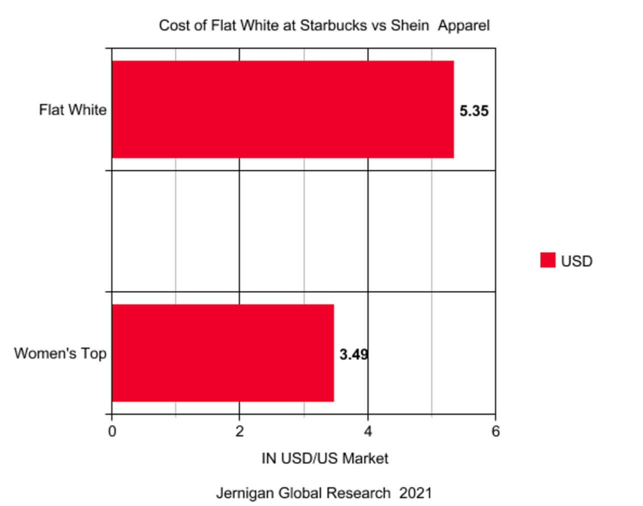
IS THE AGE OF CONSPICUOUS CONSUMPTION ENDING?

ASSET LIGHT MODEL/CHEAP FASHION COST BEGIN TO BE FELT

Since China joined the WTO, the US and Europe brands and retailers began to move to an asset light model. Under this, little investment was made in the supply chain or in logistics. Instead, the focus was on Marketing and increasing the profit margins. Just how extreme this model has become was highlighted in the recent IPO of a medical scrubs marketing company. The company went public at near 30 USD a share and then saw its shares soar to a high on June 30 of 50.10 before retreating to over 38 USD a Share, which placed its market cap last week at 6.08 billion USD. What gets our attention is severalfold. Upon a closer look at the IPO prospectus, the company does not own, nor has it invested in any manufacturing operations. Secondly, it sources its scrubs from Asia and South America where local companies must manage the risk of the investment and local workforce. Secondly, it produces no cotton or natural fiber scrub. Instead, its products are made from Poly/ Nylon/Spandex

blend. Thus, they will never biodegrade, increasing their environmental footprint. Then the company reported a gross margin of 72.3%, which means that workers and suppliers all battled over the balance. Wall Street rewarded this model as a marketing company. The question is what the longevity of this model in this new world is, where the focus is ESG or Environmental, Social, and Corporate Governance. This is the business of Wall Street, and it would appear that green washing is already a problem. But it is clear the demand for ESG investments is expanding. A new push by investors is being made for companies to disclose environmental impact and risk. The real cost of forcing the supply chain to fight for less than 28% of the proceeds is taking a major toll on human suffering and the environment.

The asset light model has given the world cheap fashion, massive pollution, and environmental damage, with workers, mostly women, working 12-14 hours a day for less than a living wage. It has resulted in apparel sourcing in many of the world's poorest countries. An editorial last week on the cost of cheap fashion and this asset light model pointed out that Fast Fashion retailers such as Boohoo or Shein are selling shirts and dresses at prices less than the cost of a Starbucks cup of coffee. This comparison stood out to us, for Starbucks coffee is a quality product where they hire the employees, pay wages and healthcare, and contribute to the local communities. Thus, they are a responsible corporate citizen. They even attempt to pay the coffee growers fairly and encourage sustainable practices. The comparison offered a major contrast. The editorial went on to say the age of Cheap Fashion has given us exploited workers and extreme damage to environmental conditions as companies dump waste into local rivers amid little environmental stewardship.



In the *Financial Times*, a major feature focused on the new trends emerging after the Covid pandemic, which earned its author a Political Economy Prize. One of its main features was the discussion of the role "Conspicuous Consumption" had played in global economic growth in the west over the past 200 + years and even much longer. It then looked back at history to point out that major events such as the Covid pandemic have acted as turning points. It forecast that the "Age of Conspicuous Consumption can no longer be the economic growth engine of the West." It cited that hard times such as those experienced in the Covid outbreak and are still ongoing were serving as catalyzing events. Thus, an acceleration of a reassessment of social priorities is underway. It cited that this included the environment, carbon emissions, and improved distribution of the supply chain proceeds as being very important.

The essay cited that modern growth is largely driven by individual efforts to make and manage an impression on others. It discussed the trends in luxury where the Chinese consumer was making purchases of luxury products and posting them on social media to impress others. It contrasts this with reduced momentum in the US and Europe, where many customers appear to be turning from that. Conspicuous consumption was once the most effective way of signaling status. Today, in the US and Europe, it risks conveying showiness. Past patterns of spending are now beginning to be looked down upon because of their impact on the environment or the inequality in economic distribution that has occurred.

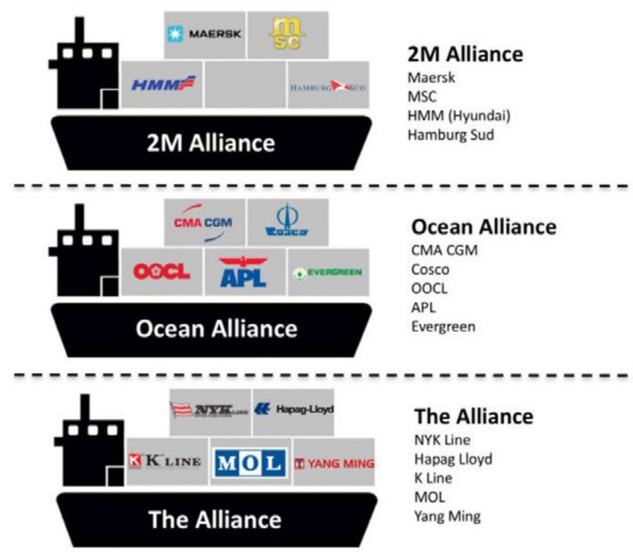
These conditions are reported to give rise to "inconspicuous consumption," where luxury labels are being shunned or transparent attempts to impress are avoided. This is illustrated by the current trend in denim, which is more popular than suits. A product's sustainability features have become important, as well as purpose and wellness. These are becoming the new marks of distinction. While there's plenty of room for much greater changes, a survey showed that young Brits value the experience of a product twice the rate of the Chinese consumer. Another study found that companies that are fixated on price do not engender loyalty of workers. The Covid pandemic, which is still causing havoc today, has launched calls for a radical redistribution of the proceeds of the supply chain.

The surveys have also shown there is a clear limit to the Western citizen's tolerance of the social and environmental cost.

Shein Cheap Fashion is costing the US Millions in clean up/waste disposal

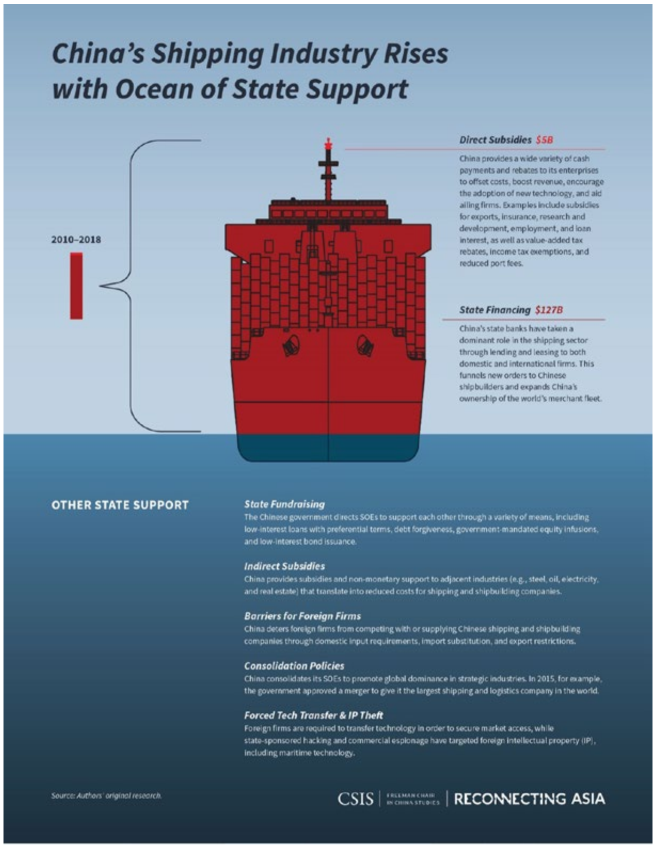
This brings us to the issue of the continued growth in cheap apparel driven by such companies as the Chinese group Shein. Earnest Research in a new study said that as of June 16 Shein has surpassed H&M and Zara in Fast Fashion sales in the US. Ironically, it does not even sell in China where the products are 100% made and sourced. It had 28% of Fast Fashion sales. This compared to 13% at the end of 2020. The US has failed to address the problem and has left the duty-free exemption on individual shipments in place as well as using the US postal service. This is simply shocking given the damage this is doing to other apparel groups who attempt to treat workers fairly. Its exploration of cheap labor and the environmental cost of its products continue. Many of its products head to US landfills within weeks of purchase. They never biodegrade and they release harmful pollutants into the water and soil. Its prices are such that the cost of dry cleaning is more than many of its products' original cost. Thus, after several turns in the wardrobe, it's to the trash and a new item. Many do not launder well.

Another result of the asset light model is that the largest importer in world, the US, has no major US based flagship container line. Amid deregulation and little attention from regulators in the US or elsewhere, the top ten shipping companies have consolidated and control 80% of the markets. In 2000, it was 52%. The top 11 shipping lines in the first quarter of 2021 reported a record 16.2 billion USD in earnings. Eight of the top ten shipping lines are in three alliances in which cargo is shared. Two of the top lines are state-owned Chinese fleets. COSCO, the largest China owned fleet, has over 10,000 ships and reported record first quarter revenue. Today, under current law, the US government has limited ability to correct the issue. The recent executive order by the Biden Administration was only focused on the detention and demurrage fees that carriers charge when a container is returned late. These have become excessive. Amid this model, the US has a national security issue, all the result of an asset light deregulation model in which other countries supported the shipping lines while the US did not. It is quite telling that several of the major shipping lines are owned by the dynamic Asia economies of Taiwan, South Korea, and Singapore, which had vision and invested while the US focused on greed and higher margins at all costs. Any attempt to correct will take massive innovation, government support, intervention in the markets, and several years. No effort has even begun nor has any serious discussion.



Global shipping controlled by Three Alliance: zero US owned

The US has also taken a similar approach to domestic logistics with little attempt to stop mergers and consolidation. The combination has brought us to today's "perfect storm." The storm is growing worse by the day as container lines amid no supervision take greed to a new level. It is a bidding war. Little contract integrity is occurring, with one large importer calling it the "wild west." We heard reports Thursday of 22,000-26,000 USD being paid for Asia to US for a 40-foot container on the spot market with the shipping line asking for it to be picked up at the port, seeking to avoid the railway backups and delays. The *Journal of Commerce* reported that for importers of appliances, assembled furniture, and auto parts, the cost of freight had reached 25% of the total product cost. In other products it could be higher. Many products are now being priced out of the market. In addition, container lines are charging a fee of 2000 to 7,000 USD to guarantee that the cargo will be loaded in a short time period. In addition, a surcharge of 1000-5,000 USD may be charged. Customers have been told there is no space on a ship. However, if you bid high enough, someone gets knocked off and you get the space.



This chaos does not stop once the container reaches the port. New restrictions on container pick up, rail, and intermodal are being introduced. More Railways have announced a two-week delay on movements of containers from the West Coast ports to Chicago, which is causing more containers to pile up at the port. In the mid-West, some importers with cargo stuck in the intermodal yards are being forced to file for bankruptcy to stop the losses. The issue is first getting it to the port. Then, the challenge becomes getting it out and on a rail line and then to the truck destination and picked up. Rates from ports to inland locations are soaring. Last week, 2,200 USD was paid to move a 20-foot container from Savannah port to Mobile, Alabama. That is more than the Shanghai to Port of LA freight rate for a 40-foot in early 2020. If a container is stuck at the port or intermodal yard, it can cost 750 USD a day. We heard of one stuck container drawing a penalty of 11,000 USD. The cost of restuffing the contents of a container on a truck has increased 400%. Two Class I Railways have warned that the backlogs at interrail hubs and intermodal will continue through the end of the year. The US Surface Transportation Board lost the ability to even regulate intermodal or rail hubs. Deregulation of the logistics industry has left the government with no power to correct the issues without new legislation.

These conditions are causing two major "Black Swan" events. The first is for importers, with delays, soaring cost, no goods, and empty shelves. Many products that do reach the inland location will cost much more than the selling price. If the cost is passed along, a shock is coming. Many low margin items that have been foolishly outsourced and will simply not be shipped. Also, bulk items will be reduced. The US asset light model and the lack of focus on building a supply chain now is facing the piper. China shipped 44.886 billion USD of goods to the US in May. Let that number resonate. June and July imports will be near the same, at least leaving the port. This is a shocking security risk for the US and a major collapse of supply chains. All of this is occurring with ten shipping lines controlling over 80% with no US Flagship. Europe imported 39.915 billion as well, which is being shipped by the same container lines.

Chicago, a major chokepoint in US logistics

The second impact is on agriculture exports that move by container, such as cotton. US cotton shipments in the last week were again far below the needed levels, and the US will have almost 1.5 million bales sold but not yet shipped when 2020/2021 ends. In past seasons, a similar volume has occurred, but in most of those years many of the sales were at prices above the market or faced other adjustments, which meant they eventually were replaced. This year's mills need every bale. The cotton was purchased at much lower prices and there is a major invert in the CFR basis as spinners seek any cotton for nearby. For the US, it is now a drama to get a truck or rail and then get on a ship. The Black Swan event extends to the entire US Logistics supply line. It was reported last week that the national restaurant chain, Taco Bell, had a shortage of ingredients that impacted its menu. This is not the first time this has occurred.

These conditions and the total ignoring of risk suggest we are at a tipping point, with companies reviewing their supply chains and starting to invest in assets again, as well as employees that will provide them with a secure supply chain. It also will mean an end to outsourcing of many products that now have a freight cost that has changed the dynamics. The US is not alone. The reshoring of some wool processing is even occurring in such markets as Australia.

CHINA HIT BY MORE HEAVY RAIN & HEAT

Flooding in Henan

Last week was a disastrous week for China in terms of weather. It was as if every part of the giant nation was hit by heavy rain, flooding, and record heat. Heavy rain and flooding occurred first across a large block of the northern parts of China, in Heilongjiang, Jilin, Inner Mongolia, and Liaoning. Inner Mongolia suffered a devasting dam collapse. This is a major soybean and corn producing region. Then came first heat and then torrential rains in the central part of the country. Massive flooding occurred in Henan on the North China Plain. Henan still produces some cotton but at one time was a major cotton producer. Today, wheat is the top crop. The major city of Zhengzhou received over 18 inches in a 24-hour period, and the city flooded, with horrid videos of the flooding of subways and buildings. Over 9500 people are expected to have died in the sudden flooding of a major tunnel in rush hour. Many other areas also flooded. Prior to this happening, 11 provinces reported record electricity demand because of heat. Fears of a further collapse of major dams spread as the week progressed. Zhoukou, a major agriculture center, reported the worst flooding in 40 years. Overall, massive property loss occurred, and crops were damaged, with the largest loss occurring in corn, soybeans, and wheat, and a small amount on cotton.

Henan continued to be hit by torrential rains as the week ended. The province was expected to produce only 30,000 tons of cotton, thus there was little impact. However, the floods have halted movement from the large warehouses in the region, including Reserve-owned warehouses. The floods halted the Zhengzhou to Europe express freight service, which has been very popular in 2021, with the number of trains up 71% due to the issues with ocean freight. Over three million people have been misplaced. Damage will run into the billions.

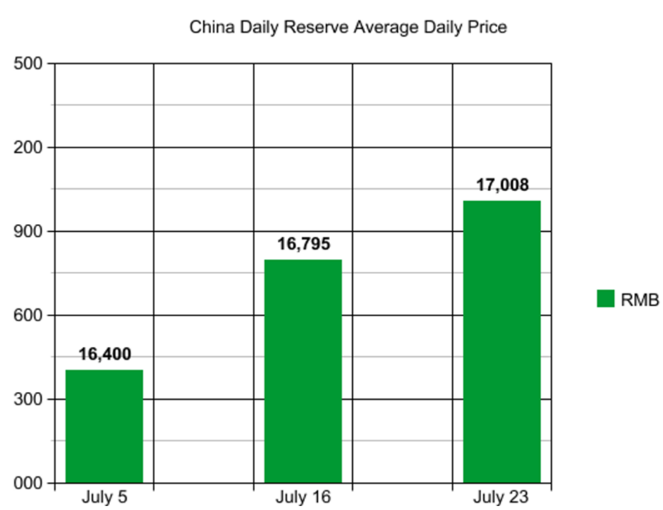
As these events occurred, record heat continued in Xinjiang with an outbreak of heavy rains, lightning, and winds occurring in Southern Xinjiang. In Hotan in Southern Xinjiang, record heat accelerated snow melt, triggering flooding of the Black Jade River. Then came a system that triggered heavy rain and hail in Kashgar, Aksu, Hotan, and Kizilsu. The meteorological department issued a high temperature and heavy rain warning. Atushi was hit by heavy rains, violent storms, and flooding, as was Yingjisha County in Kashgar. The warning extended to Hotan. Damage to the crop crops was very likely.

The entire 2021 growing season in Xinjiang has been one of the worst in over 10-15 years, with heavy rains and storms delaying planting and causing replanting. They are now experiencing a period of record heat. We continue to look for production to fall 15% or more in yield terms. Local press is very reluctant to report heavy losses. As of Friday, the respected China Cotton Association survey estimated the Chinese cotton crop at 5.7218 MMT or 26.29 million bales, with Xinjiang production down only 2.26% in yield and with production of 5.185 MMT or 23.822 million bales. This seems far too optimistic to us.

CHINA ON TRACK TO IMPORT NEAR TWO MMT OF COTTON YARN IN 2021

China appears on track to import over 2 MMT of cotton yarn in 2021, which would equal approximately 10.2 million bales of cotton. June imports reached approximately 160,000 tons, bringing January/June imports to 1.13 MMT. June imports were dominated by Vietnam followed by lesser amounts from India, Uzbekistan, Pakistan, and Indonesia. Demand from fabric mills appears to be holding as most mills operate at over 70% of capacity. Stocks of unsold imported cotton yarns stand near 120,000 tons, which is down nearly 50% from year-ago levels. The stocks are estimated to be made up of mostly low count open end yarns, Siro Spun yarns, and ring spun yarns. Central Asian cotton imports have collapsed due to no availability, but Central Asian cotton yarns, especially Uzbekistan yarns, continue to increase in popularity. Traditional quality has this crop longer staple and higher mike, making it popular for yarns with the home textile sector.

Cotton fiber imports in June reached near 172,072 tons or 790,585 bales. These imports increased the level of port stocks. Last week, the NDRC finally actually began to release the sliding scale import quotas that were announced months ago. The reason for the delay is not known. This is increasing interest in the bonded warehouse stocks as well as fourth quarter import inquiries. Demand at the daily Reserve stock auctions remained strong despite the higher base price. Prior to last week spinners had purchased 54% of all sales, which means traders have gone long even at the very firm prices. The average price has remained firm with the bids for any 2019 drawing large premiums. Every day's offering volume was sold out with the average price reaching a new high of 16,899 RMB a ton by

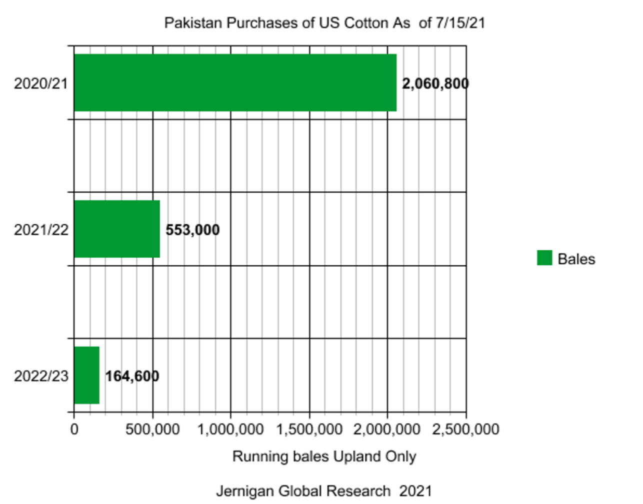


Thursday or 118.47 Cents a lb. for a lower grade 8-year-old cotton. On Friday, it was another 100% sellout, with the average price moving to a new high of 17,008 RMB a ton or 119.42 cents a lb. Sales included 1.4 tons of the 2019 crop, which was the largest volume offered yet in a single day of that crop year. The average price paid for mostly 8-year-old cotton was only at a minor discount to the China Cotton Index, which ended the week at 122.41 cents a lb.

The NDRC has finally released and distributed the Sliding Scale Import Quota. Spinners have moved quickly to begin to seek cotton from the bonded warehouses. With stocks at over 700,000 tons, these stocks could meet much of the demand. In addition, shipping congestion and a lack of availability makes other imports difficult for the next several months. In addition, spinners were seeking African Franc Zone new crop and Brazilian 2022 new crop. Large volume inquires for US new crop appear to be lacking for now. It is also noteworthy that there appears a much larger interest in African Franc Zone styles than in recent years. It is unclear if this is because the basis on offers for the first quarter are attractive or other issues. An Ivory Coast Manbo/s 1 1/8 is offered at 900 points on March, a US GC 21-3-36 would be about 1300-1400 points on.

China's cash cotton prices gained approximately 1.52 cents last week, while the lead ZCE cotton contract in September gained 2.29 cents closing near its highs.

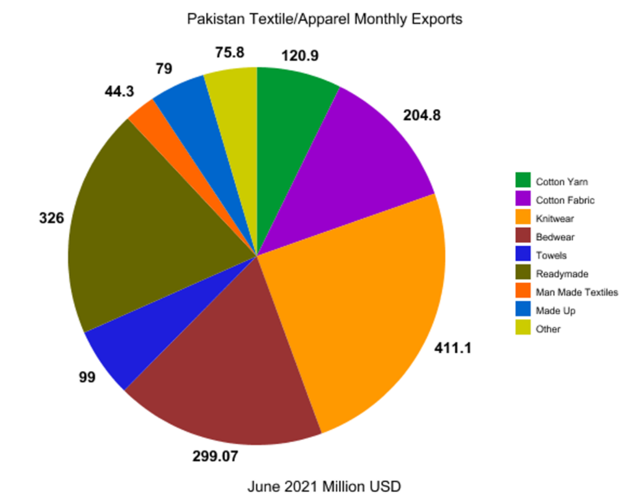
PAKISTAN A MAJOR BUYER OF US COTTON THROUGH 2022/2023



Pakistan spinners are buying the discount. Pakistan spinners purchased 192,500 running bales of US Upland in the week ending July 15. What stood out was that 114,400 running bales was for 2022/2023 shipment. The discount of the 2022/2023 crop to the 2021/2022 crop that week neared 1000 points. We have been stating for some time that this discount offered spinners an opportunity to extend coverage into the discount. US 2022/2023 Upland Export sales now stand at 479,300 running bales, with sales to Pakistan of 164,600 running bales. Mexico is the largest buyer at 242,400 running bales. Old crop 2020/2021 sales continued to be noted, with an additional 40,000 bales of upland sold and 3,400 bales of Pima. Turkey and China were the largest buyers of old crop. 2021/2022 Upland sales totaled 251,900 running bales, with Turkey the largest buyer at 100,500 running bales followed by Pakistan at 73,500 bales.

2020/2021 export shipments remain a major problem, as logistics prove a hurdle as record prices for a container from Asia to USA make container lines less willing to work with cotton exporters who also face rail delays, problems at the intermodal points, and a shortage of truckers. Upland export shipments reached only 246,100 running bales along with 10,400 of Pima. At 256,500 running bales, the pace is far below the level needed to meet the USDA targets. Total shipments stand at 15,489,360 480-lb. bales. Only 2.3 weeks remain in the season, and shipments need to reach 16.4 million bales. It appears that approximately 300,000 bales may be added to the carryover unless they are large adjustments when the Census Bureau and weekly export data is reconciled. Carryover sales will be near 1.5 million bales, and this cotton needs to be shipped asap.

PAKISTAN TEXTILE EXPORTS SURGE IN JUNE REACHING 1.660 BILLION USD



Pakistan textile/apparel exports in June reached 1.66 billion USD, which was up 57.8% from May and over 73% higher than a year ago. Every product group performed well. Cotton yarn exports reached 120.931 million USD, which reflected a 67.75% increase from May. Cotton fabric exports were 204.781 million, which compared to 165.1 million in May. Knitwear exports hit 411.074 million USD, which reflected a gain of 45% from May. Bedwear exports reached 299.07 million USD, and towel exports exceeded 99 million USD. Readymade apparel exports expanded 67.3% from May to 325.9 million USD. Strong gains were also noted in made up, synthetic textiles and other products. The growth reflected Pakistan's focus on cotton products, which is experiencing increased demand, and also a switch from sourcing in Myanmar and reduced souring of cotton products from China.

Final cotton acreage is estimated at 1.871 million hectares, which is down from 2.161 million hectares last year. Demand for the limited new crop arrivals has remained strong along with brisk import offtake during the weakness in futures.

Pakistan spinners thru the APTMA have signed an MOU with the Bukhara Province of Uzbekistan to build a new Textile complex cluster on 30,000 hectares with cotton production, spinning, weaving/knitting, and cut/sew. The project will cost 100 million. This appears to be restructuring of textile production within a new cotton cluster. By 2020, there were 73 cotton textile clusters organized in Uzbekistan, in which cotton was grown by growers in a certain area for a textile operation in that region. It had expanded to 96 at the start of 2021. The reform has not stimulated cotton production as growers remain hostage to the clusters. However, they are drawing large investments, with cotton yarn and fabric production expanding. Cotton yarn exports to China are up sharply as exports to Turkey. Uzbekistan cotton has all but disappeared from export channels. The ability of the textile plants to source cotton withing a short distance of the plants has given them a strategic advantage as has the price paid for the cotton. Bukhara is the 4th largest cotton-producing province.

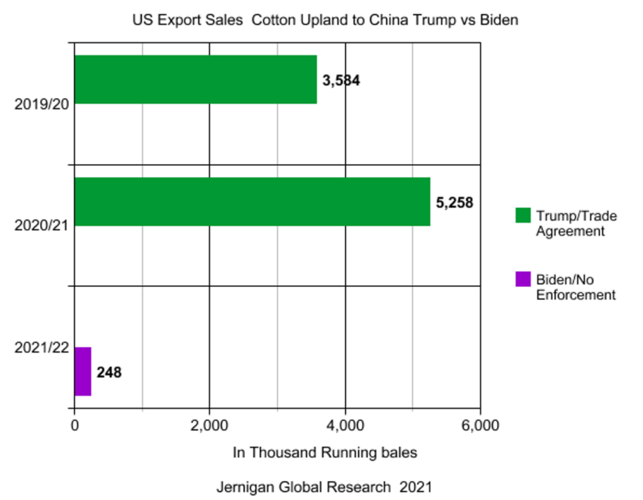
VIETNAM EXPERIENCES NEW COVID LOCKDOWNS

A new lockdown in 16 or more provinces in the South began on July 14 and will end on July 28 unless extended, which they were till August 1. All marine terminals at Ho Chi Minh City are reported as congested, with a large volume of ships awaiting loading and unloading. It was reported that the group of Vung Tau ports that is located in the area under lockdown had slowed to a crawl. This will have an impact in the region. This port is a global gateway hub for feeder container lines carrying cargo to and from HCMC or Saigon. It is also a transit hub for smaller SE Asian ports and serves to relieve capacity constraints on the larger regional ports. It is unclear if any of the textile operations have stopped, or if the workers are sleeping at the plants. Intel and Samsung both announced shutdowns. Many smaller plants appear to have closed due to the difficulty in meeting government guidelines until the lockdown is lifted.

This is not good news for the textile/apparel trade. Business in 2021 is robust across all fronts. In cotton, the country in August/June has increased cotton imports to 1,444,392 tons or 6.636 million bales. The USA, Brazil, and India are the largest suppliers, with increased imports from Australia. Textile exports which are mainly cotton yarn have reached 171,792 tons in June, an increase of 36% from a year ago. August/June exports are at 1,843,299 tons with China the top destination. Apparel exports in January/June reached 15.3 billion USD.

The delays and Covid shutdowns will impact US brands and retailers as Vietnam is now the second largest supplier of textiles/apparel to the US and number one in cotton apparel. Vietnam's total exports in the first six months expanded 30% to 143.36 billion USD.

WHY IS CHINA NOT BUYING 2021/2022 CROP US COTTON?



Amid all the robust demand, one major development is not receiving much attention. China in 2020/2021 purchased 5,257,600 running bales of US cotton, and all but 315,700 bales has been shipped. However, it has purchased only 247,900 running bales of 2021/2022 crop. With the 2021/2022 season about to officially get underway, the concern is expanding, where is Chinese demand? The first reality of this was highlighted in a Bloomberg feature last week discussing that the volume of US China trade overall was booming. Record imports from the US have occurred, the trade agreement that was a feature in 2020/2021 has barely been mentioned in six months, and most of the Biden administration efforts on China have been on human rights, security, and building allies. The 2021 year is now about to enter the eighth month, and it would appear the trade deal has not been honored and that the Biden Administration is not going to attempt to enforce it. You actually had Treasury Secretary Yellen reversing her hawkish confirmation hearing statements and saying the tariffs on the agreement hurt consumers. Such statements are simply mind boggling given the collapse of the US supply chain driven by the imports. As Bloomberg reports, the record imports from China are as if the tariffs never occurred. Thus, with this US Administration focusing a limited effort on trade and doing nothing to balance the record expanding trade deficit, which suggests the hard negotiated terms of the earlier trade agreement will not be honored or enforced. This follows the pattern set in the Obama administration.

For cotton, this brings us to a reversal of the common thought process that the China Reserve would reenter the market and buy large volumes of US cotton for the reserves. Six months have passed, and cotton prices have rallied sharply, and that has not happened. Bloomberg said it well. “China buys what it needs and the trade agreement under Biden is irrelevant.” Only a very short time is left before the 2021/2022 season begins. As of now, China has purchased only 247,900 running bales. For it to repeat the performance of 2020/2021, it would now need to see the US export shipments weekly for the full 52 weeks of the season average 100,000 running bales. As you know, that is now impossible. Under the best scenario, the US will face shipping delays through the November period. Thus, it is near an impossible logistical feat for the US to ship China the same volume as a year ago unless large purchases occur now, the shipping chaos ends, and conditions return to 2020 levels, which also seems impossible to imagine. Amid these changing conditions, how much can the US expect to sell and ship to China in 2021/2022.

One impact on demand over the last four months or so has been a shortage of import quotas. Even after the sliding scale import quotas were announced, the NDRC appeared to purposely delay issuing for months. This stopped any late season import surge and allowed port bonded stocks to build to record levels. At the same time, the shipping nightmare unfolded and now any purchases from many locations face months of delays before arriving.

The issue less likely to be understood is why mills or Chinese Trade houses have not been buying new crop 2021/2022 US for latter shipment. US new crop has not been a feature of trade all year. Old crop has remained popular, as have Indian, African Franc Zone, and Brazilian. In new crop, the interest has focused recently on African Franc Zone. This is a new feature that has not been evident for many seasons. Our attention was aroused when the Chinese trade houses made purchases from origin at attractive basis levels. CFR Basis levels have moved higher, but at one time a SM 1 1/8 Ivory Coast could be purchased at 750 points on March for January/March, which was about 600 points or more discount to US. US new crop basis levels for shipment prior to November have been expensive, and only recently have we seen a more competitive stance, and that is for January/March shipment. Are the Chinese purchases just related to basis levels or has Beijing quietly said it did not favor US purchases, or have they signaled that any Reserve restocking would not be exclusive US purchases but more based on Basis levels and price? Many offering sheets in China are focused on AFZ new crop and Brazilian as far as

2021/2022 are concerned, with US offers upon request, which is strange. Now, as we are about to enter August, the timeline would suggest that the trade agreement is irrelevant and that the Reserve will act based on its needs, price outlook, and the competitiveness of the various growths. In the past it has focused heavily on US and Brazil machine-picked cotton. It may be signaling a broadening of those limitations, which might be addressed with a shorter rotation period. The 8-year-old Chinese mostly hand-picked cotton at that time has sold at strong prices.

The coming online of new spindles now and what we believe is a much smaller Xinjiang new crop would suggest larger import requirements. One larger issue that could be influencing trade is the effort by Beijing to reduce commodity prices and tame speculation. Last week, it announced its second reserve sales of metals. Comment on the Xinjiang crop has been free of any dramatic domestic concern, and no one is attempting to push a crop scare. Against this backdrop, you have the record devastation that has occurred from floods in the major corn, soybean, and wheat producing states as well as major pork producers. This could mean major corn, soybean, and wheat purchases, but so far Chinese market reaction is dull.

Against this backdrop, a US export outlook must now focus on China purchases of US cotton falling by 50% or more to 2.5 million bales. Even that will require sizeable new purchases soon and shipments to start. For example, if sales occur for January/March, then weekly export shipments would soon have average 100,000 bales to need meet that target. It is shocking that China has violated yet another agreement. The US is silent and not attempting to enforced. In addition to the lack of cotton purchases, most capital goods areas are also showing no buying, such as in aircraft. But why should there be any concern from Beijing, after all the outsourcing juggernauts driving many other competitors out of business has left the US companies scrambling to buy record volumes from China with no regard to human rights issues, national security risk, or failure to fulfill the trade agreement.

If the US crop, which appears at this stage to be headed to an improved final outturn near 18 million bales, then accelerated, export sales to all other major destinations will be needed. This can be accomplished. The shipping logistical disaster now present and likely to remain through the end of the year is a major concern. US 2021/2022 export sales now total 2.9724 million bales. Mexico accounts for nearly 25% of that total and will likely only buy an additional 300-500,000 bales. With the absence of China, sales to other destinations will need to accelerate. Pakistan is already the second largest buyer and may emerge even a much larger volume given the popularity of the E/MOT styles. Vietnam needs to cover in volume and has only purchased 327,000 running bales. Overall, the US will need to dramatically increase sales to Bangladesh, Turkey, Vietnam, Indonesia, and others to offset the reduced China sales. China purchases over the next 120 days will be important as to what total sales will reach. Trying to forecast the possible strategy of the Reserve Corp in China is very difficult, and large US sales could occur. It is, however, a major concern that new crop sales now stand at such an extremely low level. Adding to this anxiety is the clear lack of any intention to honor the trade agreement or the US to enforce it and the acceleration of friction between the two countries.

INDIAN SPOT PRICES END WEEK AT NEW HIGHS

It has become clear that Indian Stock levels have been overestimated, first by the USDA as we have discussed in detail several times, but also by Indian trade groups. This has become clear over the past 60 days as very strong demand has been evident for the remaining CCI stocks, even as prices moved higher almost daily. Last week, the CCI sold volumes at higher prices and the spot price for a S-6 1 1/8 ex gin yard hit a decade high of 55,500-56,000 rupees per candy or 95.58 cents a lb. on Friday. As prices tighten, there is also the issue that while sowing levels are now near year-ago levels in most areas, the crop will be later. Even at these firm levels, logistical issues have meant that Indian cotton remains the only growth that some Bangladesh spinners can obtain immediately. The monsoon rains have continued lighter than normal in Gujarat, leaving a deficit for the season. But over the next five days heavy rains are expected, which will be very welcome. Many still expect that a late surge in planting will put acreage ahead of last year.

ICE FUTURES STALL AT 90 CENTS AS COTLOOK A NEARS 100 CENTS

ICE futures last week stalled on several attempts to clear the 90-cents level. This resistance coincided with the Cotlook A Index reaching 99.50 in both the 2020/2021 and 2021/2022 Indexes. For the A Index, which reflects the value of the cheapest five Middling 1 1/8 styles CFR Asia, this is the highest level of the Index since June 2018. In addition, the Index has found major resistance over the years above 100 cents. This reflected a gain of 1.55 cents for the week. The China Cash Cotton Index gained 1.52 cents a lb. for the week, and the ZCE September cotton futures gained 2.29 cents a lb., while Dec ICE was the laggard, actually posting a loss of .27 of a lbs. for the period. The failure to move through 90 cents occurred despite a rather volatile week and a further expansion of the open interest. At the end of the previous Friday, July 16, total open interest in ICE cotton stood at 238,336 contracts. This reflected a large 15,068 contract increase since July 12. Monday's sharp collapse in prices saw open interest fall 5,286 contracts, but by the end of Thursday's session total open interest had again expanded to 241,378 contracts. This appears linked to new speculative longs, new trade shorts, and possibly options. The COT report for the week ending July 20 showed the trade, swap, Index Funds net sellers and funds a buyer.

The divergence of ICE futures against the strength in physical cotton prices and Chinese Cash and Futures prices to us raises a bit of near-term caution. Last week, we warned about the negative impact of the unfolding logistics chaos and rapidly declining Chinese/US relations. This week we see these remaining an influence with some modifications and the addition of the economic impact of another surge in the Covid outbreak with its delta variant. The logistics nightmare is expanding, and we expect further disruptions, cancellation of orders, and problems through the end of the year. This is impacting cotton imports nearby and impacting export orders and cost. Secondly, China/US relations continued to have new flareups, with China accused of major cyber-attacks. However, it is what is not being said that concerns us. We discussed this earlier in major detail. We will shortly enter August. This means the US/China Trade deal year two will not be honored by China, and the US administration is reverting to the Obama practice of no action to enforce. This was seen in the cyber-attack announcement, which contained no sanctions. China has not been buying 2021/2022 US cotton. Forward sales stand at only 247,900 running bales. In 2020/2021, China purchased 5,257,600 running bales. This cotton has been shipped with only a very small volume left. These shipments and retail new sales have on the surface given the impression that all is well. Well, as 2021/2022 gets underway, each passing week with no major sales, there are no shipments, the clock is ticking, a repeat of last season seems almost impossible, and each advancement of time without progress means a lower target. Why?
A 5.2 million-bale gap in sales, a non-honored or enforced trade agreement, and record US imports from China provide incentive for this to be addressed. After all, no one in the administration or Congress has seriously addressed the record Chinese imports, and there have been no threats of any new tariffs. Against this backdrop, we make no claim to the US crop size, but an 18 million-bale crop means brisk exports are needed, and even with record cotton use outside of China, questions arise. Then, the logistics issues and lateness of the crop have many exporters not offering heavily till January/March. Attempting to focus exports on a 6-month window amid the logistics issues, even if they improve, appears to also raise questions.

Then you add the new damage from the Delta Variant, which has new lockdowns in Bangladesh and Vietnam underway and new concerns in the UK and US, and you put caution back to the robust cotton use outlook. This may explain why the resistance at 90 cents is appearing stronger than we had expected and suggests new caution. It also may mean the arrival of a broader trading range until the concerns have either proven warranted or have passed. It has become very clear that the Chinese government of Xi is doing great damage to the robust Chinese economic engine. We discussed this last week. This week, it took further arbitrary actions against major companies. It surfaced that the government was considering forcing the major industry of school tutoring and education companies to change to a nonprofit model. This wiped billions off the value of these companies on Friday alone, with none of the companies yet to receive a formal notice. Tal Education, traded in the US, saw its share price fall 70.76% and close at 6 USD after an earlier high this year of 90.96. New Oriental Education shares fell 54.22% to 2.93 from an earlier high of 19.97, and Gaotu shares fell 63.76% to 3.52 USD after making a high of 149.05 earlier this year. Many US investment funds lost billions. The NASDAQ Golden Dragon China Index lost 8.5% last week and has now lost 650 billion USD of value since its February high. This is the index of the largest listed Chinese Companies in the US. Shares in Hong Kong and China also fell off the education companies and the move follows the continued. actions against the tech sector. These actions are doing what no US government has done – begin to turn Wall Street against investing in Xi's China as the risk of government actions becomes impossible to manage.

These conditions have inserted new caution, with China cotton yarn and fiber demand so important. The volume of unfixed on call purchases increased another 627,000 bales in the latest On Call report, with 12.546 million bales now open to fix. This provides underlying support and could fuel gains if concerns mount. For now, there is no time limit nearby, so the spinners have time. Overall, we have now turned cautious and expect more two-sided price action may occur, with resistance continuing heavy above 90 cents. The larger speculative long adds to the uncertain outlook nearby. The possibility of an 84-91 trading range for Dec appears to have increased.