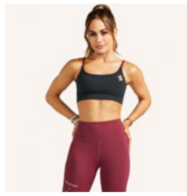
ETHIOPIA HEADS TOWARD CIVIL WAR/ AGOA SUSPENDED



US PIMA LAST BALE OF INVENTORY WILL BE SOLD

US CARRYOVER PROSPECTS BUILD AS SHIPMENT DELAYS BUILD

AFRICAN FRANC ZONE COTTON REPLACES US IN CHINA

JERNIGAN GLOBAL

KNOWLEDGE IS THE NEW CAPITAL

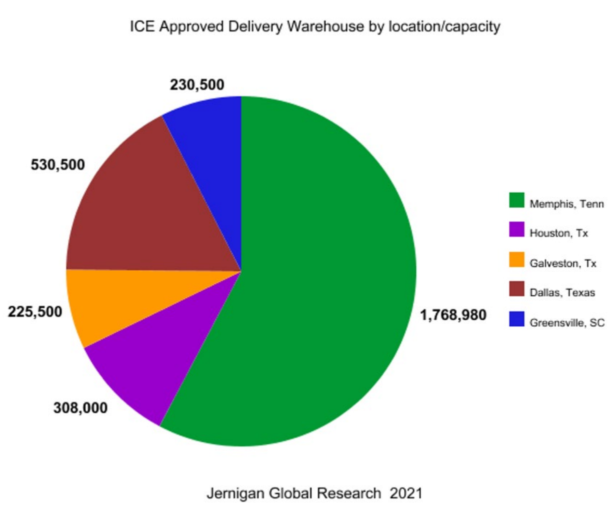
WHAT IS WRONG WITH ICE COTTON DELIVERY LOGISTICS?

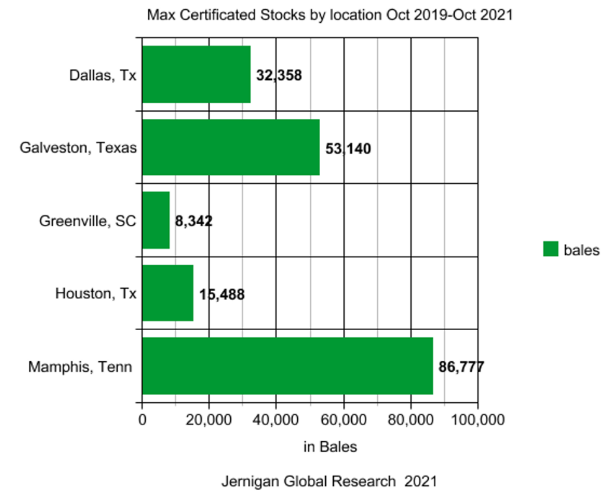
3,065,900 BALES OF APPROVED DELIVERY WAREHOUSE CAPACITY, DECEMBER CONTRACT SQUEEZED AND NO CERTIFICATED STOCKS?

Where is the Ice Investigation? Where is the CFTC? What Games Are Being Played?

The behavior of the December ICE contract has raised lots of questions, and no answers have yet been forthcoming. Last week began with Dec ICE futures moving up the daily limit of 500 points with the balance of the ICE futures strip pulled higher as well, and the Dec/March spread reaching 525 points premiums with 18,316 spreads trading. Then, on Tuesday, another 15,052 Dec/March spreads trade with the premium reaching 609 points before retreating back to 313. The spread traded 17,107 contracts on Friday in a range of 340-448 points, closing the week at a 363 premium. The price action had all the marks and features of a “market squeeze” or “market manipulation. The long silence of ICE management continues, all in the name of price discovery and volume generation. The damage done to the US and international oil industry by the CME/ICE management regarding the move by crude oil to trade below zero, and the damage done to that industry has contributed to 80 + USD crude oil today and to US energy security is shocking. Just how could there be no certificated stocks for delivery against ICE when stocks stood at 18,357 bales on November 1st with a decertification of 7,664 bales occurring the very day of the extreme squeeze in Dec? This in itself raises questions. After all, the electronic warehouse receipt system showed over 3.4 million bales of stocks in the US that day. Why were those few bales important? Also, why were there no other stocks certificated in the over three million bales of approved delivery warehouses covering several cities. First, we know port movement is limited. The three million bales were not headed to a ship anytime soon. Second, the domestic mill industry has shrunk to the point that it was not taking the volume. Where are the three million bales and the 100,000 bales being added daily? Why has no volume been certificated as it goes into the approved warehouses? In addition, the approved delivery warehouses have hardly been utilized for certification over the past three years.

As a matter of fact, 3,692,520 running bales of the 2021 crop were classed as of November 4th, with over two million bales of that total from Texas. EWR receipts topped 4 MB as the week ended. Yet Texas approved certificated warehouse space is limited to just over one million bales, all far from the main production

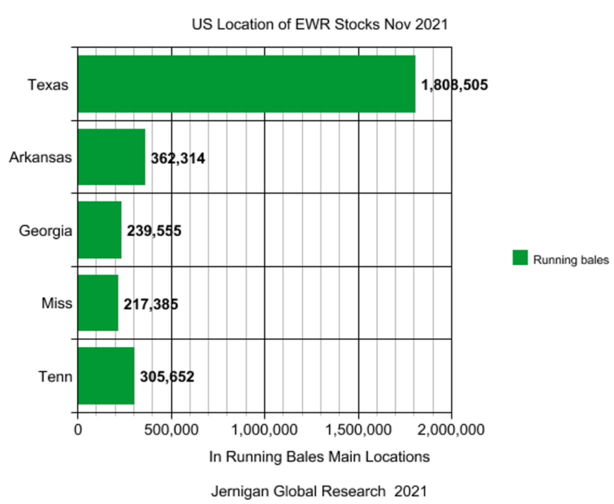




point. The root of this restriction rests in the old fear that the contract could be a dumping ground for Texas stripper picked cotton. That fear could be solved by a higher base grade and improved quality parameters. Actually, the Texas crop is currently producing very high quality long staple lots which are being penalized for the lack of a delivery point. The contract has to be revised in delivery procedure, load out, and number of warehouses. Why should a Texas SM 1 1/8 be penalized when it might just move by rail to the West Coast and never need to go to Houston or Dallas warehouse? Some will say the faults all gave growers these near record cotton price. However, for every spinner that is allowed to be squeezed uneconomically by a 500-600 premium on Dec cotton, consumption suffers. For every contract that has to have a base of 115 cents for an open-end low-grade cotton, cotton use suffers. For every merchant that has to roll a hedge at an unjustified 500-point loss, where do you think that loss has to be recovered? It’s either from the grower or spinner. Or worse, another trade group decides there are more profitable commodities than cotton, and competition shrinks even further. We have heard that a major trade group is already preparing their focus for more emphasis on the higher value add of Ag Food products instead of the bulk trade in cotton. This is a net zero sum event, and the industry loses. The entire ICE delivery system is not transparent and was designed for a different time, and it needs major revision. How much has to be lost in rolling hedges at a loss for the industry to act?

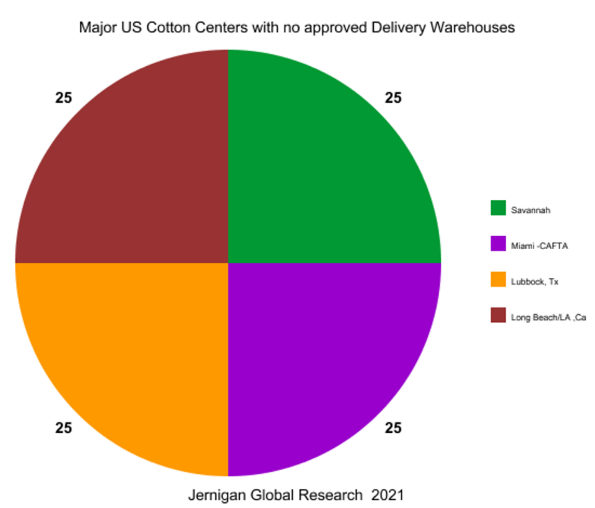
The US cotton logistics has always been a bit of an issue, with the cotton moving into the CCC loan and then a warehouse, which may be a country warehouse unapproved for delivery. Then, in the Mid-South, there is one set of rules, while other locations have other rules. There are rebates to stimulate use of some warehouses which means slow removal. Warehouses work at their own pace, load out at their own speed, and many are still not modernized. Some close for lunch and load out accordingly. There are an estimated 350 cotton warehouses in the US ranging in size from 1,000 to 500,000 thousand bales. The USDA is in charge of supervision and implemented a rule that they have to ship approximately 4.5% of their capacity or inventory in a week. As we mentioned earlier, in the delivery process the warehouses will have to ship a minimum per week, but large volumes can take 4-9 weeks. The entire slow process has naturally drawn attention before, and some improvements have been made. Our observation is that once the US pipeline of stocks drops below 2.5 million bales, the entire system slows and grows slower as inventory drops. On September 18th, the EWR inventory in the US dropped to the 4th lowest since 2007/2008 at 1,364,460 bales. This explains many of the issues still impacting movement. Several years ago, the inefficiencies of the system as well as many other commodities in the US drew the attention of the Amazon logistics genesis team. They reviewed the process and said it needed major revision and modernization. They failed to make the investment, but they did make it in consumer logistics, and today it is the most efficient in the world and Amazon owns the market. At that time, these men and women of vision understood how important logistics would become, and how no one was investing in it.

The certification process is simple; after USDA classing and certification, stocks can be in the CCC loan and



still be certificated. Why was no cotton certificated, and why were the shorts in Dec allowed to be forced to pay up over 500 points to roll a hedge or On Call position? With approved capacity of 3,065,900 bales, why were there no stocks? Why has there become a problem with a shortage of certificated stock in recent years removing carrying charges from the market?

No new warehouse has been approved for delivery against ICE since the 2010 addition of the Dallas, Texas warehouses with a 530,500-bale capacity and removal of New Orleans. ICE has launched no investigation, held no open Trade talks, or paid any attention to the issue at all. What procedures need to be added to avoid a repeat of the current Dec debacle in the spreads and the issue of stocks? Do new warehouses need to be approved to avoid a repeat? Over half of the current warehouse delivery warehouses are in Memphis, 1,768,980 bales to be exact. Over one million bales of that capacity is controlled by merchants. Merchants need to own their own warehouses. In fact, the merchant of the future will likely own an entire logistics group. ICE, however, has failed in every test as a manager of this process – no review, no revisions, no public discussion. Why have the requirements placed on them at the time of privatization never been clearly spelled out? The exchange spends its time on a Bitcoin or new financial instrument more designed for casino trade than an agriculture hedge trade. Again, when the NYCE and NYBOT were the owners and managers of the exchange, a very powerful warehouse and delivery committee made up of all segments of the Trade met regularly and reviewed how the delivery process was working, what needed to be changed, and attempted to correct any issue. This group often placed the interest of the exchange above that of their own group. At that time, the CFTC also had a qualified staff that offered oversight and provided input to assure all parties were treated fairly. They were responsible for forcing the exchange to include the deliveries class provision for deliveries, which prevented a member from getting squeezed if willing to make delivery. The successful work of this committee has proven its value over 14 years since it last operated. Today, the ICE makes no such effort and has no active committee that functions in the same way. This is a major failure of the privatization of the exchanges, along with many others.



Why has there been no major effort to review warehouses approved for delivery? Why has there been no effort to launch new independent warehouses? Why no Savannah warehouse or any Texas additions? How about a safety valve to encourage certificated stocks to prevent a December 2021 event? Why has there not been carry, and what can be done? Upgrade of base grade? Make it more valuable for taker? Where is the discussion? A review of documents reveals that as early as 2008 a study indicated the need for additional approved cotton delivery warehouses to prevent what is now happening from occurring. Then, in 2010, the CFTC noted the need for additional cotton delivery warehouses as well. Again, the ICE took no action but instead listened to the arguments that warehouses were adequate. The motivation of this argument was clear. Any new approved warehouses reduced the value of the other warehouses and raised the possibility of a new player. It remains a fact that the largest cotton coop in the US has no approved delivery warehouses.

There is no economic logic as to why the Dec/March premium was allowed to exceed 500 points or why hedgers and unfixed On Call sales had to pay such unjustified penalties. In the history of commodity trading, exchanges have taken emergency moves to prevent market manipulation. Why has ICE not done so? What has the actual staff committed to their agriculture hedge markets? Again, by the time the actual delivery of the cotton on Dec ICE is received by the buyer, the US cotton inventory will be 10 million bales or much more. Where was the economic justification?

Instead, ICE has made million in fees from allowing the casino run by the Algos and HFT to move prices and generate large volumes. Yet it will release no breakout of where the volume comes from. Why? The commercial hedger demands and is entitled to a stable and openly transparent market that is protected from manipulation. The law that established the commodity exchanges were for the hedger, not the speculator. In the NYBOT period, strong enforcement resulted in major legal action, barring from trading and much more protecting the market from the behavior that has been exhibited over the last 60 days. The Cotton Trade groups need to demand action and a new role in the management of the hedge markets.

ICE Dec/March

ICE Dec 21/July 22

Ctz2021/Ctz 2022

With EWR receipts approaching over four million bales and weekly shipments far below 200,000 bales, is there any legitimate reason there are no certificated stocks and ICE is trading at an invert with Dec at a several hundred-point premiums instead of a several hundred-point discount? When an Australian Strict Middling 1 5/32 is trading 1000 off May ICE FOB, which is an open end 41-4-34 base, and Pima is north of 300 cents, as they say, "HOUSTON WE HAVE A PROBLEM." It is time for major revisions!!!!! This issue will not end with Dec. Millions have been lost in any Trade that has been forced to roll at a 300+ premium, and this demands an investigation. Once again, where is the ICE public clarity of the delivery process? Does anyone at the exchange know it well enough to lead the discussion? Buyers of Dec can receive the cotton as late as many weeks into 2022. Who will want to own a 41-4-34 base grade at 117+ cents in late January?

Our attention to these details, which many do not want to discuss, is driven by the need to protect the interest of the Spinner and Trade groups. Cotton consumption has been damaged by the action of the past 60 days, and that makes us very upset. The battle for market share has been difficult on and we were winning. We have received many calls over the last 14 days as to what was going on in cotton from downstream users, while polyester has traded in an orderly fashion and ended the week below 52 cents. By the way, it trades heavy volume on a commodity exchange as well, and that exchange is well managed in contrast.

ANOTHER POTENTIAL SOURCING OPTION COLLAPSES AS ETHIOPIA GOES TO WAR WITH ITSELF

It appears that the United Nations has become a rather ineffective organization and those giving out Nobel Peace prices should do a bit more homework. Ethiopia has never been colonized, and its history can be traced backed to biblical times when the great King Solomon greeted Queen Sheba from the region. In the 2015 through 2017 period, Ethiopia was the growth engine of Africa. With its GDP growing at a fast pace, it was attracting billions of foreign direct investments. China alone invested over 20 billion USD and made the country its center for Belt and Road in the region. The capital, Addis Ababa, resembles a typical Chinese city after all the investment. The Chinese built an 86 million USD ring road and the country's first six lane highway for an additional 800 million USD. The Chinese built the first metro train system for the capital in all of Sub-Saharan Africa. They built the famous Gotera intersection. Moreover, the Chinese built additional roads around the city, upgraded the airport, and then constructed office high rises and luxury home developments. One, the Royal Garden, had 21 towers each with 20 stories. The super luxurious Poli Latos development with 13 towers opened in 2016. The final major development, a 46-story glass tower built by China's CSCEC, is the tallest in the city.

The showpiece was the four billion plus USD super modern Addis Ababa to Djibouti railway. This, along with an adjoining road, linked the capital with its main export port. Then came the billions invested in the Chinese-built industrial parks where 22 parks were operating at the start of 2020 with others under construction. These were built around the country, and one, Mekelle Industrial Park located in the Tigray district, was designed for textile and apparel factories. It was developed by China's CCCC. The cost was estimated at 100 million USD, and it attracted companies from India, Bangladesh, China, and UK to set up operations. The park had Chinese fire trucks, medical clinics, and many more Chinese features. Two other industrial parks were set up in Tigray, Velocity, and DBL, to focus on textiles and apparel. The largest industrial parks were further south. The largest is Hawassa, which provided the largest volume of exports to textiles and apparel in 2020. The second largest is Bole Lemi, which also focused on textiles and apparel, and the fourth largest was Kombolcha in the Amahara region, also focused on textiles and apparel. Overall, 11 of the 22 industrial parks primarily focus on textiles and apparel. The largest investors are the Chinese textile and apparel companies, large and small. Over 90% of all investors were Chinese. India's Arvind was the largest Indian investor. Some big brands and retailers had begun to source in Ethiopia, including H & M and Patagonia. The country has the lowest wages of any

textile and apparel region in the world, and it also has the infrastructure due to the Chinese investment. The potential was for workers to advance as they were trained. All the major building blocks for success and a major advance in the economy were at its doorstep.

Then tribalism, hunger for power, and revenge took control, and what had appeared to be a sophisticated, mature, Nobel Peace Prize leader turned war monger. Soon after receiving the Nobel Peace Prize for his work in ending the Ethiopia/Etheria war, he began to consolidate power and attempt to remove the former ruling party, the Tigray, from all positions of power. Prior to this move, the country was enjoying record foreign investment and its economy was booming. The Chinese, despite their record investment, appeared unable to exert any influence and made no attempt to force the government to pursue peace, even though China had much earlier been a major backer of the Tigray. The lack of any Chinese attempt at peace has brought their entire constructive role in Africa into question and also put billions of USD of investments and loans at risk.

The attempt to remove the former ruling party from all positions of power and then the fueling of other tribal issues with no effort to establish power sharing with the various powerful tribes and regions set off what has now turned into a civil war. Last week, there were actual warnings that the fighting might reach the skyscrapers of Addis Ababa, something that would have seemed almost an impossibility when the Chinese investors moved in to modernize the city. It began with the national army attacking its own province of Tigray when it bombed and destroyed the Mekelle Industrial Park and the other industrial parks in the region. This caused Chinese and other countries to evaluate staff. The Chinese group Gezhouba ended its work on a 270 million USD water treatment plant. The attacks devasted Tigray, created an exodus of a half million refugees, and triggered massive starvation as food supplies were cut off. A major humanitarian crisis was set off. The national government did not show mercy or stop their attacks.

Mekelle Industrial Park destroyed in Tigray

Now, the Tigray army has regrouped, received aid, counterattacked, and is gaining significant momentum as it receives allies from other ethnic groups that also feel left out of the government. Last week, the Ethiopia government declared a state of emergency and asked all citizens to be ready to defend the country. The Tigray army and allies are gaining ground, and fighting is accelerating and moving south. The national army has now been removed from Tigray, and the movement is moving south. China has been silent, and it is unclear if they will do anything to stop the destruction of 20 billion in new infrastructure and billions more in company investments. While the US has its many issues, it has actually been attempting to stop the fighting by sanctioning the government and officials.

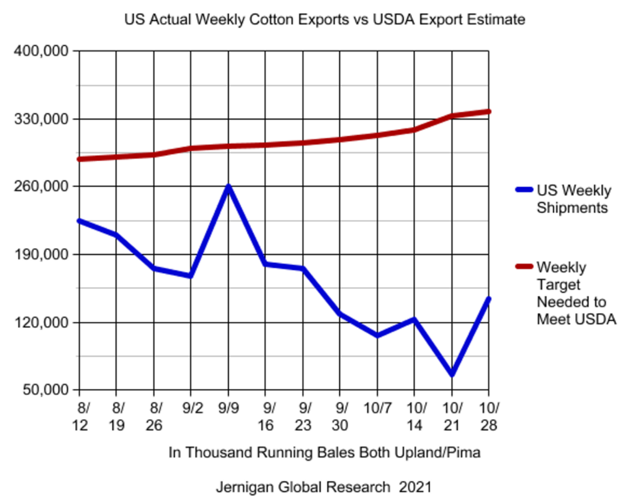
Now it has made good on its threat to cut the economic lifeline of the exports. As of January 1, 2022, all AGOA trade benefits will end and the country that had been duty free. This was one of the major motivators, in addition to the cheap labor, for Chinese companies to get duty free access to the US. The country also has new gins and expansion in cotton production, which is also now in doubt. The country has the potential to be a major agriculture powerhouse and has drawn investment. Everything is currently threatened due to the actions of a man the world thought warranted the Nobel Peace Prize just a few years ago. The UN has failed to do anything to stop the killing, which shows it is ineffective at anything today.

Until these events, the country had become a basis for growth in sourcing cotton apparel into the US.

In 2019, it exported just over 211 million USD of apparel, in 2020 it reached 223.526 million, and in the January-September time period it posted nearly 17% growth to 165.689 nillion USD. Of the 2021 exports, 125.511 million was cotton apparel, which was 25.54% growth. The hottest export growth has been in baby apparel made from either man-made fiber or cotton, and imports are up 82.65% at 35.9 million USD. In cotton apparel, its main exports to the US are non-knit men's wear shirts, cotton men's/boy's cotton trousers, women's/girl's slacks, and cotton underwear.

Ethiopia had the chance of a lifetime to set aside the political baggage of the past, such as tribalism, and take advantage of the Chinese once in a lifetime infrastructure investment. It was all in place but needed additional work and had what almost all cut/sew centers did not have, the potential to expand the production of cotton. Now all this is at risk, and the Chinese have wasted billions in Belt/Road projects. They began to rein in new investment in 2018 in Ethiopia as the political climate began to change, and the debt burden grew. It is doubtful many will rebuild if the war expands and destroys the infrastructure and plants. The loss of AGOA trade benefits plus the freight cost and new logistical challenges suggest this may be another lost sourcing alternative. So sad for such a great people.

US COTTON EXPORT LOGISTICS SUGGEST CARRYOVER LEVELS MAY BE UNDERESTIMATED



Question. If US weekly export shipments average 200,000 bales the rest of the season, what will be the US ending stocks? More than nine million bales! Yes, do your math. If they average 250,000 bales, the carryover will be near eight million bales. The US cotton infrastructure has needed Amazon efficiency for years, and it still doesn't have it. Any time carryover drops below 2.5-3.0, movement slows. Now you have port, truck, and rail chaos and a labor shortage. US export shipments are late and will remain late. Why will a mill accept a very expensive US bale at an unjustified invert premium only to receive it 60-90 days past the requested date. Just asking how an invert in ICE is justified. How can Dec be worth over 700 points over July and 25 cents over Dec 22? We just do not see it. The Dec disaster in the management of this contract has wreaked havoc on the supply chain, which has done great damage and has to be investigated. The US exported only 141,900 running bales of upland and 7,600 of Pima in the last reporting period, the highest in over four weeks, and we are not sure on the lag time in reporting. The fact is that each week the US fails to ship nearly 340,000 480-lb. bales, the burden for the next week increases and it will not stop.

It is time the US face the logistics issue and address it, from local warehouse, through a port, by a container line and devoted agriculture container lines and access lanes at ports. Brazil is well known for its logistics issue, with over 90% of all cotton from Bahia and south traveling rough, crowed two lane highways most of the way to reach one port, Santos. If you have ever traveled the route, you are shocked that it works, and that doesn't count the country roads that are unpaved. In October, Santos exported 952,684 bales of cotton, while the US with multiple ports exported 443,700 bales. As the Algos are programmed it all in the numbers, and noise around the numbers does not matter. There is a shocking problem with US agriculture container and cotton logistics. The global supply chain is broken and a major change in sourcing and the location of cotton consumption centers is underway, but it will take 5-10 years before this is all settled. The US will have to change and be prepared. For now, the reality of US 2021/2022 carryover could reach elevated levels as compared to today's 3.2 million bale estimate without a miracle in logistics. Under this scenario, an invert would appear to be the opposite conclusion in ICE.

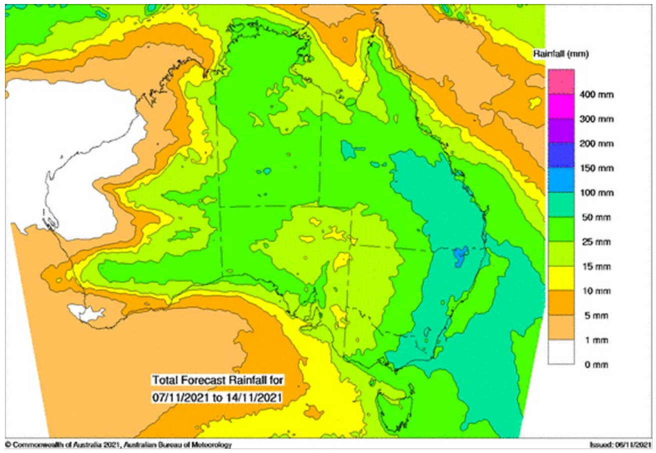
WHO WILL BUY THE LAST BALE OF US PIMA? WORLD'S FINEST COTTON INVENTORIES COLLAPSING

What is the saying, "make the world's best product and the buyers will come?" The US Pima industry has done just that, and the work of Supima Association in building and maintaining a brand has been incredible. Today SUPIMA cotton is in record demand worldwide and being used in more and more products. Its recent success in being featured in the launch products of Peloton was groundbreaking. Peloton is the most popular stationary bike in the US, and its workout programing dominated the US as everyone was locked in their homes by Covid. They recently launched their own line of workout apparel to great fanfare. It has sold over 2.3 million of its very expensive bikes and expects much larger sales. Its line of Pima blend apparel was rather extensive as it was blended with Modal, spandex, polyester, nylon. However, we found several 100% cotton products, even an 80% cotton sweatshirt. This is simply landmark since several years ago this collection would have been 100% man-made fiber with no emphasis on the natural aspects of cotton. This illustrates the great advances cotton has made against man-made fiber, and the advances continue to grow. Pima prices are now above 305 US cents a lb., and demand has shown no signs of waning.

In the latest US export sales report the US sold 31,800 running bales of Pima for 2021/2022 shipment for a market year high, all at the highest prices of the season. An additional 1,800 running bales were sold for 2023/2024 shipment, and 299,400 running bales of Pima has been sold for 2022/2023 shipment. This means the US has only 188,600 bales left before every single bale of US Pima is sold out. Prices of 400-500 cents will not create another bale. The US then faces the issue of the expected production for 2022/2023 where it is not price but water that is the challenge. In the last week, it was China, India, Vietnam, Pakistan, and Turkey that took up stocks. Peru will also use a record volume in 2021/2022. The consumer wants the Pima products.

The US Pima industry has been betrayed by the collapsed state of California, the US Dept. of Interior, and USDA Secretary of Agriculture. The current California administration has been the most complete failure for the state's agriculture industry in the history of the state. Millions of acres of vegetables, alfalfa, tree nuts, and fruits all have been lost due to the lack of a water plan by the state. The level of incompetence is hard to even describe. Water has been diverted from agriculture to human use as desalination plants remain unused. Water is wasted, gone missing, and sent out to sea in misguided environmental projects. The mismanagement can be seen at almost every state level. For years the problems were ignored, and farmers were forced to dig and pump deeper wells that now are dry or nearly dry as aquifers run dry. Regulation of all ground water pumping came into effect for the first time in 2021. As the new Secretary of Agriculture made climate change his top priority, he let California run dry with no plan. The devastation done by the lack of a state or federal plan will cost billions of USD, increase food imports, and create a national security issue. While other nations plan and show ingenuity, the US does nothing to solve the water problems of the West. Several of the Arab Gulf nations have grown crops in a desert with desalinization plants, yet the US is discussing nothing and plans nothing. Now the world's greatest fiber has an uncertain future due to incompetence. Thus, just maintaining US Pima acreage or expanding it marginally in 2022/2023 will be a real challenge and a battle for water.

AUSTRALIA HAS ANOTHER BIG WET COMING



It is hard to ever consider the issue of too much rain in the Australian outback, but we seem to be at that point today. It is almost hard to imagine but the entire eastern half of Australia will receive some rainfall between November 6th and 13th, and this includes very dry regions that normally receive little rainfall, including the arid center of the country. The cotton belts of New South Wales and Queensland could receive large amounts of 50 mm or more. Large blocks of cotton have been replanted twice, and a hot dry period is needed. Thus, we fear some flooding and crop damage. Growers manage water flow well, plan to prevent flooding, and can capture water, so let's hope the event is a positive one. The irrigated crop is now 90% planted and advancing with the greatest issues in the Southern Valleys, which have been too cool. The record dryland acreage is now 75% planted up to a good stand doing excellent. Planting of a record acreage in Western Australia and Northern Territory will begin in December.

The erratic, illogical behavior of ICE futures has seen the 2022 crop basis for a Middling 1 5/32 ex gin for delivery before August 1st hit 1000 points Off May, something that would have seemed impossible a few months ago and is greatly distorted. Freight issues continue to impact basis levels as shippers are unable to get reasonable space to Pakistan, Bangladesh, and other locations.

US COTTON FALLS OUT OF FAVOR IN CHINA DUE TO LOGISTICS & PRICE

The behavior of ICE and the overpriced nature of futures, combined with strong CFR basis levels, have made US cotton one of the most expensive in the world. Then, add the logistics issues where most shippers will not even offer US cotton for shipment before April, and traditional buyers want an alternative. A US SM 1 1/8 was offered last week at over 800 points premiums to an African Franc Zone top grade Mali Juli/s 1 5/32. In addition, the Mali was available for January/February shipment. By the end of last week, Chinese mills import interest in general had waned, but some offtake in African Franc Zone and other hand-picked cotton was noted due to availability and price. The FOB port basis from origin for the African Franc Zone sales tenders also reflected value at 300-450 on March as compared to a much more expensive Brazilian or US. The panic over cotton prices in China has also calmed, and spinners appeared much more focused on value. This was seen in the strong demand for the poor-quality Eastern cotton that sold at the Reserve Auctions but at record discounts to current cash prices, and also Xinjiang old crop stocks of the same crop year.

Harvesting in Northern Xinjiang is drawing to a close, and the crop overall is now 67% picked from the region with 75% of the picked seed cotton sold according to a BCO survey. Seed cotton prices remain elevated but have declined. Machine picked seed cotton in the north is at 9.7 to 9.8 and near the same in the South. Ginning is accelerating, reaching 1,743,000 tons by the end of the week. The Chinese ELS crop is small as we had forecast despite all the enthusiastic talk. Planted acreage only reached 400,000 Mu against a target of 520,000 Mu. Yields have slipped to 300 kilo per mu, which is very disappointing but understandable given the weather. This would suggest a 200-225,000-bale ELS, which may be a record low. It has also raised a lot of questions regarding ELS use in China. Purchases of US Pima and Egyptian have been very low. One theory is that Chinese mills are buying Pima yarns from Indian spinners, which are buying record volume of US Pima as well as Egyptian.

Chinese cash cotton prices also declined last week. The China Cash Cotton Index ended Friday at 22,268 RMB or 157.65. On Monday it stood at 158.01. Physical prices of Xinjiang new crop remained elevated at premiums. Mill demand was low, and it remains to be seen how the spreads between these prices and the ZCE prices will be resolved. The January ZCE contracted ended the week at 151.72 cents. Cash yarn prices also weaken as demand softens. The China Cash Yarn Transaction Prosperity Index fell sharply for 100% cotton yarn vs. a steady index for blended poly yarns.

INDIAN PRICES END WEEK WEAKER AFTER NEW HIGHS

Indian local prices reached about 67,500-68,000 rupee per candy for a Shankar-6 1 1/8 ex gin before peaking last week. This meant prices of near 116 cents a lb. with a few reports of higher prices reported. Arrivals neared 200,000 bales a day before holiday influences slowed movement as the Diwali festival arrived. Indian Mill demand has been brisk as spinners filled inventories. October cotton yarn, fabric, and made-up exports hit 1.33 billion USD, up 46% from a year ago, and Ready-Made Apparel exports reached 1.25 billion USD. Indian yarn demand remains driven by demand from Bangladesh where a cotton shortage remains. A major debate remains underway as to crop size, with many believing the crop will not reach 33-34 MB despite the much higher official estimate.

DEC ICE FUTURES PEAK AT 119.47/ MOST OVERPRICED 41-4-34 COTTON IN WORLD

Dec ICE futures appeared to post a high last week, reaching 119.47 before retreating. In addition to the attention-getting spreads, it was a week of option influences as option volume turned again heavy as Dec options entered their final period. Open Interest in the Dec 115 through 150 strike calls attracted volume and interest at times. Prices remained elevated as the week ended with Dec closing at 116. 89 and March at 113.24. cents. US Upland Export business had slowed to a trickle, with all attention on attempting to fill nearby orders and work through the logistics issues. The logistics delays suggested that a few large Merchants were not even offering US cotton in China. Instead, the focus is on African Franc Zone for the first quarter at priced 800 points or more below US prices. The US bale is now the most expensive main export growth in the world. Bangladesh remaines an active market as it seeks cotton for nearby shipment, with Indian and African Franc Zone the main features. Turkey remained interested in cotton for nearby as consumption remains robust.

It is clear cotton demand in the pipeline is good. New lines are coming out and it's all exciting. The unknown is when the 135 or so cents a lb. average upland is priced in to the new 2022 offers. That will be a test we hope the retailers and brands accept amid the new inflation and logistics issues. The logistics issues are just not improving, and the West Coast ports remain at a standstill, with only half measures attempted to improve conditions. Over 70 ships remain attempting to berth at Los Angeles/Long Beach, and the Texas and Florida Governors are featuring campaigns to urge the container lines to sail on to their ports where they can get unladed quickly and be closer to their destinations. The truck driver shortage is not being addressed, and California laws are a major problem. Last week it was reported that packing material is now even in short supply. In Europe, the major shipping alliances have announced a cut in services to some ports to improve revenue. Greed at all levels. The negotiations with the 15,000 West Coast Dockworkers are underway, and fears of a showdown next year remain. The shipping issues are having ramifications throughout the supply chain for textile and apparel. Companies that depended on Indian yarns for certain luxury shirts, for example, have seen costs and delays soared. The hike in Indian cotton prices has resulted in some yarn prices doubling, and booking freight to CAFTA, Brazil, or other locations is very difficult and expensive. The entire supply chain faces major decisions on relocation of fabric mills and dyeing/finishing.

As we discussed earlier regarding prices, we feel ICE has pushed them to unjustified extremes and the Invert is unsustainable. The problem can be addressed by a revision of ICE delivery terms and better governance. Cotton has real value in a sub 100 cents CFR price level. Until then, it's logistics and ability to get cotton shipped. The US crop is expected to be larger, and this means shipping progress is important. When you have Dec 2021 at over a 2500-point discount to Dec 22, each delay in shipping means a less valuable asset. The Dec 22 contract and forward have value. At these prices, cotton can gain and keep market share. The final drama of the Dec 21 contract is now underway, and it will tell us much. To us, the Dec 41-4-34 base grade contract is simply the most overpriced cotton in the world.

One feature of note that may prove important for cotton demand was the excitement shown by the US equity markets for apparel retailers. On Wednesday, this sector was red hot, lead by the IPO of Allbirds, it soared 90.03% from its pre-IPO pricing. The luxury US retailer Nordstrom soared nearly 5%, and its shares are up over 141% for the year. Macy's jumped nearly 7%, Dicks Sporting Goods moved 6% higher, and the Gap gained 5.44%. Capri Holding announced great earnings and gained over 15%, while Bed Bath & Beyond gained 16%. These gains were part of a theme that the US consumer was returning to a pre-Covid pattern. The hope is that the improved outlook will boost apparel sales and also make it easier to pass along the higher prices that are coming.

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