CONCERNS MOUNT OVER AUSTRALIAN RAINS

MYANMAR CHEAP SOURCING OPTION DESCENDS INTO CHAOS

US COTTON EXPORTS SURGE AS PORT CONGESTION EXPANDS

MAJOR RAIN EVENT FORECAST FOR WEST TEXAS

JERNIGAN GLOBAL
KNOWLEDGE IS THE NEW CAPITAL

US/CHINA TALKS CALLED A FAILURE AND CAST SHADOW ON TRADE

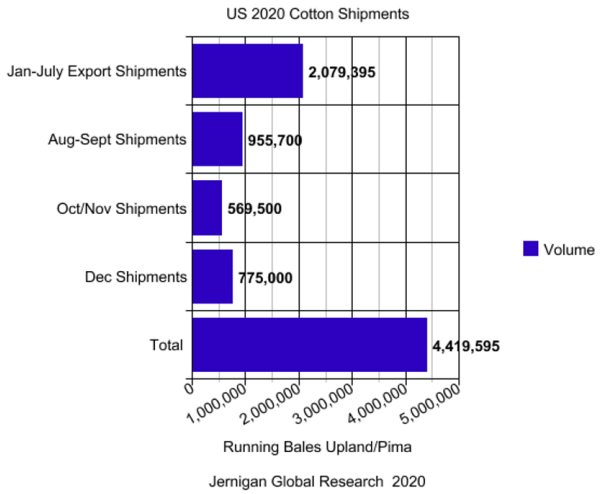
US 2021/2022 COTTON SALES TO CHINA NEAR 5 MILLION BALES

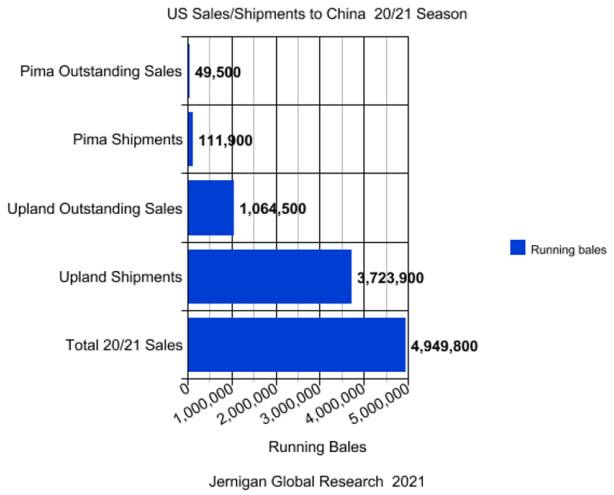
Last week, before the US/China talks started in Alaska, ICE cotton futures began to take on a weak tone that was not easily traceable to any event. This weaker tone was soon followed in China's ZCE Cotton Futures. By Friday, it had turned into a full-scale rout in futures values before prices recovered a portion of the losses. Emotions are high and headlines make the Algo's that dominate ICE act foolish at times. The reason soon became clear after the details of the First US/China meeting under the Biden Administration became known. The meeting was between US Secretary of State Andrew Blinken and Jake Sullivan, National

Security Advisor, and Chinese top Diplomat Yang Jiechi and Foreign Minister Wang Yi. The problems began when the opening statements, which were supposed to be two minutes, were extended for some time. Secretary Blinken, instead of normal protocol, attacked China for its actions in Xinjiang, Hong Kong, and Taiwan, and accused China of launching cyberattacks against the US. China then went off its script, counterattacking the US and accusing it of its own Human Rights issues. The day ended with no Evening Meal and complaints that China's team had to be Covid tested on arrival. Nikkei Asia called the talks troublesome in three ways. First, the attacks make it difficult for improved diplomatic relations. Secondly, it opens the way for major concessions from Xi and Biden if they meet and places a big burden on that relationship. Thirdly, it will impact trade, especially with US allies in Asia. Other reviews said the talks signaled that "China is clearly feeling no need to adhere to long established norms and feels it has the upper hand." Another compared the actions of well-experienced Yang Jiechi to the last meeting with US Secretary of State Mike Pompeo in which he was friendly, respectful, and displayed a totally different tone.

The most worrying analysis came from one of the world's top experts on Beijing, Chris Balding of Balding World, which provides unbiased commentary after spending years in China and is well known for its economic discussions. Balding called the talks a "Big Failure" on the part of the Biden Administration, with the US mismanaging the event. First, he called the Biden Team an Obama 2.0 and said that China reviewed the US team as a repeat of the Obama team who they had no respect for. China treated the US Team with contempt and disrespect and appeared to expect them to be weak on actions just as Obama was. He cited that during the Obama Administration China received little to no push back from China's actions and violations. He also cited the move by Beijing on Obama's visit to China when it failed to provide stairs for his arrival, forcing him to disembark through a stairway in the belly of the plane. His entire treatment on arrival was viewed as a calculated move. The Baldwin Analysis suggested that the US Administration, lacking a clear China Policy, had focused more on an anti-Trump focus and had already appeared weak to Beijing by its pursuit of an Iran Agreement despite the Iranian hostility and actions.

This view was not universal, with Kyle Bass, Hedge Fund Manager and China expert, giving US Secretary of State Blinken high marks for his tough stand and for his confronting of China on human rights issues. Others pointed out that China's lead diplomat, Yang Tiechi, had put forth a "Wolf Warrior" stance aimed at reinforcing Xi's no comprise approach to the world. It also pointed out that Yang had sent his daughter to study at Princeton in the US. Whether or not this review of the situation holds true, the whole world was able to view large parts of the reactions on TV, and the concerns around the world were evident. The talks ended with no results. For cotton, US/China relations are always important given the level of trade. The Trump Trade Agreement with China has been a major boost to the US cotton trade and set the tone for very large robust exports in 2019/2020 and 2020/2021. Today, the US has sold 4,949,800 running bales to China. Of that total 1,114,000 bales remain to be shipped. Approximately one third of all US exports have moved to China. We have warned for several years the dangers such reliance holds. The China/US trade agreement brought structure to the trade and some degree of confidence as US Trade Representative Lighthizer negotiated an outstanding deal, and it was clear his team was respected in Beijing. Now, 60 days into the unknown, the agreement has hardly





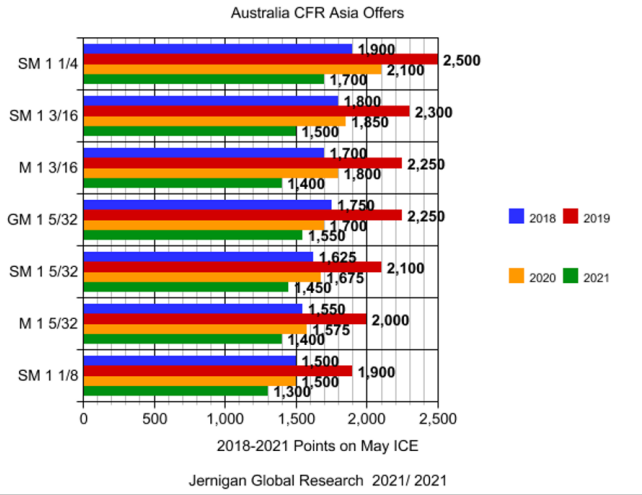
been talked about much less appreciated for what it accomplished. Going into the talks, press reports said China had planned to ask for tariffs to be removed, and some viewed the large Chinese US Corn purchases as a good sign. Of course, this was not mentioned in public remarks.

The concern for cotton is how these conditions will impact trade. Up to now, China has not retaliated in cotton against the Xinjiang sanctions that are forcing Xinjiang cotton to be replaced with imports. The situation in Xinjiang and its impact on trade are only expanding, with new bills likely to expand import bans to other products. Even Europe, which recently signed a yet-to-be-approved extended Trade Agreement with China, is beginning to react, with some sanctions of Chinese officials announced last week that drew very harsh reaction from China including very blunt language in the domestic press.

For the 2020/2021 season, any impact would be limited, and world supplies are tight. Any unshipped volumes from China would likely find a buyer as China turned to Brazil and others where such volume could not be easily replaced. China's domestic apparel market is expanding and becoming more important, domestic cotton use is holding, and cotton's market share appears to be improving. Any move to again ban US cotton imports in 2021/2022 would be damaging from a psychological standpoint, but it would likely just push Brazil into the main import, and then US Cotton would replace Brazilian in all the other markets as China absorbed the supply. 2020/2021 US exports to many Non-China markets are down not because of demand but because China pushed the CFR basis to a premium to Brazil for a period and forced other buyers to turn to Brazil. The reverse will happen if further disruptions occur.

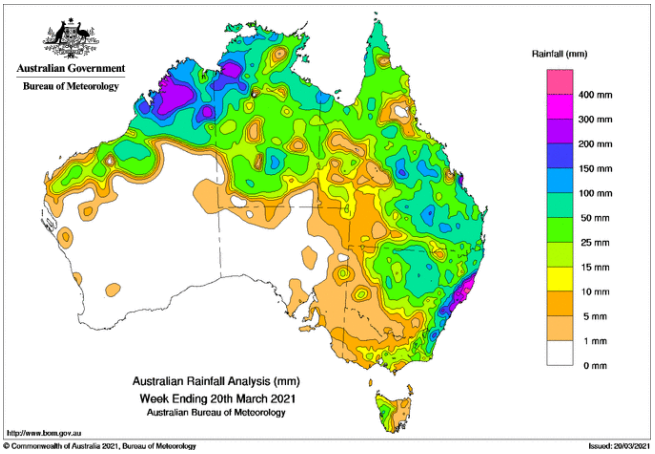
In addition to possible disruptions in cotton trade, the further decline in China/US trade relations could impact overall trade. The US is in a weak position as record imports from China are underway due the 20+ years of increased outsourcing. Many supply chains of US depend on China. Disruptions in these shipments would cause major issues. The US has made no effort to change this dependence despite the expanding trade frictions and tariffs. Actually, despite all the issues, many business groups have continued to lobby for even more imports.

AUSTRALIAN CFR BASIS UNDERVALUED AS RAINS CONTINUE CAUSING CONCERNS

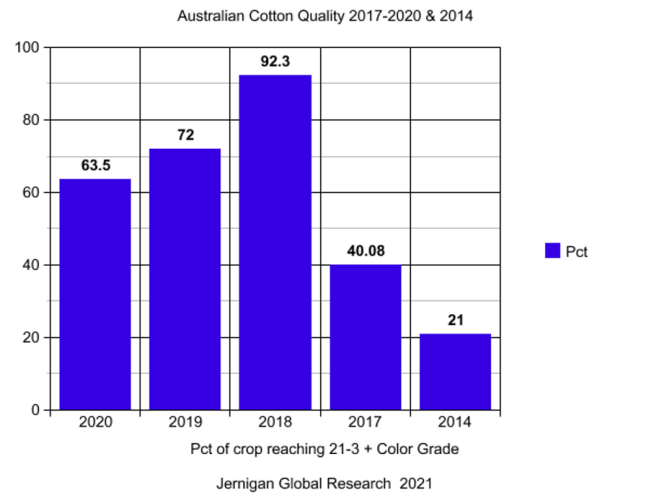


Heavy rain has continued across parts of the Australian cotton belt last week. Amounts turned very heavy in Queensland, and on March 17 rainfall in the Clermont/Emerald area reached 130-125 MM, causing flooding and rapidly overflowing rivers. More rain followed with rain falling over the entire cotton belt with the exception of the Southern Valleys of New South Wales, which received mostly light amounts. In the Emerald area, the heavy rains fell to the north, and the early planted cotton has been picked. In other areas of Queensland, rainfall amounts have been in the 40-77 MM range in the Eastern Darling Downs through Thursday, in the Biolela /Theodore area 31-40 MM or more has fallen, and the Maranoa Region has received from only 12 MM at St George to up to 126 MM at Roma which covers a 200-kilometer area. The early crops have been picked and defoliation was ready to start, but in many other areas the rains hit, so it has been delayed. Overall, the rains are helping fill up the dams and on farm storage. The cotton crop at this stage looks promising with yield in many areas at 14-15 bales a hectare. The crop now needs sunshine and clear weather through picking.

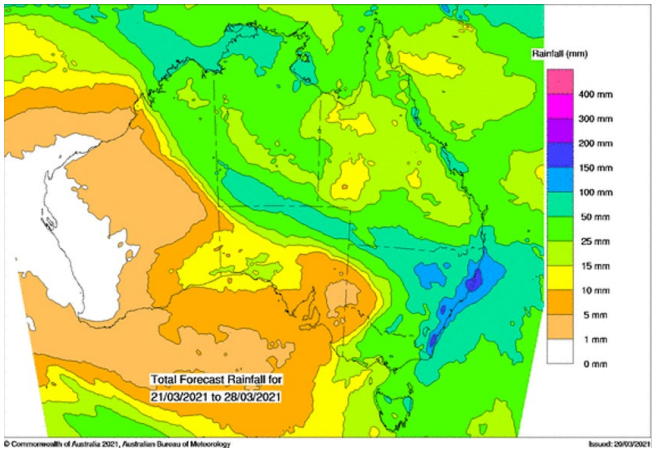
In New South Wales, rainfall has been heavy in some areas while light in others. Out West, Bourke is ready to defoliate but it has been delayed by rains with 34 MM recorded through last Thursday. In the Border regions in Gwydir valleys, rainfall has ranged from 16 up to 62 MM. To the south, rainfall has been heavier. Walgett has reported 107 MM, further East in the Namoi Wee Waa has reported 66 MM, and Pillga received 147 MM. Further south, rains of 85-110 MM have been recorded in the Dubbo, Coonamble/Trangie. These rains have affected quality on a limited amount of open cotton. From here through the Southern Valleys, rainfall has been from 2 to 13 MM. The rains over much of New South Wales have been very welcome on most acreage and have provided a boost to the dryland prospects that are the best in several seasons. Water levels at the Copeton Dam is up to 21.1% of capacity and Keepit is now at 44%. Both these are important for irrigation allocations.



The rains are forecast to continue through March 24, which is very concerning. The rains and cooler temperatures will impact quality if they continue and are raising concerns over the percentage of the crop that will reach Strict/Good Middling and have a staple length of 1 3/16 or longer. Over the last four seasons, buyers have come to depend on the Strict Middling longer staple lots, especially those in China who have used these styles in higher count ELS yarns and blended with US Pima and Domestic ELS. In the small 2020 crop, 63.5% of the crop classed Strict Middling with 34.6% having a staple length of 39 or longer and another 39.3% 38 staple. In 2019, 72% of the crop was Strict Middling, 34.6% was 39 or longer staple, and another 34.3% 38 staple. In 2018, 92.5% of the crop reached Strict Middling and 34.7% was 39 or longer staple and another 34/3 with a 38 staple. In 2017, rain reduced the percentage reaching Strict Middling to 40.8% with 42.8% dropping to Middling. This year's late rain pattern, cool temperatures and cloud cover are raising fears of a repeat of 2014 when 34.9% of the crop fell to Strict Low Middling color grade with 4 leaf, a very rare event.



Rain events at harvest and cool temperatures have a major impact on grower income as Merchant Discounts are very large for a drop to SLM color grade. They also have major ramifications for CFR basis levels. The 2014 crop saw a sharp decline in quality, triggered massive changes in CFR basis levels, and caused major tightness into the 2015 harvest. The 2014 Australia crop reached 4.1 million bales. That season only 21% of the crop reached Strict Middling color grade, and this was very unusual. In 2018, 92.3% of the crop was Strict Middling or better. 34.9% of the 2014 crop fell to a 41-4 or Strict Low Middling with 4 leaf. This caused a major shortage of the high grades with offers of Strict Middling being removed as that grade was oversold. The CFR Asia basis for Strict Middling color grade longer staple moved sharply higher as the next crop year was offered. 2015 crop Strict Middling 1 3/16 CFR Basis levels reached 2850 points on May and SM 1 5/32. The current standard offer hit 2750 Points on. The demand for Australian styles from the 2014 crop was noted even in the lower color grades, with a SLM 1 5/32 trading at 1700 points on. In 2014, some parts of the cotton belt received heavy March rains, Narrabri in



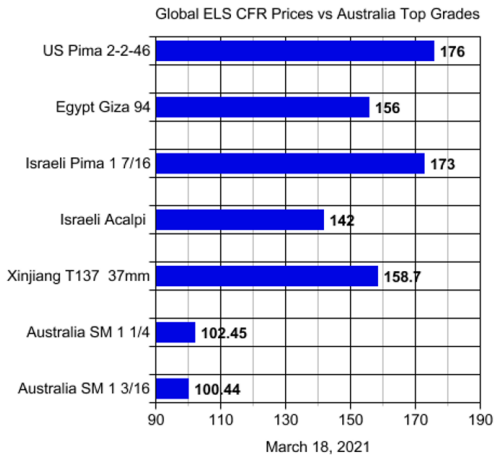
NSW received 141 MM. This was nearly three times the normal rainfall.

The small 2020 Australian crop, which reached only 625,000 bales, has left no inventory outside China, which means a sharp fall in the color grades this season will create major shortages in the Strict & Good Middling color grades. The boycott by China for its general TRQ import quota for private mills has caused trade in the 2021 Australia crop to fall sharply. The State-Owned Trading Groups have taken small to moderate positions in the 2021 and 2022 crops. Some encouragement has come from the US statement to China that normal relations with the US are not possible unless the bullying of Australia stops and the embargoes end. Indonesia was once a very large market. In the 2011 and 2012 crops it was the second largest market after China, with the volume near 100,000 tons. From 2013 forward, Australian lost market share in Indonesia. Despite the crop size, in 2016 the volume shipped to Indonesia collapsed to less than 15,000 tons. Indonesia appeared to switch to Brazilian and US. The Aussie basis was quite strong until early 2020 supported by aggressive Chinese Traders offtake. During the large crops of 2017 and 2018, China was the top market with volume taken up by Bangladesh, India, Vietnam, and Turkey began to take up the crop.

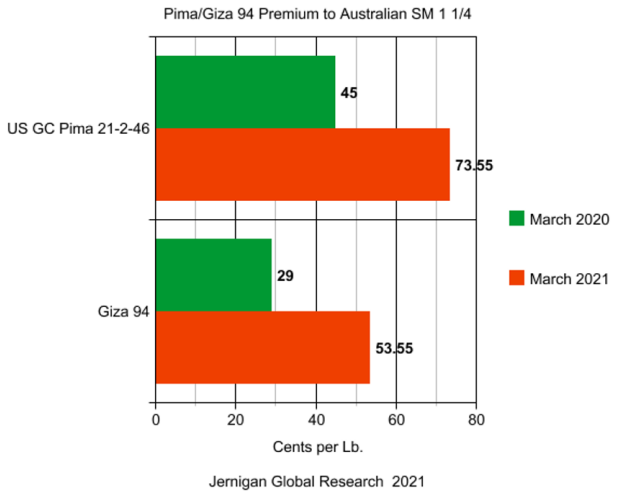
The absence of the large Chinese demand, the weakness in Indonesian cotton consumption, and the absence of India as a large importer have left Bangladesh and Vietnam as the major markets. Thailand has always been a good market, but its cotton consumption and imports fell sharply in 2020 and 2021. Turkey appears to be a value buyer when cheap basis levels are offered. These conditions have forced the Australian 2021 crop CFR basis to levels that appear extremely undervalued from almost every angle. This weakness is occurring as the discount to Pima extends. It now stands at 75-80 cents a lb. Despite this, the new hot ELS consumers of India, Pakistan, and Bangladesh have yet to realize the blending potential or have been locked in to 100% SUPIMA. Chinese spinners have not yet attempted to get access in a way that has impacted basis levels.

Going into the current rain event, the CFR basis had fallen to one of the lowest levels in years. A Strict Middling 1 5/32 was offered at 1375 points on May and a Middling 1 5/32 was offered at 1300 points on May. Longer staple offers are not widely circulated due to the lack of Chinese demand. These are the cheapest offers in several years and are discounted by up to 650 points from levels prevailing in 2019. Over the past week, the basis has begun to firm with the Strict Middling 1

5/32 at 1450 points on July. A Strict Middling 1 3/16 is offered at 1500 points on July, and a Middling 1 3/16 offered at 1400 on July. We expect this basis to firm. Weather over the next 60 days will determine the supply of Strict Middling and Good Middling. The second factor which should drive an appreciation in the basis is the advancing price of ELS. The ELS supply is tight and set to get much tighter. The Australian SM/GM longer staple is for the most part the only supply that will be available to the US Mid-South harvest, and then supplies will be determined by rain events.



The tightness in the ELS sector is the most serious in many years and is not set to improve anytime soon, US Pima exports already total over 758,000 480-lb. bales against a 775,000 bales export target. At least 800,000 bales of exports are likely. This means carryout at only 105,000 bales. Pima acreage will be down 20-25%. This is linked to the lack of irrigation water. This means production will be capped at 450,000 bales or less. This means exports will be capped at 450-500,000 bales, leaving the US with a skeleton carryover. Egypt will end 2020/2021 with almost no carryout as it currently appears to be selling all remaining stocks. New crop expansion is limited. This means ELS spinners will need SM/GM high strength Australia for blending. These conditions suggest basis appreciation in these Australian styles and spinners should prepare.



A comparison of the premiums of Pima and Giza 94 to an Australian SM 1 1/4 between today and a year ago illustrate the undervalued nature of the Australian growths. Today, a Pima GC 21-2-46 has a 73.55 cents premium as compared to 45 cents a year ago. A Giza 94 has a 53.55 cents premium as compared to a 29 cents premium a year ago. Currently, if an Australian SM 1 ¼ was imported under the TRQ quota into China after insurance, VAT and a 1% tax it would be at a 41-cent discount to the Domestic T137. T137 has issues with a higher degree of contamination than Australian and can be 1 ¼ or shorter at times. As Pima prices stay firm or move even higher, we continue to think Chinese spinners will find a way to access or the embargo will be lifted.

The rains have done nothing to firm the weak FOB basis to growers. A large Merchant Long basis position and the lack of major Chinese offtake continues to keep the 2021 crop basis at 150-200 points on May and only 50-75 on July. Cash prices are around 565-570 AD a bale. The 2022 crop basis stands at 350-375 on May 22, and the 2023 crop basis is very weak at 175 points on the heavily discounted May 23. It is unlikely any cotton could be purchased at this level for it equals a cash price of only 490 AD a bale. The reason for the lack of bids is the lack of forward export trade.

MYANMAR-BURMA, ANOTHER CHEAP SOURCING OPTION, DESCENDS INTO CHAOS

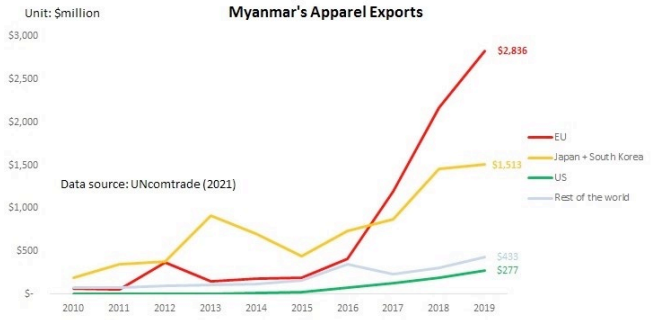
It has become crystal clear that the "Asset-Light" sourcing model for Apparel continues to be filled with "Black Swan" events that Risk Managers did not plan for and is filled with increased human suffering. In the scope of just a few months we have seen two rising stars of Apparel sourcing lose their appeal, create disruptions in supply chains, and result in losses for the companies operating in the region. These were first Ethiopia, and now Myanmar or Burma. Ethiopia drew billions in major investments from China and then attracted others as the country showed great promise as a part of a supply chain began to be built. In Myanmar, the investment has focused heavily on cut/sew, attracted by access to cheap labor. Last week, Myanmar experienced its bloodiest day since the coup occurred, with an estimated 39 protestors shot and killed in one day. The protest also expanded to a well-organized attack on Chinese-owned apparel factories. China is the largest investor in the cut/sew operations, with Chinese-owned factories employing an estimated 400,000 workers. An estimated 32 Chinese-owned factories were attacked and damaged. Following the event, the Chinese government announced all State-Owned firms should evaluate all non-essential staff. The cut/sew factories have been hit with work shortages, and some are reported to have locked workers in factories to prevent them getting involved in the protest. Japan's

Fast Retailing reports two of its sourcing factories were set afire in Yangon. It has six sourcing factories in Myanmar, and other Japanese firms have reported major delays in shipments.

Logistics of moving the imported Chinese fabric from the ports to factories and the movement of finished orders to the port have been disrupted by striking truck drivers. The logistics have been crippled. Several major brands and retailers have announced they have suspended orders from the country. 2019 apparel exports were estimated at 4.8 billion USD and account for nearly a third of all exports. Thus, the suspension of these shipments is no small matter. This is having a far greater impact than Ethiopia's unrest in the North. Japan, the EU, and Europe are the largest export market, and sourcing had been expanding by US brands and retailers. In 2019, the US imported 339.133 million USD worth of textiles and apparel from Burma, and in 2020 it expanded to 445.093 million USD with only 103.39 million USD of cotton products. In 2019, Japan took 22% of all apparel exports. In Europe, Germany, Spain, and the Netherlands were the largest markets, taking 29.4% of all exports, and the UK took 9.3%. South Korea was the sixth largest market. The growth in apparel exports has occurred since 2015 when exports were less than a billion USD.

The country, however, has a cotton production base and also textile supply chain that has not seen the investment. The country grows cotton on about 300-315,000 hectares in the Mandalay and Magnay regions with production near 730,000 bales. The coup will impact the 2021/2022 season. The crop is normally planted in July, and finance and inputs could be difficult. The country has had a state-owned textile sector with spinning and fabric production for a long time with much of the equipment old. Japan has been an investor in a new Textile Industry Park in

the Mandalay region. It is unclear how much of the current cotton crop is used domestically. One estimate is that in 2019 725,000 bales were consumed. However, other data suggest a sharp downturn in domestic fabric production. Trade data shows that Myanmar exports cotton fiber, cotton yarn, and cotton fabric to its neighbor, China. 100% of all cotton yarn exports go to China and over 80% of the cotton fabric exports. Myanmar also imports cotton yarn and fabric from China. UN trade data shows a major surge in cotton fabric and man-made fabric imports in 2019. It is clear that the boom in the cut/sew sector between 2015 and today did little to benefit the local cotton production or the Textile supply chain. Instead, it was driven heavily by Chinese fabric imports. China has a host of agreements in place with Myanmar and has invested heavily in the China-Myanmar Economic Corridor, which is part of the Belt & Road.



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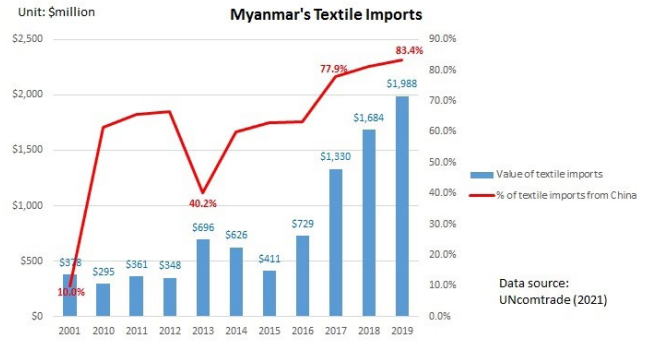
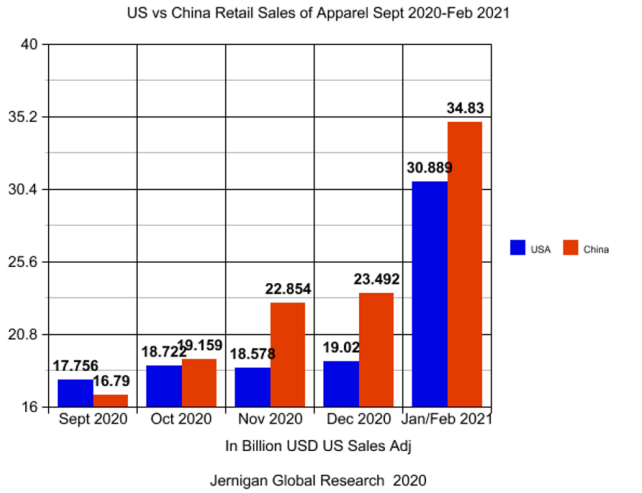


Source FASH455

It is unclear where the orders will move to in the near term, but with exports nearly five billion USD annually, they will be a major boost to other regions. Bangladesh may be one alternative. Bangladesh labor rates are near the same as Myanmar and have been slightly cheaper. Bangladesh also provides a more complete textile supply chain which can provide an advantage. In Myanmar, the availability of aggressively priced Chinese fabric undercuts other locations. Pakistan is also likely to see new order flow, given its complete supply chain and very competitive labor cost as compared to Myanmar. A switch of 1-2 billion USD in orders to these locations would provide a major boost to cotton consumption in each country. In reality, first an increased percentage of cotton would be used in these countries, and secondly the fabric would come from domestic producers instead of Chinese fabric imports. The rotation out of Myanmar would also eliminate any Xinjiang risk that comes with the use of Chinese fabric.

The Global Apparel Industry has yet to change its sourcing model of asset light and placement of cut/sew orders across the globe. One of the largest Fast Fashion groups has received widespread praise for its Proximity Sourcing. A closer look shows they use proximity distribution centers but use suppliers across over 1800 companies located around the world. Again, there is no investment in the supply chain. This means wages remain below levels considered a "living wage," but this is said to be the responsibility of the cut/sew supplier who got the contract on a razor-thin margin. The continued deterioration of living conditions for workers and the unfair distribution of proceeds from the supply chain are beginning to get attention. 200 global groups have come together in a coalition to demand the world's largest retailers and brands pay workers fairly. They formed PayYourWorkers.org. It remains to be seen if this will result in change. When a company sources in CAFTA, Peru, or Turkey, the apparel manufacturer likely pays 200 to 300% higher wages than in Myanmar or 15 times or more the level in Ethiopia. The situation in Xinjiang and China is drawing new attention to the problem.

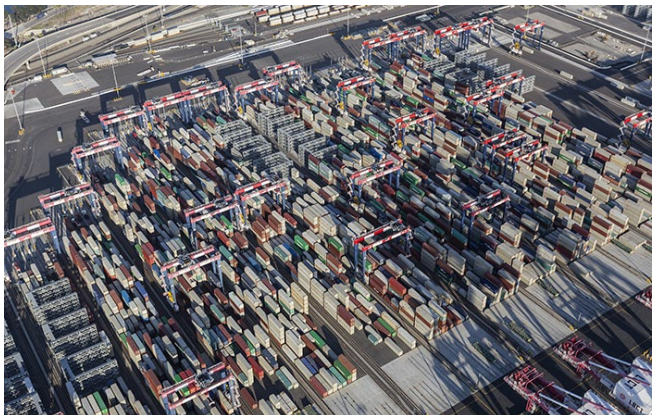
US RETAIL APPAREL SALES REMAIN SOFT/CHINA JANUARY & FEBRUARY SALES OUTPACE US

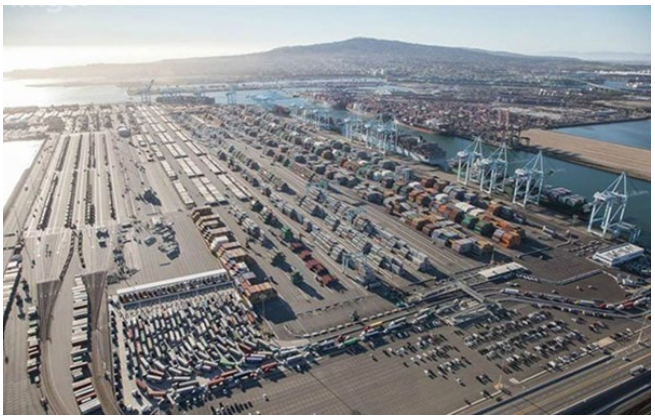


US Retail sales in Feb reached 561.7 Billion USD, which reflected 6.3% growth, a stellar performance. The growth was driven by Auto, Furniture/Home, Building Material, Sporting Goods, and Food & Beverage. Apparel sales reached 19.629 billion USD on a seasonally adjusted basis, which reflected 11.3% year-on-year decline. The release of the performance of some brands and retailers provided better news. Land's End, a noted consumer of cotton, experienced 3.7% growth in sales in the USA. Blomberg estimates that during the pandemic the US consumer has accumulated 1.7 trillion USD in savings that will be spent over the next year in revenge spending. It expected the pattern to follow that of China, with luxury products leading the growth. This would be very good news for 2021/2022 global cotton use if it occurs. Even in January, US apparel imports fell 7.7% in volume terms. Cotton apparel gained market share, with imports falling only 4.0%. US Wool apparel demand needs a major revitalization program. Imports in January of wool apparel plunged 32.8% as office workers remained at home and were not buying wool suits. Wells Fargo in a new Research report has said Amazon became the top US apparel retailer in 2020, with sales of 41 billion USD in footwear and apparel, which reflected 15% growth.

China retail sales of apparel in the January/February period reached 222.6 billion RMB or 34.8 billion USD. This reflected 48% growth from the year-ago Covid-19 shutdown period but was 3% below 2019. However, the volume of sales far outpaced that of the US, which on an unadjusted basis reached only 30.889 billion USD. When adjusted for seasonal factors sales totaled 39.8 billion USD.

US EXPORTS SURGE AS CONCERNS OVER PORT CONGESTION & INCREASED SHIPPING COSTS MOUNT





One common theme among cotton exporters is the problems with port congestion and increased shipping costs. Port congestion occurs when a ship arrives at a port and is delayed in loading or unloading. This causes increased cost for the shipper. In addition to these costs, freight costs remain very elevated. The US Ports of Long Beach and LA are experiencing major congestion which hit a record in February. Sometimes it takes well over a week for a ship to unload. The congestion is around the world, with Indian exporters

experiencing higher export cost that has slowed or delayed cotton exports. These conditions have made it difficult for exporters to offer cotton afloat, which has caused tightness for some importers such as Bangladesh. All this is occurring as the US and European supply chains are exposed to an almost total dependence on China and others. Last week, McKinsey forecast that container shipping cost will stay elevated for the next two years or more. Shipping lines have consolidated, and competition has been reduced. There is no excess supply and some companies have locked in shipping cost for two years forward.

The situation is becoming very serious. For example, in South Africa port congestion at Cape Town has caused some container ships to not stop and unload empty containers and pick up cargo instead moving on to avoid the delays. This is costing South African fruit exporters. CNBC analysis of Census Bureau data showed that shipping lines rejected 1.3 billion USD in Ag Exports between July and December, and rejections were very heavy in December as imports surged. Instead, shipping lines rushed to move empty containers back to China. A shipping line might earn approximately 700 USD on sending a full container with an Ag product from the US to China from the West Coast, but has extra cleaning, loading etc. costs while a container going the other way earns 5-6 times that amount or more. These actions have violated US shipping laws, and around the world it is proving that the governments have allowed unchecked consolidation to reduce competition and have not regulated the industry. As of Friday, 26 container ships were anchored off the Long Beach port waiting to dock.

Major delays are occurring in the shipment of many origins, which has increased trade that can avoid the ports. Greek and Central Asian into Turkey and Indian into Bangladesh are major examples. The increased cost will force basis levels higher and also force spinners to plan forward coverage more carefully. Over the last ten days, they have been increased on call sales of African Franc Zone 2021/2022 crop and Brazilian 2021/2022 crops. On call sales data suggest 750,000 bales or more has sold.

US weekly export sales for the week ending March 11 soared to a net 437,700 bales, which appeared to be mostly fixed price as futures moved sharply lower, for shipment before July 31. The main buyers were Vietnam 135,300 bales, China 92,700, Pakistan 58,500, Turkey 51,200, Bangladesh 49,600, and Indonesia 15,000. This was over 14 times the volume needed to meet the USDA targets. Pima sales totaled 7,100 bales, with total sales now at 758,229 480-lb. bales, which compares to the USDA estimate of 775,000 bales. Despite the port issues, shippers shipped 351,900 running bales of upland and 10,300 of Pima. US exports are on track for 16 million bales or more and total commitments of most US inventories. New Crop Upland export sales totaled 143,300 running bales, with Mexico taking 112,900 running bales.

Increased offers of 2021/2022 US crop should begin to increase forward sales of US styles. US EMOT Middling 1 1/8 and GC 41-3-37 And 41-3-38 have begun to surface at very competitive rates. A 41-4-37 Green Card sold last week at 900 point on Dec, a level which should be very attractive for spinners.

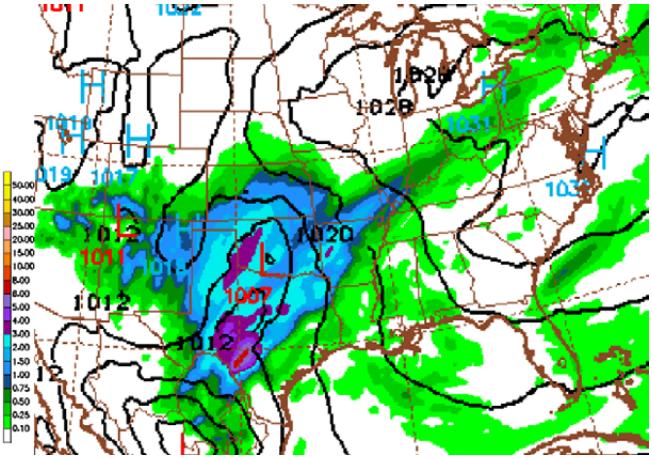
CHINA JANUARY/FEBRUARY COTTON FIBER/YARN TRADE IMPORTS EQUAL OVER 5 MILLION BALES

China's role in global cotton and yarn trade was illustrated in the January/February period when cotton fiber and yarn imports surged. This was expected based on the trade evident and now confirmed by the preliminary trade data. Cotton fiber imports reached approximately 690,000 tons dominated by US and Brazilian imports. Cotton yarn imports reached near 350,000 tons, which, when converted to the raw cotton, reflected approximately 420,000 tons of raw cotton fiber. Collectively, this reflected 5,099,895 bales of cotton. Such volume had a large impact on global trade and cotton consumption in the yarn exporters. The yarn demand for Indian and Pakistan yarns has impacted the supply/demand in each country, with an effort in each calling on the government to ban cotton yarn exports. China's effort to control cotton imports has resulted in a boom in cotton yarn imports, which are quota fee with limited duties and ruled by price differentials. China's domestic cotton prices have continued at a premium to international values for much of the time, and the discount of Indian cotton reached record levels recently and continue to provide a major price advantage. Imported cotton yarn and fiber demand has received a major boost from the ban on the use of Xinjiang cotton, which continues to expand in export orders. Even some European and Japanese retailers have begun to request

the use of imported cotton.

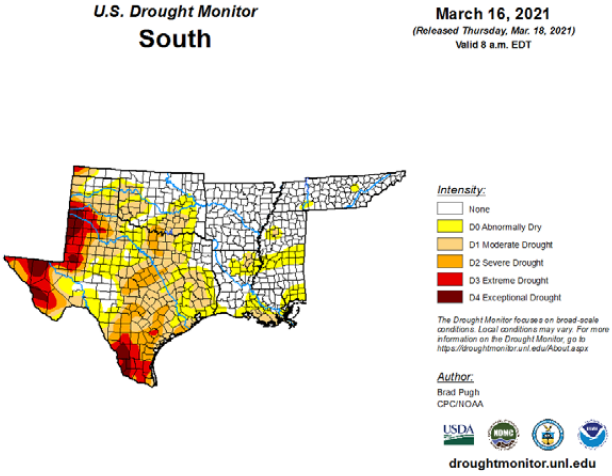
Cotton fiber imports have slowed but only after a very robust period of offtake of Indian cotton along with US and Brazilian. Cotton yarn demand appears softer due to the firmness of yarn prices which in many locations has not yet reflected the sharp drop in cotton prices. The demand for the use of imported cotton is such that an effort has been made for the government to distribute the allocation of sliding scale import quotas early. Even with the extra duty, African Franc Zone and Indian styles offer a price advantage over domestic cotton. US and Brazilian are near par.

ONE WEATHER MODEL FORECASTS A DROUGHT BUSTER FOR TEXAS



Forecast Early April Drought Buster Texas Rains

The rain event of March 13-15 brought beneficial rains to Northern Panhandle, Eastern High Plains, Rolling Plains, and Oklahoma. Some areas received near 3 inches, while others got only a few sprinkles. The rainfall was helpful but missed the important dryland areas of the Western High Plains where the soil moisture deficits are the most severe. It's the new weather models and forecast that have our attention. Allen Motew of QT Weather issued a forecast for the first of April that said some models suggested a "drought-ending" event for the Texas High Plains. It suggested 2-inch rains in the parched Western areas and up to 5 inches in some others. We still have some time for the forecast to change, but attention should be paid to this event. If it occurs, it will be very timely and allow for a West Texas crop to have a chance in many areas, along with reduced abandonment and increased US production prospects. The same front will be followed by a cold snap. From this point, as we enter April, attention will also focus on excessive rainfall in the Mid-South where the soil is already moist and planting could be delayed.



PRICES DRIFT LOWER IN US & CHINA AS MILL BUYING SLOWS

Global Cotton prices were weaker in China and on ICE futures but remained firm in India as the market dealt with slower mill offtake, uncertain China/US relations, and further Covid-19 outbreaks in Europe, Brazil, and other regions. Using ICE as the guide, the invert is becoming more of a focus because it continues to force the Trade to seek inventory reductions before rolling any losing hedges. We have expected the invert to narrow, and it did last week, moving below 300 points for the first time in months. One reason is that speculative buying has waned as technical conditions have broken down. Another is while cotton yarn prices are firm vs. cotton, fiber spinners feel new confidence in showing restraint as the elevated 102-105 cents CFR Asia price levels have again failed to hold. Both May/July ICE and May ZCE futures have staged major reversals of key price levels. For ICE, it was 95-96 cents, and for China's ZCE it was the 17,000 RMB a ton level. Cotton consumption levels are good and expanding, but there is no panic to cover, especially with the invert. Merchants are having to deal with port congestion and higher freight costs and do not have the normal flexibility, which has also slowed business. However, as illustrated by US export sales, the weaker prices have uncovered demand. Much of the demand that some expected would push futures through the 100-cents mark has surfaced, but at 10 cents or lower price levels have eliminated the feared trade squeeze. We continue to see the attention of the Trade and Speculative groups moving to New Crop.

May ICE futures appear to have broken down on Friday from a technical standpoint. Our confidence in this is low, but the chart is concerning. Mills have pent up demand and need the market to provide some confidence. It remains to be seen if this can occur. If it does, demand will help restore the market outlook. If not, spinners will continue to cover into price weakness. For the moment, cotton yarn prices have held fairly well, and their performance will also be important. New Crop Dec technical outlook is also in danger as the long-term uptrend could soon be tested. The rain event we discussed earlier for West Texas will loom as a major influence over the next ten days. Overall, the 78-80 cent region should provide mill support.

It is also clear that China/US relations have cast a shadow over trade. The volume of Chinese import demand in both yarn and cotton fiber in the first quarter of 2021 is at its highest level in several years, and with that comes greater influence. The China/US Trade agreement year two continues to be not talked about, and the first quarter is nearing an end. Last week's talks and the behavior of both sides certainly lack the normal protocol, and these conditions will add new uncertainly to the outlook.

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