**Staff Report No. 2021-60** **December 13, 2021**

# December Market Update
## *Corn, Soybeans, Rice, and Cotton*

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**WASDE Summary**

This month's 2021/22 U.S. corn supply and use outlook remains unchanged from the November estimates. The projected season-average farm price remains at $5.45 per bushel.

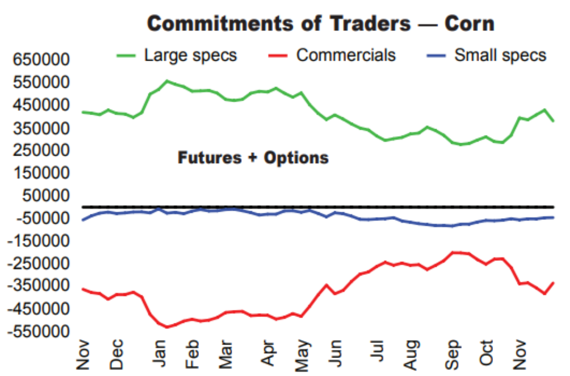
Soybean supply and use projections for 2021/22 are unchanged from las month. Although soybean crush is unchanged, soybean oil production has been raised because of higher extraction rates. With increased soybean oil supplies, food, feed, and other industrial use of soybean oil has been subsequently raised, offsetting lower consumption in both canola and cottonseed oils. Based on a review of EPA's proposed rule for 2020-2022 renewable fuel obligation targets, soybean oil used for biofuel for 2021/22 is unchanged a 11 billion pounds. The U.S. season-average soybean and soybean oil price forecasts for 2021/22 are unchanged at $12.10 per bushel and 65.0 cents per pound, respectively. The forecasted price for soybean meal has been increased by $5.00 to $330.00 per short ton.

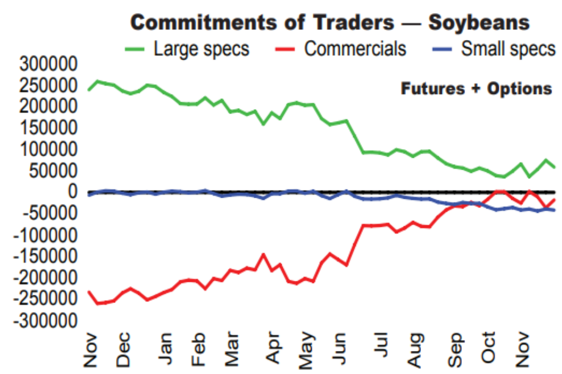
The outlook for 2021/22 U.S. rice is for reduced supplies, unchanged domestic use, slightly lower exports, and fractionally lower ending stocks compared with last month. The import forecast is reduced 1.5 million cwt to 33.5 million, based on a slow pace of shipments through October and expectations of continued high freight costs and limited container availability the rest of 2021/22. Additionally, the export forecast is reduced by 1.0 million cwt to 89.0 million, all for medium- and short-grain rice, based on the pace of shipments and outstanding sales to-date. U.S. exports are limited by high prices and smaller U.S. supplies. Milled rice exports are reduced 2.0 million cwt to 55.0 million, which would be the lowest milled rice exports since 1973/74. The all-rice ending stocks are forecast fractionally lower to 34.5 million cwt. The season average farm price for long grain rice is projected at $13.10 per cwt. The season average farm price for Southern medium grain rice is projected at $13.70 per cwt.

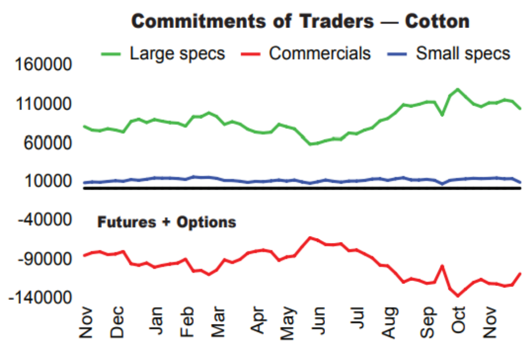
The U.S. cotton 2021/22 supply and demand forecasts are largely unchanged this month, with only a slight increase in production. The U.S. production forecast is raised slightly as higher yields in other regions offset lower yields of the Southwest. U.S. exports, mill use, and ending stocks are unchanged from their November forecasts. Upland cotton's projected season-average price is also unchanged from November, at 90 cents per pound, 36% above its year-earlier level.

*As we head into the last month of 2021 and look forward to 2022, there are many questions that continue to be unanswered regarding the grain markets. Did extreme July heat and dry soils lower the U.S. corn crop even lower than what the trade is currently realizing? Did the beneficial August rains create a record yield for U.S. soybeans? With corn input prices so high, how many actual acres that have been traditionally planted to corn will get switched to soybeans in the spring? Wheat prices are strong. How many new acres of wheat will be planted in the U.S. this coming crop year? All of these important questions are keeping grain prices well supported.*

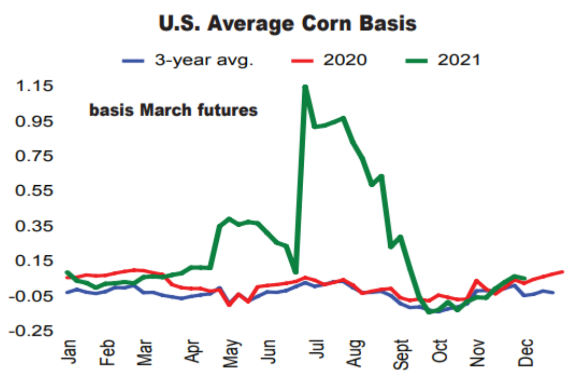
**Commitment of Traders Report, Tuesday, December 7, 2021**

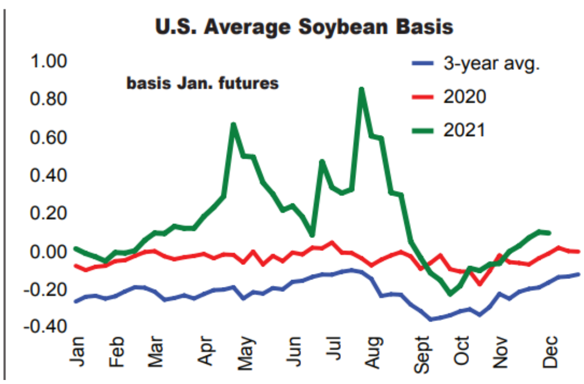


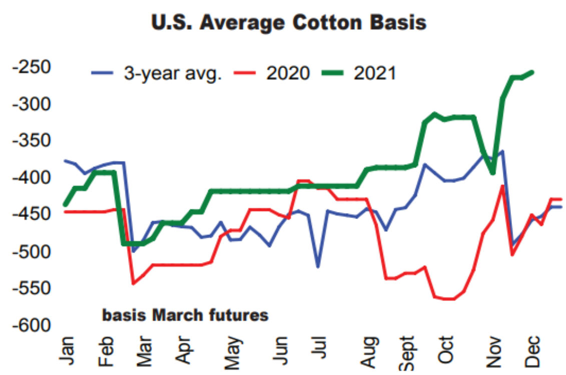




**Cash Market Basis Charts, Wednesday, December 8, 2021**



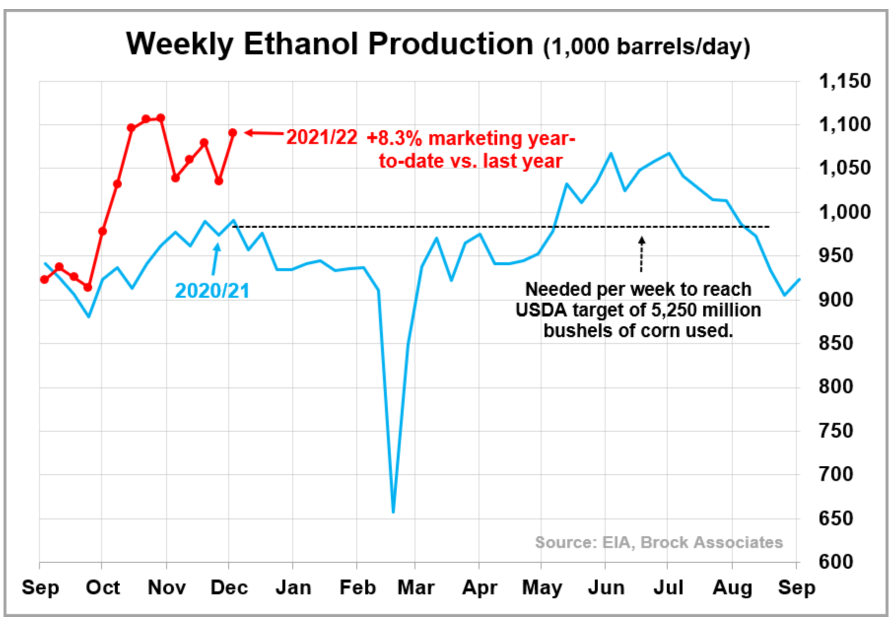






## Corn

Traders had expected a modest decline in U.S. ending corn stocks in the December WASDE report and indications were that corn for ethanol usage would be increased by possibly 25 million bushels or more. However, that was not the case and U.S. ending stocks were left unchanged at 1.493 billion bushels. There were zero changes to the corn balance sheet, which led traders to believe we will likely see ending stocks move lower in subsequent reports, as it appears that corn for ethanol usage could be understated by as much as 50 million bushels to 75 million bushels.

Over the past month, corn futures have gained spillover support from soybeans and wheat but failed to make a sustained push above the $5.93 per bushel resistance. Further signs of robust demand from domestic ethanol producers also tended to act as a support to the domestic corn market. U.S. ethanol production rose 21,000 barrels per day to 1.060 million during the week ended November 12th, the Energy Information Administration reported. Ethanol stocks dropped 205,000 barrels to 20.08 million barrels. Over the past four weeks, U.S. ethanol production averaged 1.087 million barrels per day, their highest four-week average since December 2017.




Below is a December 6 chart of March corn, which seems to show an ascending triangle chart formation- typically a bullish continuation pattern in an uptrend (DTN chart). While China has not returned to the U.S. corn market since the spring, rumors surfaced regarding China buying U.S. corn last week. Even without China, corn export sales are the second highest for this time of year. In the weeks ahead, the U.S. should be well positioned to garner additional business as it competes with Ukraine. The negative influence hanging over corn and other commodities is the expansion of COVID variants and the ensuing travel restrictions and lockdowns that could occur. In in the absence of a La Nina-induced expansion of drought in southern Brazil and Argentina, there is a limit as to how high corn futures can go in the short run. The corn basis is hinting at new export business and, though ethanol production slipped last week, the domestic basis also hints at strong domestic demand.


Biofuel producers received a mixed bag of news with the announcement by the Environmental Protection Agency (EPA) that it would be rolling back biofuels blending volume requirements for 2020 and 2021, while increasing levels for 2022. Although separate issues, the Biden administration also announced the long-delayed $700 million in COVID relief funding for biofuels producers that had been appropriated roughly one year ago and the denial of 65 small refinery exemption requests that had been pending since President Biden took office. However, as feared by rumors circulating this fall, EPA took retroactive action for the 2019 and 2020 driving seasons. The proposed draft rule seeks to cut the 2021 conventional renewable fuel requirement to just 13.32 billion gallons, representing EPA's view of actual consumption. In addition, EPA is proposing to reopen the already-finalized 2020 renewable volume obligation (RVO) and reduce the requirement from the original volume of 15 billion gallons to just 12.5 billion gallons, again reflecting EPA's estimate of actual consumption.

Bloomberg News reports that the proposal comes as President Biden battles gasoline prices near a seven-year high and inflationary pressures that threaten to undercut the U.S. economic recovery. The move follows months of deliberations over how to set the targets following a pandemic-spurred drop in fuel demand, while still encouraging greater use of biofuels made from corn and soy oil. The measure responds to arguments by oil refiners and their allies on Capitol Hill that reductions were critical to address a decline in fuel sales and compensate for 2020 targets they said exceeded blending capacity.

For 2020, the EPA is taking the unusual step of seeking to reduce the total quota to 17.13 billion gallons, from a 20.09 billion target established in December 2019. As much as 12.5 billion of that could be fulfilled with conventional renewable fuels, such as ethanol. By reducing the 2020 quotas, the administration could ensure refiners don't deplete a stockpile of previously generated credits they use to prove they have fulfilled quotas. For the current year, the overall target would be 18.52 billion gallons, with as much as 13.32 billion of that coming from ethanol. The agency is proposing to boost 2022 requirements to 20.77 billion gallons, which it said would represent 11.8% to 12.3% of total transportation fuel. That could include as much as 15 billion gallons- the maximum allowed under federal law- from ethanol. The agency also proposed an additional 250 million gallons of biofuels be blended in 2022 on top of the quotas, and intends to seek the same for 2023 to address a court-ordered rebuke of earlier targets four years ago.

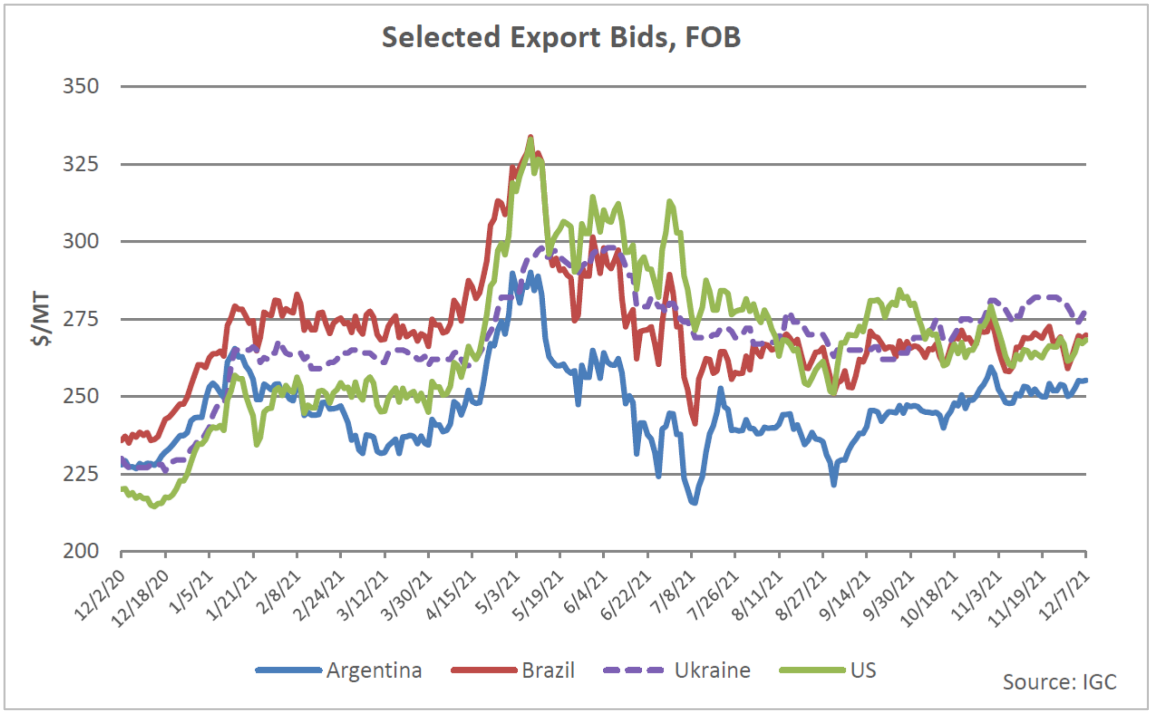
Chinese corn and sorghum imports are up and are expected to sharply increase. China imported 1.3 million metric tons (MMT) of corn in October, up 14.2% from last year. Through October, China imported 26.23 MMT of corn, a 236% surge from the same period last year. Chinese sorghum imports totaled 830,000 MT in October, up 57.2% from last year, and its imports for the first 10 months of the year at 8.18 MMT jumped 103%. China brought in 480,000 MT of wheat last month, down 23.1% from last year, but its imports through October at 8.08 MMT rose 20.8% from year-ago levels.

Chinese corn is still trading above the $10.00 per bushel level as the Asian nation harvests their new crop. China is buying Ukrainian corn right. Buying from the Ukraine first makes sense as they don't have the reporting systems the U.S. does. The U.S. is going to be the residual supplier of corn just like it is with wheat. What that means is corn and wheat tend to be priced lower around the world and major importers tend to come to the U.S. when supplies are not available elsewhere. It is hard for the U.S. to be the low-cost provider when U.S. land and labor costs are higher compared to competitors.

Chinese buyers made substantial purchases of Ukrainian sourced animal feed corn. The volumes bought ranged between 300,000 to 700,000 tons. One Ukrainian trader said eight to 10 shipments were bought (≈500,000 tons). A Reuters article indicated that, 'China still has a corn requirement,' a trader said. 'It is strange that China is buying from Ukraine instead of the U.S. where corn prices in C&F terms (including ocean shipping) are lower.' There is talk China does not like the U.S. system of announcing overseas sales to the market, which can immediately push prices up. The Asian nation needs soybeans to feed its expanding hog herds, and November is a prime time for the U.S. to sell its crops, having just finished the harvest. Supplies are at their peak and U.S. prices should be the most attractive in the world.

U.S. corn exports continue to be highly competitive in the world market. Argentine exporters continue to offer corn in the corn marketplace for December to February arrival. This coupled with eroding interior cash prices in Brazil has sustained competition for world market share, particularly into Asia. However, U.S. Gulf corn for December to January shipment is offered measurably below Brazilian and Ukrainian origin. Ukrainian basis is quoted at $1.45 over CBOT futures as compared to U.S. Gulf basis of $0.85 to $0.95.

Corn's story of demand so far in 2021/22 has centered on industrial use amid highly profitable ethanol production margins. Since November's WASDE was released, major exporters' bids initially declined on fears over the spread of the Omicron variant of COVID-19; however, bids rebounded in early December in North and South America. Argentine bids are up $7 per ton to $255 and Brazilian bids are up $11 per ton to $270 on good late-season export demand. U.S. bids rose $8 per ton to $268 as continued demand from domestic processors and reports of export sales of 1.0 million tons in the week ending November 25 underpinned price support. Ukrainian bids remained relatively unchanged, settling in at $278, down $2 per ton.




In other developments, Reuters reported earlier this week that, "China has laid out a clear path for seed makers to get approval for genetically modified crops, under proposed rule changes that should lead to commercial cultivation of GM corn. Details of the planned regulatory overhaul for the seed industry were published by the agriculture ministry in a draft document that is open for public comment until December 12th". The proposed changes mean that a handful of recently approved GM traits developed by Chinese companies could be ready for market launch in a year. The article noted that, "top policymakers have also urged progress in biotech breeding, or GM crops, seen as key to ensuring food security.

"While investing heavily in GM research and development for years, Beijing has remained cautious, barring the planting of GM soybeans or corn, despite allowing imports for use in animal feed." China, which in recent months has publicly stated its desire to become more self-sufficient in grain, has never permitted planting of GM soybeans or corn even though they can be imported for use in animal feed.

After importing an average of about 4 million tons of corn annually between 2013 and 2019, China has imported 29.5 million and 26.0 million tons in 2020 and 2021, respectively.

Origin Agritech Ltd., a Chinese agriculture technology company, announced on November 15th that its new GM corn trait has finished its environmental release trials and is in preparations for production trials (the fourth stage in the five-stage process to receive its bio-safety certificate). The trait was developed in collaboration with the Chinese Academy of Agricultural Sciences Institution of Biotechnology and provides both pest and pesticide resistance. The trait is the furthest along of any trait with similar resistances currently in the approval pipeline, the company said. Commenting on the development, Wei Han, Origin's vice president of business development said, "As China moves towards its GMO positive future, this new corn trait will allow us to be competitive in the GMO corn market for many years to come," he said. "It will help with both increasing yields to ensure the country's food security and decreasing the need for toxic insecticides."

## Soybeans

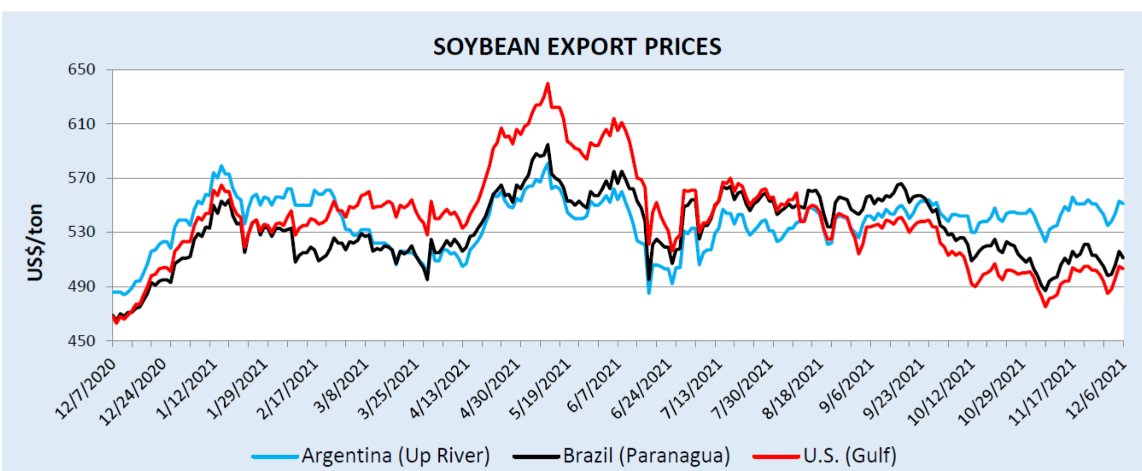
For the December WASDE report, only minor changes were expected to the U.S. soybean balance sheet and that proved to be correct. U.S. soybean ending stocks were left completely unchanged, although most in the trade had expected a modest increase of 13 million bushels, resulting from lower exports. Even with soybean export sales down a lofty 27% from a year ago, USDA chose to wait to make changes to the 2.050 bb export number. U.S. ending stocks remained at 340 million bushels. Minor product changes included soybean oil production increasing due to higher extraction rates.

Fundamentally, broad-based buying has been seen across the soy complex, with much of the price support technical in nature. Funds were active buyers, as they continue to rebuild their net long positions in the soybean and soymeal and extend their length in soybean oil. Support came from daily export sales of soybeans and soybean oil. USDA announced China bought two cargoes of U.S. soybeans for 2021/22 delivery, though there was talk of additional business.

USDA's announcement that exporters sold 132,000 metric tons of U.S. soybeans to China was a supportive market factor. Strength in soy production futures also helped boost soybean prices, which extended gains after breaking out above key chart resistance. Favorable weather in South America capped futures gains.

Technically, soybean futures have significantly broken out of its recent downtrend, helping spur a lot of the price strength seen recently. Nearby January soybeans posted their highest close since September 29th and are working on a potential monthly bullish reversal on the nearby soybean futures continuation chart. On a concerning note, soybean oil futures gave back most of their morning gains and soymeal futures, which are already technically-overbought finished near midrange for the day.

Chinese export demand (or at least perceived to be from China) has been a supportive market factor for soybeans lately. November prices for U.S. soybeans declined slightly on greater supplies and a slower export pace to China. Brazil soybean prices were also down in line with U.S. prices. Argentina soybean prices were up marginally as processors raised bids in hopes of spurring additional selling by producers.



Bloomberg reported that China is making big purchases of soybeans from Brazil, an unusual move for this time of year. "Yet this year, Brazil is even cheaper and cutting into the U.S.'s key sales window. Last week China bought at least 30 soybean cargoes from the U.S. and Brazil, with more than half coming from the South American nation, according to people familiar with the matter. The move shows that Brazil, already the top shipper, is becoming ever more competitive on world markets."

China's October soybean imports from the United States fell sharply from the previous year, customs data showed on Sunday, hit by poor demand and limited exports. China brought in 775,331 tons of U.S. soybeans in October, down 77% from 3.4 million tons a year earlier, according to data released from the General Administration of Customs.

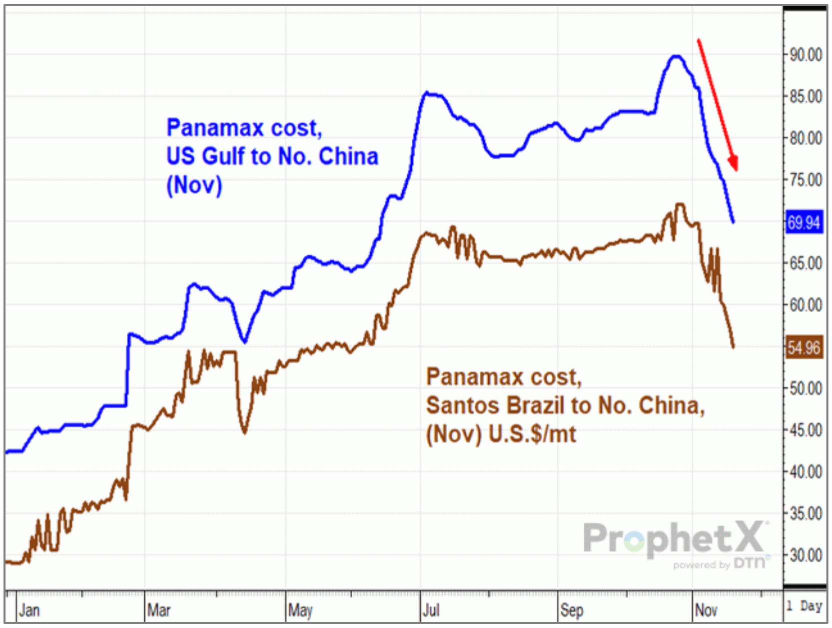
In mid-November, corn and soybean prices have both benefitted from a shift in trader focus, going from a disappointing early start in export sales to more bullish expectations for domestic demand. For corn, USDA reported on November 12th one bushel of $5.52 corn in Iowa could be processed into $8.88 worth of ethanol and $1.50 worth of distillers' grains. No wonder cash corn prices are averaging $5.61 across the U.S. and basis shows signs of strengthening before harvest is even finished.

For soybeans, the numbers are just as enticing. On November 18th, USDA reported one bushel of $12.62 soybeans in Illinois could be crushed into $8.70 worth of meal and $7.65 worth of bean oil. With crush margins like that, it was no surprise when the National Oilseeds Processors Association most recently reported 184.0 million bushels of soybeans were crushed in October, the most active month since January.

Bullish demand here in the U.S. has helped firm up a cash soybean market that drooped to a national average of $11.46 on November 8th, its lowest of the year. As encouraging as the recent showing of domestic demand has been for corn and soybeans, the market can't ignore the bearish concerns in this year's export markets. China has the ability to dramatically change the numbers, but has yet to play its hand in 2021/22.

The other concern that has been difficult to gauge this year is the impact of higher shipping costs on U.S. exports. According to DTN, the cost of shipping 55,000 metric tons of grain on a Panamax from the U.S. Gulf to northern China went from $42.48 MT at the end of 2020 to a high of $89.84 MT on October 25th. At the peak, the higher shipping cost penciled out to $2.45 a bushel for soybeans, a discouraging cost for importers.

The blue line on the chart above shows the cost of a Panamax hauling grain from the U.S. Gulf to northern China more than doubled in 2021 as a renewal of demand outpaced the ability of many companies to get back to work. In mid-November, shipping costs are finally starting to ease, a welcome sign of normalization (DTN ProphetX chart). As of mid-November, the cost of shipping soybeans on the same Panamax had fallen to $69.94 mt or $1.90 per bushel for soybeans, a 22% drop from the October peak. Shipping costs can fluctuate like waves of the sea, but it is fair to say the pandemic-related pressures which caused shipping costs to double in 2021 are no longer getting worse. It appears the shipping cost of grain is finally normalizing as economies improve and workers get back to work.

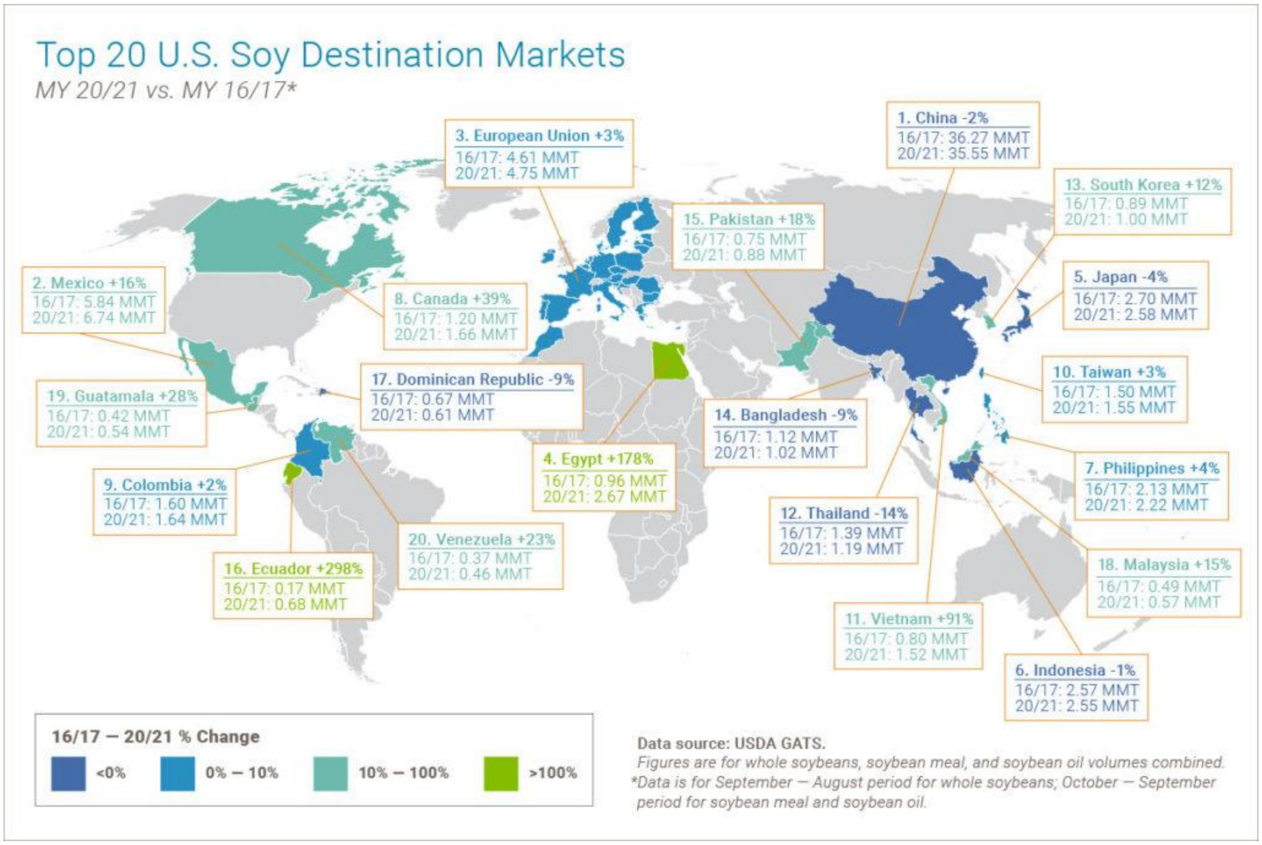



The logistical nightmare of congested harbors and ports will remain in the headlines through the holidays, but for bulk grain shipments, there appears to be light at the end of the tunnel. The recent devastating floods around Vancouver are unfortunate for the region and have created a new set of logistical problems in Western Canada. For grain being shipped out of the U.S. Gulf, however, there is reason to expect better days ahead.

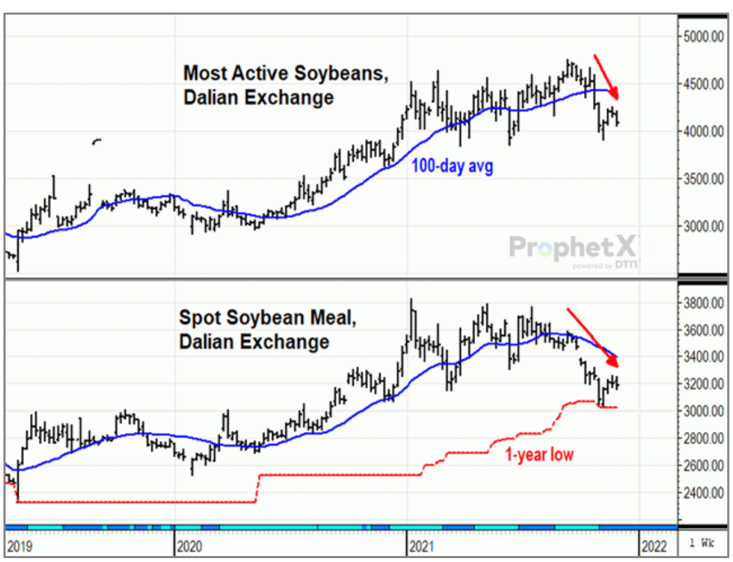
For U.S. corn and soybean prices, the recent strength of domestic demand is encouraging and so is the recent easing of shipping costs. Even so, a 34% reduction in Chinese purchases of U.S. soybeans from a year ago still stands as the market's most bearish hurdle. Lately, there have been bullish rumors about China buying a lot of U.S. soybeans, but reported amounts, so far, have been modest. Judging by this fall's lower soybean prices in China, it is going to be difficult for U.S. domestic demand to make up for lower purchases from China. U.S. hogs and poultry can only eat so much meal.

U.S. soybeans set a new record for exporting more product in more international markets than ever before, the United Soybean Board, U.S. Soybean Export Council and American Soybean Association announced. The U.S. Soy industry achieved high export results across the board this year. U.S. Soy shipped 74.76 million metric tonnes of total soybean complex, valued at more than $34 billion (based on September-August for whole beans, and October-September for soybean meal and oil). International markets purchased 12.3 million metric tonnes of soybean meal and approximately 781,766 metric tonnes of soybean oil.

The new aggregate volume record reflects efforts to diversify and expand markets and usage. As additional importers and companies focus on value, demand for high-quality soybeans continues to grow, driving U.S. Soy forward as a premium, sustainable protein. This increase in demand has led to U.S. soybean acting as a primary solution for protein demand worldwide, producing growth in several markets. For the 20/21 market year, nearly half of U.S. Soy destination markets grew by at least 10% compared to the 16/17 marketing year which was the prior record year for whole soybean exports. Examples of notable growth when comparing the 2020/21 and 16/17 marketing years include: 178% in Egypt, 298% in Ecuador, 91% in Vietnam, 18% in Pakistan, and 28% in Guatemala. U.S. soybeans have maintained a diverse market distribution balance to ensure stability and facilitate future market growth.




China is the world's most aggressive buyer of soybeans, and there have been years when China's appetite was large enough to make large purchases from the U.S., while also absorbing a record harvest from Brazil. Two recent examples of that were last season and in 2017/18. In both of those seasons, however, soybean meal prices on China's Dalian exchange were moving higher, showing signs of rising demand within China. That is not the case this year. In late August, spot soybean meal prices on China's Dalian exchange fell below their 100-day average and, by early November, had reached their lowest prices in a year. Soybean meal prices on China's Dalian exchange have weakened considerably since late September, corresponding to a reduction in this fall's purchases from China (DTN ProphetX chart).



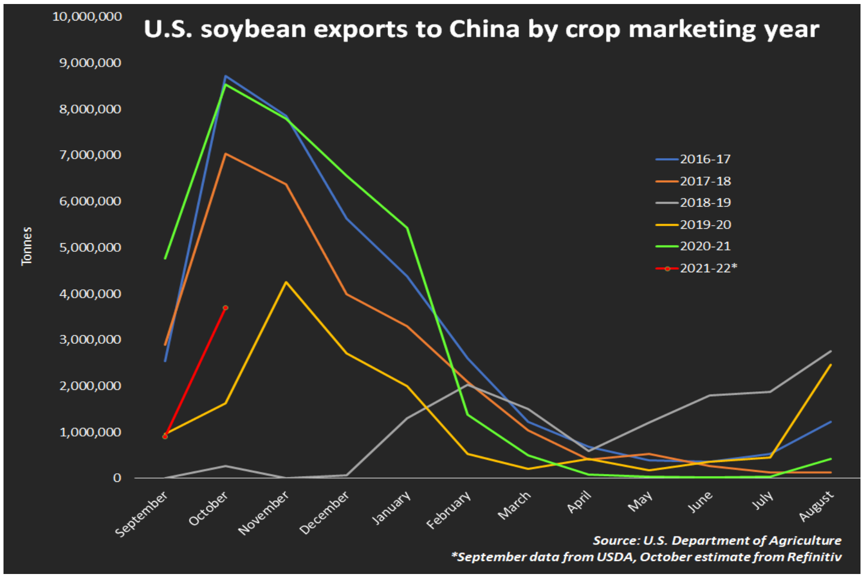
Reuters reports that China may cut U.S. soybean imports after shipping delays shortened the export window. Something has caused China's demand for soybean meal to weaken significantly this fall, and it is difficult to say what it is. There are reports of soybean crush plants being closed this fall in an effort to conserve scarce electricity.

In the larger picture, there is no doubt China will require increasing amounts of soybeans in future years as their economy and living standards continue to grow. For now, China's temporary weakening of demand is unfortunately happening during the very months when U.S. exporters best meet this source of demand. But, Brazil's next soybean crop is off to a good start and is on track for an early record harvest in 2022. The crop will need cooperative weather to finish, but the market already has Brazil's FOB soybean price for January within 27 cents of the U.S. Gulf price.

Brazilian transportation costs to China are typically 25 cents to 45 cents less than U.S. costs from the Gulf, meaning Brazil is already a competitive source of soybeans in January. In February, Brazil's FOB price is 39 cents a bushel cheaper than U.S. soybeans, even before the transportation cost advantage is included. U.S. soybean sales are not far away from becoming much more difficult to make.

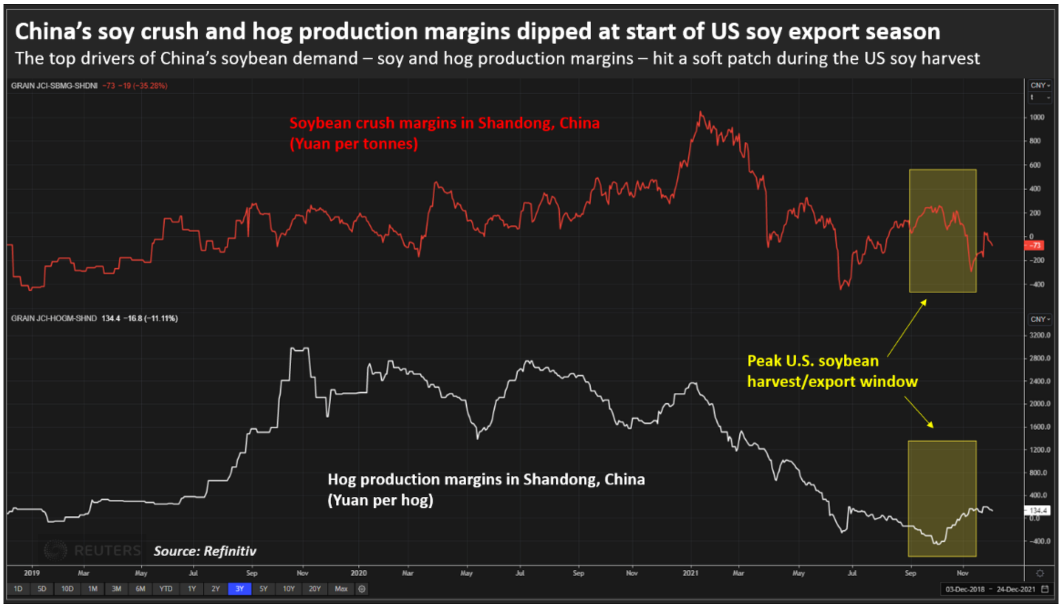
Chinese soybean imports from the U.S. in 2021/22 are expected to fall sharply from last season after loading delays following Hurricane Ida. An early 2022 Brazil soybean crop also shortened the U.S. export window to China, the world's top soybean buyer. China's total imports of U.S. soybeans for the marketing year that started on September 1st may drop by at least 20% to less than 30 million tons, according to analysts and top importers.

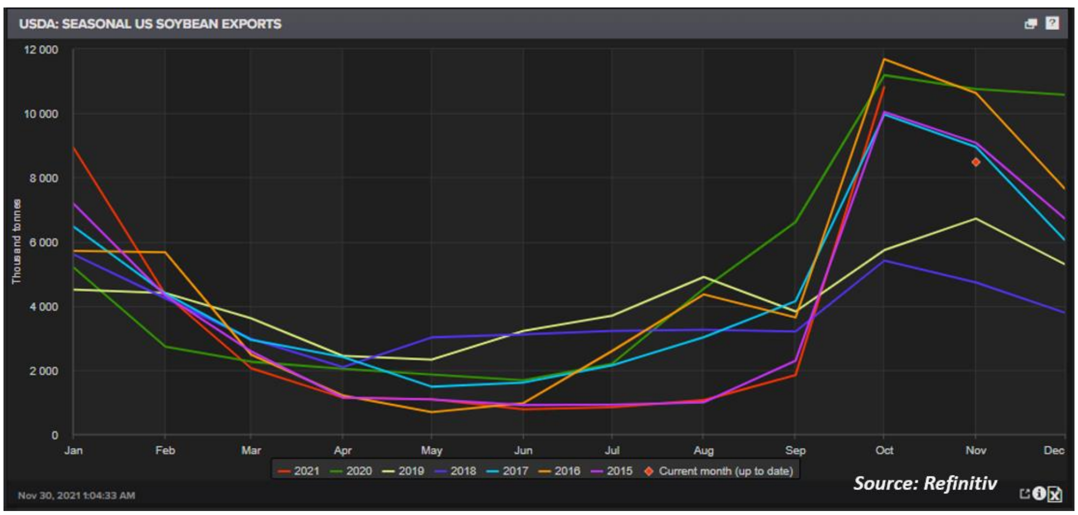
U.S. farmers have just gathered their second largest soybean crop in history, and typically export around 45-50% of annual output. More than half of those sales tend to go to China, which in turn makes around 70% of its U.S. soybean deals during the post-harvest window from September through December.




But this year the aftermath of Hurricane Ida- which hobbled crop-loading at key U.S. ports for several days in September- resulted in an 81% drop in China-bound shipments that month from the year before, according to USDA data. Further, the main drivers of China's soy demand- crushing and hog production margins- hit a soft patch right during the peak U.S. harvest window, blunting China's appetite for U.S. supplies.

Chinese soy crush and hog production margins dipped at start of the US soybean export season. U.S. loadings picked up sharply in October to over 10 million tons, according to Refinitiv data, but now face the prospect of an earlier-than-usual start to the 2022 export season out of Brazil, the world largest soy producer.

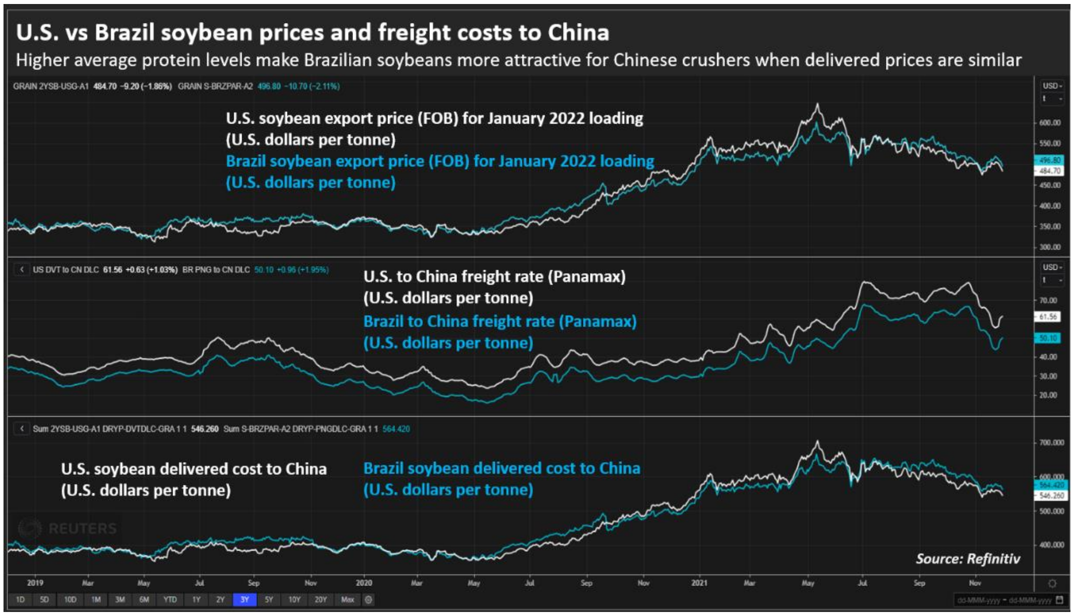



"The U.S. (soybean) export season had a bad start this year. Crush margins were low and demand was not good at that time," said COFCO futures. "Then there was the impact from Hurricane Ida. And some U.S. market share was squeezed by Brazilian beans," COFCO said.

U.S. soybean shipments to China in 2020/21 were the strongest since the 2016/17 season, thanks in part to a delayed start to the 2021 Brazil export season that helped extend U.S. sales.

"American beans won't have such opportunity in the coming months, as planting of Brazilian beans is fast this year, meaning there will be ample beans to be shipped to China in the first quarter of 2022," said one analyst with the agriculture division of Mysteel, a China-based commodities consultancy. U.S. soybeans have also faced price headwinds, with export offers trading fairly close to those out of Brazil, where freight costs to China are lower.




In addition, Brazilian soybeans offer better crush margins for Chinese soy processors, thanks to higher average protein levels. Margins for U.S. soybeans shipped out of the Pacific Northwest for February delivery are at about 500 yuan ($78.49) per ton, compared with 684 yuan for Brazilian beans, according to Mysteel. "Brazilian beans are just cheaper, and price is king," said an Asia-based trader with a top trading house. Chinese soybean importers have nearly completed December purchases and are now filling January and February needs just as the Brazilian export season ramps up, according to a U.S. exporter.

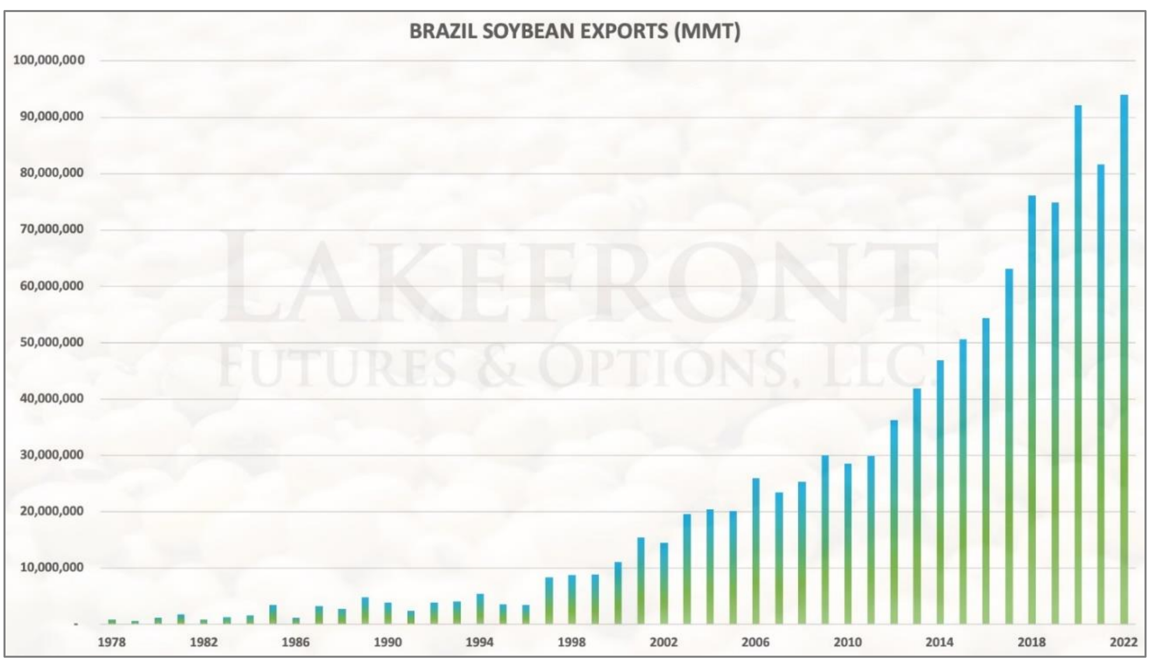
January soybean shipments from the U.S. Gulf were offered around $500 per ton FOB late last month, with an additional $78 or $80 per ton for freight to China. Brazilian soybeans are around $520 per ton FOB, with freight of around $60 per ton, he said. "It's been a little disappointing from a U.S. perspective. Brazil's been wedging into our export window a little more every year," the exporter said. "Our window is closing."

China's soybean arrivals in November-December will mainly be U.S. cargoes, but Brazilian shipments are expected to rise sharply during January-March to over 6 million tons. That would mark a more than four-fold rise from the 1.35 million tons during the first quarter of 2021.

With China expected to account for nearly 60% of all soybean imports this season, U.S. exporters will not be able to find a single large buyer to replace it. Europe, Mexico, Argentina, Egypt and Thailand are the next five largest importers, according to the USDA, but collectively buy only a third of China's total.

Hog production margins will be a key determinant of final soy demand in China next year. A surge in its pork output in 2021 caused margins to collapse to record lows, slashing the sector's appetite for soymeal feed. But a recovery in pork prices and hog margins is now underway, and if sustained will lift total soy consumption.


Brazilian soybean exports are forecast to hit another record in the 2021/22 marketing year. Exports of Brazilian soybeans in November were 80% compared to the previous year and up 32% since the month of September. It is noted that there were some "news" headlines reporting that Brazil was out of soybeans three months ago. Given the aforementioned statistics, that reporting seems inaccurate. U.S. commitments are down 29% as compared to the previous year.




*The Clarin* (an Argentine Newspaper) reports that traders were disappointed with bilateral talks between the US and China. Trade was expected to be included in them, but the issue did not come up. China has stated that it would be willing to amend the Phase 1 agreement in the future but is calling on the United

States to make concessions to do so. The main concession is the reduction or elimination of the 35% tariff that the US has on several Chinese products. So far, the United States seems unwilling to do this.

Chinese soybean imports, in general, fell in the month of October. According to official data, China imported only 775,000 tons of U.S. soybeans in the month, 77% less soybeans than in October 2020. China also imported 3.3 million tons of soybeans from Brazil, 22% down from a year ago. The question now is whether China has adequate soybean reserves to meet demand or is simply waiting for a correction before extending hedging.

More attention is also beginning to be paid to the demand for soybean meal in the U.S. Global demand is starting to increase as we see an increase in livestock production. Smaller oilseed crops in countries like Canada are also raising demand for U.S. flour. One of the largest increases in the demand for flour may occur later in the commercial season if Argentina does not have a good soybean campaign and the drop in production is consolidated. Argentina is the world's leading supplier of soybean products and a decline in the country's soybean crop will also reduce these stocks.

Ocean freight is falling sharply in the international market, following the sharp fall in the price of coal and iron ore in China. The main reason is the lower demand for iron ore by China which is the largest importer of iron ore and coal.

The USDA cut its projection for U.S. agricultural exports for next year, citing weaker demand for soybeans from China and lower prices. The news comes as China's soybean imports in October from the United States have declined sharply this fall during what is normally a boom period, amid poor milling margins and intense price competition from Brazil.

The market is already starting to look beyond the December WASDE report and instead focuses on the agency’s January report release. January is when the final U.S. performance figures will be released, and consumption will only be changed in December. The biggest interest going forward is in U.S. soybean balance sheets after a yield reduction in the November report. Even if we see a lower soybean yield in January, it wouldn't be surprising to see soybean production remain stable or even increase given the lack of demand we're seeing.

## Rice

The USDA released the December WASDE report which contained only minor revisions for both U.S. long-grain and medium & short-grain. The USDA didn’t make any notable changes to the 2020/21 balance sheet in this report but rather focused on the 2021/22 crop. Long-grain imports were revised downward, while export and domestic demand was left steady from the November report. Ultimately, the 2021/22 long-grain carryout was lowered by 1 million cwt, entirely the result of lower imports. Season average farm prices improved, but only slightly, up $0.10 per cwt to $13.10.

Medium & short-grain imports were also lowered this month, but that was more than offset by lower export use which is attributed to higher prices and less supply. The domestic use, as per the norm, appears more resilient against the current market conditions and is even expected to exceed last year’s demand.

Ending stocks were assessed up 500,000 cwt, and while California’s price projections are unchanged from last month, southern medium-grain was lowered $0.30 per cwt to $13.70 per cwt.

On the ground, there is little to report in the way of cash trade activity. With tax implications prohibiting some from selling, and the normal holiday slow-down inhibiting others, a mellower pace is normal for this time of year. However, the market appears to be focused on what 2022 acreage numbers will look like as a result of the soaring fertilizer costs and the potential for growers to plant more corn and soybeans. The expectation is that the largest reduction will come for Arkansas and that Louisiana will remain close to the same as this year. Mississippi and Texas are still up in the air, and California acreage on the West coast is completely contingent on precipitation and the ensuing water policy.

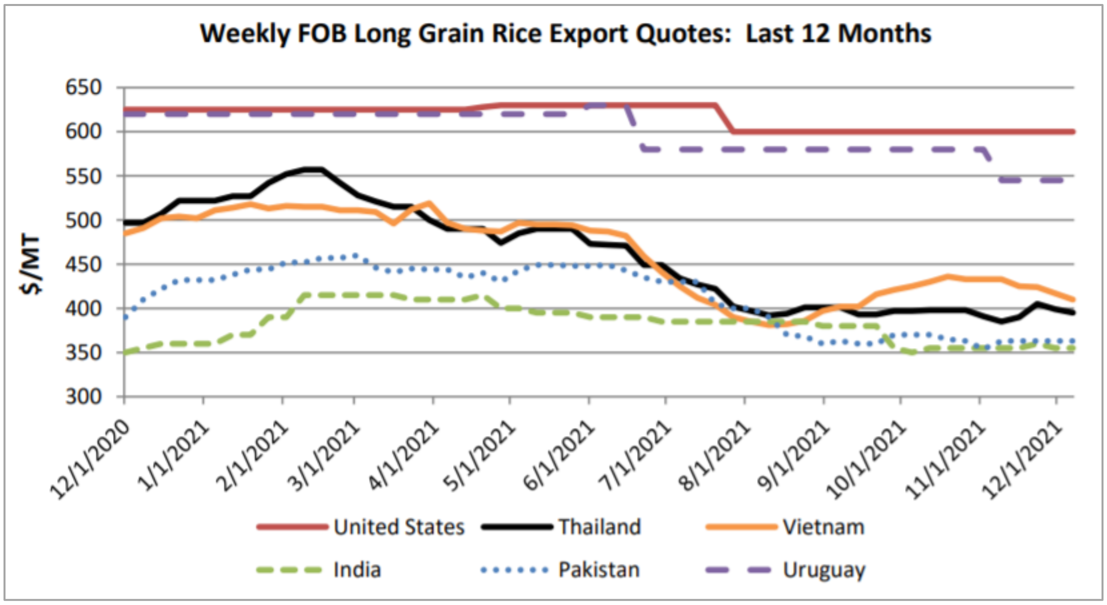
The weekly Export Sales Report shows net sales of 48,800 MT, which is up 51% from last week, but down 22% from the prior 4-week average. Increases were primarily for Honduras (18,500 MT), Guatemala (13,100 MT), Jordan (4,100 MT), Taiwan (3,000 MT), and Canada (2,400 MT). Exports of 60,100 MT were down 42% from the previous week and 21% from the prior 4-week average. The destinations were primarily to Guatemala (14,400 MT), Japan (13,000 MT), El Salvador (12,400 MT), Haiti (12,400 MT), and Canada (2,600 MT).

Futures have been taking a hit since Thanksgiving, with the low registering this week at $13.79. This could be on account of the cash market being slow, the typical slow-down this time of year, or simply the difficulty in the logistics sector. Average Daily Volume is 815, down 5%, and Open Interest is at 8,444, holding even with last week. If not before, early 2022 will give farmers some hard numbers as to the reality of the overall supplies resulting from apparent lower-than-hoped milling yields throughout the delta region. Most anticipate a tighter supply going forward. 2022 rice planting decisions are up in the air in light of the high cost of fertilizer and many are shifting more attention to soybeans. The bridge to the new harvest seems to be getting longer and the outlook for farm prices remains positive. The question is if farmers can take advantage of the expected conditions.

Argentina recently encroached on a key U.S. market, as the country sold 10,000 metric tons of paddy to Mexico. Brazil is also proving to be a formidable competitor in the paddy arena with stronger shipments to Costa Rica and Venezuela. The improved milling activity in the U.S. is attributed to greater milled rice shipments to markets in Latin America where Brazil and Argentina appear to be less engaged. Higher domestic use is also thought to be a supporting factor. Fortunately, the export market is propped by the milled market segment, which should begin to have a positive impact on the market if it remains strong.

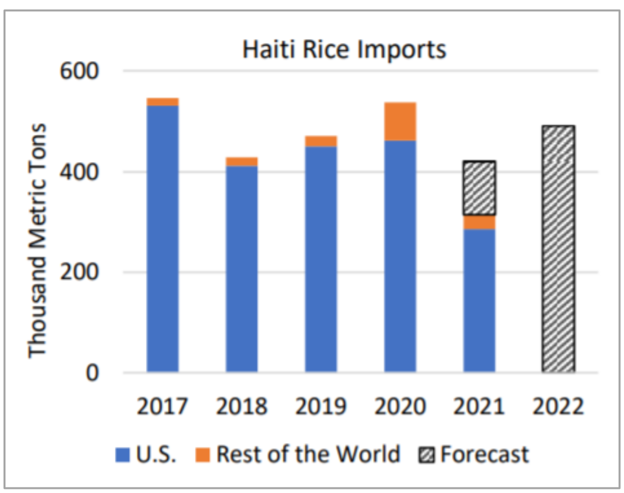
India’s rice exports tapered off significantly this month as African demand wavered. As prices have eroded for the past few weeks throughout Asia, many buyers are postponing their purchases in hopes of securing more favorable prices later. This is compounding the supply situation, adding further negative pressure to the market. Prices in India were assessed at $359 FOB last week and were moved down to $354 FOB this week; Vietnam saw similar price action. Some traders expect the drop in pricing to precipitate greater demand but believe that has been slow to materialize because of high logistics costs.

U.S. and Uruguayan prices have remained steady since the last WASDE with U.S. quotes at $600 per ton and Uruguayan quotes at $545 per ton. In Thailand, quotes jumped $10 to $395 per ton, reflecting strong demand from key importers offset a further weakening Thai baht. Vietnamese prices declined $23 to $410 per ton following the Philippines’ suspension of issuing phytosanitary permits. Pakistani quotes remained steady at $363 per ton, while Indian prices remain very competitive at $355 per ton amid robust supplies and steady demand.

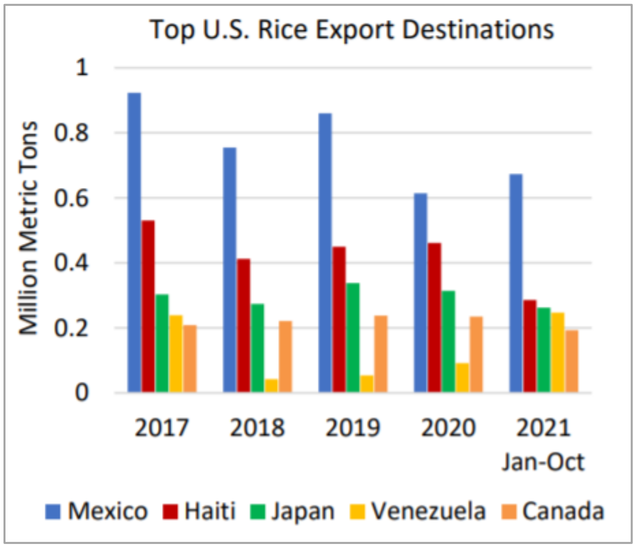



Milled rice for Haitian shipments has been steady, while Iraq business is in the rearview. Domestic business is steady, and the Omicron variant of COVID isn't expected to make significant impacts in the future food distribution to schools. The record yield of 7,756 pounds per acre, up over 130 pounds per acre from the previous forecast, is currently the best yield on record. This means that despite an enormous acreage reduction, only a 16% reduction in overall output is on record. However, millers are acutely aware that the yield has the potential to be offset by low milling yields, which may, unfortunately, be the case this year.

Rice is a significant part of the Haitian diet, but Haiti is dependent on imported rice to supplement higher-priced domestic rice. In 2020, imported rice accounted for 85 percent of consumption in Haiti. However, imports are down so far this year and are expected to be the lowest in several years. This past year, Haiti has had significant political, security, and economic challenges, which in turn have affected rice trade. Exports to the country remain weak as exporters and the companies that provide insurance for shipments to Haiti weigh the risks of shipping there. Importers are only bringing in the bare minimum of what is needed, causing Haiti rice stocks to tighten and prices to surge.



The situation in Haiti has also had a significant impact on U.S. rice exports to Haiti, (Jan-Oct 2021) which are down 12 percent compared with the prior year. November U.S. exports were sluggish and outstanding sales are low compared with recent years according to U.S. Export Sales. Haiti is mostly supplied by U.S. rice and is the largest U.S. milled rice market. However, U.S. exports face increased competition from other suppliers such as Brazil, Uruguay, and Taiwan, particularly in 2020. In 2021, U.S. suppliers have regained more market share, but competitors continue to supply the market. Because Haiti is so significant as a trading partner, the lower total imports by Haiti and loss of market share there are two reasons that the U.S. milled rice exports to the world are forecast at the lowest level since 1973/74. Looking ahead, Haiti rice imports are expected to rebound only slightly in 2022 which implies continued challenges for U.S. rice export recovery.



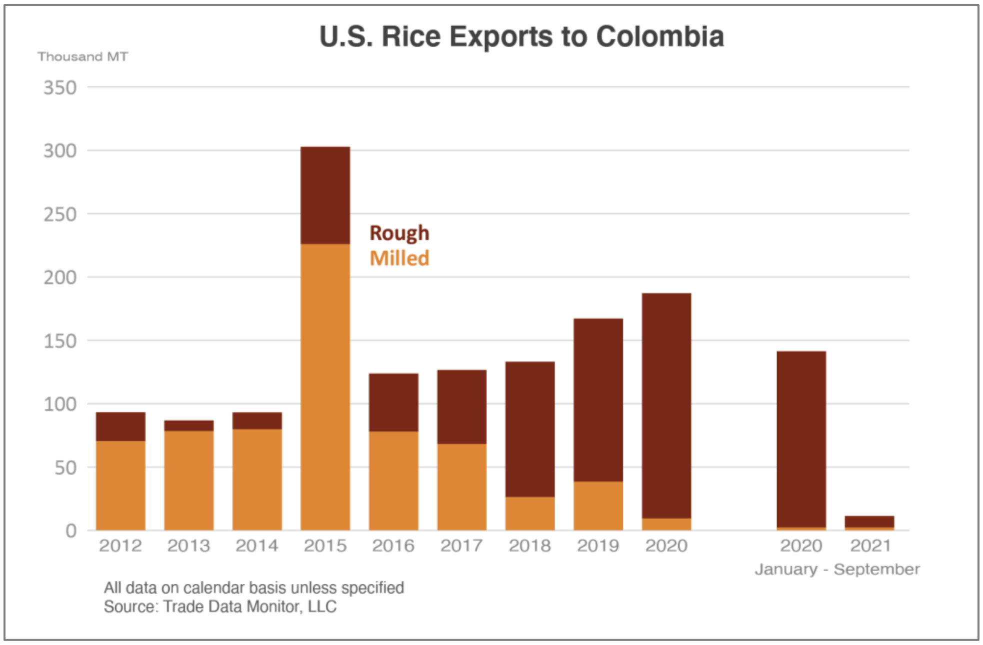

The MERCOSUR market conditions are certainly on the radar. Large unsold Brazilian inventories are having a ripple effect on its exporting neighbors as they approach closer to a new harvest. As a result, a significant volume of both paddy and milled rice from the Mercosur countries is expected to be sold into Central America and Mexico. New crop cutting will begin in Paraguay by January 2nd, and there are reports of prices of under $200 per ton in origin. Lack of demand has caused price decreases in Argentina and Uruguay as well. Initial harvest is expected in northern Argentina in first days of January, Brazil by mid-January while Uruguay closer to early February. FOB prices range from $270-$305 depending on the location, variety, and quality. We will continue to monitor these and other related Western Hemisphere markets including the current tender for 83,000 tons in Costa Rica that is only for Mercosur origin rice.

The FAO Rice Price Update shows that the Rice Price Index at 99.9 points in November, unchanged from last month, and 8% below last year. Medium grain rice is up 3.2% on account of the California drought, the highest since February 2015. The report also shows weakening prices for Indian rice because of the Kharif crop harvest, exerting additional downward pressure on prices.

The USDA posted a statement alerting the U.S. rice industry that the Colombia Rice TRQ went unfulfilled for the first time. Even with the advantages extended through the U.S.-Colombia Trade Promotion Agreement (TPA), US rice sales to Colombia have slid to roughly $5 million in 2021. Colombians are citing their larger crop and lower domestic prices as the reason for lower U.S. rice imports. However, the U.S. rice traders are quick to rebut that a growing presence of South American rice in Colombia is another key component to the weaker sales. Colombia was the eighth largest market for U.S. rice exporters in 2020 in terms of value, making it a critical market for U.S. long grain.

Since the TPA was enacted on May 15, 2012, with shipments soaring upon implementation, U.S. exporters have consistently filled the tariff-rate quota (TRQ) at 100 percent until 2021. In 2011, before implementation, U.S. rice exports to Colombia were only $3 million. The TPA went into effect in 2012, allowing an initial 79,000 tons of U.S. rice exports to enter duty-free compared to out-of-quota tariff rates of 80 percent. As a result, exports jumped to roughly $57 million in 2012, rising twenty-fold.

When sales to Colombia began to rise under the TPA, the U.S. mainly exported milled rice. U.S. rough (unmilled) rice was restricted to entering Colombia through one port due to concerns about the plant pest *Tilletia horrida*. However, the Colombian Agricultural Institute released the phytosanitary certificate for rough rice outlining required fumigation measures in 2017. The certificate permitted the entry of U.S. rough rice into all maritime ports and enabled U.S. exporters to respond to pent-up market demand. Since 2018, U.S. rice exports have been primarily rough rice. In 2020, Colombia was the second-largest destination for U.S. rough rice.

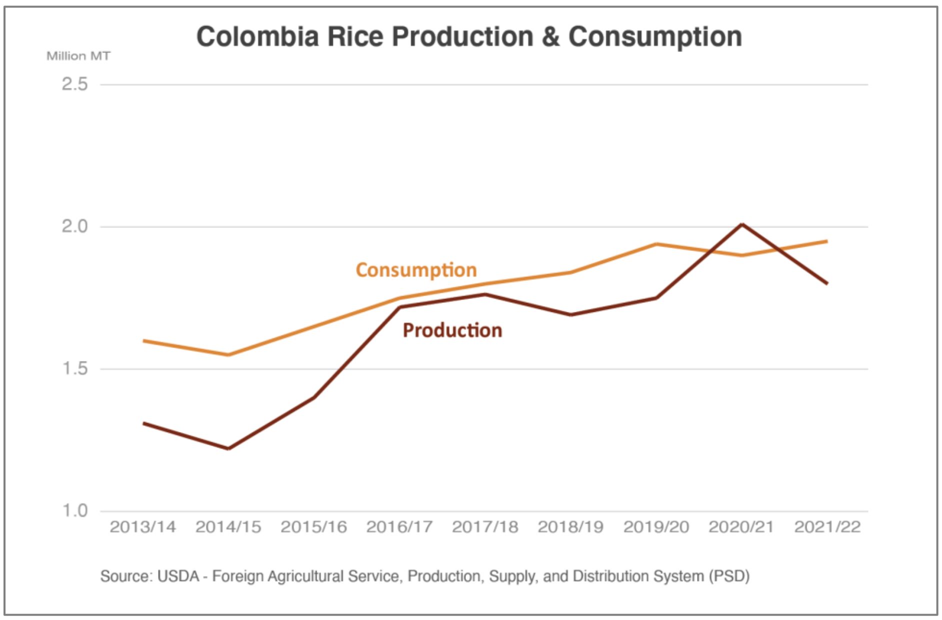



The TPA enabled growth in U.S. rice exports to Colombia and provides incentives on both sides to fill the TRQs specified under the TPA. The agreement allows U.S. sellers to bid on a specific amount of the listed quota at auctions three times each year, awarding the quotas to the highest priced bidders. As motivation to fill the auction quotas, both U.S. and Colombian rice industries evenly divide and distribute the auction proceeds to their respective industries for rice research.

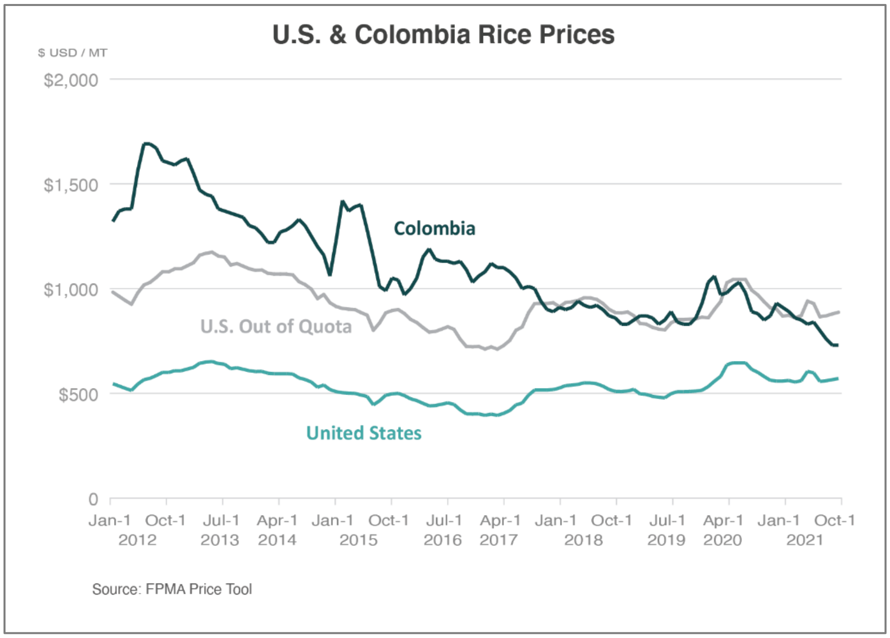
U.S. traders continue to face a tariff for out-of-quota exports. In 2012, out-of-quota duty rates were 80%, the same rate that other competitors faced. However, since 2018, tariff rates for U.S. rice have declined by 4.5 percentage points every year under the TPA. The current out-of-quota tariff rate is 55.4%. By 2030, tariff rates will fall to zero upon full implementation of the TPA.

| Colombia Rice Export Quota (MT) | | | | | |
|---|---|---|---|---|---|
| Auctions | Jan/Feb | June | October | Total | Total Awarded |
| 2012 | N/A | N/A | 79,000 | 79,000 | 79,000 |
| 2013 | 53,000 | 12,000 | 17,555 | 82,555 | 82,555 |
| 2014 | 60,412 | 12,540 | 13,318 | 86,270 | 86,270 |
| 2015 | 63,131 | 13,104 | 13,917 | 90,152 | 90,152 |
| 2016 | 65,972 | 13,694 | 14,543 | 94,209 | 94,209 |
| 2017 | 68,940 | 14,311 | 15,197 | 98,448 | 98,448 |
| 2018 | 72,043 | 14,955 | 15,881 | 102,879 | 102,879 |
| 2019 | 75,284 | 15,628 | 16,596 | 107,508 | 107,508 |
| 2020 | 78,672 | 16,331 | 17,343 | 112,346 | 112,346 |
| 2021 | 82,213 | 17,066 | 18,123 | 117,402 | 7,480 |
| 2021 (awarded) | 6,591 | 543 | 346 | 7,480 | 7,480 |

The above table reports the auctions and amounts awarded between the U.S. and Colombia since the agreement. The amounts awarded are then shipped to Colombia duty-free. The 2021 January auction was the first time a listed quota was not awarded in its entirety. Similarly, in the second and third 2021 auctions only a fraction was awarded from the listed allotments.

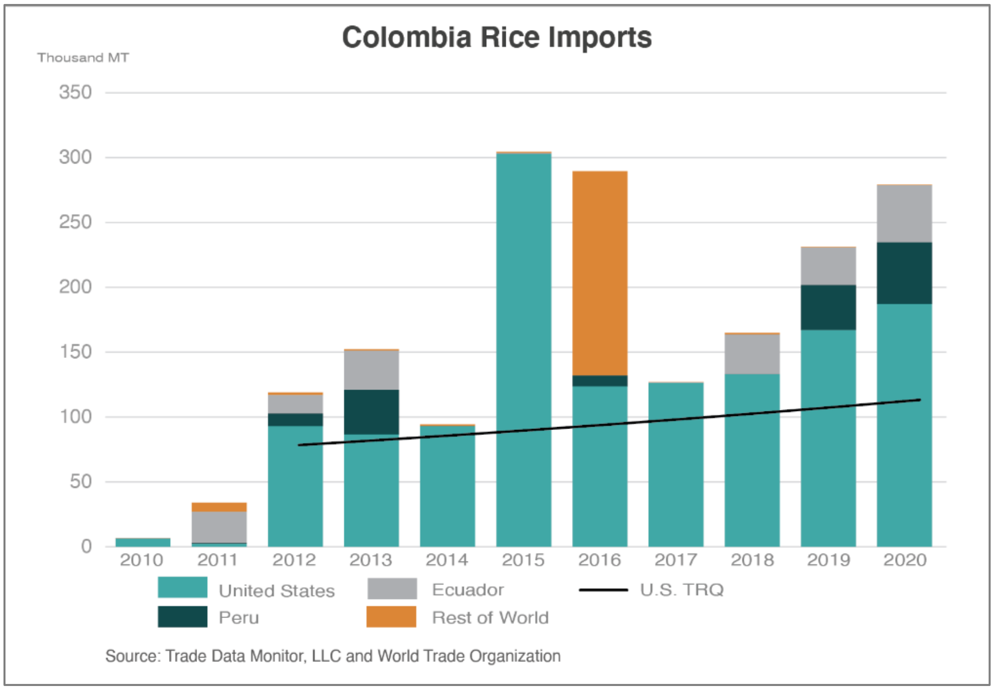



There are a few reasons why the quota has not been filled in 2020/21. The primary reason is rising rice production in Colombia led to lower domestic prices. The record 2020/21 production was nearly one-third larger than the previous year, resulting from record harvested area and higher yields. Due to the record crop and the addition of ample carry-over stocks, domestic rice prices within Colombia have fallen.




The price chart shows the differences between the Colombian national average retail prices for milled rice and the U.S. free on board (FOB) quotes for milled rice, with out-of-quota rates applied to the U.S. FOB milled rice export quotes based on the year. While U.S. exports to Colombia have been paddy rice exports, this gives the general sense of reduced competitiveness of U.S. rice in the market.

After the listed annual TRQ is filled, additional exports face tariffs listed in the chart. Despite the high tariff rates, U.S. rice has still been competitive for out of quota sales. However, Colombian domestic prices have trended downward over the past years and have begun to reach similar levels as the U.S. Not only have lower domestic prices in Colombia become a challenge to U.S. exporters, leading to unfilled quotas, but other competitors have also obtained duty-free access to the market due to their own free trade agreements with Colombia.




The most significant competitors for the U.S. are Peru and Ecuador. The two countries are members of the Andean Community of Nations (CAN), in addition to Colombia. Since 2018, CAN members have had access to a duty-free TRQ. Peru will have unlimited access in 2022 and Ecuador in 2027. U.S. market share has been decreasing over recent years as imports from CAN have grown. However, despite these gains, the U.S. still accounts for the largest share of Colombia rice imports. The exception was 2016, when Colombia imported rice from nontraditional suppliers due to severe impacts from El Niño.

In summary, Colombia has been a large market for U.S. rice, with exports increasing since the implementation of the TPA until recently; but it is currently not filling its TRQ with the U.S. For the current April 2021-March 2022 harvest, a smaller crop is expected in Colombia, but large carryover stocks will continue to dampen import demand. Competition with other suppliers makes it challenging for the U.S. to boost sales. Even though the current 2021/22 USDA forecast assumes that Colombian imports will pick up pace towards to the end of the marketing year, prospects for U.S. sales this year remain highly uncertain.

## Cotton

Fundamentally, industry sources suggest cotton millers and spinners are comfortable with current elevated prices, arguing that high yarn prices are justifying the elevated cost of cotton. They also indicate a shift toward synthetic fibers is currently too much trouble for the industry to shut down and reconfigure machine settings. Also, there was a news story making the rounds suggesting India may curtail a large percentage of her exports. That country's cotton production has been reeling this season from adverse weather events, as well as pink bollworm infestations. It was thought India might fill the void caused by the international boycott of China's Xinjiang cotton, but now that role may be in question. Fundamentally, the upside is limited by generally favorable harvest conditions in West Texas, and by the strength in the dollar index, which made a 16-month high again today before retreating. Export demand has been a bit lackluster recently.

The December WASDE report was neutral to slightly bullish for the price outlook. In summary, the U.S. crop was raised slightly (80,000 bales) but there was no change in the projection for exports. Production for China was unchanged but imports were lowered 250,000 bales. World demand was raised slightly (170,000 bales) but Use for China was unchanged. World ending stocks for the 2021 crop marketing year were tightened by 1.2 million bales.

These numbers shouldn't hurt the market and should be supportive. But, the numbers also aren't going to cause a return to a strong bullish outlook. These numbers should support cotton's recent recovery but the outlook for anything much higher is still guarded. We must remember that the run-up in price was largely speculatively driven. That bullish speculative buying has been eroded by OMICRON and demand uncertainty.

Just when the cotton market started to look sluggish, a rumor that India might consider export restrictions shook traders up with market briefly rallying out of a flag formation on new speculations of buying and trade short covering. However, the market quickly calmed down again once it became clear that the Indian government would hold off for now, expecting the market to retreat on its own.

While export restrictions may not be necessary, we have long held the belief that India's statistical situation is tighter than WASDE projections, as beginning stocks of ≈14 million statistical bales (17.84 million local bales) are still too high and exports of 5.8 million statistical bales (7.4 million local bales) seem too optimistic, possibly by as much as 1.5 to 2.0 million bales.

Commitments for the current season are now at 9.3 million statistical bales, of which just 2.4 million bales have so far been exported. These numbers compare to 10.0 million in commitments and 4.1 million bales in shipments a year ago. In order to make the current export estimate of 15.5 million statistical bales, 342,000 running bales would have to be shipped per week around the remainder of the season. This sounds like a tall order given current supply chain issues.

However, there might be trouble ahead, as government transfer payments have for the most part dried up and the savings rate has slipped back to its long-term average. This means that in order to get more cash, consumers will eventually have to divest some of their assets. Cotton futures were pressured by continued strength in the U.S. dollar, which reached its strong point against the euro since July 2012. The U.S. dollar index also hit its highest mark since July 2020, as the nomination of Federal Reserve Chair Jerome Powell for a second four-year term by President Biden suggests a less-dovish policy outlook. Dollar strength makes dollar-denominated commodities more expensive for foreign buyers. Higher cotton prices appear to be crimping demand for U.S. cotton.

COVID is on the rise in the U.S. with new cases up 31% in two weeks with holiday travel still ahead. Europe is experiencing an even greater resurgence while Austria will impose a 10-day lockdown beginning today and other countries such as Germany are considering the same. China, too, has seen a marked increase in new cases involving the Delta variant.

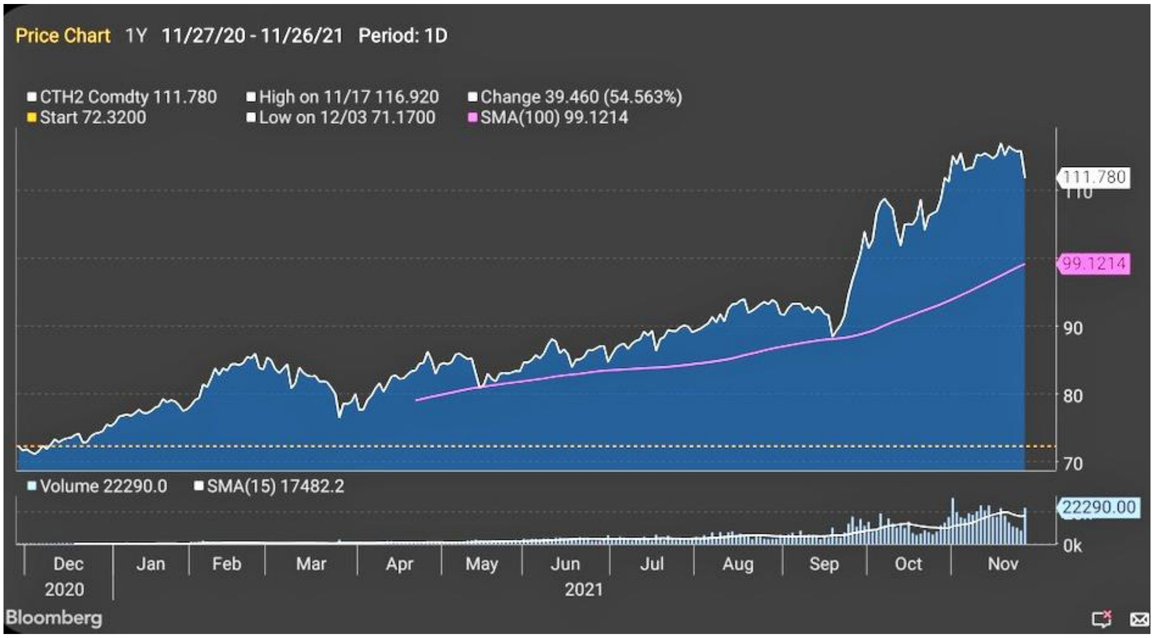
Supply chain disruptions which have plagued the shipping industry show little sign of improvement. Last week's export report indicated only 84,400 bales were shipped. With 37 weeks remaining in the marketing year, we need weekly shipments to average 340,000 bales to meet the export estimate of 15.5 million bales. In recent history, such a volume has only been surpassed twice, 2005/06 and 2017/18. Logistically, it can be done but will certainly be a tall order.

Fueling this red-hot economy is a consumer eager to spend as seen by an increase in retail sales of 1.7% in October, the third consecutive month of increases. Better yet, clothing stores saw an increase of 6.2%

in sales. Though some of this may be forward buying in fear of even higher prices, nevertheless it violates normal logic where one would expect sales to decline as consumer confidence falls.

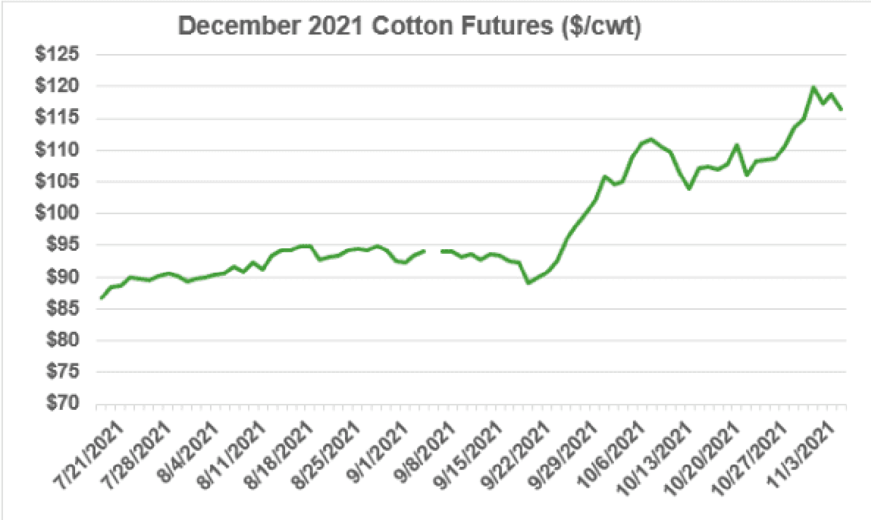
This spending spree is due in large part to being blinded by a so called "wealth effect" created by stimulus payments, rising asset prices, and lower debt while all the while disregarding the inevitable. Case in point, the stock market's capitalization has grown from $34 trillion to $51 trillion since the pandemic's inception.

The managed funds seem content with cotton fundamentals as they've added to their net long position for three consecutive weeks, to a historically high level of 8.3 million bales. Lending further support is 12.9 million bales of on call sales which equivalent futures must be bought between now and July.




However, export sales and mill fixations will come to the rescue on any significant price reversals. As for the 2022 crop, prices have held steady around 92 cents. Major movements are not likely until planting intentions are better known.

Cotton prices have seen an unprecedented run up, increasing $0.25 from September 20 up to $1.16 per pound on October 7th. This is the first-time dollar cotton has been seen since the 2010/2011 period, during which prices surpassed two dollars. How rare is dollar cotton? This is only the third stretch during which cotton prices have surpassed the dollar mark in the past four decades. Prices have bounced around during the last few weeks, reaching $1.20 per pound on November 1st, as shown in figure below.




What are the causes behind this price increase? When price increases occur, we often look at what market factors are the cause – typically an increase in demand or decrease in the supply – to gauge if prices are expected to remain high. In this case, there have not been any major recent supply or demand shocks.

In 2010-2011, the high prices were due to very low global cotton stocks. The recent price increase has been driven instead by high trade volumes of cotton futures.

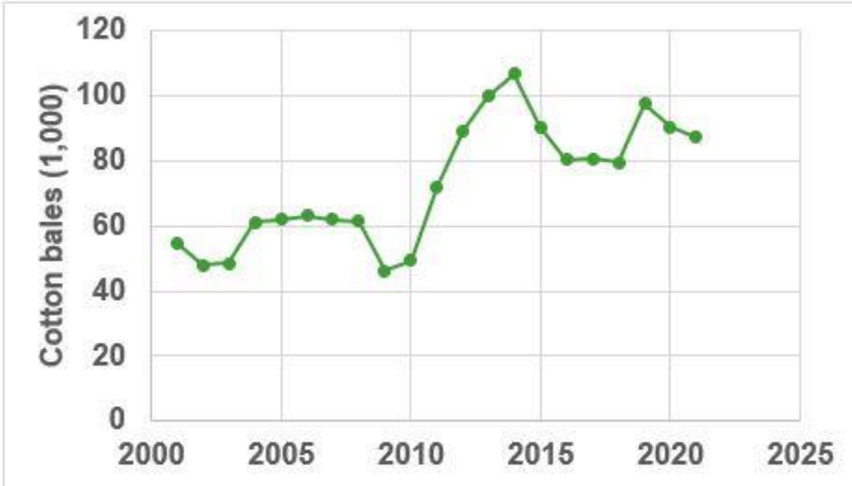
Investors trade commodity futures along with stocks and bonds by taking positions on whether prices will increase or decrease, and the recent market fluctuations in the cotton-futures market reflect this increased activity. A large uptick in the net purchases of cotton futures (5,000 per day increase) led to the higher prices. Since, speculative purchases drove the cotton-price increase, the market may continue to remain volatile, and could be difficult to predict short-term.

Another factor impacting this year's production will be the abandonment rate. The USDA estimates that 88.7% of planted acres will be harvested, after only 68.5% of 2020 planted acres were harvested. Combining the expected decreased abandonment with the high yields, 2021 production is projected at 17.65 million bales, up from 14.06 million bales in 2020.

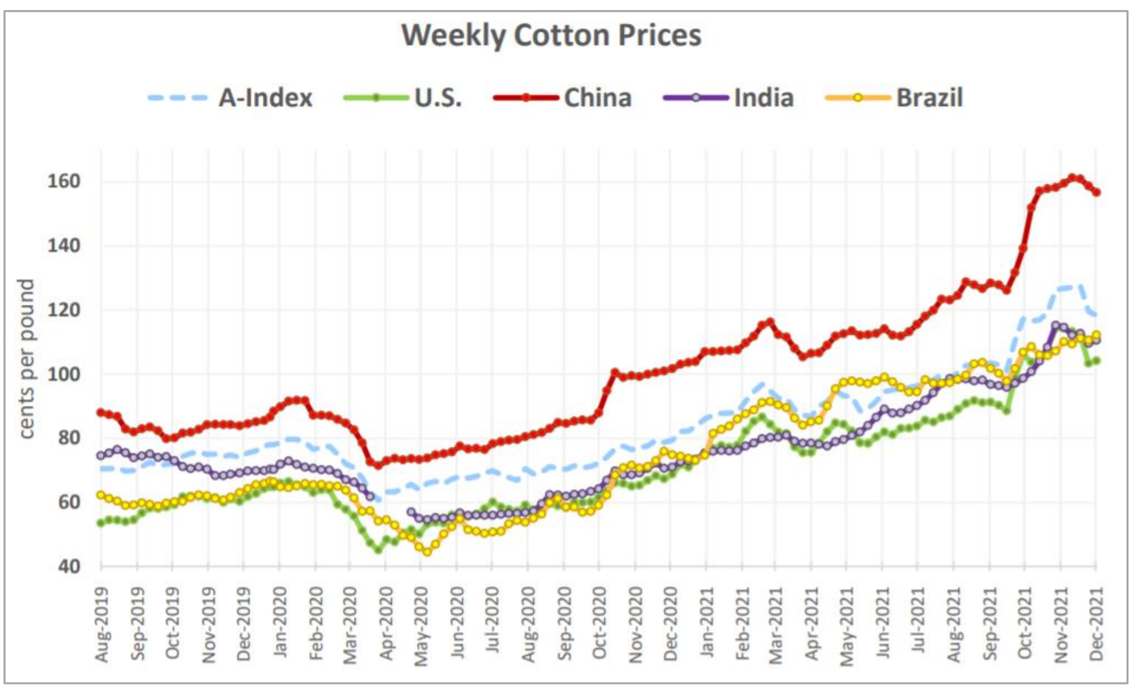
Cotton demand is projected to match the strong production this marketing year (which began August 1, 2021). Overall, cotton stocks are expected to remain at the same level as they were when the marketing year began, at 3.2 million bales. U.S. cotton stocks reached their lowest point since 2016 at the start of this marketing year.

The marketing-year average price forecast for 2021/2022 increased by $0.06 from the September estimate, to $0.90 per pound in the U.S. The $0.90 per pound figure would be the highest price ever for any marketing year and 35.7% higher than the $0.663 per pound estimated for 2020/2021.

Globally, cotton stocks are projected to reach their lowest mark in three years, at 87 million bales (shown in chart below). This is due to higher predicted mill use in 2021/2022, up 3% from the previous marketing year. The leading cotton consumers are expected to increase or maintain their consumption levels this year, with cotton demand expected to increase in 2021/2022 in India, Pakistan, Bangladesh, Turkey, and remain constant in China. Global production is expected to be 7% higher in 2021/2022 than in 2020/2021, but the high consumption is still expected to allow global stocks to decrease.




Global cotton prices fell since last month's WASDE following downward movements on the ICE March 2022 contract and new crop supplies arriving to major markets. An additional factor included the onset of the Omicron variant which negatively affected prices of major stock market indices and futures; for example, the December 3 S&P Retail Select Industry Index was 6 percent lower compared with the previous week. Rapid and volatile downward movements in major U.S. stock indices incentivized speculators to liquidate their long positions and lowered open interest in the March 2022 contract. Nonetheless, the A-Index is nearly 40 cents above last year's level, signifying prospects for robust global consumption relative to the previous year as 2021/22 global consumption is forecast up more than 3 million bales.




Although the high recent cotton prices were driven by speculation, the fundamentals of the cotton market both domestically and globally remain strong for producers, with U.S. stocks projected to stay among their lowest levels this decade and global stocks at a three-year low. The low stocks combined with sustained demand is a good signal for high cotton prices next year.

The March futures contract has become the nearby contract as the expiring December moves to first notice day. Thus, being the led month, the March contract is expected to move higher and assume the priced leadership that was enjoyed by the December contract. There are signals suggesting a weaker bull, not in the near term, but later. The remaining old crop contacts, March, May and July are still being fed a fundamental mixture of rich fundamentals that should keep them biting into the 120's.

The big bear facing old crop contracts continues to be concerns over exports and the fact that a reduction in export shipments will simply be shifted into carryover stocks, essentially on a 1 to 1 basis: thereby, increasing 2021/22 ending stocks.

If exports are so dreary then how does the bull continue to look so strong? Simply, the all but broken record we have played for months, on-call sales versus on-call purchases, that is, the known need to buy futures contracts versus the known need to sell futures contracts. One must be tired of the discussion, but it has led to

Index funds had an 8.34 million bale net long position (down 0.08 million), while the trade remained considerably net short at 18.22 million bales (down 0.21 million). So far, the trade's patience seems to pay off, but it is too early to call an end to this bull run. The 2010/11-season has shown that a bull market can suffer through steep corrections, only to bounce back even stronger.

U.S. export sales were better than expected during the Thanksgiving break, with 381,300 running bales of Upland and Pima finding a home in 17 markets, as Vietnam and China accounted for a combined 72% of the total. Shipments continued to limp behind, as just 73,700 RB were exported to 14 destinations.

Dr. O.A. Cleveland notes that cotton futures founds its new, but lower, trading range. The new objective now for the March/May/July contracts is $1.15 per pound. Prices for March futures now seem to be working mostly in the $1.04 to $1.10 per pound area.

If the U.S. can't export, then cotton supplies will stack up at the warehouse, adding to U.S. carryover and pressing U.S. old crop prices lower. In turn, that will act to pressure the new crop December contact lower as well. New crop prices will have enough pressure to deal with later in the winter as 2022 planting estimates are analyzed by the market, maybe 15-20% higher than in the year prior, just in the U.S. The bullish luster of the on-call sales vs on-call purchases ratio remains squarely on the side of the bull. Yet, it is not as strong as it was two and three months ago when prices took on the challenge of the teens and into the low 120's.

The weekly on-call sales report shows that 12.4 million bales of cotton must be bought in the futures market by textile mills between now and mid-June. Likewise, growers have 1.9 million bales of on-call purchases that must be offset by selling futures before mid-June.

The buying of futures continues to dwarf required selling of futures by some 10.6 million bales. The bullish sentiment of on-call sales remains in the forefront as the price of the bulk of U.S. export sales currently being made are not being fixed. U.S export sales have again become very brisk with China, Pakistan, Turkey, Vietnam, and Mexico leading the way. These countries will remain as the primary buyers and will include other Southeast Asian countries throughout the marketing year. The concern, as mentioned, is shipments.

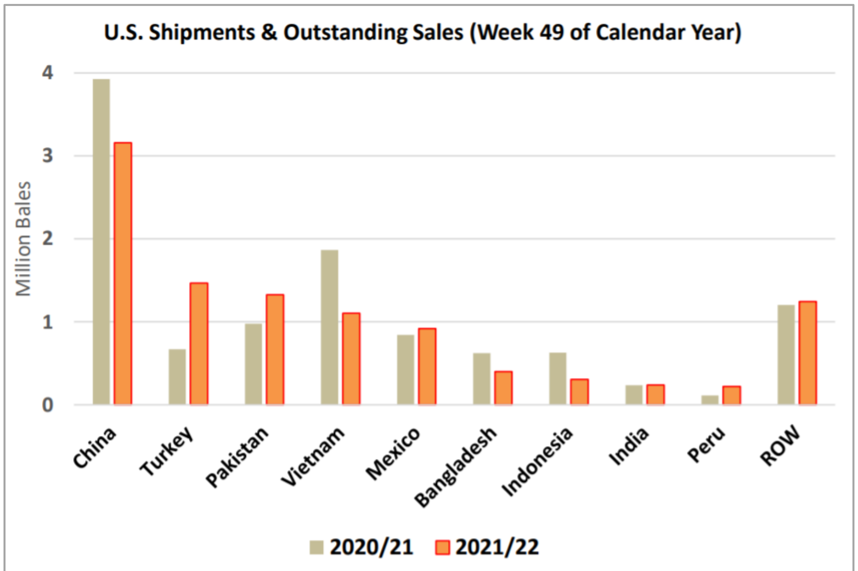
Shipments, (weekly and total accumulated) continue to greatly lag historical patterns as the world supply chain crisis has severely strained the world's ability to exchange raw materials and finished/manufactured goods. It is all a guessing game of hoping and wishing that U.S. cotton can get to the port and be shipped out.

Weekly shipments of U.S. cotton must dramatically increase if there is any hope of reaching the USDA estimate of 15.5 million bales, a number USDA continues to use, even five months into the 2021-22 marketing year. However, the first five months data (August-December) predict shipments as low 14.5 to 15.0 million bales.

For the season we now have commitments of 9.95 million statistical bales, of which only 2.55 million bales have so far been shipped. Compare that to last season, when 10.60 million bales were sold and 4.50 million statistical bales had been exported. We are running almost two million bales behind in shipments and would need to export 356k running bales a week to reach the current USDA estimate.

Unfortunately, pace of shipments is not likely to improve significantly over the coming weeks, as the US supply chain remains clogged. While there are plenty of empty containers available, there is a currently a shortage of chassis and trucks, plus the ports are still overwhelmed.

With container imports running about 15-20% above the volume of previous years, it is comparable to adding more cars to a highway during rush hour traffic. 20% more cars on the road don't just slow the flow by 20%, but can cause jams and grind traffic to a halt.




**Source:** USDA Export Sales Reporting
**Note:** Also known as Total Commitments in Export Sales Reporting; ROW (Rest of World)

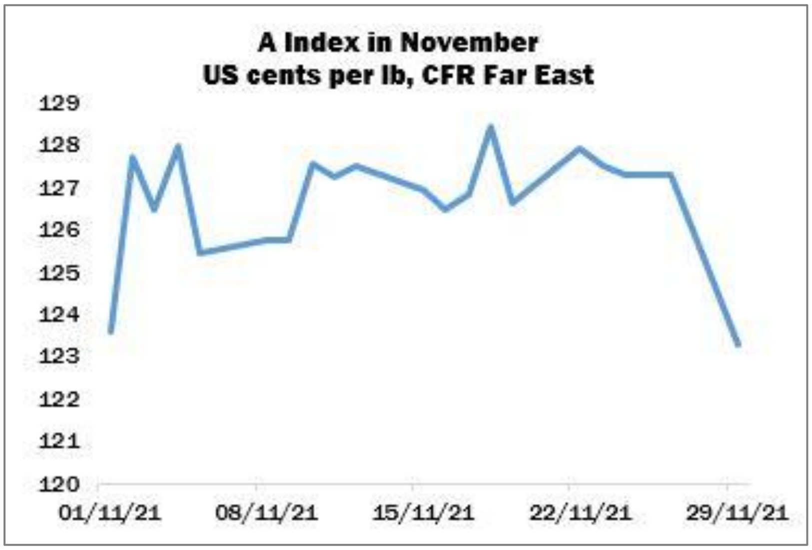
Once the holiday season is over, we expect the supply chain to finally normalize, but it is questionable whether U.S. exports can speed up to nearly 400,000 bales a week for the remainder of the season.

Many origins are experiencing similar problems, as many shipments being delayed by two to three months. This has caused mills to pay inflated prices for readily available cotton, since they need to keep their factories running, but once all this backed up cotton starts moving, the market might see the burden shift to the other end and cause supply pressure.

So where do we go from here? Speculators have started to reduce their net long and it remains to be seen whether their exodus will continue or whether they suddenly find renewed interest in our market. A lot will depend on the macro situation and whether financial markets can keep their composure. So far investors don't seem too concerned as they are still buying the dips.

However, we need to remind ourselves of what happened in 2018, when a sharp stock market correction led to a steep selloff in the cotton market, as speculators turned a 12.2 million net long position into a 2.8 million net short within a six-month period.

International cotton prices began the month on a strong upward trajectory, influenced by a continuation of the rapid advance of New York futures that had begun in late September. For most of the remainder of the month, prices then moved within a relatively narrow range (at least by recent comparison). However, the market ended the period in a state of virtual collapse, as New York, like other share and commodity markets, reacted to fears arising from the identification of the Omicron COVID variant. The A Index began the month at 123.60 U.S. cents per pound, rose to a high point of 128.45 on November 18th but ended the period at 123.05 U.S. cents per pound.

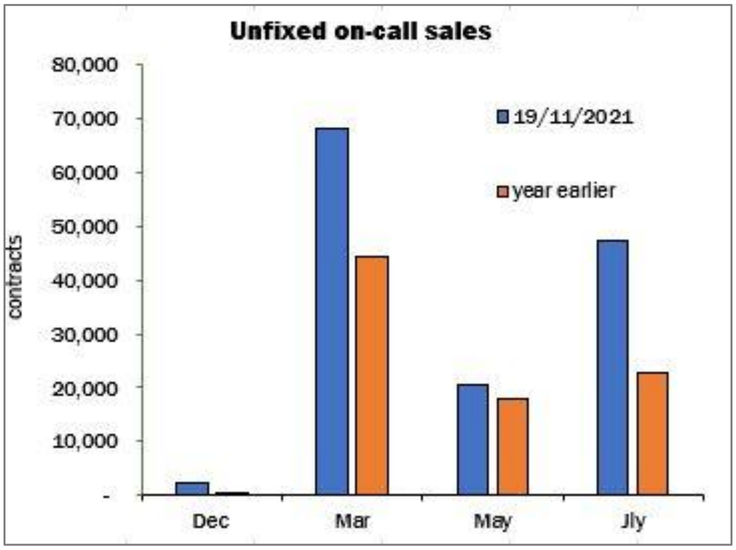



While the relative stability of prices for most of the month failed to stimulate mill purchasing on a large scale, the perception remained that spinners in various markets were in need of cover for the first and second quarters of next year. The precipitate decline of futures at the end of the period – the New York March contract relinquished 937 cent points in the final three sessions of November – did bring to the surface some of that latent demand for shipment during the early months of 2022.

Spinners' lack of coverage appears to have resulted from a combination of hesitancy to buy at historically elevated price levels (only in the exceptional bull market of 2010/11 has the Cotlook A Index been higher) and the persistent delays to the shipment of cotton already contracted. Throughout November, the turmoil in the shipping sector hampered the international trade's endeavors to accommodate its mill customers. As a result, spinners on certain markets are far from assured of their continuity of supply.

While spinners have continued to focus on their more pressing needs, the latest pandemic developments instilled a renewed sense of caution with regard to the outlook for yarn business, especially in the context of historically high raw cotton replacement costs.

In addition to purchasing against their needs for shipment after the year-end, mills took the opportunity of fixing their on-call purchase contracts. The volume of unfixed on-call sales has recently risen to historical highs, only slightly below the all-time peak attained in May 2018. On November 19th, those on the March 2022 contract stood at over 6.8 million bales, and those on July 2022 at more than 4.7 million.




As ever, developments in China remained under close scrutiny throughout the month. Until local prices succumbed to the Covid-related developments described above, a period of relative stability was witnessed on the domestic market. However, owing largely to this season's ginning overcapacity in Xinjiang and a smaller crop in the region, Chinese prices remained substantially higher than the international market.

Import demand, however, waned during the course of the month, in part due to the depletion of spinners' unused import quota for 2021. In addition, buying initiative on the part of state-owned trading entities, including the State Reserve, was absent. In an effort to rein in the bullish influences at work on the local market, Beijing sanctioned an unusual extension to this year's State Reserve auction series. By the end of November, almost 1.2 million tonnes had been disposed of. Traders continue to believe therefore that the last-mentioned organization will at some point need to replenish its strategic stock, an eventuality with bullish implications for the global market.

The month of November saw no major shifts in the supply and demand balance sheet for the 2021/22 season. In the Northern Hemisphere, harvests made good progress without any noteworthy weather-related difficulties. The outlook for the major producers in the Southern Hemisphere, where sowing is under way, was enhanced by timely rainfall in Australia, Brazil and Argentina. Cotton Outlook's forecast of world production rose by just under 100,000 tons to 26,043,000 tons.

At the end of November, estimates of production and consumption for the 2021/22 season were thus fairly close to equilibrium: our figures indicated that world ending stocks by July 31, 2022 would decline by a modest 110,000 tons. However, the supply from this season's larger Southern Hemisphere crops is not yet available to the market, and the shipping difficulties alluded to above continue to affect the short-term availability of cotton.

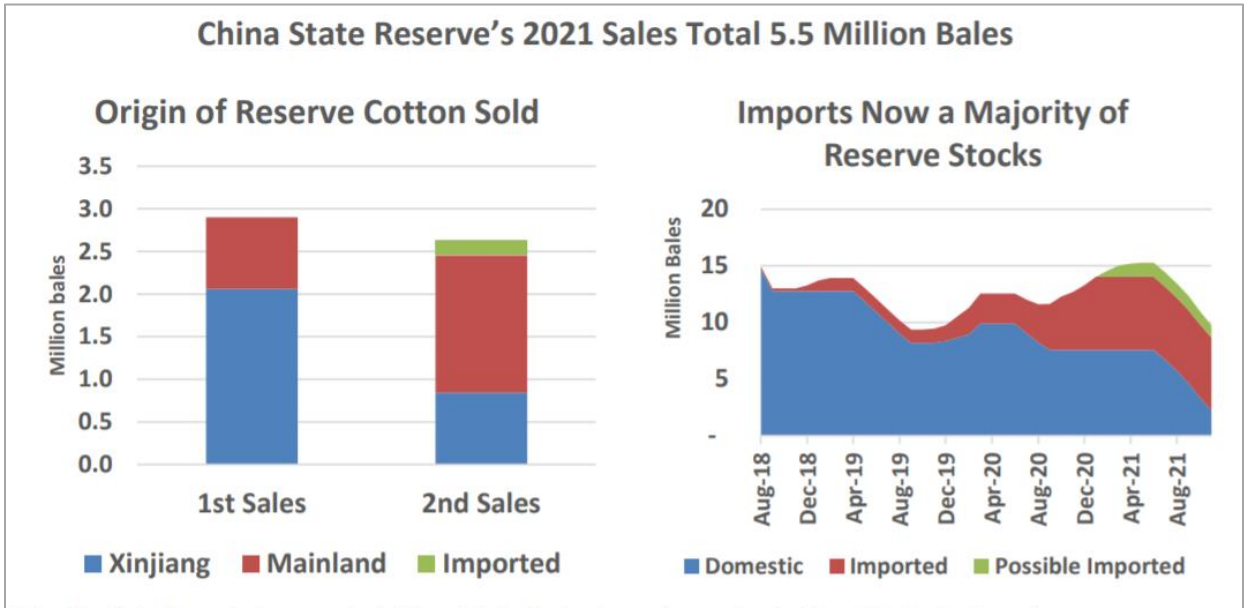
Supply chain issues are keeping some cotton exports from shipments to overseas markets leaving producers holding the bag. U.S. cotton values are running ahead of last year but actual volumes of cotton shipments are still down. Cotton is being affected more than other commodities because growers export a lot of raw cotton to Asia. Raw cotton as opposed to cotton thread or material takes up a lot more space on a container. Those shipping containers not being able to flow through the ports as much as the products are being demanded on either side of the oceans. While U.S. cotton export values for 2021 were up 10% from 2020, actual export volumes are down 4%.

China suspended sales from the State Reserve as of December 1, which operated in two separate periods from July to the end of November. The initial sales period ran from July 5 through the end of September, and the entire 2.9 million bales (630,000 tons) offered was sold. Over 95 percent of the cotton sold was from the 2011, 2012, and 2013 crops. All sales were domestic cotton with just over 70 percent Xinjiang origin and the remainder from outside the region.

China announced in late September that sales would resume with no specific end date or quantity. During the second sales period (October– November), nearly 4.4 million bales (950,000 tons) were offered for sale, of which 2.6 million (572,400 tons) found buyers. Xinjiang cotton accounted for 32 percent of the sales, 61 percent was from the rest of China, and imported cotton filled the remaining 7 percent. As during the first period, all Xinjiang cotton was sold; however, just under half of the mainland cotton found buyers. Additionally, imported cotton was offered and was also sold out. Ten percent of the cotton purchased was from the 2019 and 2020 crops and the rest was from earlier seasons.

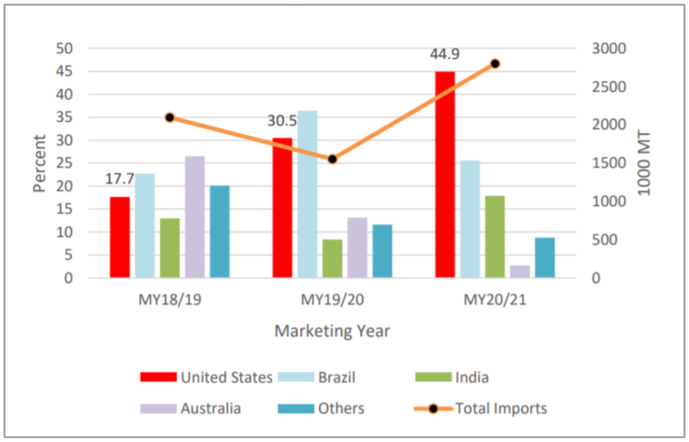
The actual amount of cotton remaining in the State Reserve is unknown but is estimated at between 8.7 and 9.8 million bales (1.9 and 2.1 million tons), likely the lowest since August 2019 and before China's massive build-up of reserve stocks starting in 2011. 1 Roughly 2.2 million bales (475,000 tons) of domestic cotton are estimated to be in the reserve. The amount of imported cotton held is believed to be at least 6.5 million bales (1.4 million tons) with the possibility of another 1.1 million (240,000 tons) being held by State Trading or State-Owned Enterprises.

The 2021 sales program follows China's reserve rotation policy, which has virtually eliminated the reserve stocks of domestic cotton from the 2011-2013 crops (which at one point approached 60 million bales). Remaining stocks of domestic cotton are largely from the 2019 crop while stocks of imported cotton are mostly from the 2018-2020 crops. It is anticipated that the State Reserve will again hold sales in 2022 and will also replenish reserves to maintain its stocks at the current level. The volume of future sales and purchases is difficult to estimate, in addition to origin (e.g., domestic or foreign) which will likely be driven in part by relative prices (e.g, China spot prices vs. A-index). As in the past, future purchases or sales by the State Reserve could have significant impacts on the global cotton market.



Note: The first sales period was conducted from July to September and second period from October to November.

China's cotton imports surged to 2.8 MMT in the 2020/21 marketing year, 80% growth year-on-year. U.S. market share expanded significantly to reach almost 45%, up from 30% in 2019/20. While Chinese end-users favor the quality and reliability of U.S. cotton, imports from Brazil, Australia, and India can be highly competitive. The increase in U.S. cotton imports likely reflects both the implementation of the U.S.-China Phase One Economic and Trade Agreement, higher overall global demand, and decreased supply of high-grade cotton from Xinjiang in 2020/21.




## PLC Farm Program Payment Projections – 2021/22 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 | $13.00 | $14.00 | $1.00 |
| Medium Grain Rice | $14.00 | $14.00 | -- |
| Seed Cotton | $0.4583 | $0.3670 | -- |
| Soybeans | $12.10 | $8.40 | -- |
| Wheat | $6.90 | $5.50 | -- |

*national marketing year average (MYA) prices reflect the midpoint price level from the December 9, 2021 WASDE report.

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, 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, Pro Farmer, Refinitiv, Reuters, Rice Market Letter, Southeast Farm Press, StoneX, Successful Farming, Texas A&M University, 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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