Staff Report No. 2022-17 **February 10, 2022**

February Market Update
Corn, Soybeans, Rice, and Cotton

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WASDE Summary

February's 2021/22 U.S. corn supply and use remains unchanged relative to last month. The season-average farm price for corn remains at $5.45 per bushel.

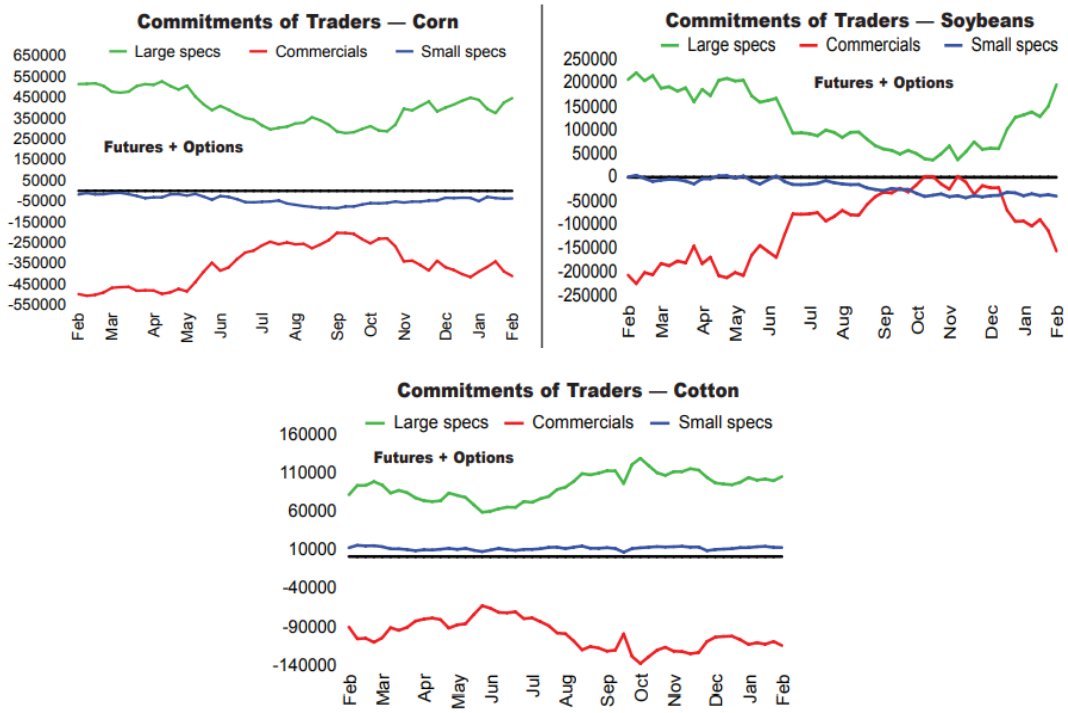
The February 2021/22 U.S. soybean outlook calls for increased soybean crush and lower ending stocks. Soybean crush is forecast at 2.215 billion bushels, up 25 million from last month on favorable crush margins and improving prospects for soybean meal exports. Soybean meal exports are reduced for Argentina, Brazil, and Paraguay as drought-reduced crops limit crush prospects. With soybean exports unchanged, ending stocks are reduced 25 million bushels to 325 million. The U.S. season-average soybean price for 2021/22 is forecast at $13.00 per bushel, up 40 cents from last month partly reflecting the impact of drought in South America. The soybean meal price is forecast at $410.00 per short ton, up 35 dollars. The soybean oil price forecast has been raised by a penny to 66.0 cents per pound.

This month's outlook for 2021/22 U.S. rice is for smaller supplies, unchanged domestic use, lower exports, and higher ending stocks. Total imports are lowered 0.5 million cwt to 30.5 million on reduced imports of medium- and short-grain rice. Medium and short- grain imports are now forecast at 6.5 million cwt, down primarily because of the timing of Puerto Rico imports this marketing year (MY). Exports of medium- and short grain- rice are lowered 1.0 million cwt to 23.0 million, as higher U.S. prices are expected to continue affecting sales for the remainder of the MY. Long grain exports are unchanged at 64.0 million cwt. Projected 2021/22 all rice ending stocks are increased 0.5 million cwt to 33.5 million but still down 23 percent from last year. The U.S. season-average long grain rice price for 2021/22 is forecast at $13.50 per cwt, up $0.30 month-over-month. The U.S. season-average Southern medium grain rice price for 2021/22 is forecast at $13.90 per cwt, up $0.10 month-over-month.

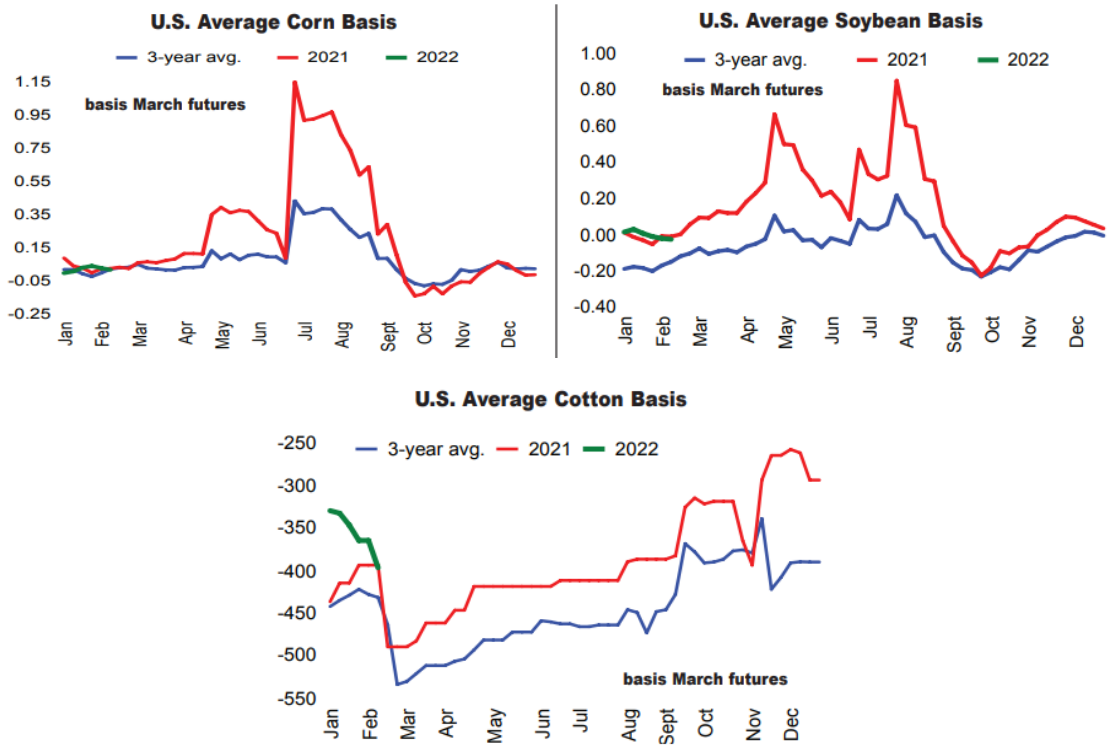
The 2021/22 U.S. cotton supply and demand forecasts show slightly lower exports and higher ending stocks relative to last month, while production and domestic mill use are unchanged. The export forecast is lowered 250,000 bales to 14.75 million based on lagging shipments due to logistical issues. The upland

cotton marketing year average price received by producers is projected at 90 cents per pound, which remains unchanged from January.

Commitment of Traders Report, Tuesday, February 8, 2022

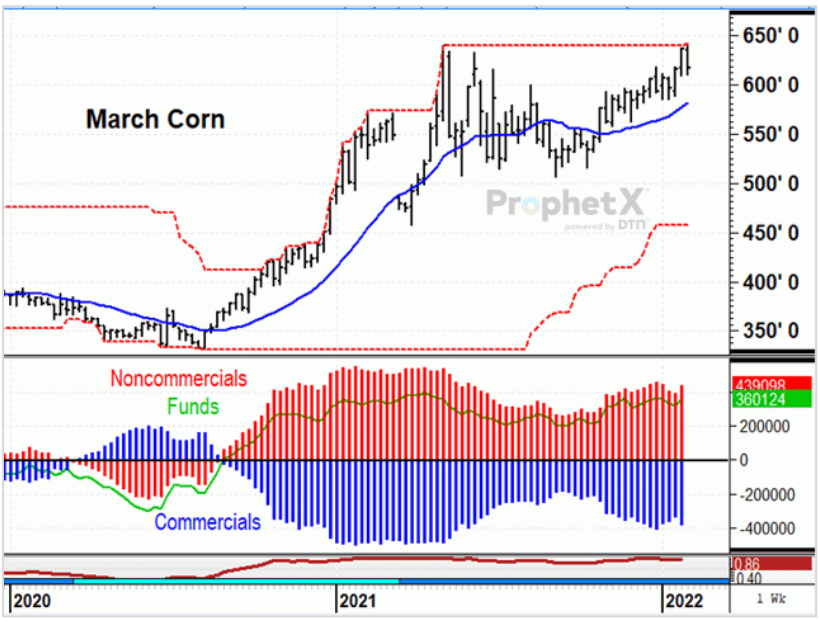


Cash Market Basis Charts, Wednesday, February 9, 2022



Corn

On February 3rd, the USDA announced that China canceled a previous purchase of 14.96 million bushels of old-crop corn, a move that raises a lot of new questions for the corn market (see the DTN ProphetX chart below). Private exporters reported cancellations of export sales of 380,000 metric tons (14.96 million bushels) of corn for delivery to China during the 2021-22 marketing year. March corn ended the day down 5 ¾ cents at $6.16 ¾, but given the bearish possibilities the loss was not viewed as catastrophic. Prices are still above their 20-day average at $6.12.



Before the cancellation, USDA's weekly export sales report showed China had bought 490 million bushels of corn from the U.S., nearly 137 million bushels of which had already shipped. The bulk of Chinese corn purchases were announced in May 2021 when spot corn prices were trading between roughly $6.00 and $7.75 a bushel, their highest levels in eight years.

At the time, Brazil's second corn crop was experiencing drought, and drought was a concern in the northwestern U.S. Corn Belt. It was understandable for China to make new-crop purchases, even at those lofty levels. By the end of May, China had purchased 423 million bushels of U.S. corn for 2021-22.

In the following months, China was largely quiet in the U.S. corn market, only buying another 67 million bushels as of January 27, 2022. The U.S. successfully harvested 15.115 billion bushels of corn in the fall of 2021, its second-largest corn crop on record. Another big corn exporter also had a good crop in 2021. USDA estimates Ukraine harvested 42.0 million metric tons or 1.65 billion bushels of corn, up 39% from the previous year and enough to export 1.32 billion bushels, making Ukraine the fourth-largest exporter of corn in the world.

Determining just how much corn China needs is a very difficult prospect. According to USDA, Chinese corn production is expected to fall short of demand by 844 million bushels in 2021-22. A report from USDA's ag attaché in Beijing, dated January 28, 2022, narrowed the estimated deficit to 726 million bushels.

But this is the same USDA that says China has 8.28 billion bushels of surplus corn laying around and can't explain why China bought 845 million bushels of corn from the U.S. in 2020-21. Chinese businesses have been on holiday this week, but the most recent quote of May corn from China's Dalian exchange translated to $11.06 a bushel, the highest spot price on the Dalian in seven months.

After Thursday's cancellation, China still has 338 million bushels of U.S. corn sales not yet shipped. However, with domestic Chinese corn prices above $11, it does not seem likely that China is apt to make a lot more cancellations. The country remains an aggressive consumer of corn.

There is a risk China could cancel some U.S. sales, only to be replaced by purchases from Ukraine. That particular option would have some political spite involved, and it is interesting that Thursday's cancellation announcement came as the Winter Olympics are getting ready to begin in Beijing without an official U.S. delegation in attendance.

Every chart watcher of March corn noticed Monday's technical reversal after prices made a new contract high by 2 cents Monday but failed to close higher on the day. The weekly chart shows a large potential double-top forming shortly after CFTC just reported a weekly increase of 50,960 net longs held by speculators as of January 25th. Some in the industry deem it possible that China intentionally gave the market a shot of bearish news to see if it could put downward pressure on prices.

If true, it would bear witness that China is still an interested buyer of corn but doesn't like all the competition corn buyers have had lately. The main bullish concern for corn prices over the next several months will be how do crop conditions for Brazil's second corn crop play out. The crop is on track to be planted earlier than last year's drought-impaired crop, but La Niña conditions portend dry weather in southern Brazil and in Argentina.

Fundamentally, Chinese cancellation of a U.S. corn sale (380,000 metric tons) seemed to unnerve traders, prompting futures to pull back following recent contract highs. The price performance looks like a near-term peak. With both Midwest stocks at a record high and exports lagging last year’s pace by around 20%, negative ethanol margins bode poorly for domestic demand. USDA’s Supply and Demand February 9th report may contain surprises, but the drought-driven shortfall in South America looks to have been incorporated into prices for now. An extended soybean rally and/or sustained crude oil gains above $90 could generate short-term upswings.

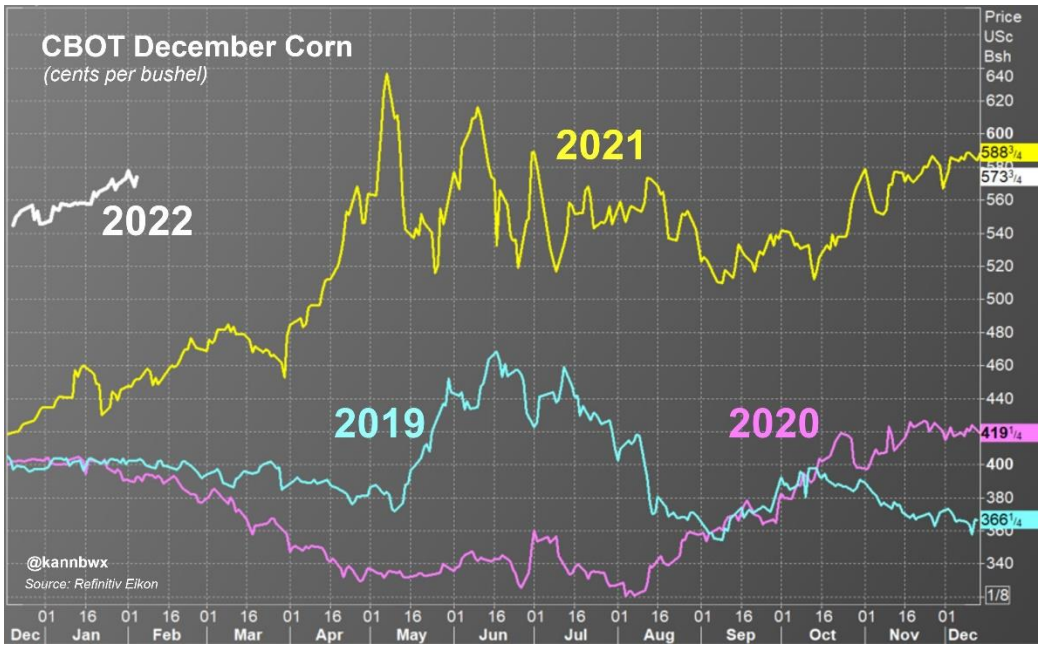
Corn-for-ethanol use increased to 485.8 million bu. in December, USDA estimated, up 18.9 million bushels (4.1%) from November and 54.1 million bushels (12.5%) above the previous year. Data over the past two months implies that the yield per bushel was down from previous years. For the first four months of 2021-22, corn-for-ethanol use totaled 1.828 billion bushels, up 7.5% from the same period last year. Over the final eight months of the marketing year, corn-for-ethanol use only needs to be 5.1% above year-ago to hit USDA’s forecast of 5.325 billion bushels.

Ethanol production stays strong, but there are hurdles. Based on U.S. EIA data, weekly ethanol production averaged 1.034 million barrels per day during January, 10.1% above levels a year-ago. But ethanol production margins are negative and PADD 2 (Midwest) stocks stood at a record 10.507 million barrels as of January 28th . Plants will have to slow production, though most won’t reduce more than 5% to 10% unless absolutely necessary.

New-crop corn futures are trading within a few cents of the high. December corn added 0.7% but March corn shed 2.4%. Corn futures remain in a five-month uptrend but bullish momentum stalled and technical indicators eroded this week, leading possibly to further liquidation of a large net long position held by

speculators. The corn market requires continued strength in soybeans and/or wheat and sustained export demand to remain at elevated levels over the longer-term. UDSA yesterday reported net 2021-22 U.S. corn sales of 1.175 million metric tons for the week ended January 27, down 16% from the previous week but up 47% from the average for the previous four weeks. Export commitments still lag last year's levels.

South American weather will become less of a market factor as the U.S. spring planting season approaches, though development of Brazil's (second crop) safrinha corn will be followed. High prices for fertilizer and other inputs are widely expected to prompt U.S. farmers to plant fewer acres to corn and shift some ground to soybeans. Industry experts expect U.S. corn plantings to decline 3 million acres this year to an estimated 90.4 million acres.



Corn futures continued their surge higher, closing with strong gains of 5-3/4 to 14-1/2 cents as weather concerns and fund buying continue to move corn and other commodities higher. New contract highs were scored for both old and new crop contracts after the release of the USDA report. It appeared traders were satisfied the report was not negative and that was enough to encourage buying. March corn closed at 6.46-3/4, up 14-1/2 cents leading today's gainers. New crop December added 6-1/2 to close at 5.88-1/2, a new contract high close. December corn futures pushed into new contract highs, battling Nov soybean futures for acres. Though soybean inputs are cheaper, it is likely farmers, if they can achieve 6.00 or higher for corn, will not readily switch to soybean acres. As it stands, it is believed up to 3 million acres could go from corn to soybeans. If corn futures accelerate higher in the weeks ahead like soybean prices have over the last several weeks, corn acres may see little or no change.

The corn market's response to the USDA February's WASDE was impressive. Given that USDA's U.S. corn carryout and S. American production estimates were toward the high end of pre-report expectations, the market does not seem to believe USDA's supply/demand numbers and expects them to become tighter. The strength of today's action backed up by huge trading volume. The preliminary volume estimate is nearly 634,000 contracts, which is the highest since August 12, the day of the August Crop Production report.

Unlike the soybean market, corn futures have had a steady uptrend since finding a low in September. Ongoing concerns with arid conditions in southern Brazil, as well as an overabundance of moisture in the northern and eastern regions are working in tandem to hamper soybean harvest, which, in turn, is keeping the trade on the offensive. World projected carryout was just under one million metric tonnes lower than last month (neutral), yet after the report, prices steadily climbed into the close. Argentine corn production was left unchanged at 54 million metric tons and Brazil only dropped 1 million metric tons when the trade was looking for a decline of 2 million metric tons.

USDA's February WASDE is traditionally one of the quieter reports of the year, as February is traditionally a time when the Northern Hemisphere is hibernating through winter and traders' attention is focused on South America. This WASDE is unusual in that it finds March corn prices trading near their highest level in over eight years for a March contract, and there are plenty of drought concerns in southern Brazil and Argentina to keep traders interested.

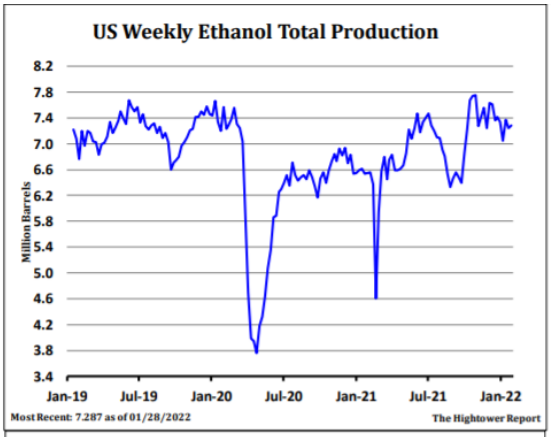
On January 12, USDA estimated Brazil's corn crop at 115.0 million metric tons or 4.53 billion bushels and Argentina's crop at 54.0 million metric tons or 2.13 billion bushels. According to Dow Jones' survey of 20 analysts, those estimates are expected to come down to 113.0 million metric tons (4.45 billion bushels) for Brazil and to 52.1 million metric tons (2.05 billion bushels) for Argentina -- both reasonable targets still at risk of going lower. Keep in mind, Brazil's larger, second corn crop has yet to be planted and La Niña conditions remain in place, contributing to the drier weather pattern for southern Brazil. USDA's estimate of world ending corn stocks is expected to be lowered from 303.1 million metric tons to 300.3 million metric tons (11.82 billion bushels), up 3% from a year ago. We are not surprised to see USDA make only a small cut of 1 million metric tons in its forecast for Brazil's 2021-22 corn crop, given that the safrinha crop, which accounts for a majority of production and exports is still being planted and is going in the ground at a faster-than-average pace. The fact USDA did not cut its crop estimate for Argentina is surprising, given lower estimates from the U.S. agricultural attaché in Buenos Aires and the Rosario Grain Exchange. If the GFS weather model is correct, the Argentine crop could see significant in the very near future. However, the market seems to be siding with the European model, which advertises only light coverage for the growing belt.

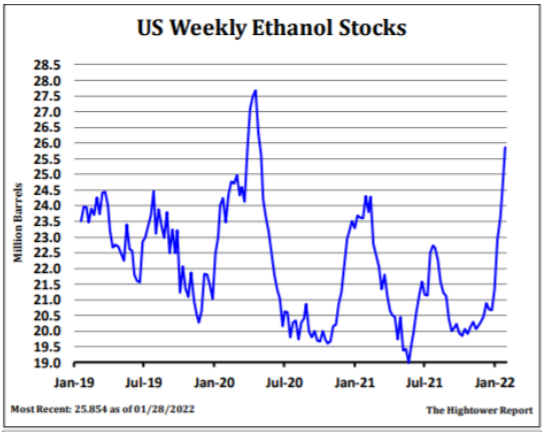
USDA kept its corn ending stocks forecast unchanged at 1.540 billion bushels, whereas traders expected a cut of 28-million bushels. USDA made no changes to the old-crop corn balance sheet, including the national average on-farm cash price, which remained at $5.45. That would be up 92 cents from 2020-21.

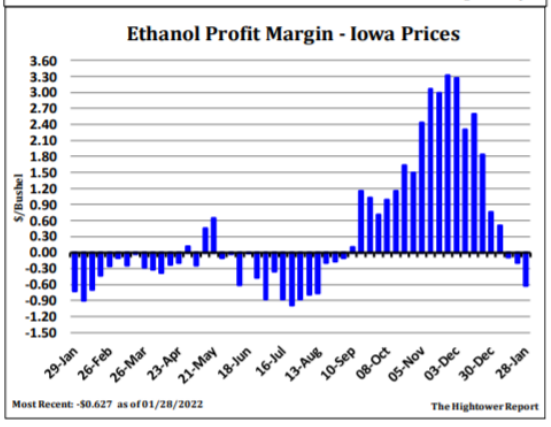
The bull market in corn gained momentum as rallying soybeans and broad commodity strength offset larger than expected projections for U.S. and South American supplies. Also today, the EIA estimated U.S. ethanol production at an average of 994,000 barrels per day for week ending February 4th, the lowest since the week ended October 1st but up 6.1% from the comparable week last year. Ethanol stocks dropped 1.056 million barrels to 24.799 million barrels, the first decline in six weeks.

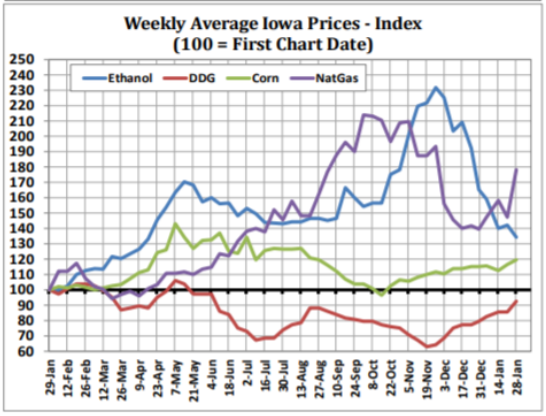
Earlier in the month, corn futures eased under apparent pressure from concerns about rising U.S. ethanol stockpiles and technically-driven long liquidation/selling. U.S. ethanol production for the week ended January 28 was up slightly from a week earlier to 1.041 million barrels per day. The problem is that U.S. ethanol stocks soared again as gasoline demand dropped vs. a week earlier. January 28 ethanol stocks of 25.9 million barrels were above trade expectations that ran 24.525-25.500 million barrels and, at 6.3% above a year earlier, were the largest since April 2020 at the height of the initial coronavirus pandemic.

Corn futures also rallied despite bearish reports regarding ethanol production. Ethanol production for the week ended February 4th unexpectedly plunged to its lowest level since October at 994,000 barrels per day from 1.041 million a week earlier. That news was offset by an unexpected drop in U.S. ethanol stocks to 24.8 million barrels from 25.9 million. The slowdown in ethanol production may have been partly due to the severe winter storm that hit the central U.S. last week as well as the highest U.S. ethanol stocks since April 2020.



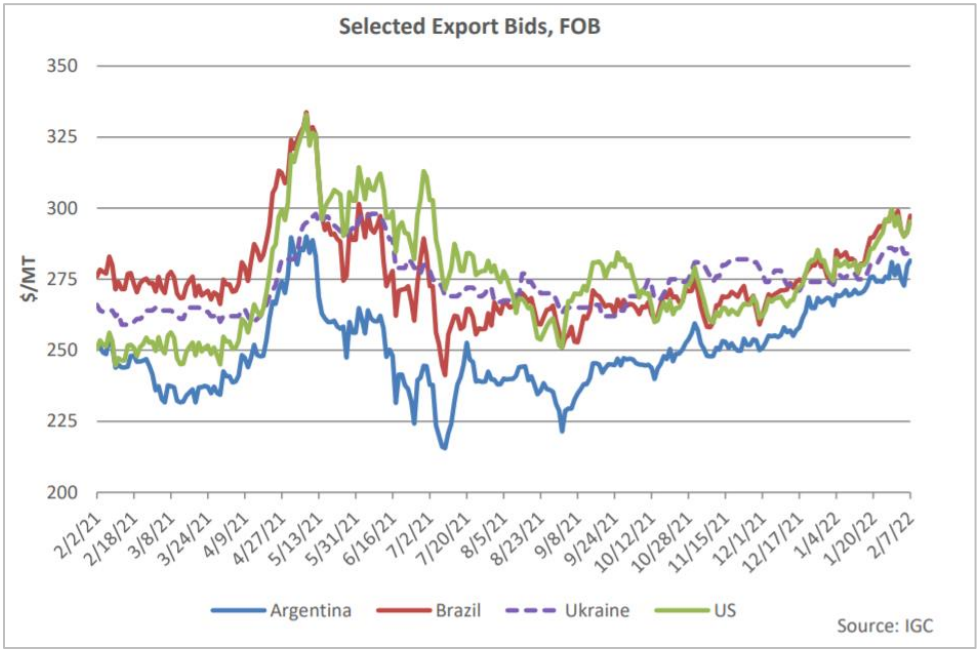




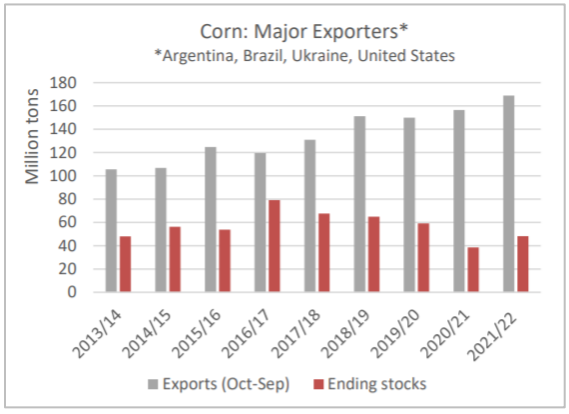


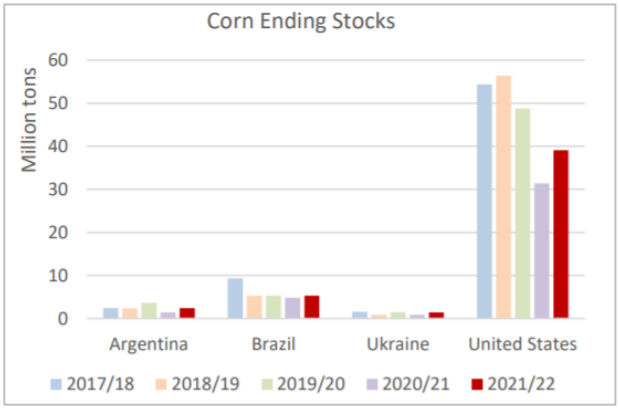
Since the January WASDE, all four major exporters' bids moved up. Late-season export demand continued for Argentina and Brazil, bringing Argentine bids up $11/ton to $282 and Brazilian bids up $12/ton to $297. Despite rainfall alleviating some of the dryness in South America, potential impacts on corn production have lingered. U.S. bids were up $14/ton to $295 on potential South American

production impacts as well as strong domestic fuel ethanol demand. Ukrainian bids were up $10/ton to $286 reflecting heavy snow disrupting port operations.



Global corn trade has grown, supported by rising demand for competitively priced feedstuffs around the world. Argentina, Brazil, Ukraine, and the United States have been the major suppliers, accounting for 85 percent of global exports. Combined ending stocks held by these countries, however, have steadily tightened and are currently estimated to be about a quarter of their exports in 2020/21, lower than the average of the past several years. Combined ending stocks are projected to grow for 2021/22, but still relatively tight with little room in the case of global production shortfalls or unexpected surges in import demand.





Ending stocks for Argentina, Brazil, and Ukraine are projected to remain small as large portions of their production is typically destined for foreign markets. Domestic use for Argentina (26 percent) and Ukraine (19 percent) is small relative to their production. For Brazil, the safrinha crop, which accounts for three-quarter of the national production, is primarily destined for overseas, while first-crop corn is used domestically. In comparison, the United States has ample storage facilities and a large level of consumption. Over the past several years, 85 percent of the U.S. crop, on average, is used domestically. Again, the United States is projected to carry the lion's share of exporter ending stocks for 2021/22.

Other producers maintain large stocks (e.g., China), but generally only exporters' stocks are available to world markets. Typically, exporters' stocks are inversely related to global prices. Several factors have been supportive of current price levels – continued growth for global feed demand, smaller supplies of other grains (and oilseeds) due to last year's Northern Hemisphere droughts, relatively strong demand for fuel ethanol in the United States, and concerns over crops in South America. Much of the late-planted corn in Argentina is in a critical phase of development, while in Brazil, rapid planting progress of the second-crop corn in the Center-West contrasts with dry conditions in the South. It is likely that exporter prices will remain elevated as long as the size of the corn crops in Argentina and Brazil remain uncertain.

On December 10th, the China Grain Reserves Corporation (also known as Sinograin) launched its first round of Ukrainian corn auctions targeted for five large feed mills at the price of $422 (2,700 RMB) per ton in nine provinces in order to resolve the shortage of low toxin corn. The total volume of corn offered was 230,000 metric tons although the rumored amount before auction was 500,000-700,000 metric tons. The final prices sold to mills averaged at $431 (2,760 RMB) per ton.

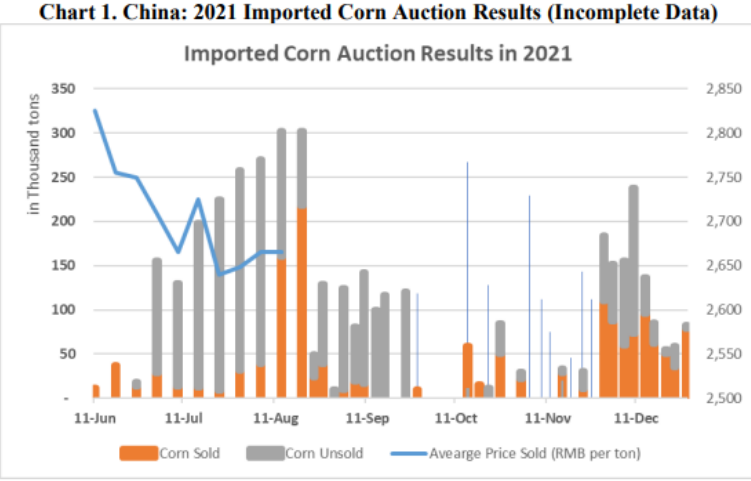
The USDA Post estimates MY 2021/22 corn demand for industrial use to remain weak. October, November and December corn deep processing operational rates stayed at 61 percent, 66 percent and 70 percent respectively, down by 5 percent, 5 percent and 1 percent year-over-year. Fourth quarter 2021 ethanol operation rates fluctuated at below 40 percent, down by 4-9 percent year-over-year. In October, a Heilongjiang-based grain company announced it offered a total of 40,626 metric tons of 2016, 2018, 2019 and 2020 corn at an "invitational bidding auction of corn for fuel ethanol use only".

Post's MY 2021/22 corn import estimate is 20 million metric tons, 6 million metric tons below USDA's official estimate. FAS China expects local corn prices to eventually decline from last year's high, stock building to moderate, and demand to soften as imported corn stocks finally enter the market.

Although USDA's Export Sales Report indicates that China has committed to buying 12.3 million metric tons of U.S. corn for MY 2021/22, by the end of calendar year 2021, 80 percent has yet to be shipped. Instead, the shipping schedule shows China turned to Ukrainian corn in the fourth quarter of 2021. China bought 8- 10 boats of Ukrainian-origin corn, equaling to 480,000-600,000 metric tons, at $330-335 per ton (2,400 RMB) per ton delivered with duties paid. These purchases are expected to arrive in China in the first quarter of 2022 and traders estimate Ukraine could ship 5 million metric tons of corn to China from what is expected to be a record 2021 Ukrainian crop. While Chinese purchases of Ukrainian corn are on the rise, in the fourth quarter of 2021, China only bought 4-5 new boats of U.S. corn (approximately 400,000 metric tons), for April-May 2022 delivery. The anticipated delivery would be in Guangdong, Shandong, and Zhejiang ports. Trade contacts report that some of this corn could still enter through free trade zones where it is ground into corn powder, mixed with other ingredients, and enters the domestic Chinese market as feed outside the TRQ, despite recent government crackdowns to prevent the practice. Contacts have shared that China reportedly has up to 10 million metric tons of potential processing capacity for corn through this route, with much of this capacity in Shandong province.

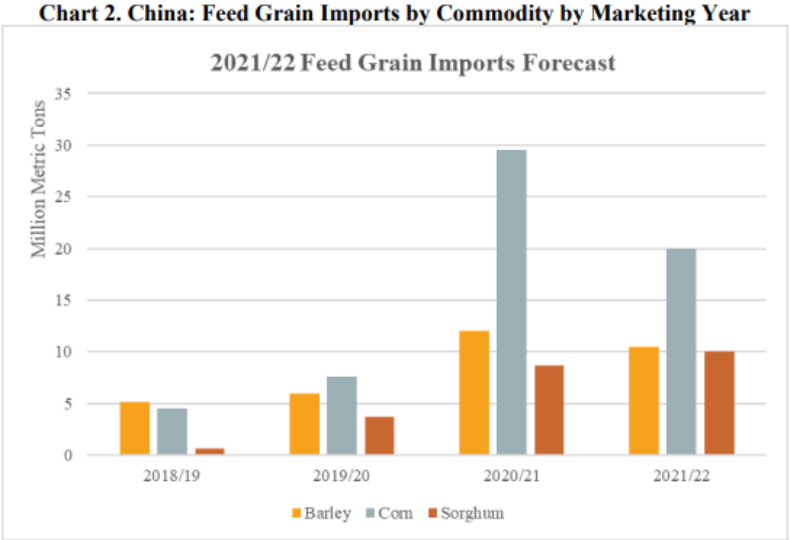
From June through December 2021, based on the incomplete data available, Sinograin offered approximately 5 million metric tons of imported corn for sale and sold around 2 million metric tons in 55 auctions. The corn on offer went mostly unsold at first due to strong substitution for wheat and high auction prices. However, starting in October, the number of auctions increased, and sales rates climbed as local corn supply and quality were below expectation.

Chart 1. China: 2021 Imported Corn Auction Results (Incomplete Data)



NOTE: Sinograin stopped providing corn auction price data after August 13, 2021

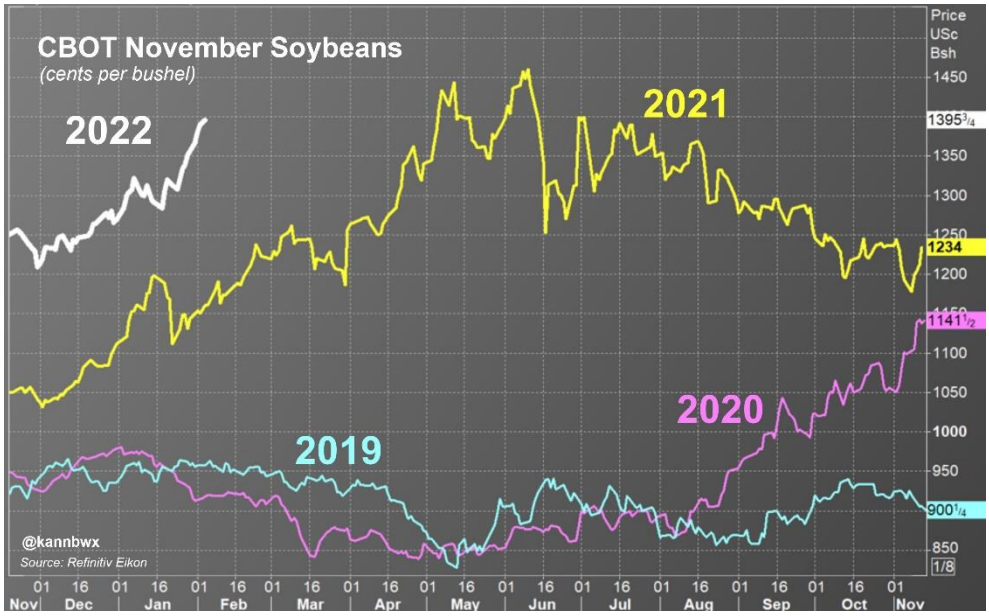
Chart 2. China: Feed Grain Imports by Commodity by Marketing Year



Soybeans

New-crop CBOT soybeans touched a new high of $14.00 bushel. November soybeans rose 3.3% this week while March soybeans gained 5.7%. Early-harvest results from Argentina and Brazil may carry some price impact, and continued gains in crude oil and palm oil markets could pull soy complex prices higher, or at least provide underlying support. But South American crop losses are likely factored into current prices, meaning the soybean market requires sustained export demand to hold at elevated levels. From Jan. 28-Feb. 4, USDA reported daily soybean sales to China and "unknown" totaling 949,500 metric tons for 2021-22 and 502,000 metric tons for 2022-23.

Market focus will shift to the U.S. spring planting season and an expected increase in soybean acres, making USDA's annual Prospective Plantings report March 31st a key event. We expect soybean plantings to increase 1.2 million acres from 87.2 million acres in 2021. Competition between crushers and exporters for reduced global supplies may keep a floor under the market.



Fundamentally, USDA's updated Brazilian and Argentine soybean crop estimates in February 9th's Supply and Demand Report loom as the next market-mover, though it's unlikely those numbers will drop as dramatically as some recent private forecasts. Beyond that, two "battles" promise to be key influences: one between crushers and exporters for drought-reduced global soybean supplies, the other between beans, corn and other crops, such as cotton, as U.S. spring planting nears. Together, it bodes for elevated prices but less of the explosive upside like we saw the past week with South America's shortfall factored in. Rapid evaporation of carry in the market indicates lower supply concerns longer-term.

U.S. soy processors crushed 198.2 million bushels of soybeans in December, according to USDA, which was a record for any month. Through the first four months of 2021-22, soybean crush totaled 749.9 million bushels, down 0.3% from the same period last year. To hit USDA's forecast of 2.19 billion bushels, crush must total 1.44 billion bushels over the final eight months of the marketing year. Given strong crush margins through summer, we still project 2021-22 crush at 2.20 billion bushels. Soyoil stocks increased to 2.466 billion lbs., which was less than anticipated, despite the stronger-than-expected crush. A portion of the lower-than-expected stocks was attributable to a downward revision to November data, but most of it was due to stronger use.

With the release of the February WASDE, soybean futures surged another 21 3/4 to 25 3/4 cents on continued support from S. American crop concerns as traders appeared to discount USDA's latest estimates of production in Argentina and Brazil as well as higher-than-expected U.S. and world carryout forecasts. An increase in USDA's forecast for the U.S. soybean crush was supportive for prices along with comments from Bunge's CEO and technical buying as futures jumped to new contract highs. Nearby March soybeans rose 25 3/4 cents to $15.94 3/4, while November futures rose 24 1/2 cents to $14.37 1/2. Most-active March soybean oil futures rebounded 75 points to 64.10 cents, while March soybean meal rose $7.80 to $461.90. Much like the corn market, the soybean market clearly did not put much stock in USDA's crop estimates for Brazil and Argentina, with traders anticipating they will shrink further based on recent private crop estimates out of those countries.

The soybean market focus now shifts to the latest crop estimate from CONAB, the supply dept. of Brazil's agriculture ministry and could set tomorrow's market tone. CONAB in January pegged Brazil's crop at 140.5 million metric tons, above USDA's estimate of 139.0 million metric tons, but CONAB's estimate

could plunge, based on the fact Brazil's No. 2 growing state of Paraná slashed its crop estimate by more than 7.1 million metric tons in late January, while No. 3 producing state Rio Grande do Sul has seen its crop severely curtailed by drought and excessive rains have hurt production in parts of central and northern Brazil while simultaneously hurting crop quality.

A slower-than-expected harvest and quality concerns with Brazil's early harvested soybeans have caused Chinese buyers to ramp up purchases of U.S. soybeans for spring delivery. Production losses due to drought are triggering purchases of U.S. new-crop soybeans for fall delivery. From January 28-February 4, USDA reported daily soybean sales to China and "unknown" totaling 949,500 metric tons for 2021- 22 and 502,000 metric tons for 2022-23.

Brazil exported nearly 2.5 million metric tons of soybeans and more than 2.8 million metric tons of corn in January, based on government data, down 243,000 metric tons for soybeans and 615,000 metric tons for corn from December. But soybean shipments jumped nearly 2 million metric tons from January 2021, while corn exports increased almost 500,000 metric tons.

Brazil's soybean basis has been declining rapidly this past week as more beans are being harvested. Some people think it is bearish soybean futures. While it is certainly not bullish for bean futures, it is a normal happening as new crop supplies come to market everywhere soybeans are grown.

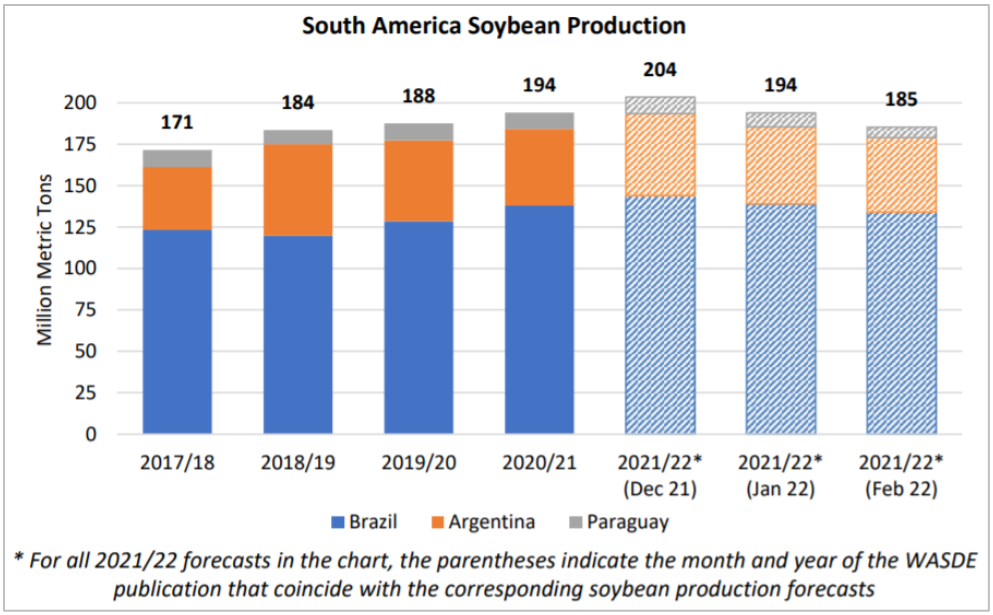
As with corn, much of the attention in Wednesday's report for soybeans will also be pointed South. Several private crop estimates for Brazil's soybeans have been coming in lower than USDA's January estimate of 139.0 million metric tons (5.11 billion bushels). Dow Jones' survey expects USDA to lower the estimate for Brazil to 133.0 million metric tons (4.89 billion bushels), less than last year's 138.0 million metric tons.

U.S. soybean supplies will be smaller than previously forecast as demand from the crushing industry rose, the government said on Wednesday. The forecast reflects a shift in the U.S. soybean industry, as demand for biofuel made from soybean oil and processed soymeal used in livestock feed rises and China's demand for soybean imports cools.

For Argentina, USDA is expected to lower the soybean crop estimate from 46.5 million metric tons to 44.2 million metric tons (1.62 billion bushels). The Buenos Aires Grain Exchange recently dropped its estimate to 42.0 million metric tons (1.54 billion bushels). Dow Jones expects USDA to reduce its estimate of world soybean stocks from 95.20 million metric tons to 91.30 million metric tons (3.35 billion bushels), but that figure represents midseason stocks for South America. USDA's actual ending stocks estimate for Brazil on January 31, 2022, is just 55 million bushels, an extremely tight situation.

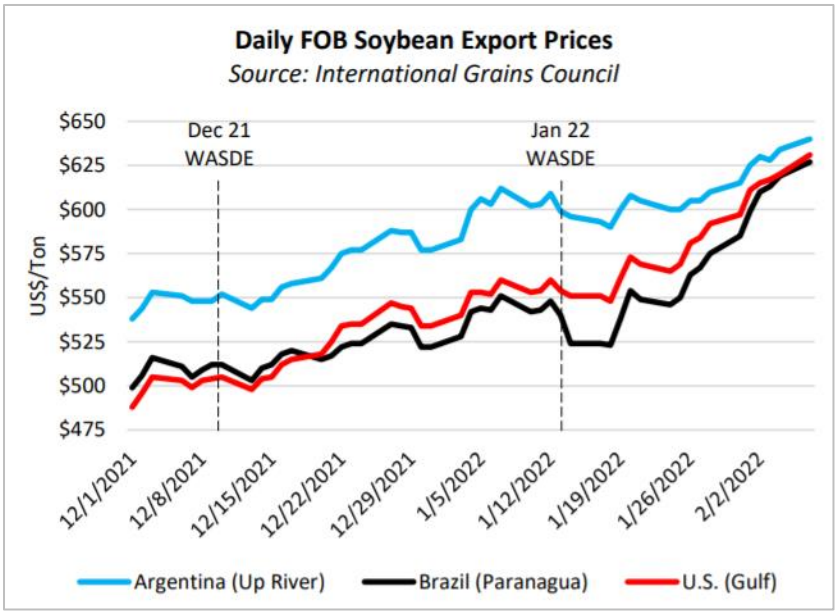
Here in the U.S., USDA is expected to lower the ending soybean stocks estimate from 350 million bushels to 314 million bushels, and demand increases could come from both crush and export estimates. The crush values of meal and oil remain historically high in relation to soybeans and should support crush demand, possibly all season long. Export sales and shipments of U.S. soybeans are down 23% from a year ago but are likely to firm with crop estimates shrinking down South.

Dry weather in South America over the past 2 months has significantly depressed forecast soybean yields and slashed production. In the first USDA forecast released in May 2021, the combined total 2021/22 soybean crop in Brazil, Argentina, and Paraguay was a record but is now forecast to be the smallest crop since 2018/19. Since the December 2021 WASDE, soybean production in these three countries has been lowered by more than 18 million tons: down 7 percent in Brazil, down 9 percent in Argentina, and down 37 percent in Paraguay.



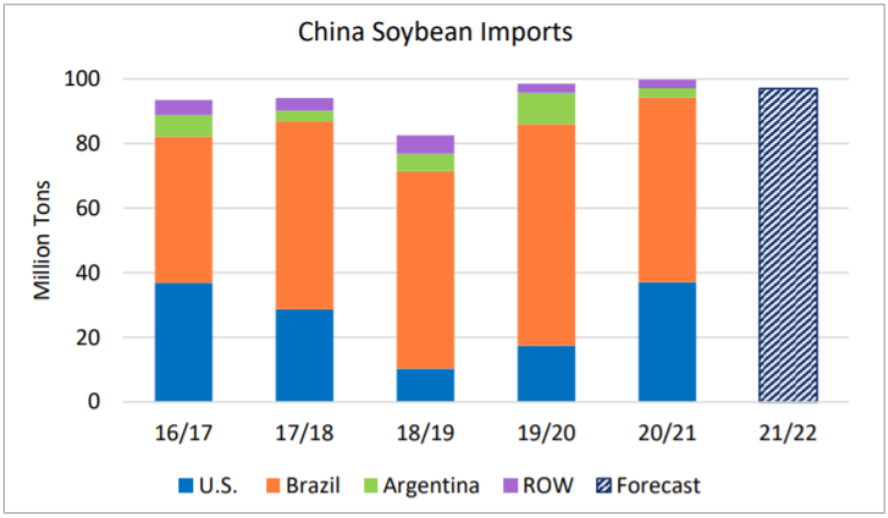
Should this be realized, this massive decrease in the South American soybean crop is likely to significantly constrict global trade. In total, South America soybean exports are cut nearly 6 million tons this month and crush is down over 2 million tons. In Brazil, smaller production is expected to impact the export market more than domestic crush. In Paraguay, both exports and crush are forecast down around 1 million tons. Argentine supplies are squeezed from both lower production and smaller imports from Paraguay, resulting in both lower exports and crush. Likewise, 2021/22 global soybean imports are no longer expected to be a record and global soybean meal consumption growth is forecast below 2 percent for the first time this forecasting cycle. With tighter supplies supporting higher prices, consumers are likely to import fewer soybeans and offset smaller supplies by drawing down stocks, decreasing soybean meal consumption, or substituting with other protein meals.

Along with waning soybean and meal trade, soybean prices have jumped in response to the smaller South American crop and forecast tight stocks. As of February 7, soybean export prices have shot up to near-decade highs at $640/ton FOB Argentina (Upriver) and $627/ton FOB Brazil (Paranaguá). Since the release of the December 2021 WASDE, soybean export prices have jumped 17 percent in Argentina and 22 percent in Brazil. A large portion of these price gains are due to expected tight soybean stocks in Argentina and Brazil at the end of September 2022, which are forecast to be an 8-year-low at a combined 45 million tons.



The changing dynamics in the South American soybean market may have bullish implications on exports of the upcoming U.S. soybean crop. In response to climbing soybean prices in South America, U.S. soybean export prices are up 25 percent since the December WASDE. Additionally, tight South America stocks at the start of the U.S. harvest and peak soybean export season in October 2022 have the potential to boost U.S. exports. For instance, September 2022 ending stocks in Brazil are forecast to be only 2 million tons larger than they were 2 years prior, which coincided with a record export pace of U.S. soybeans during the beginning of the 2020/21 marketing year. Assuming import demand in China and other key markets remains little changed this year, 2022/23 U.S. soybean exports seem poised to benefit from both tight South American exportable supplies and high prices.

China soybean imports in marketing year 2021/22 are forecast 3.0 million tons lower this month at 97.0 million tons. From October to December, imports are down 13 percent from the previous year. The pace of soybean processing has slowed since October 2021 as margins are squeezed and crushers have been hampered by high input costs and low feed demand. Similarly, soybean processors in China are projected to reduce crush volumes by 3.0 million tons from the January forecast.



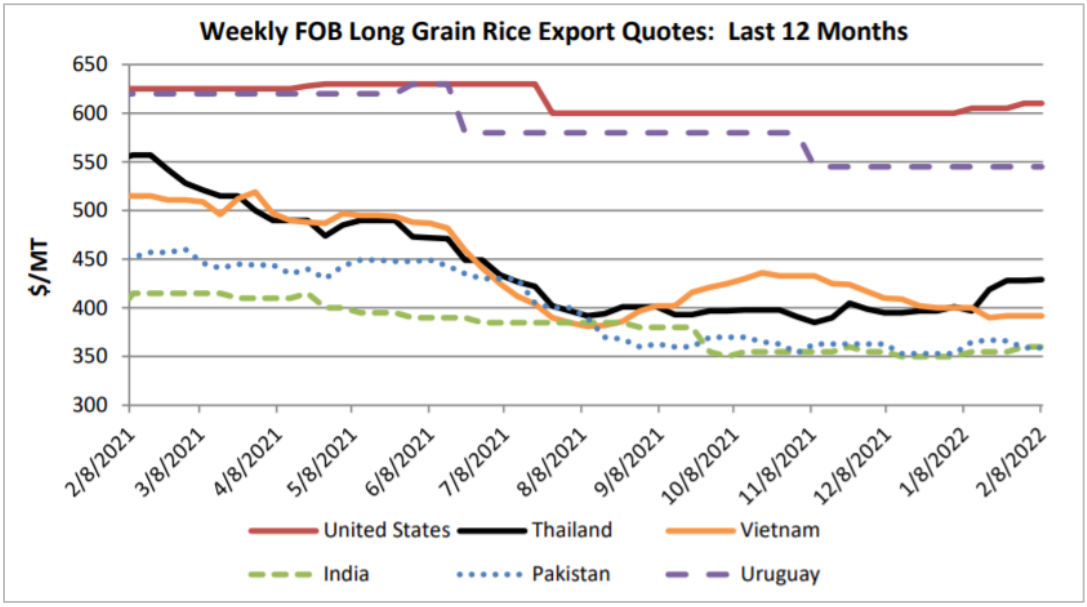
Rice

The market is seeming to find a nice balance as it approaches the "deadline" for planting intentions. Stable domestic business coupled with continued Haitian demand is keeping the mills running and the cash prices afloat. Much of this stability, while good for the market, can be attributed to the expectation of another short crop—this one likely more than 10% off from last year's crop, which was 15% off from the year before. Prices would likely be much softer if there were plans for a larger plant.

Last week, the entity that oversees the sales and distribution of Colombian import certificates for U.S. rice, Colombia Rice Export Quota, Inc. (COL-RICE), held the largest of their three quota auctions for 2022. A total of 85,913 metric tons milled rice equivalent of U.S. rice quota was made available to the market, ultimately providing an opportunity for quota holders in the U.S. to ship paddy, brown, milled, or broken rice duty-free, as long as it clears Colombian customs by June 30, 2022. The U.S. ships primarily long grain rice to Colombia in both paddy and milled forms and has seen some recent market growth for California medium grain rice used for sushi and other international cuisines.

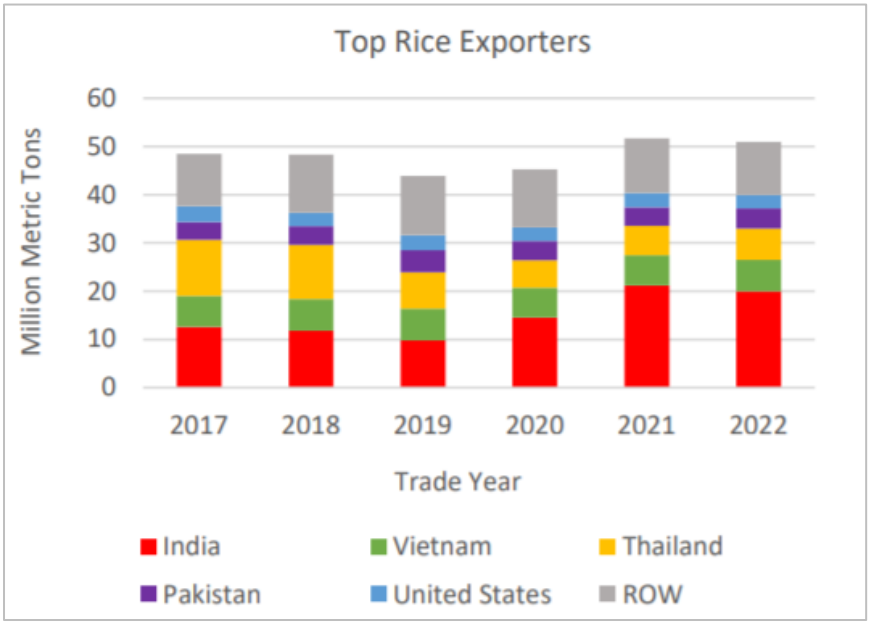
February's WASDE was largely a *non-event* for rice and as usual it is unclear if traders were even paying much attention to it today. USDA reported all-rice carryout at 33.5 million, up from 33.0 million hundredweight last month, on reduced exports. But the long-grain carryout estimate was unchanged at 21.4 million cwt. USDA did raise the season-average projected price, by 30 cents to $13.50. Rice futures ended down 17 ½ cents in both March and May contracts. March settled at $15.08 ½ after trading a range of $15.03 to $15.27 ½. May settled at $15.33.

U.S. prices increased $5 to $610/ton amid tight domestic stocks. Uruguayan prices remained at $545. Thai quotes jumped by $32 to $429/ton, reflecting a strengthening Thai baht and new inquiries from African countries. Vietnamese prices dropped $8 to $392/ton amid muted import demand from key trading partners. Pakistani prices declined by $6 to $359/ton with ample supplies, while Indian prices rose slightly by $5 to $355/ton.



The 2022 forecast for global rice exports is expected to exceed 50 million metric tons for the second year in a row, down only slightly from the 2021 record. The rise in global exports in recent years is driven by growing import demand, especially in Africa, including Nigeria and Cote d'Ivoire, and Asia, including

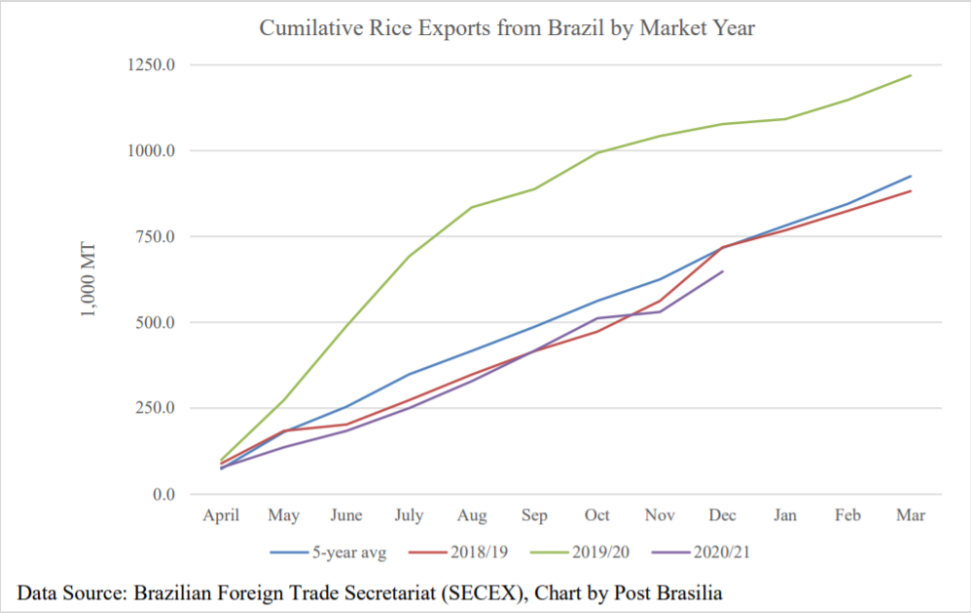
China and Nepal. The additional demand has been predominately supplied by India, which has more than doubled its exports since 2019. While shipments for the next largest exporters, Vietnam and Thailand, are expected up for 2022, India still dominates global trade.



India has ample supplies, with record production and near-record area harvested, as well as abundant beginning stocks. During the past decade, India has consistently increased its Minimum Price Support (MSP) for most supported commodities, including rice, leading to larger area dedicated to production. Additionally, record yields have led to record production. Furthermore, global demand for low-priced rice is currently strong, and Indian rice has remained well below other exporters' prices for 2 years (see rice price graph on page 10). Finally, India has made significant investments in its deep-water port infrastructure, adding bulk shipment capability in addition to the handling of typical containers.

Even with slightly lower imports for 2022, demand from certain major importers will support strong India exports. Top importer China has been purchasing significant quantities of Indian broken rice to supplement feed rations. Ironically, Vietnam, a large exporter, has also been importing significant quantities of India's broken rice. India's ability to supply both parboiled and regular white rice at competitive prices will also propel exports to Sub-Saharan Africa where imports are projected to grow. Indian fragrant basmati rice will continue to dominate the global market, particularly in the Middle East.

Brazilian rice exports in 2021/22 to recover after shipping logistics and costs stymied exports in 2020/21. Volumes Post forecasts MY 2021/22 exports at 1 million metric tons of milled rice equivalent. The forecast is based on available supplies, favorable exchange rate, and the expectation that maritime freight costs will come down from the current peak pricing that has stymied shipments in 2021. For MY 2020/21, Post estimates rice exports at 800,000 metric tons of milled rice equivalent based on lower than anticipated pace of trade. Brazilian rice exports in the current season have lagged far behind the record levels seen in MY 2019/20, and even well below the five-year average. At this point, Post anticipates that final exports will be significantly below the level of the 2018/19 MY, when the country exported 882,000 metric tons of milled rice equivalent.



Data Source: Brazilian Foreign Trade Secretariat (SECEX), Chart by Post Brasilia

According to the Brazilian Association of Rice Industry (Abiarroz), rice export volumes in 2021 were 20 percent and 36 percent lower than in 2019 and 2020, respectively. Abiarroz points to a strong reduction in the supply of containers and a significant increase in shipping freights as the lead cause for lower export volumes. Data from CONAB shows that the cost of rice freight from Brazil to Peru rose to $7,500 this year, up from $1,000 before the onset of the pandemic.

Much of the container shortage is associated with rapidly changing expectations and dynamics of trade in the wake of the pandemic and are not linked to any one specific commodity. That said, goods that must been require container storage, such as rice, have been much more affected than the commodities that can be shipped in open vessels, such as soybeans and corn. This season some Brazilian exporters started to use plastic packaging capable with a load of up to 2,000 kg of rice, shipping their product as general cargo.

Although this lowers the transportation costs, and reduces the waiting period at ports, there is higher labor costs for loading and unloading the products, as well as higher risk of damages to the products during transportation. Although Brazil's rice prices are very competitive globally on the account of the steep devaluation of the Brazilian real, high maritime freight rates and competition for vessels has meant that exports are down across all four categories of rice that Brazil exports. In an average year, white rice makes up the largest share of Brazil's rice exports, accounting for 35-40 percent of the total volume. Meanwhile, broken rice exports are typically in second place, at around 33-35 percent of the total volume. Paddy rice accounts for a quarter of exports, with brown rice making up the rest of the volume at 1-3 percent. This year, broken rice exports exceed the share of white rice exports due to the shifting shipping dynamics.

Exports of paddy rice saw almost a 50 percent decrease in the first nine months of the 2020/21 season, with 168,000 metric tons shipped this MY, versus 317,000 metric tons shipped last MY. Venezuela relinquished its position as the top importer of Brazilian paddy rice; so far this MY, exports to Venezuela are down by almost half, to 57,000 metric tons from 111,000 metric tons exported at this time last MY. Shipments to Mexico plummeted almost three-fold, to 22,000 metric tons down from 62,000 metric tons in this timeframe. Costa Rica has emerged as the main buyer on Brazilian paddy rice, importing 58,000 metric tons in Q1-Q3 of 2020/21. The Netherlands and China bought Brazilian paddy rice this season for

the first time. Meanwhile, other buyers, notably Turkey, Guatemala, and Honduras, that bought significant volumes of paddy rice in the 2019/20 season, did not import from Brazil this season.

Cotton

Cotton futures fell after USDA boosted its forecast for U.S. supplies at the end of the 2021-22 marketing year and lowered expected exports, a reflection of logistical and supply-chain snags that have led to lagging shipments. In its monthly Supply & Demand report, USDA raised its cotton ending stocks forecast by 300,000 bales from last month to 3.5 million bales. On demand side, USDA cut exports by 250,000 bales, to 14.75 million bales and lowered unaccounted use by 50,000 bales, to -20,000 bales. The cut is somewhat surprising given the strong pace of sales, especially recently, but as we noted yesterday cotton shipments have not been as robust. USDA noted that logistics issues have constrained exports. USDA left its season-average price projection unchanged at 90.0 cents.

USDA also lowered its global production estimate by 810,000 bales, to 120.15 million bales, dropping its ending stocks forecast to 84.31 million bales from 85.01 million bales last month.

Cotton futures were mixed, with pressure from a mildly negative USDA report and profit-taking. March cotton was down 72 points to 126.43, after trading a range of 125.83 to 127.37. May cotton ended down 24 points to $123.80. December cotton has at times outperformed nearby months as traders unwind bull spreads, and today it gained 26 points to 105.61, after making yet another contract high.

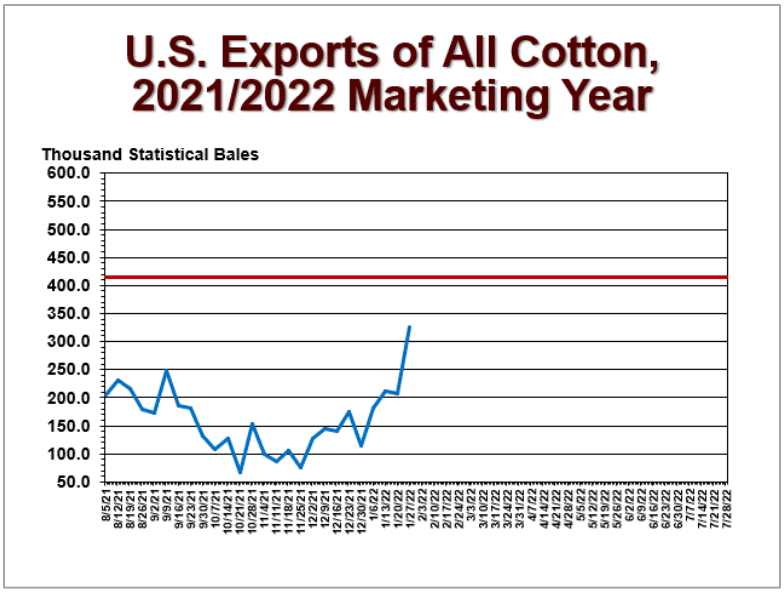
Recent weekly shipments of 300,000-plus bales was a marketing-year-high, combined with seasonal sales totaling 647,200 bales. In addition, the market was driven higher by strong crude oil prices. Despite new production increases by OPEC+ there seems to be a shortage of global oil inventories. Export data for the week ended Jan. 27 was impressive, with old- and new-crop sales, as well as weekly shipments, all topping 300,000 bales. Such large numbers as prices moved to fresh highs imply vigorous demand and may open the door to continued price gains.

From February 11-13, 2022, the National Cotton Council holds its annual meeting in Houston and will release planting survey results of its members along with a preliminary estimate of 2022 U.S. cotton plantings. Futures action on February 14th could prove interesting. Weekly USDA export sales, as well as the USDA's annual long-term outlook forum scheduled for February 24-25, 2022, could also affect the market.

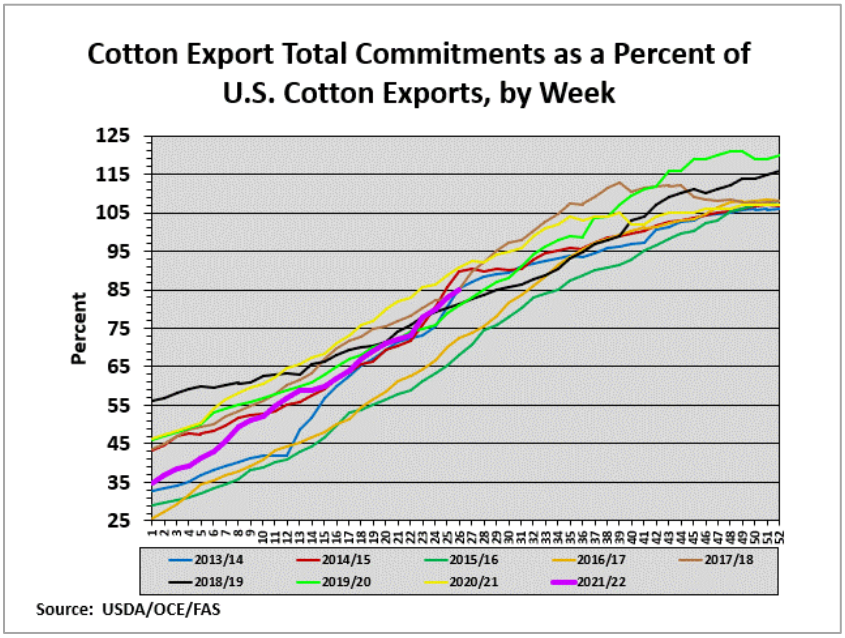
The export situation, particularly the question of whether weekly shipments are living up to the strong export sales pace of recent months, will remain a major focus of those tracking the old-crop situation. However, planting prospects and the pace of activity during the spring months will at least partially shift the industry's focus to the new-crop situation as summer nears.

The week ending Friday, February 3 saw the nearby March 22 ICE cotton contract rise to life-of-contract highs and then gyrate sideways. Price strength is attributed to strong demand, as indicated by the most recent export sales report. Mill fixations were a continuing likely source of price strength, with help from speculative buying. ICE cotton futures open interest trended higher across the week.

The blue line in the chart below shows actual weekly export shipments through the past week of the 2021/22 marketing year (converted from running bales into 480 lb. statistical bales, using USDA's conversion factor of 1.03). The week ending January 27 saw export shipments improve, but still remain below par. There are reportedly complicating external factors affecting the availability of trucks, drivers, shipping containers, etc. which could be constraining export shipments. Even for larger, more integrated shippers there remains issues with getting shipments onto ships.

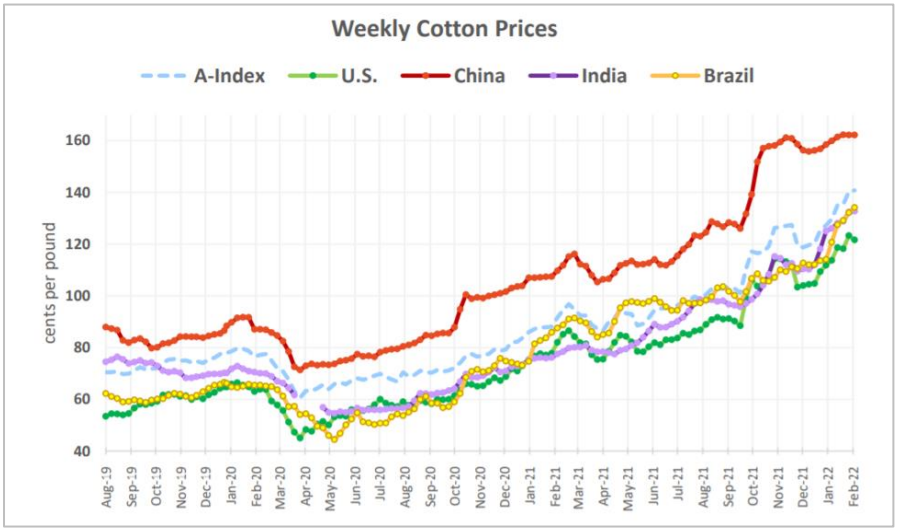


Another indicator of export demand is the percent of U.S. export total commitments to USDA's forecast export target of 15.0 million bales. Total commitments of all cotton, as of January 27, 2021, include 4,082,908 bales worth of accumulated exports of all cotton, i.e., pima and upland sold and shipped. It also includes another 8,302,350 running bales of pima and upland sold but not yet shipped ("outstanding sales"). The total of accumulated exports and outstanding sales is 12,385,258 running bales of total commitments which, after converting to statistical bales, is 85% of USDA's 15.0 million bale target for 2021/22 U.S. exports. That puts 2021/22 export commitments in the upper middle of the historical pack for this point in the marketing year (see pink line below).

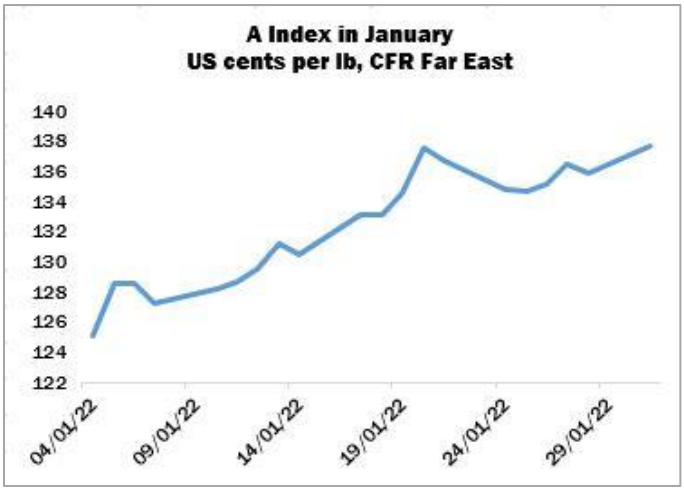


Global cotton prices rose since last month's WASDE with the A-Index exceeding 140 cents per pound, more than 50 cents above the same period last year. Brazil witnessed the most significant rise this month, climbing over 14 cents, owing to rapidly rising exports. Strong export sales, logistical constraints, and unfixed mill positions continue to support prices on the Intercontinental Exchange. Spot prices in China

were marginally higher amid the slowdown from Lunar New Year. The A-Index is roughly 20 cents lower than domestic prices in China, compared with 30 cents last month, as the bulk of classed newcrop enters the domestic market.



Upland offering rates continued on an upward trajectory throughout January. The Cotlook A Index gained over ten cents during the period to end the month at 137.70 cents per lb. That value represents the highest of the 2021/22 season so far and a level last recorded in June 2011. Firm basis levels and a rising New York futures market reflected bullish cotton fundamentals. March futures closed on the last day of the month with a new contract high settlement of 127.51 cents per lb.

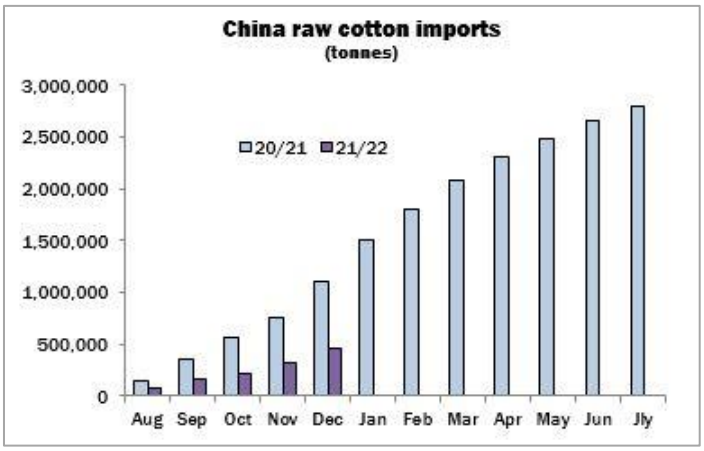


Further support for the bull side was derived from the substantial volume of spinners' unfixed 'on-call' purchases still outstanding on the spot month. According to the Commodity Futures Trading Commission, March unfixed sales contracts were equivalent to 4.36 million bales by January 21, one month from the contract's First Notice Day.

In the physical market, mills continued to pay very firm prices for cotton available for prompt and nearby shipments, while shippers grappled with the logistical constraints impeding the movement of cotton to various destinations. Worst affected were markets on the subcontinent, which coincidentally were also those on which demand was most active. Border closures in West Africa in response to regional political

developments were therefore untimely, in particular for spinners in Bangladesh, the single largest market for African Franc Zone cottons.

Chinese demand continued to feature intermittently, with state-owned trading entities credited with the bulk of new purchases. Mills in receipt of their 2022 raw cotton import quotas appeared more cautious buyers prior to the Lunar New Year holiday. Customs data revealed that December imports were less than 140,000 tonnes, and the total for the first five months of the international season amounts to barely 40 percent of arrivals during the corresponding period a year earlier. Cotlook's forecast of Chinese imports in 2021/22 was reduced by 500,000 tonnes to two million.



The United States Department of Agriculture's January supply and demand report included a reduction to the forecast of output from the domestic crop that was unexpected at this relatively late stage of the season. The estimate was cut by 660,000 480-lb bales (144,000 tonnes) to reflect a lowering of yields in various producing states, most significantly in Texas. That adjustment more than offset a decrease of 500,000 bales to the Department's forecast of exports in 2021/22, which now stands at 15 million bales.

The lower export number reflected the disappointing progress of shipments so far this season. Sales registrations, by contrast, remained brisk during January. Those by January 20 were already equivalent to over 80 percent of Washington's projection for the marketing year and seem likely to surpass that volume, perhaps by a substantial margin. The tempo of shipments, however, continued to run at well below the average required.

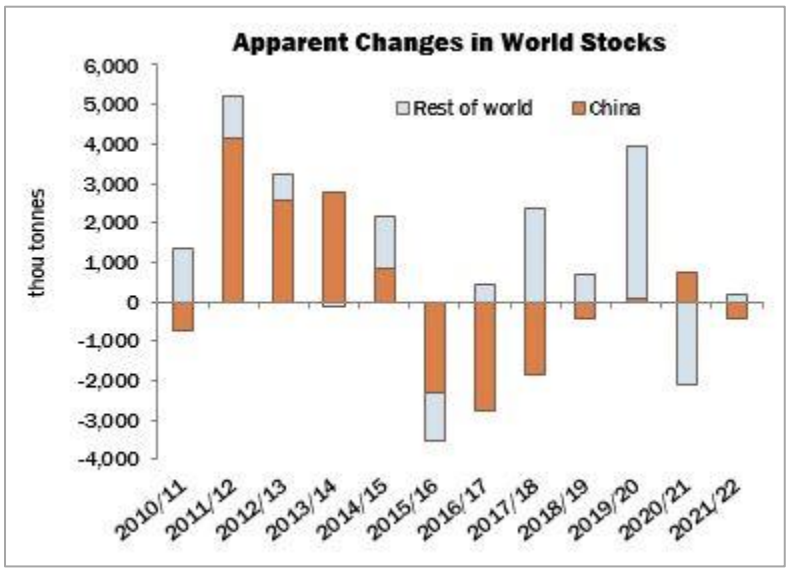
The other significant adjustment to production forecasts in January concerned India. The failure of arrivals to reach the expected level during December prompted a reduction of 212,000 tonnes to 5,780,000 (34 million bales of 170 kgs). That change all but eliminated the country's exportable surplus, whereas (according to the Cotton Association of India) exports during the October/September domestic season are forecast at 815,000 tonnes.

The resultant tightness of the local supply position has been expressed in sharply rising domestic prices that broke successive records during January. Our Indian quotation, so often the cheapest of the basket from which the Cotlook A Index is calculated, moved outside that selection. In fairly short order, the country has thus shifted from a potential supplier of cotton to the international market to an emerging source of import demand.

The escalation of domestic raw cotton and cotton yarn prices also prompted calls for government intervention, for example to withdraw the import duty levied on imports of raw cotton in the 2021 budget.

Various meetings of stakeholders took place but no official decisions were made prior to the 2022 budget proposals, due on February 1st.

Lower figures for the US and India resulted in a lowering of Cotlook's production forecast for the 2021/22 season to 25,669,000 tonnes, implying a reduction in world stocks by the end of the season of 253,000 tonnes.



Forecasts of output in the Southern Hemisphere meanwhile show an upward bias. Planting is progressing well in Brazil, while in Australia the development of plants has recovered from an indifferent start, assisted by warmer conditions. The two crops account for a significant proportion of the rise in world production forecast for the current season and may prove crucial to the continuity of supply to the world market prior to the movement of the 2022/23 Northern Hemisphere crops towards the end of the year.

Planting intentions for next season will come into sharper focus over the coming months, and Cotlook's initial forecast of world production and consumption in 2022/23 will be published in the February 24 issue of Cotton Outlook. The prospects for the US will be under scrutiny over the coming weeks. At the end of January, the December contract in New York closed above the dollar mark for the first time, ostensibly providing a strong incentive to plant cotton. Early assessments, however, are qualified by a number of caveats. Prices for crops that compete with cotton are also strong, and rising input costs may disproportionately affect cotton. Unless copious rains are received before planting time, the severity of the drought prevailing in West Texas gives rise to uncertainty regarding abandonment rates and dryland yields in that major cotton producing region.

PLC Farm Program Payment Projections – 2021/22 CY and 'early' 2022/23 CY

The table below projects the national marketing year average prices for purposes of the Price Loss Coverage (PLC) program. A PLC program payment is triggered when the national Marketing Year Average (MYA) price for a commodity falls below that commodity's effective reference price. The payment rate is then multiplied by the farm's program yield and made on 85% of base acres.

Covered Commodity	***2021/22 MYA Price****	*Effective Reference Price*	***2021/22 CY PLC Payment Rate***
Corn	$5.45	$3.70	--
Grain Sorghum	$5.45	$3.95	--
Long Grain Rice	$13.50	$14.00	$0.50
Medium Grain Rice	$13.90	$14.00	$0.10
Seed Cotton	$0.4608	$0.3670	--
Soybeans	$13.00	$8.40	--
Wheat	$7.30	$5.50	--

*national marketing year average (MYA) prices reflect the midpoint price level from the February 9, 2022 WASDE report.

Covered Commodity	***2022/23 MYA Price***	*Effective Reference Price*	***2022/23 CY PLC Payment Rate***
Corn	$4.80	$3.70	--
Grain Sorghum	$4.70	$3.95	--
Long Grain Rice	$12.50	$14.00	$1.50
Medium Grain Rice	$12.70	$14.00	$1.30
Seed Cotton	$0.4047	$0.3670	--
Soybeans	$10.50	$8.40	--
Wheat	$6.50	$5.50	--

**national marketing year average (MYA) prices reflect the prices contained in the USDA Baseline Projections to 2031 report, released November 2021.

Sources: USDA Agriculture Market Service (AMS), USDA Foreign Agriculture Service (FAS), USDA Farm Service Agency (FSA), USDA National Agriculture Statistics Service (NASS), USDA Economic Research Service (ERS), USDA FAS GAIN Report, USDA Office of Communications, USDA World Supply Demand Estimates (WASDE), AgDay, Ag Fax Media, Ag Market Network, Agri-Pulse, Ag Resource Company, Ag Web, Agricultural Market Information System (AMIS), Allendale, American Farm Bureau Federation, Bloomberg News, Brock Report, CME Group, Cotton Grower, Cotton Incorporated, Cotton Outlook, Creed Rice Report, Daniels Trading, Delta Farm Press, DTN Progressive Farmer, Farm Futures, Fiber 2 Fashion, Hightower Report, Intercontinental Exchange, International Grains Council, Iowa State University, Lakefront Futures and Options, LSU AgCenter, Mississippi State University, National Cotton Council, Peterson Institute of International Economics, Plexus Cotton, Pro Farmer, Refinitiv, Reuters (Karen Braun), Rice Market Letter, Southeast Farm Press, StoneX, Successful Farming, Texas A&M University (John Robinson), University of Arkansas, University of Georgia, University of Illinois, University of Tennessee, U.S. Grains Council, USA Rice Federation, U.S. Soybean Export Council, and the Wall Street Journal.

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