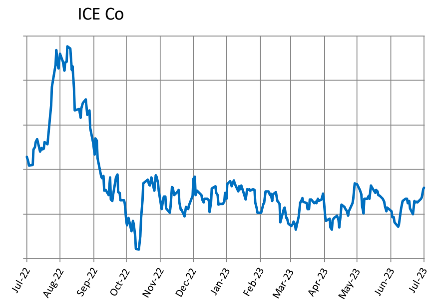
FOOTWEAR COMMODITIES REPORT

costs impacting the footwear supply chain

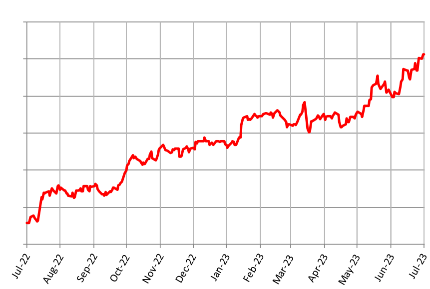
Textiles

- Cotton prices remain little changed in recent months, with ICE nearby futures constrained to a relatively narrow twelve-cent range since November.
- Near the upper end of this range, we look for prices to retreat over the short term, owing to looser USDA forecasts for the US and world balance sheets.
- In particular, the USDA's anticipated ending stocks of cotton for the US and world in the new marketing year rose again in July, adding to bearish sentiment.
- What's more, US apparel demand is stalling. Growth in consumer spending on clothing decelerated for the fifth straight month in May, rising just 2.0% y/y, its slowest in 27 months.
- While the market soon could test resistance just over 88 cents, we still see little evidence to support any sustained re-strengthening in prices anytime soon.
- Current cotton prices remain at a level suggesting little to no year-over-year gain in retail apparel prices.



Leather

- Livestock prices continue to march higher, recently touching the highest in recent memory.
- Nearby live cattle futures traded on the CME currently stand above 180 cents per pound, owing to persistently tighter fundamentals.
- In particular, the size of the domestic cattle herd continues to dwindle. At 95.9 million head, the USDA's mid-year cattle inventory is the smallest in decades, with the numbers of cows, heifers, steers, and bulls all lower from a year ago.
- Improving pasture conditions, relatively cheaper corn prices, and the prospect for higher fed cattle prices have fueled feeder cattle sales, in turn likely lowering the expected supply for feeder cattle available in the second half of 2023 which will likely further elevate feeder cattle prices.
- Accordingly, we maintain our outlook for live cattle futures to drift mostly higher well into next year, continuing to support firmer hide and leather prices, likely with no downside respite ahead.



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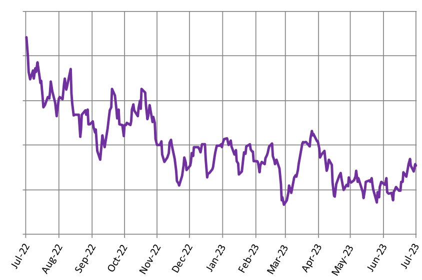
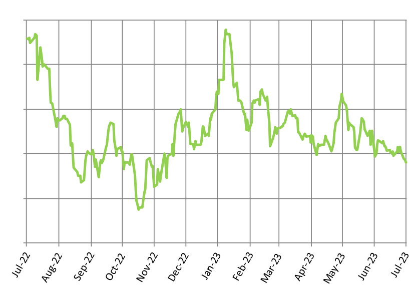
Oil

- After settling at a presumed floor this spring, oil prices have begun to creep higher, supporting our earlier outlook.
- Just shy of $76/barrel, nearby prices for Nearby West Texas Intermediate are flirting with a twelve-week high on mounting bullish sentiment, including declining Russian crude shipments, stronger Chinese imports, and Saudi Arabia extending its production cut.
- First, Russian crude oil shipments in the four weeks to July 16th dropped to a six-month low of 3.1 million barrels per day, friendly to higher prices.
- And Chinese crude oil imports jumped 45.3% year-over-year in June to the second-highest monthly volume on record.
- Lastly, earlier in July Saudi Arabia said it would extend its unilateral 1 million barrel per day production cut through August, keeping supplies dear and prices well supported.
- Looking ahead to 2024, we maintain our outlook for oil prices to creep modestly higher as global oil inventories presumably decline over the next five quarters.



Rubber:

- Owing to looser market fundamentals, global rubber prices have sagged over the last month, supporting our earlier outlook for limited upside for price over the second half of the year.
- At 148 cents per kilogram, RSS3 nearby futures on the Singapore Exchange sank through support established over the last four months, retreating to an eight-month low.
- The weakness comes as the Association of Natural Rubber Producing Countries (ANRPC) pegged global natural rubber production rising from May to June, with all five largest producers posting gains.
- Plus, US prices for butadiene—a precursor to synthetic rubber—stand at a 33-month low, weighing on prices for synthetic rubber and in turn natural rubber.
- Lastly, year-to-date Japanese industrial production of rubber products are lower, while year-to-date inventories are higher, keeping futures in Tokyo and Singapore well contained.
- As the market tests this support, we continue to see little evidence for natural rubber prices to rebound appreciably over the second half of the year.



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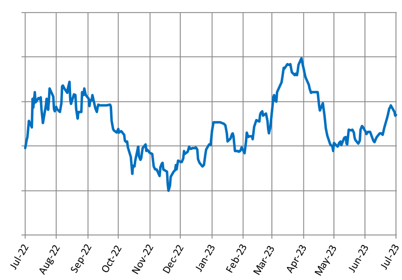
costs impacting the footwear supply chain

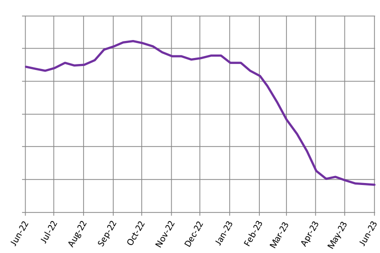
Polyester Fiber & PET Plastic Containers

- Petrochemical prices across Asia have firmed modestly over the last month, largely on rising crude oil prices, supporting our earlier outlook for limited downside for synthetic fibers over the balance of the year.
- In particular, polyester prices strengthened in past weeks over a rise in material costs triggered primarily by higher crude oil prices.
- Chemical feedstock paraxylene rebounded from a five-month low early June to a thirteen-week high to an eleven-week high by mid-July.
- In turn, futures prices traded on the Zhengzhou Commodity Exchange (ZCE) for purified terephthalic acid (PTA), a derivative of paraxylene and precursor for several synthetic fibers, rose in concert to a twelve-week high by mid-month.
- From a weaker dollar to modestly firmer crude oil and feedstock prices, we believe the preponderance of the evidence supports modestly higher synthetic fibers over the second half of the year.



Shoe Boxes

- Global pulp prices continue to wane as European and American production of related products fades and supply continues to outstrip demand, resulting in growing inventories.
- At just 5,417.70 RMB/MT, Chinese pulp prices have fallen sharply over the last six months to a nineteen-month low.
- Euro Zone production of corrugated paper and paperboard declined year over year for the twelfth straight month in May.
- Across the Atlantic the market is faring similarly poorly. US production at pulp, paper, and paperboard mills fell year over year for the eleventh straight month in June, shrinking to the lowest June output in 48 years.
- At the same time, US inventories of these products continue to expand, growing year over year for the twenty-third straight month.
- In light of the persistent bearish factors, we maintain our earlier view that already-weak pulp prices will retreat further over the balance of 2023.



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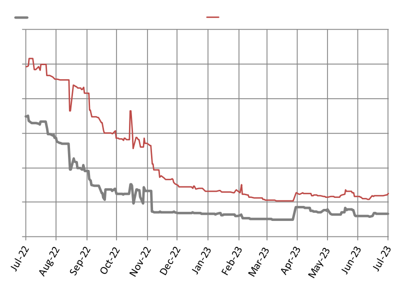
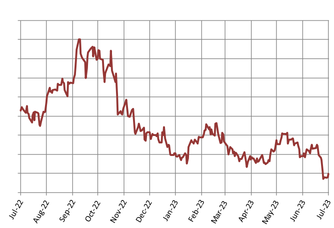
Ocean Shipping Costs

- After plumbing five-year lows this spring, transpacific container rates have budged little over the last month and remain unlikely to climb much over the second half of the year.
- Freightos is reporting container rates on the China to US West Coast route at $1,413/FEU, 78% lower from a year ago and rates on the China to US East Coast route at $2,604/FEU, 77% less than this time last year.
- Demand remains on the defensive. According to the Global Port Tracker report released by the National Retail Federation and Hackett Associates, retailers are expecting double-digit year-over-year percentage declines in imports for July, August and September, followed by minor dip in October.
- And shipping capacity is set to balloon. According to Sea-Intelligence Maritime Analysis, total capacity of the trans-Pacific container ship fleet will rise 19.2% year over year by the fourth week of August, with carriers set to receive much more capacity from shipyards through 2024.
- Accordingly, we maintain our earlier view that Trans-Pac container rates will remain depressed through the balance of the year and likely well into 2024.



Exchange Rates

- The US Dollar Index recently broke from its seven-month range and tested support, trading to a fifteen-month low.
- The weakness came after the US released consumer and producer price inflation figures, indicating price pressures are easing and hinting the Federal Reserve is nearing the end of its string of rate hikes.
- At the same time, Euro Zone core inflation remains higher than expected and stubbornly slow to ease, suggesting the European Central Bank may hike rates higher and for longer.
- Typically, if a central bank raises rates more often and more aggressively than other key central banks, rising foreign demand for higher-yielding bonds in that country should support the domestic currency.
- Given these prospects for the ECB set to raise rates higher for longer while the Fed may pause after one more hike, the dollar has softened recently, particularly against its European cousin.
- While near a fifteen-month low, the dollar remains historically strong, an issue that is weighing on average landed costs for footwear. Indeed, as we recently anticipated, after rising year over year for nineteen straight months, footwear import costs slid in April and were little changed in May. We look for these declines to continue in coming months, particularly if the dollar remains relatively strong.



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A current issue that catches our attention this month: Livestock costs & hide prices.

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