Staff Report No. 2022-25 **April 9, 2022**

April Market Update

Corn, Soybeans, Rice, and Cotton

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WASDE Summary

This month's 2021/22 U.S. corn outlook is for offsetting changes to feed and residual use and corn used for ethanol production, with unchanged ending stocks. Feed and residual use is lowered 25 million bushels to 5.625 billion based on indicated disappearance during the December-February quarter. Corn used to produce ethanol is raised 25 million bushels based on the most recent data from the *Grain Crushings and CoProducts Production* report, and the pace of weekly ethanol production during March as indicated by Energy Information Administration data. With offsetting use changes, ending stocks are unchanged at 1.440 billion bushels. The season-average farm price is raised 15 cents to $5.80 per bushel based on observed prices to date.

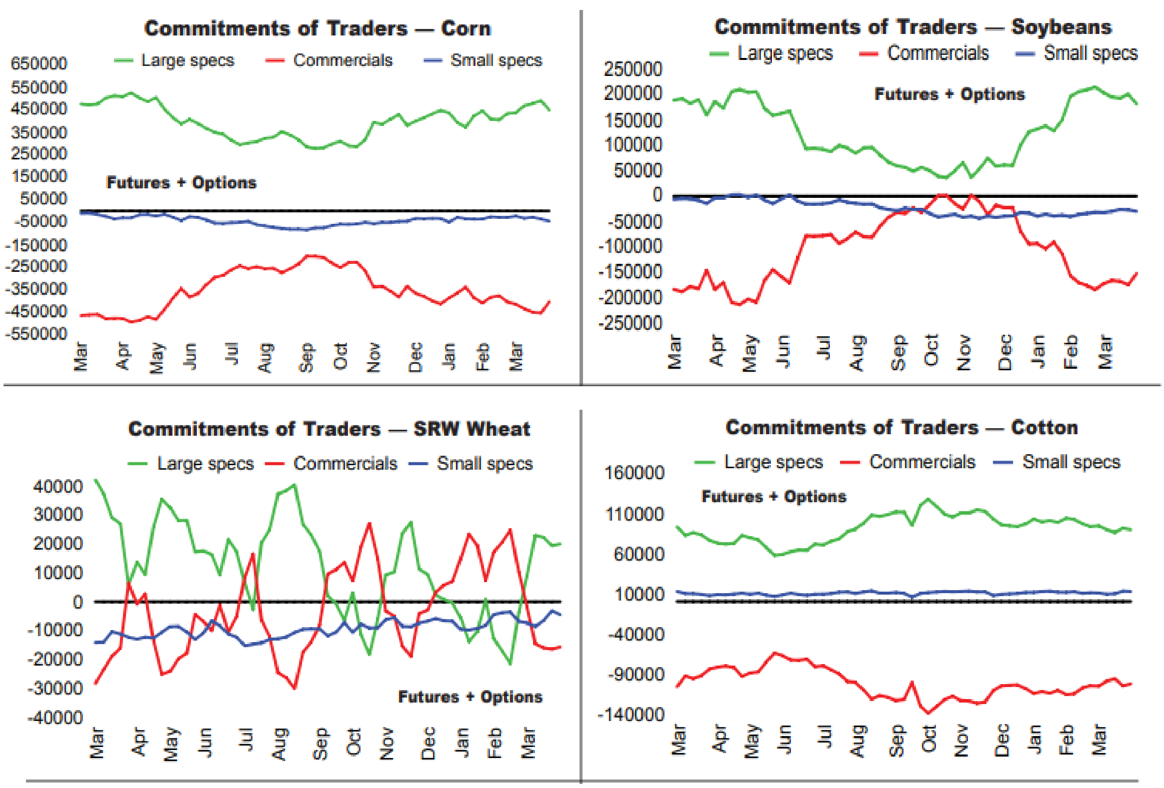
The outlook for 2021/22 U.S. wheat this month is for stable supplies, lower domestic use, reduced exports, and higher ending stocks. Annual feed and residual use is lowered 10 million bushels to 100 million. The NASS *Grain Stocks* report, issued March 31, implied less feed and residual disappearance for the third quarter that was partially offset by an upward revision to this category in the second quarter. Exports are lowered 15 million bushels to 785 million as the U.S. remains uncompetitive to most markets and exports would be the lowest since 2015/16. Projected 2021/22 ending stocks are raised 25 million bushels to 678 million but are still 20 percent lower than last year. The projected season-average farm price (SAFP) is raised $0.10 per bushel to $7.60 on NASS prices reported to date and expectations for cash and futures prices for the remainder of 2021/22. This would be the highest SAFP since 2012/13.

U.S. soybean supply and use changes for 2021/22 include increased exports and seed use, and lower ending stocks. Soybean exports are raised 25 million bushels to 2.12 billion, partly offsetting lower exports from Brazil, Ukraine, and Russia. Seed use is raised in line with record soybean plantings indicated in the March 31 Prospective Plantings report. Soybean ending stocks are projected at 260 million bushels, down 25 million from last month. Soybean oil changes include increased exports and lower ending stocks. Despite relatively high soybean oil prices, export sales have been stronger than expected through March. A lower soybean meal export forecast is offset by slightly higher domestic disappearance. The season-average soybean price forecast is unchanged this month at $13.25 per bushel.

This month's supply and demand outlook for 2021/22 U.S. rice is unchanged from last month but there are offsetting by-class changes for domestic use and residual. Based on the NASS Rice Stocks report, long-grain domestic use is raised 2.0 million cwt to 115.0 million and medium- and short-grain is reduced 2.0 million cwt to 30.5 million. The season-average farm price for long grain rice is lowered $0.20 per cwt to $13.80 on lower-than-expected prices reported by NASS for February expectations regarding prices and marketings for the remainder of 2021/22. The season-average farm price for southern medium grain rice is lowered $0.40 per cwt to $14.00.

The U.S. cotton 2021/22 supply and demand forecasts are unchanged from last month. The marketing year price received by upland cotton producers is projected at a record 91 cents per pound, up 1 cent, reflecting recent high prices. The February 2022 upland farm price reached a record 100 cents per pound.

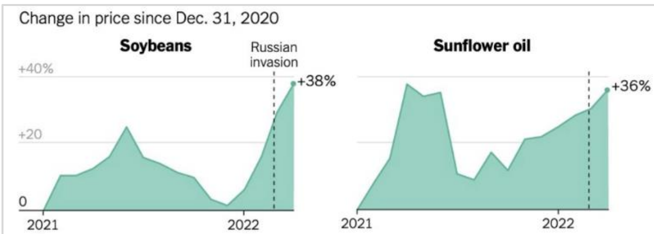
<u>Commitment of Traders Report, Tuesday, April 5, 2022</u>

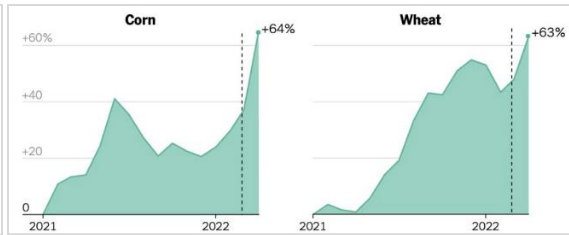


Speculators' enthusiasm for the grain markets seems to have subsided as the U.S. spring planting season is set to begin. In late March, large speculators trimmed their bullish sentiment in the soybean market to the lowest level in nearly two months, Commodity Futures Trading Commission (CFTC) data showed. The managed money net long totaled 156,273 soybean futures and options contracts as of March 29, down 17,919 contracts from a week earlier and the lowest net long since February 1. Funds cut their long exposure across the grain markets- and in other commodities, such as crude oil- as prices dropped sharply from the steep rallies triggered by Russia's invasion of Ukraine.

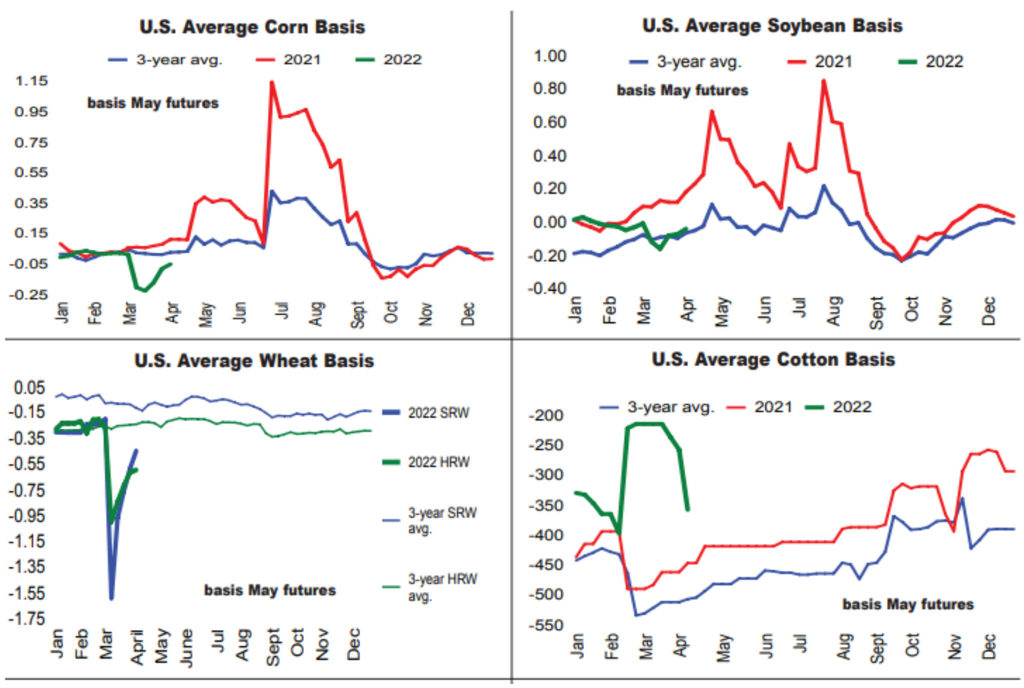
In late March, the managed money net long also fell in corn, SRW and HRW wheat, soymeal and soyoil. In corn, the managed money net long tumbled 29,497 contracts during the week ended March 29 to 354,604 contracts, a four-week low. In NYMEX crude oil, the managed money net long fell nearly 6,000 contracts to 257,908 contracts, the lowest since the week ended December 21.

It is noted that grain futures have risen since the end of March, so it is possible some speculators have 're-thought' their positions and are hence moving to the long side again. Also, funds are still leaning relatively long, based on historical patterns. The end-of-March net long in soybeans, for example, was the fourth highest for that date since 2006; the net long for corn was the second highest.





Cash Market Basis Charts, Wednesday, April 6, 2022



Volume and Volatility in the Futures Markets

Futures markets have displayed a particularly high level of volatility over the last month, with some daily record movements observed at the beginning of March. Historical volatility over the month increased compared to February for agricultural commodities in the U.S. as well as in Europe. The current spate of extreme volatility may take a pause as implied volatility has started to decrease for the wheat, maize and soybeans markets, suggesting that the market anticipates declining prices in the short run.

The recent high level of volatility seems to have deterred volumes and reduced open interest by leading to higher margin calls (or, in other words, higher funding risks). The CME market was particularly impacted while in Europe, trading volumes and open interest remained superior to the five-year-average for the grains traded on Euronext contracts. While Chicago prices are considered global benchmarks for agricultural derivatives, for wheat Euronext is particularly important for price risk management in the current Black Sea crisis. The prime reason for this being that European wheat is the closest alternative to Russian and Ukrainian exports.

In the U.S. wheat futures market, financial market participants seem to exert a stronger buying pressure as they have returned to their net long positions of early December. The financials open interest decreased, which could be the result of the increase in margin calls or the high volatility that deterred some funds to allocate grains in their portfolio. Both on maize and soybean futures, commercials kept their net short positions and financials continued to increase their long positions.

USDA Prospective Plantings

Given the importance of this year's outside market events, official USDA estimates offer new information to an ever-changing market dynamic. During USDA's Ag Outlook Forum in late February, USDA released early planting estimates of 92.0 million acres for corn, 88.0 million acres for soybeans and 48.0 million acres for wheat. Dow Jones' recent survey of 21 analysts expected USDA's survey to show producers intend to plant 92.0 million acres of corn, 88.8 million acres of soybeans and 47.8 million acres of wheat-similar to USDA's February guesses.

Planting went fairly quickly in 2021 with cooperation from favorable early weather. There were only 1.27 million prevented planting acres for corn, soybeans, and wheat in 2021, the lowest three-crop total in nine years. Other than a possible delay from below-normal temperatures in April 2022, this could also be a year when prevented plantings are low. This spring also finds higher prices of cotton, sorghum, oats, barley, canola and other less popular crops- all of which could lure corn and soybean acres away from the Western Corn Belt in 2022.

All eyes are on U.S. crop production potential after drought decimated crops in South America and the war in Ukraine stymied exports from that agricultural powerhouse, thus generating major uncertainty about potential plantings this season amid all the chaos and destruction.

Once released, the much-anticipated *Prospective Plantings* report showed farmers plan on planting 89.490 million acres of corn, down sharply from the average analyst estimate of 92.0 million, which was also USDA's Ag Outlook Forum estimate. Acreage a year ago was 93.357 million. Meanwhile USDA's soybean acreage estimate of 90.955 million was up from the average analyst estimate of 88.727 million, and the Ag Outlook Forum's estimate of 88.0 million. Soybean plantings a year ago were 87.195 million. USDA's cotton planting intentions came in roughly 240,000 acres below the average of trade estimates. Drought conditions in West Texas remain a supportive market factor. USDA pegged rice intentions about 50,000 acres below the average of trade estimates.

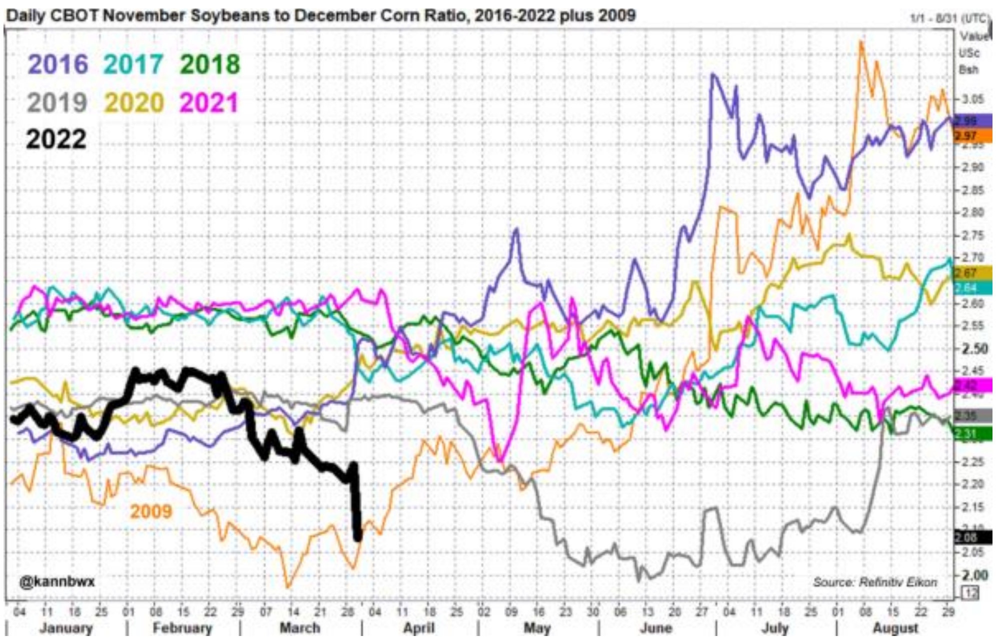
U.S. PLANTING INTENTIONS in mil. acres					
Sources USDA: NASS, Bloomberg,	USDA MARCH 1	TRADE AVG. EST.	TRADE RANGE	USDA MARCH 2021	USDA 2021 Final
CORN	89.490	92.000	90.000-93.500	91.144	93.357
SOYBEANS	90.955	88.900	86.000-92.200	87.600	87.195
ALL WHEAT	47.351	47.900	45.900-49.100	46.358	46.703
WINTER WHEAT	34.236	34.400	33.600-35.600	33.078	33.648
SPRING WHEAT	11.200	11.800	10.500-12.800	11.740	11.420
DURUM	1.915	1.700	1.500-2.000	1.540	1.635
ALL COTTON	12.058	12.300	11.700-13.00	12.086	11.220
RICE	2.452	2.500	2.100-2.700	2.710	2.532

Despite a soybean-corn ratio that began the day at a low 2.24 to 1, which would typically favor corn, farmers opted for more beans in the survey. One would have to guess that the culprit was surely not price but had to be the sharply elevated input costs for corn versus soybeans. Illinois, Indiana and Iowa came in at 300,000 fewer acres, while North Dakota intends to seed about a half-million fewer acres than a year ago.

The chart below illustrates the divergence of new crop corn and soybeans following a nearly equal fall in corn and rise in soybean acreage intentions on the USDA report. The price spread had moved 77 1/2 cents per bushel at the close, in favor of corn (DTN graphic). New-crop November soybeans took the bearish seeding number and ran with it, as longs tried to exit, with November beans finishing nearly 50 cents lower for the day, perhaps influencing some of those intentions.

The sharp divergence between corn and soybeans can only be explained by the rising cost of crop inputs, especially fertilizer and fuel. However, a lot can change in the next several weeks, and final acreage could be far different. Now, we will likely go back to trading weather and the daily, and volatile, news headlines from the Russia-Ukraine conflict.

After the USDA plantings report was released, December corn futures touched the 35-cent limit higher, and November soybeans saw strong selling pressure. The ratio of November soybeans to December corn dropped aggressively. That ratio near the start of the days was trading near 2.25 but finished the day at 2.08 and decreased even further with the trade on Friday. This ratio is a futures ratio of November 22 beans versus December 22 corn, representing the upcoming US harvest. Values above 2.5 generally favor soy from a profitability view, while less than 2.4 leans more corn. The acreage report likely showed the impact of inputs and producers' willingness to shift production away from corn due to those input cost.



The supply picture continues to tighten for corn, and the market reflected this through increases in new crop prices. However, old crop prices continue to stagnate and are trading at the same price level or lower than they were a month ago. This suggests that end users are relatively current on needs and may be looking longer term but for now the market appears to have run out of friendly news on old crop. All attention will focus on Brazil's growing conditions for their second crop as well as Ukraine and then U.S. weather.

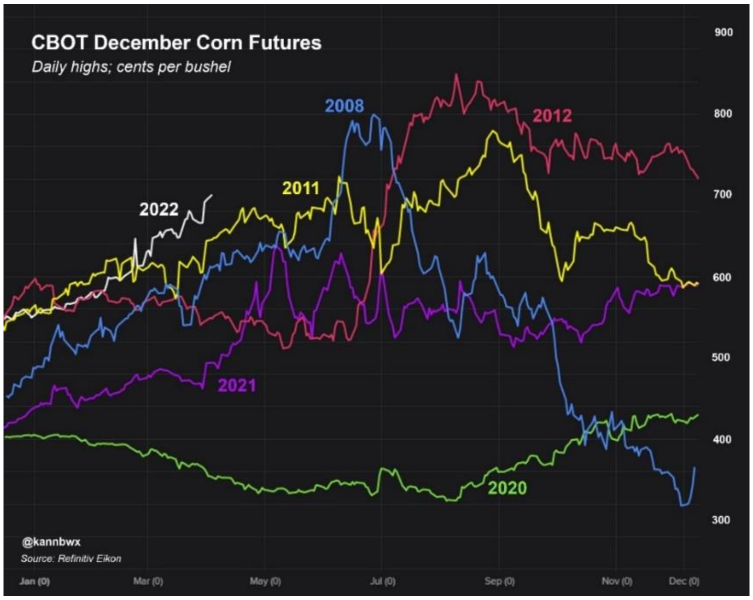
Soybean futures slid for the second session with double-digit losses noted on continued fallout from yesterday's USDA Acreage and Stocks reports. Between the two, carryout could increase near 150 million bushels, or near 50%. Yet, it is early in the season and tight supplies continue to suggest farmer selling will be limited. As we look at big picture developments, the wind down to harvest in both Argentina and Brazil will confirm tighter supplies in those regions and likely additional drawdowns to the USDA figures for production in Latin America.

Corn

World grain markets remain in a cloud of uncertainty around Ukraine's ability to export corn and barley in both the short term and the coming year. On March 31st, the CBOT December corn futures contract increased 4.2% on smaller-than-expected U.S. plantings, reaching a contract high of $6.91 per bushel. That is an all-time high for the date, easily beating 2011's top of $6.25-1/4. U.S. farmers reported 2022 corn acres at a four-year low, down 4% year-over-year. Earlier in the week, CBOT December corn futures climbed above $7.00 per bushel for the first time since 2012, though that mark was first hit in July of that year. New-crop corn eclipsed the $7.00-mark in 2008 and 2011, but not until June in both cases. On April 9th, December futures set another contract high, just passing the previous high of $7.12 per bushel. New-crop corn has risen nearly 9% since March 30th, the day before the *Prospective Plantings* report. From a fundamental perspective, nearby futures posted strong gains for the week but otherwise extended the sideways pattern that is persisted for more than a month. Barring a sharp move higher in wheat and/or crude oil, near-term price upside for old-crop corn may be limited.

In its April WASDE report, the USDA left its old-crop corn ending stocks projection at 1.440 million bushels, whereas traders expected a 25-million-bushel reduction. USDA raised food, seed and industrial use by 25 million bushels (to 6.810 billion bushels), with all of that increase going to corn-for-ethanol use (now forecast at 5.375 billion bushels). USDA cut feed and residual use by 25 million bushels (to 5.625 billion bushels). USDA raised its 2021/22 national average on-farm cash corn price by 15 cents from last month to $5.80. What appeared to be bearish changes for corn on the April WASDE report were forgotten, and corn was back trading weather and Russia-Ukraine. As is typical, USDA seemed somewhat conservative, awaiting more information on the impact of the Russia-Ukraine conflict and South American weather.

While demand remains solid, it will be increasingly difficult to sustain these elevated levels, especially if funds pare their long exposure. Corn futures firmed despite what at best would be termed a neutral WASDE report. Jul corn gained 10-1/2 to close at a new contract high of 7.60-3/4. The December contract also closed at a new contract high adding 7 cents to end the session and week at 7.16. Compared to last week's close, July futures added 39 cents and December 28 cents. Bull spreading was noted this week whereas bear spreaders were in charge last week. Rumors of China in the market for commodities (corn and soybeans), short covering, and a likelihood of a shortfall of acres in Ukraine looking more likely, added support to prices.



Prior to the release of the April WASDE report, the Russian assault on Ukraine continues and thoughts turn toward spring planting. South American crop estimates and Ukraine export estimates claimed much of the immediate market attention, as some in the trade looked for some adjustments to U.S. corn and soybean demand.

The supply picture continues to tighten for corn, and the market reflected this through increases in new crop prices. However, old crop prices continue to stagnate and are trading at the same price level or at lower levels than they were a month ago. This suggests that end users are relatively current on needs and may be looking longer term but, for now, the market appears to have run out of friendly news on old crop. All attention will focus on Brazil's growing conditions for their second crop as well as on Ukraine and then U.S. weather.

Pain at the pump is expected to force drivers to cut back on gasoline fill ups. While the U.S. Energy Information Administration still sees consumption rising in 2022 and 2023, its estimates fell earlier this month in response to chaos caused by Russia's invasion of Ukraine. As a result, the agency also reduced its forecast for the amount of ethanol needed for blending.

That could lead to an about-face from USDA when it updates supply and demand forecasts in April. USDA raised its forecast for 2021-2022 marketing year corn consumption for ethanol production by 25 million bushels in March. But the energy agency puts the amount of ethanol needed for around the equivalent of 60 million bushels less.

Ethanol's fate could change if stations can blend the biofuel at higher rates, which appears justified by economics. Ethanol is trading at nearly a 40% discount to gasoline in the cash wholesale market, more than enough to overcome any energy advantage for petroleum.

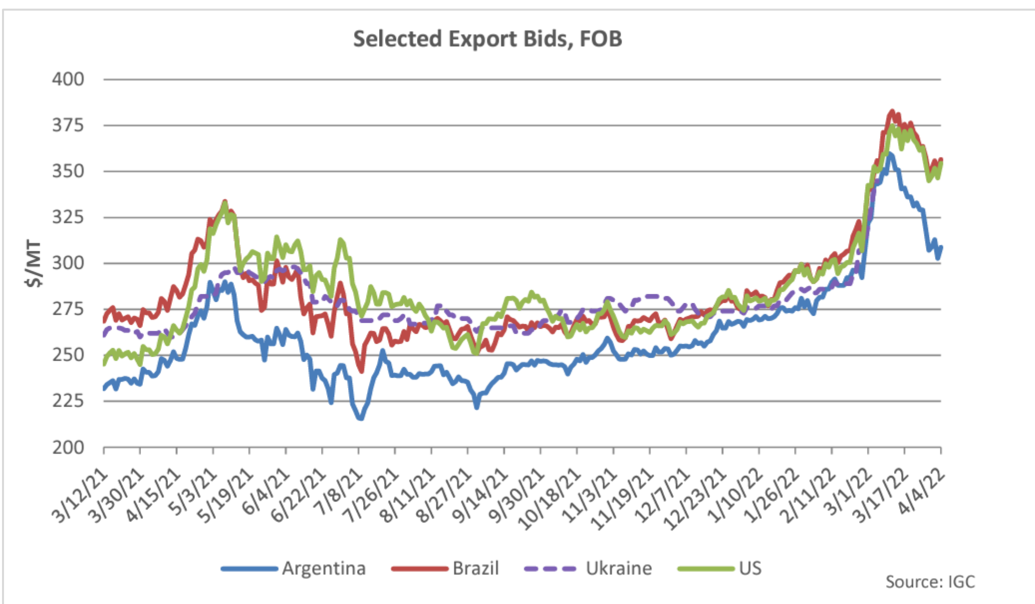
Current ethanol production increases also are higher than forecast. Year-to-date production is up around 10% compared to the previous year. Those gains were inflated by still-weak output in the first half of the 2020 marketing year, so increases in coming months should slow. But even if production flattens, the total amount of corn used could be 25 million bushels or more greater than USDA last forecast.

Plant operating margins are back to break-even after surging late last year, when ethanol topped $3 a gallon and cash corn traded with a $5 handle. Production is regularly above 1 million barrels a day, so there's be no slowdown yet on the ground.

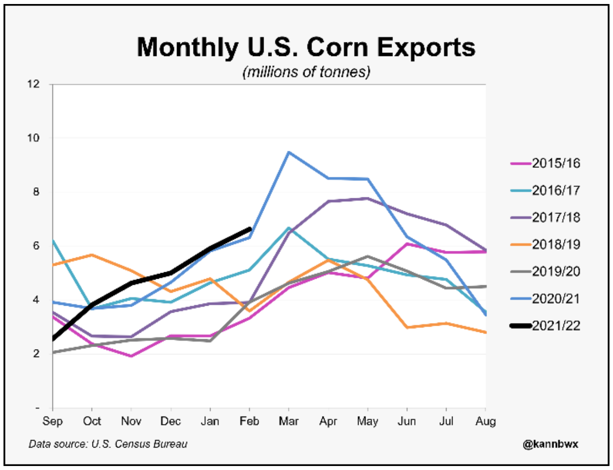
While the EIA trimmed its forecast for ethanol growth, the latest outlook raised estimates for biodiesel production as the world looks for "green" alternatives to fossil fuels, especially from Russia. U.S. soybean processors also stand to benefit from export restrictions imposed by Argentina after drought cut production there. Incidentally, Argentina is the world's largest soy product exporter usually. Soybean oil futures are consolidating below all-time highs achieved earlier this month, helping support crush margins at very attractive levels. Soybean meal has also rallied off last fall's harvest lows, taking aim at $500 a ton.

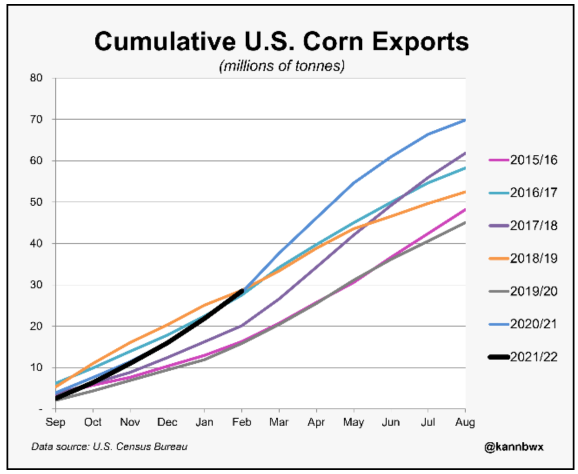
Those factors could convince processors to boost output in the second half of the marketing year, a push that will be needed to achieve USDA's forecast for a 3.5% increase overall. Crush in the first half of the marketing year is up just half of 1% so far.

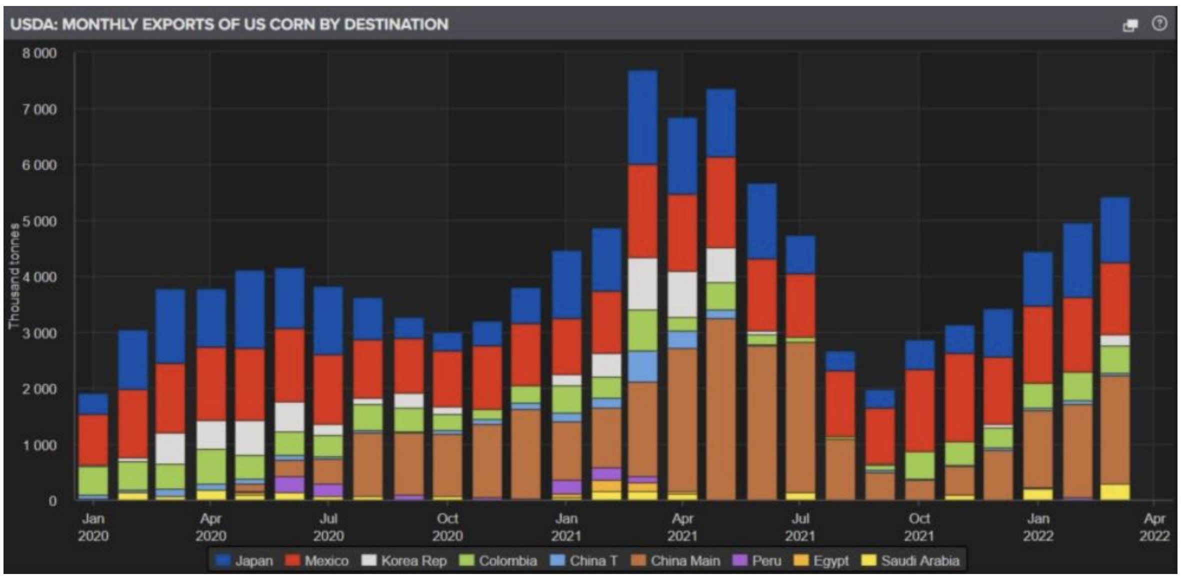
Since the March WASDE, published exporters' bids have peaked and then eased. Russia's invasion of Ukraine has hampered Black Sea grain exports and no bids have been published in the last several weeks. After spiking to $375 per ton, supported by strong foreign demand, U.S. bids declined for the rest of the month, ending at $355 per ton. The release of the *Prospective Plantings* report indicated that corn planted acreage would be down 4 percent from the previous year as farmers favor soy over corn, supporting prices. Brazilian bids were up $7 per ton to $356. Higher area has improved production prospects for the upcoming second-crop corn (safrinha), though exportable supplies are seasonally tight. Argentine bids eased the most of the major corn exporters, dropping $34 per ton to $309, as the harvest is underway, putting downward pressure on prices across origins. The crop is currently forecast at a record.



U.S. corn exports hit a record 6.6 million tons in February, topping the February 2021's high by 5%. One-quarter of those shipments went to China. That puts first half 2021/22 shipments at 28.5 million metric tons, similar to other recent, high-export years. USDA's full-year outlook is 63.5 million metric tons.

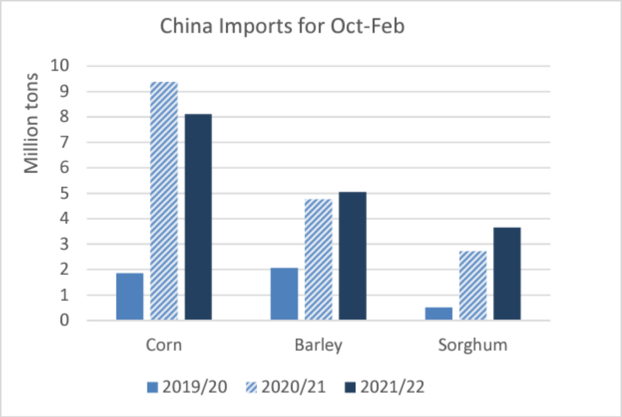


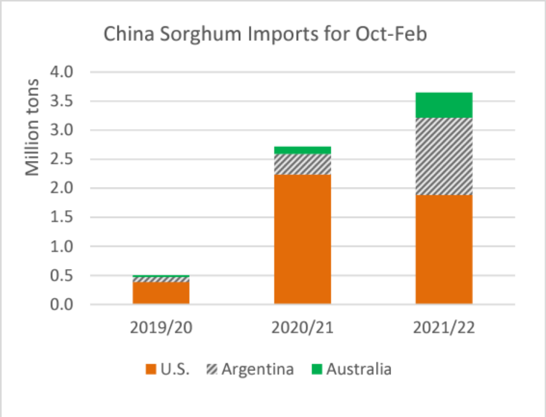




China has been the key driver in global import demand for major coarse grains (corn, barley, and sorghum) since becoming the top importer of corn last year. China's customs data for the first 5 months (October-February) in 2021/22 shows combined imports of coarse grains at the same level relative to a year ago as larger volumes for barley and sorghum offset the decline in corn.

Corn imports totaled 8.1 million tons for the period, supplied by the United States (51 percent) and Ukraine (45 percent). The import volume for Ukraine corn was on par relative to a year ago, but U.S. corn fell behind last year's record pace. For March through September, imports from Ukraine are expected to be small as the ongoing conflict severely limits Ukraine's ability to transport the grain from the Black Sea. This month, the China corn import forecast is adjusted lower to reflect this, with Ukraine a major supplier to China since 2014/15.





Sorghum imports totaled 3.6 million tons, supplied by the United States (52 percent), Argentina (36 percent), and Australia (12 percent). China's customs data indicates that unit values from the Southern Hemisphere origins were $14-23 per ton cheaper relative to U.S. sorghum. The impressive growth in volumes from non-U.S. origins may also reflect China's effort to alleviate dependence on U.S. sorghum. The import forecast remains unchanged this month as the 5 months of data are supportive of the current forecast.

As part of a new Section 232 agreement reached between the U.S. and the UK regarding steel and aluminum imports from the UK, the 25% retaliatory tariff on U.S. corn has been zeroed out allowing U.S. corn farmers to renew their trading relationship with Britain. The agreement will be effective June 1, 2022.

Ukrainian Ports and Export Uncertainty

The Russian invasion of Ukraine set the market on a wild ride that many participants haven't experienced since 2008. Wheat rallied and locked limit up for multiple days in a row in a massive, short squeeze, as those who had been short wheat panicked and exited their positions at a premium. In the meantime, corn's implied option volatility, a primary mechanism used to determine option value, spiked to about 50%, when somewhere around 20% might be considered "normal."

With the closure of port facilities, Ukraine has ceased export activities and little is known as to when they will recommence. If Ukraine is unable to ship out corn, wheat, or sunflower oil for a significant amount of time, the question begs to be answered as to where will the world get those supplies? Will it be the U.S.? Brazil? Argentina? There is also the question of whether Ukraine will get their corn planted this spring. What will happen if they only get 40% planted, as some think? How will that change the global corn market for the 2022/23 season? On the flip side, what if the full crop does get planted and there's a bumper crop with 15 million metric tons carried over from 2021/22? How will that affect prices and trade flows? Only time will tell. In the meantime, volatility remains on the horizon in the face of uncertainty.

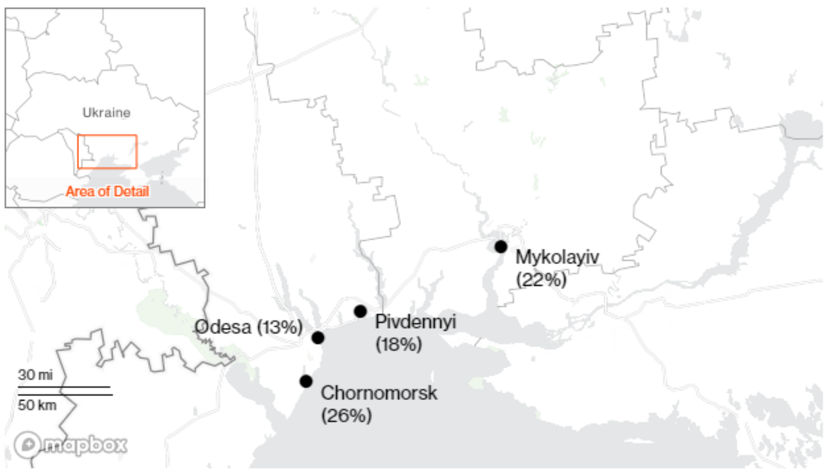
Ukraine-based analyst APK-Inform now forecasts Ukraine's 2022 corn production at only 18.5 million metric tons, down 55.8% from last year. As a result, the firm sees Ukraine's 2022-23 corn exports at only 19.5 million metric tons. That would be down 29% from USDA's most recent estimate of Ukraine's 2021-22 exports at 27.5 million metric tons and would be the lowest since 2015/16. Of course, that export number is still dependent on the war ending without major damage to Ukraine's Black Sea region ports that could disrupt shipments for a lengthy period of time. Bunge Ltd. reported that its Mykolaiv, Ukraine port facility was damaged during an attack.

Russian attacks on key Ukrainian export hubs are damaging commodity infrastructure and it could be a long road until shipments fully recover. Ukraine's ports have been closed since the war began, and now some major grain-export facilities and steel plants have been severely hit by shelling. They include a site belonging to agribusiness giant Bunge Ltd. in Mykolayiv on the Black Sea, as well as the large Azovstal steel plant in Mariupol. Ukraine gets 40% of its GDP from exports like grain and steel.

The Russian invasion of Ukraine has created uncertainty in global grain exports. This uncertainty has and likely will continue to result in short-term opportunity for US corn exports. Grains are a global, fungible commodity where supply finds demand. US and other grain exporting countries will be needed to fill global market voids. Whether this need lingers longer-term is unknown. Ukrainian grain exports tumbled by 3.6 million metric tons after the start of the war, from 5.0 million metric tons in February to 1.4 million metric tons in March.

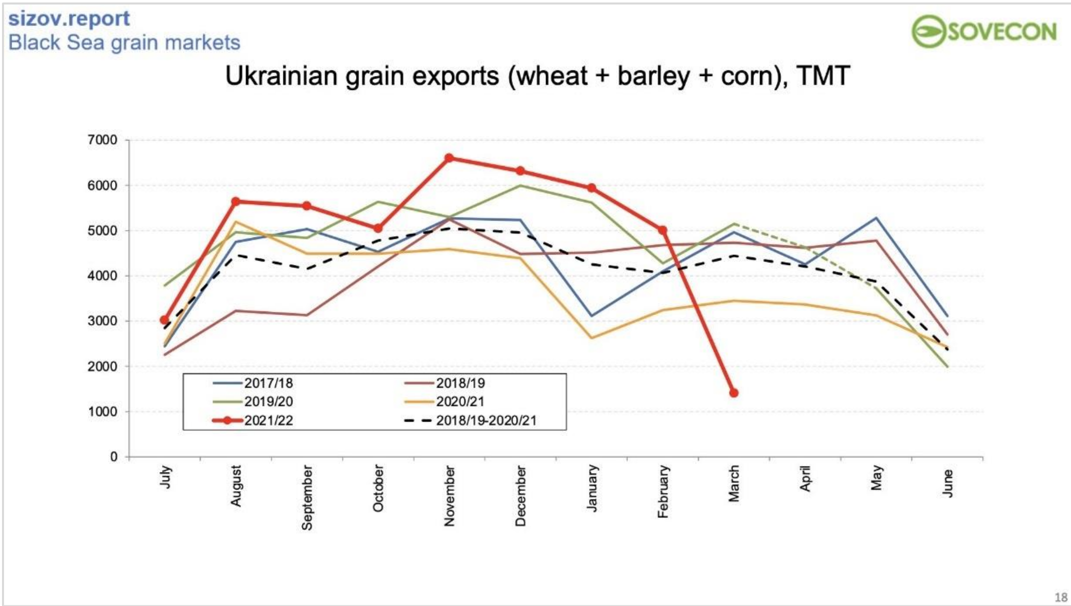
Ukraine Grains Shipments

The country's top grain-handling ports are in the southwest



Source: UkrAgroConsult
Note: National export volume percentage for 2020-21 season

However, this is substantially above early projections which were 0.6 to 0.8 million metric tons per month. Ukraine is attempting to ship its available grain supplies, but about 1,100 rail cars have been parked at the country's western border with Poland, unable to advance any further due to the sheer volume of grain being shipped across the border, heightened security measures, infrastructure attacks by the Russians, and differences in rail-track gauges used between Ukraine and its neighboring countries. Prior to the war, Ukraine shipped 98% of its grain via ocean freighters through Black Sea terminals. But with Russian military attacks closing loading operations in the Black Sea, Ukrainian growers are forced to use more expensive rail transport to move 2021 grain harvests to international markets.



In the U.S., Chicago wheat futures are hanging with 2008, the only other year where prices were similarly as strong. May futures were trading up nearly 40 cents per bushel early April 5th on the imposition of new sanctions against top wheat exporter Russia and news of poor growing conditions for the U.S. crop. USDA reduced the 2021/22 Ukraine and Russia wheat exports last month by a total of 7 million tons. Australia and India picked up some of that. They took 2021/22 Ukrainian corn exports down 6 million tons, and the US was the beneficiary. However, not all the lost wheat/corn exports were replaced, though.

In the April WASDE report, U.S. exports were reduced by 15 million bushels to 785 million. This was somewhat anticipated due to poor export performance to date. The world wheat carryout was estimated at 278.4 MMT as compared to the March estimate of 281.5. The decline is attributed to a slight increase in global consumption. As for Russia and Ukraine, the USDA may have kicked the can down the road to some extent. They decreased Ukraine exports by only 1 MMT to 19 MMT and increased Russian exports by 1 MMT to 33 MMT.

The wheat market's reaction to the April WASDE report seemed to be one of indifference as traders shrugged off the results and prices returned to similar levels as before the report came out. Fundamentally, not much has changed. The war will likely cause further disruptions, and North African countries which typically buy from Russia are looking for other sources of wheat.

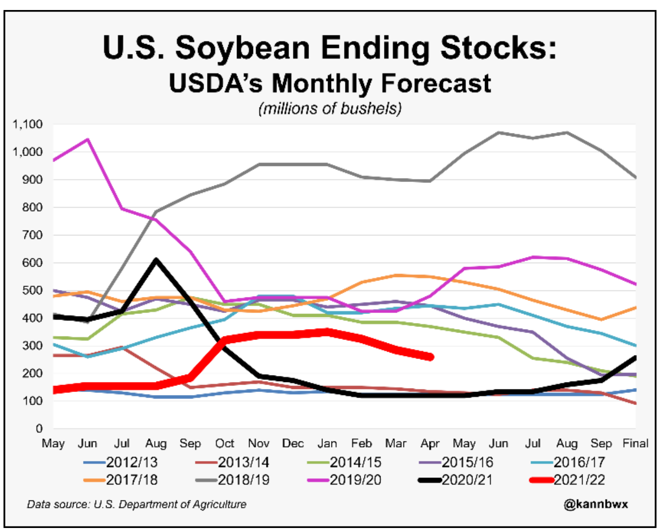
Soybeans

Soybean futures finished with sharp gains on the day and week. Support came from a slightly friendly USDA report, spillover strength from sharply higher wheat and corn prices, inflation, and continued talk of China in the market. Brazil's soybean crop was reduced 2 MMT in the April WASDE report and is now forecasted at 125 MMT. May soybeans added 43-1/2 cents to close at 16.89 and November contracts picked up 29-1/4 cents to end the day at 14.95-1/2, its highest close since March 25. For the week, May futures added 1.06-00 for the week and November gained 43-1/2 after adding 26 cents the week before.

Fundamentally, nearby soybeans turned in a somewhat strong performance despite the last week's bearish USDA planting intentions and stocks figures and weaker export sales. Also, November soybeans' outperformed December corn last week, which reflected some skepticism the U.S. will achieve the USDA's record soybean plantings projection. But with China showing up less in daily export reports and

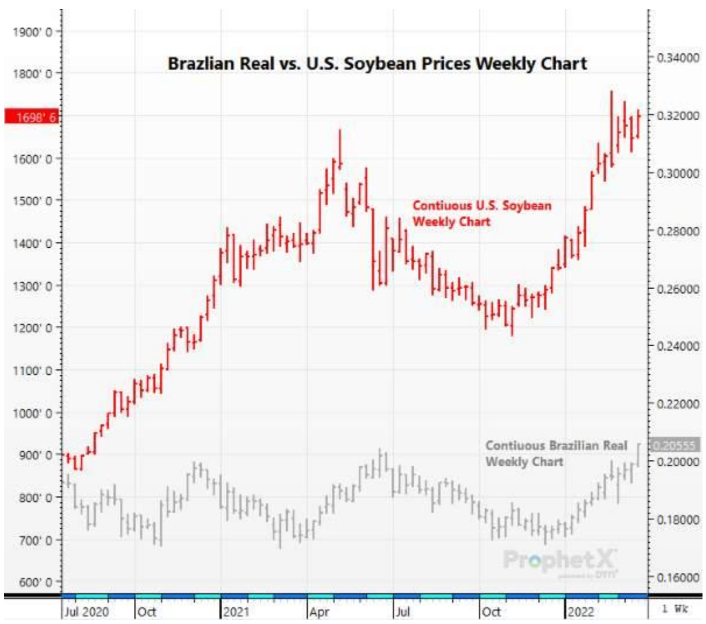
South American crop losses factored in, price upside may be limited. In addition, with crude oil and Malaysian palm oil both down sharply from their March peaks, speculative buying could ease. Midwest weather and planting progress will become a bigger focal point. To end the week, May soybeans futures hit a 9-session high of $16.89 a bushel while November futures reached a 10-session high of $14.97. The strength is new xrop soybeans likely due to expectations for Brazil and Argentine crops to fall even further and for U.S. soybean exports to rise as a result. It appears very possible U.S. exports could be understated by another 100 million bushels still. As a side note, world oilseed stocks, already tight, fell another 2.1 MMT from March to 104.3 MMT.

USDA has reduced 2021/22 ending stocks for U.S. soybeans for the third straight month citing increasing demand. Carryout for the 2021/22 marketing year now stands at 260 million bushels. This is in comparison to 257 million bushels last year- another consecutive year of tighter stocks. The stocks-to-use ratio is down to 5.85% as compared to 6.45% last month, 8% in January estimate and 5.7% last year.



The April WASDE report indicated smaller carryout; however, the USDA estimate came in above the pre-report estimate of 254 million bushels. Furthermore, world projected carryout was only slightly reduced from 90 to 89.6 MMT. This pose the question: How does smaller world production lead to only a slight reduction in smaller carryout? Simply put, higher prices usually imply smaller usage. The interesting development this year, with Ukraine and the Black Sea area in question for production and shipping, do the current estimates really matter? Some in the trade would argue that the awnser is "probably not". Priority to the market will be weather and availability of products. Both are becoming more important and critical for the northern hemisphere. Lockdowns in China and growing concerns that China may have economic difficulties may also weigh on the big picture perspective, yet for now, inflation and availability in the short run are supportive for price. World changes focused on South America, with WASDE once again very conservative in lowering Brazil soy production by just 2 MMT to 125 MMT (4.59 billion bushels) - still 2.6 MMT above the recent CONAB estimate. Paraguay soy production fell to just 4.20 MMT (154 million bushels) due to severe drought, down from 9.9 MMT a year ago. Argentine soy production was left untouched at 43.5 MMT (1.6 billion bushels).

There are many moving parts that determine soybean prices, including the value of the Brazilian real currency. The Brazilian real has moved to its highest level versus the U.S. dollar since 2020. The move in the currency helps to make U.S. soybeans a value versus the freshly harvested Brazilian soybeans. The price move also causes the Brazilian producer to limit cash selling, increasing premiums in the cash market. In addition, a stronger real tightens the buying power of the Brazilian producer overall. The soybean market has many variables from strong demand, tight supply picture, the impact of the edible oil markets that have supported prices, but the final piece, currency value adds to the overall strong price movements. The trend will need to be an outside focus of the soybean market going forward.

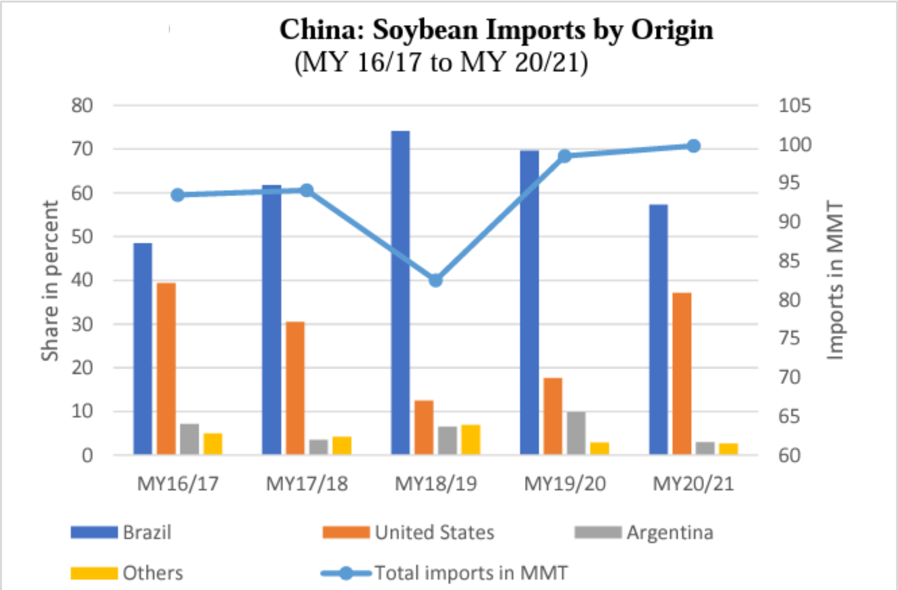


While soybean futures continue to take direction mainly from strong overall demand and reduced production in South America, they also figure to continue to find some support from the Russia-Ukraine war indirectly through corn market strength. Concerns about world vegetable oil supplies are also supportive for prices, with Ukraine's sunflower oil exports halted and Russia's agriculture ministry today proposing an export quota for sunflower oil. The war in Ukraine is shifting business to the U.S. as was noted recently with Egypt's large soybean oil purchase. Demand for U.S. soybeans may be dropping off as more of Brazil's crop makes its way into the market. Brazilian exports should still dominate the world market through summer despite the short crop there.

China's soybean imports are forecast to reach 100 million metric tons in MY 22/23 on moderate demand growth in the feed sector. Estimated MY 21/22 imports are reduced to 95 million metric tons from previous Post estimate on weaker demand in the feed sector during the first half of 2022 a s the swine and poultry sectors scale back feed purchases and feed mills seek ways to trim SBM inclusion rates to improve low margins or narrow losses.

Soybean imports in the first quarter of MY 21/22 remained weak, down by 3.3 million metric tons from the previous year as the swine and poultry sectors struggled to achieve profitability. As weaker downstream demand reduced orders to feed mills, they in turn have carried lower inventories and placed fewer orders from crushers. Accordingly, facing tighter margins and weak demand, crushers have cut commercial stocks significantly from an average volume equivalent to 4 weeks of production to an average volume of two weeks production.

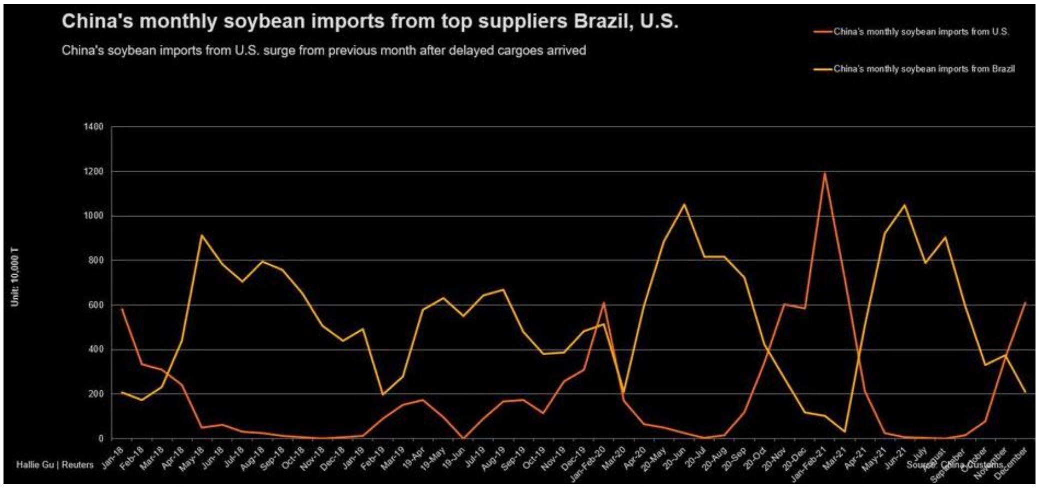
Currently, twelve countries have market access to export soybeans to China: Argentina, Benin, Bolivia, Brazil, Canada, Ethiopia, Kazakhstan, Russia, Tanzania, Ukraine, the United States, and Uruguay. Although China continues to seek ways to diversify its basket of soybean suppliers, its ability to add soybean imports from new suppliers faces numerous hurdles, from production availability to logistics. The ability to shift significant volumes of purchases to suppliers outside of Brazil, the United States and Argentina, is limited and likely to remain so for the foreseeable future. Total soybean imports from all other suppliers peaked at 5.7 million metric tons in MY 18/19, falling to an average of 2.7 million metric tons in MY 19/20 and MY 20/21.



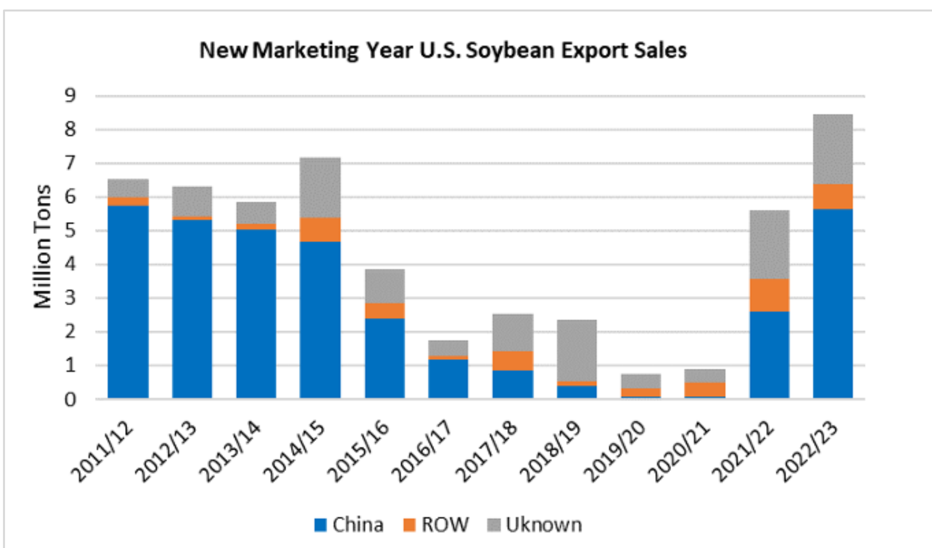
Source: Trade Data Monitor, LLC.

U.S. soybean exports to China recovered in MY 20/21 with China's implementation of a tariff exclusion process on March 2, 2020, for Section 301 retaliatory tariffs. The tariffs had increased effective duties on U.S. soybean to 30.5 percent. The return to 3 percent duties as of March 2020 combined with a swine sector recovering from ASF and purchase commitments made under the Phase One Economic and Trade Agreement lifted U.S. soybean imports to a near record 37.1 million metric tons in MY 20/21; accounting for 37.2 percent of imports. However, China's weak overall demand in the first quarter of MY 21/22 resulted in a 3.2 million metric tons decline in total imports and a 4.9 million metric tons decline in imports of U.S. origin soybean compared to the same period the prior year. As of the USDA Export Sales

Report 1 had accumulated sales of U.S. soybeans to China remained nearly 10 million metric tons below volumes exported through the same period last year. However, supply challenges in Brazil, including reports of MY 21/22 production falling to 125 130 million metric tons compared to record preharvest estimates well-- exceeding 140 million metric tons may yet increase demand for U.S. soybeans.



U.S. soybean export sales for the next marketing year (MY 2022/23) are at an 11-year high as of March 31, 2022. China dominates 2022/23 U.S. soybean sales with nearly 70 percent of total new-crop sales. Prices for new crop soybeans (November futures contract) are 12 percent lower than current crop beans (May contract). As current crop prices remain higher, buyers with large stocks and slowing feed demand- such as China- can wait for the new U.S. crop to lock in lower-priced soybeans. China soybean imports for 2021/22 are cut 3.0 million tons. Similarly, South America supplies are constrained as soybean exports are further reduced for the third consecutive month.



Fertilizer buyers in South America are feeling more acute pressure to acquire supplies for the 2022/23 soybean crop than American farmers are currently enduring as planting for the 2022 crop ramps up in the Northern Hemisphere. But Brazil has not shied away from negotiations with new suppliers, striking deals with Canadian fertilizer companies in recent weeks to procure the necessary supplies for its 2023 soybean crop. Brazilian fertilizer imports are expected to rise 27.4% above year-ago volumes to 10.43 million metric tons for March 2022.

Brazil has about 16 ships containing fertilizer supplies from Russia currently enroute to Brazilian ports, though it has scaled back its purchases of Russian fertilizer supplies in recent weeks. But the high price tag for fertilizer and the scramble to source enough supplies could slow Brazil's expansion plans for 2022/23 crops.

Brazilian financial consultancy MacroSector projects an 8% annual drop-in fertilizer application rates this year amid the ongoing supply challenges faced by Brazilian growers. MacroSector expects 2022 applications to fall to 42.18 million metric tons this year as a result, down from 45.8 million metric tons applied last year. Brazil sources 85% of its needed fertilizer supplies from international sources, so the Western banking sanctions levied against Russia and Belarus sent the Brazilian agricultural industry scrambling to source available supplies from other origins.

A Brazilian lobbyist for Mosaic and Yara – two of the world's top fertilizer producers – told Reuters that Brazilian fertilizer production is likely to increase by 35% through 2024. Domestic regulations and investment could slow that progress, so Brazil will remain vulnerable to global supply pressures on the fertilizer market in the meantime.

A looming trucker strike in Argentina and higher oil prices sent soybean prices $0.07-$0.16/bushel higher overnight. Short global edible oil supplies continue to prop up soyoil futures while slow farmer soybean sales to U.S. crushers has caused soymeal prices to continue to rise in hopes of stimulating production.

Argentina's major transportation union, National Transport Federation (Fe.Tr.A), is planning for a strike to push for higher grain freight rates as soaring fuel costs erode profit margins in the industry. The union wants the Argentine government to increase tariffs on grain and oilseed shipments to offset the rising fuel costs.

Leaders from Argentina's major transportation union said on Monday they will call for a national strike to demand an increase in grain freight rates, as higher fuel costs cause tensions throughout the industry. Fe.Tr.A is demanding the government increase the tariffs on grain producers to reflect the higher costs for fuel, which has been affected by galloping inflation.

Argentina is currently in its peak harvest season during the second quarter of the 2022 year, which features the largest volumes of grain and oilseed movement. Around 86% of soybean transportation to Argentina's ports is carried out by trucks, 13% by trains and the remaining 1% by ships. Agricultural producers in the South American country have expressed their concern about the lack of fuel in different production areas, at a time of the seasonal harvest of soybean and corn, the two main crops of the major global grain exporter. Besides that, Argentina's main rural associations have previously warned about the lack of fuel in the current context of international shortage of diesel oil and a sharp reduction in the global food supply due to the conflict between Ukraine and Russia.

Rice

There was little news in USDA's U.S. rice balance sheet as it left its projected U.S. all-rice carryout unchanged at 34.5 million. cwt., although it did cut the expected long-grain carryout to 19.4 mil. cwt from 21.4 million. USDA projects the average on-farm price of long grain rice at $13.80 per cwt., down from a February forecast of $14.00. USDA lowered its projected world rice carryout by a modest 1.7 MMT. The USRPA reports that prices for long grain milled are priced at or just above $650 MT, whereas prices in South America are at least $100 MT below that. South America is in the peak of their harvest season, with several questions swirling around the drought situation in Brazil. We know that Uruguay has crested the high point, and is on the downhill slope of the last 20% of their crop. Argentina is just ahead of them. Brazil and Paraguay are the big swings becoming known in the next few weeks.

In Asia, prices have held steady despite the inflationary rise that so many other commodities have seen. For more than a quarter now, prices in Thailand and Vietnam have oscillated around $400 per MT, while India and Pakistan have been around $360 per MT. This can in large part be attributed to India, who hasn't slowed exports over the COVID pandemic, and has been responsible for its third record crop in as many years.

Planting expectations for 2022 seemed to indicate that the rice crop were that the crop would be 15% smaller than last year, which is keeping upward pressure on paddy prices at the into late-March. Given the strength of soybean and cotton prices, and more recently improvements in corn prices, rice has a difficult road. Rice prices have improved to return to more competitive levels (similar to January and early February compared to other crops), but now fertilizer and fuel input price increases appear to be washing those gains away.

The big news is still the major announcement out of the Glen-Colusa Irrigation District (GCID) last week announcing that water allocation "will be the most limited ever in the district's history." While many are trying to decipher what that announcement actually means in terms of water allocations for rice farming, it is definitely not good news. The GCID is the largest rice producing water district in California. We believe the water cuts could bring rice acres in California down to 250,000 acres. With that in mind, it is very interesting to note that the Japan MA tender held last Friday for the remaining 12,700 metric tons of USA medium grain milled rice did not receive any offers. This speaks loudly about the industry's concern for the lack of water in California for the coming new crop planting.

California, impacted again by a major drought, proposed a $2.9 billion plan to pay farmers to reduce some of their plantings to better manage water resources. The voluntary agreement negotiated between government officials and some of the state's major water agencies is also aimed at protecting salmon and other wildlife and ecosystems. The agreement could leave as much as 35,000 acres of rice unplanted in the northern Central Valley growing region. "Every crop in that region from rice and tomatoes and grapes to irrigated pasture for livestock and tree nuts like almonds, pistachios and walnuts are going to be affected by this," said Mike Wade, executive director of the California Farm Water Coalition in Sacramento. Rice is more flexible than some other crops for fallowing because it's not required to be irrigated every year, said Wade. California produces all of America's domestically grown sushi rice, he said.

Prices remain firm as planting gets underway. The initial USDA *Prospective Plantings* report has a much rosier picture than the industry is currently projecting. The total long grain production is expected to be 99% of last year's total. The industry is predicting a 10-15% decline, or acres looking much closer to 1.65 million acres. This lower acreage number would appear to be baked into paddy prices right now, which are holding firm across all regions despite scant offshore demand. Louisiana is the only region that is expected to gain acres with any significance, and the rest are expected to taper. The actual USDA acreage report is released on June 30 along with an updated rice stocks report.

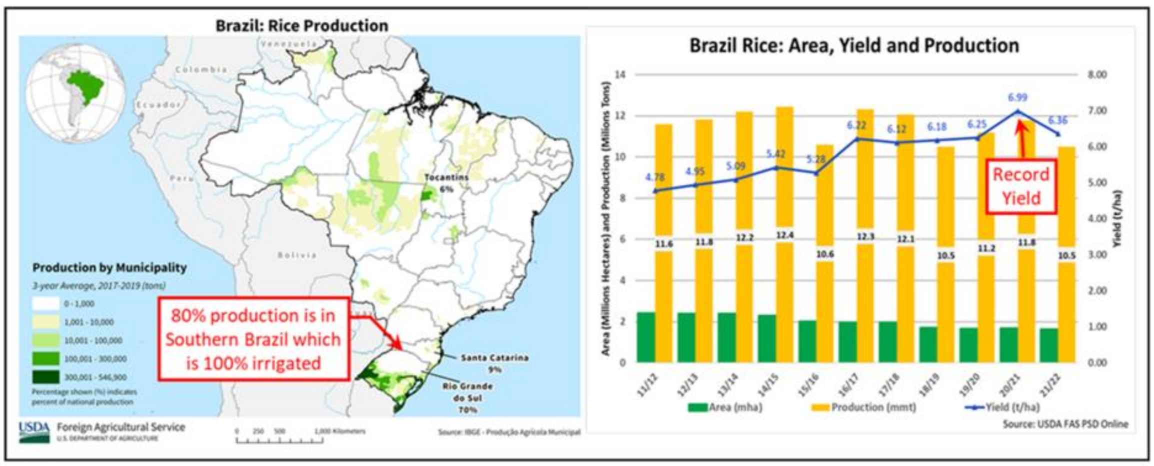
Looking at Medium Grain, the big drop will be coming from drought-plagued California. The USDA is projecting a 315,000-acre medium grain crop from the west coast, but recent water allocations coming out of GCID, the State's largest water district, are dismal. Initial signals are showing that acreage could fall well below even a 270,000-acre level. Medium grain across the rest of the states will hold relatively constant. It will be interesting to watch planting progress as the weeks tick by and the actual numbers come to light.

The March rice stocks report was released this week, showing rough rice stocks in all positions down by 8% from this time last year. To break things out, long grain rough is down by 11%, and long grain milled almost 6% down, medium rough about equal, and medium grain milled rice stocks down nearly 40%.

Further bolstering higher paddy prices is the drought in the Mercosur, where Brazil's rice production is still a big question mark. This will likely create opportunity for milled long grain to re-enter some of the markets that Brazil has encroached on in recent years.

USDA estimates Brazil rice production for marketing year (MY) 2021/22 at 7.1 MMT (milled-basis), down 2 percent from last month, and 11 percent from last year. Harvested area is estimated at 1.65 million hectares, down 1 percent from last month, and 2 percent from last season. Yield is estimated at 6.36 tons per hectare, less than 1 percent from last month and 9 percent below last year's record yield.

Brazil Rice: Production Reduced due to Drought in Rio Grande do Sul

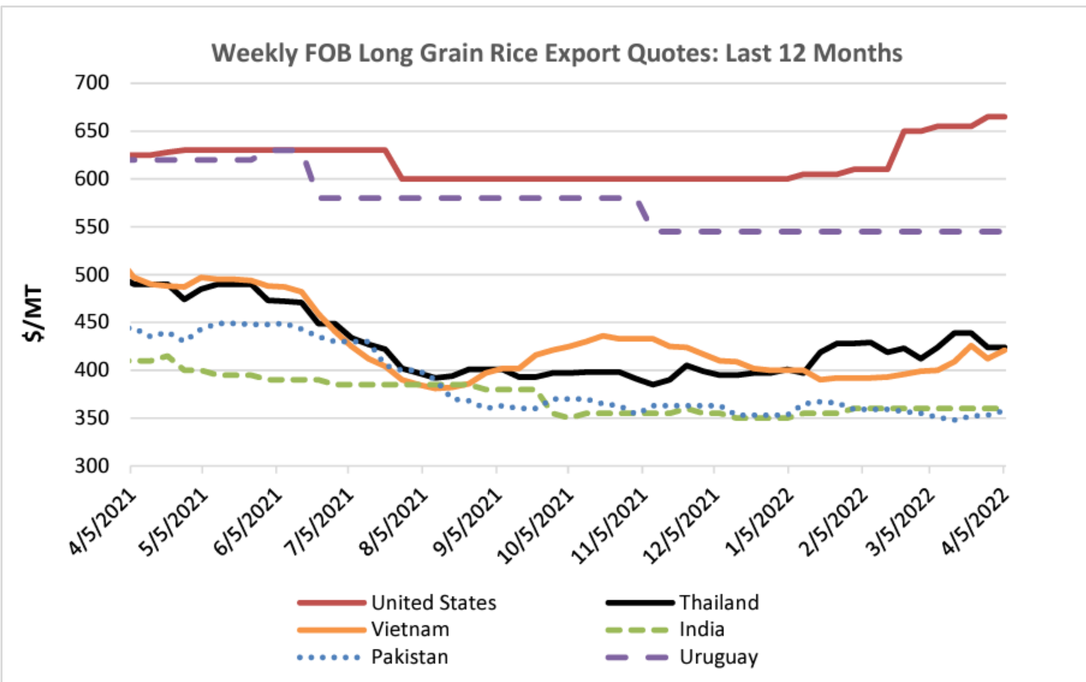


Roughly 80 percent of the rice crop in Brazil is produced in the southern states of Rio Grande do Sul and Santa Catarina. The rice crop is planted from August through December with earlier planting occurring in the south. All of the rice in the southern states is irrigated and yields are usually stable. A historic drought caused by the occurrence of a La Niña severely limited water availability in western Rio Grande do Sul. Water rationing and intermittent irrigation coupled with high temperatures damaged the crop just as it was entering sensitive flowering stages. Vegetation metrics such as the satellite-derived Normalized Difference Vegetation Index (NDVI) show poor crop vigor relative to the long-term average and a sharp departure from last season's crop. The Technical Assistance and Rural Extension of Rio Grande do Sul (EMATER-RS) reports yield losses of about 5 percent relative to the initial projection and 13 percent lower than last year. National harvest is about half complete with 95 percent harvested in Santa Catarina and 53 percent in Rio Grande do Sul. Harvest concludes in May in the south but will continue through August in northern minor rice producing areas of Brazil.

In South America, Brazil is particularly impacted by the Russia/Ukraine conflict. Brazil imports over 80% of its total fertilizer needs, and almost 100% of its nitrogen fertilizer from Russia. To circumvent the obvious concern and ensure fertilizer supplies for coming crop cycles, the Brazilian government has announced an emergency National Fertilizer Plan in which they intend to be able to produce 40% of their own fertilizers by the year 2050. The problem is, Brazil only produces about 4% of their own nitrogen-based fertilizers currently. This concern is obviously compounded by the drought and creates an expectation that the harvest of their soybean, corn, sugar, and rice crops will be lighter both in acreage and in yields. This is one more reason that US farmers will cycle out of rice and into soybeans; China's demand for soybeans doesn't fade with the acres reduced by drought or yield reduced by unavailable fertilizer.

In an effort to maintain domestic food prices in El Salvador, President Nayib Bukele announced the implementation of eleven measures to fight inflation and reduce the economic impact on the people. Among these measures is the suspension of import duties from any origin for twenty basic food commodities.

Rice export quotes remained relatively steady over the past month. U.S. quotes rose $10 to $665 per ton amid tighter domestic supplies. Uruguayan prices remained at $545. Thai quotes rose and then returned to $424 per ton. Vietnamese prices now closely track Thai prices after climbing $21 to $421 per ton due to tight supplies of white rice. Pakistani quotes increased slightly by $7 to $358 per ton amid ample supplies from a large December harvest. Indian prices remained at $360 per ton.



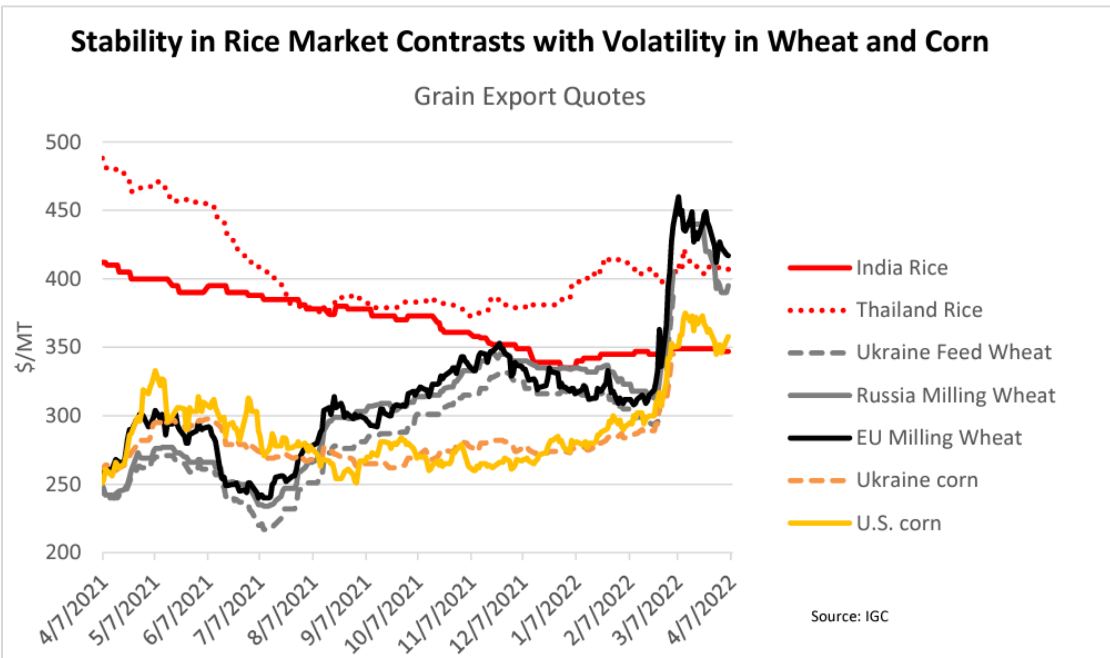
The Biden Administration announced that a deal was reached to remove tariffs between the U.S. and UK on June 1, 2022- specifically, the removal of the U.S. Section 232 tariffs on steel and aluminum imports from the UK. Those tariffs were met with retaliatory tariffs on U.S. exports into the UK, including a 25 percent duty on all milled and broken rice shipped since June of 2018.

Currently, U.S. rice has access to the UK market through a limited duty-free milled rice quota or outside the quota, where it's subject to Most Favored Nation tariffs. A comprehensive Free Trade Agreement with the UK would provide an opportunity to achieve duty-free and quota-free access for U.S. rice exports. Per capita consumption of rice is growing in the UK, a market that eats but does not grow any rice, and the U.S. has a strong existing customer base that would benefit from freer trade.

Exports of U.S. milled rice to the UK have suffered over the last four years with just minimal tonnage flowing through the U.S. country-specific quota, operated through the Association for the Administration of Rice Quotas, Inc. U.S. sales in recent years (with the exception of 2019) have ranged between 20,000 and 30,000 metric tons of primarily brown rice, entering at a lower duty and without a retaliatory tariff. The next UK quota auction for July 2022 shipments is scheduled for May 5th.

The removal of the retaliatory tariffs for U.S. rice is the second in the last several months, following the January 1, 2022, lifting of extra tariffs for shipments bound for the European Union. Turkey and China are the remaining markets with a 25 percent retaliatory duty for imports of U.S. rice. Unfortunately, there are no signs of interest by the Administration to engage in talks to remove the tariffs.

Over the past few weeks, global grain markets have been significantly affected by the Russian invasion of Ukraine and the near-complete cessation of Ukraine grain exports. Because Ukraine is a major wheat and corn exporter, the result has been a sudden shift of demand to other suppliers and a remarkable increase in exporter price quotes for those grains. While Ukrainian quotes are no longer available as the country scrambles to begin shipping via rail instead of by sea, Russian wheat quotes and exports have resumed, resulting in some leveling off of prices. Corn export quotes have eased slightly with the imminent South American harvests but remain historically high.



In stark contrast to the record and near-record prices of corn and wheat over the past month, rice quotes have remained remarkably stable amid sufficient supplies and no disruptions to major exporters. In fact, quotes from India, the largest rice supplier, have been static and are currently below major export quotes for both wheat and corn, an anomaly. Over the past couple of decades, major wheat exporter quotes only exceeded rice briefly in 2007 and 2008, and major corn exporter quotes have never been above rice.

The recent phenomenon of stable rice prices and higher wheat prices may impact consumer choices. Countries that consume wheat as their staple grain are unlikely to suddenly change buying habits, but countries with consumers of both wheat and rice may prefer rice based on the comparatively lower prices. Sub-Saharan Africa is a price-sensitive region that consumes roughly equal amounts of both grains and may shift consumption to the lower-priced rice or local alternatives.

Though rice is not usually used for feed due to its typically higher prices and less favorable nutritional profile, the use of small amounts for feed is not uncommon in large rice-producing countries, especially in East and Southeast Asian countries like China, South Korea, Japan, and Thailand. This year, China and Vietnam are importing significantly more broken rice that could be used for feed.

Cotton

There was little news for the cotton market in USDA's April WASDE report as the agency left its ending stocks forecast unchanged at 3.5 million bales. USDA did raise its projected 2021/22 on-farm average price of cotton to 91 cents per pound. from the March estimate of 91 cents. USDA's world cotton balance sheet showed a small increase of 810,000 bales in projected world ending stock as USDA decreased project use slightly and raised its old-crop carry-in.

U.S. cotton sales total for the week ended March 31, at just 62,900 bales, marked the lowest of the 2021/22 crop year, weighing on nearby May futures. Traders seemingly ignored the fact that the shipments figure at 455,500 bales represented the second time in the past three weeks in which the export figure to hit a marketing-year high. Traders in old-crop futures will continue focusing upon export prospects for the balance of the crop year (ending July 31), but those more interested in the new-crop outlook will be watching the weather and the cotton plantings numbers indicated on the *Crop Progress* report. Still, the latter report seems likely to have limited influence in the short run, since cotton plantings have yet to start in several states. Weekly USDA Export Sales reports will likely continue driving events in old-crop cotton futures through early spring, especially if the sales numbers bounce back toward recent averages, since total commitments (shipments plus outstanding sales) have already surpassed USDA's 14.75 million-bale export forecast for 2021/22. But the cotton market's general focus will almost surely shift toward new-crop prospects, especially if spring weather over the main cotton-growing areas of Texas don't improve from their current drought-stricken condition. Weekly USDA Crop Progress reports will take on increasing importance.

Spring weather will come to the fore, since conditions in prime growing areas, especially in West Texas, will dictate the likely size of the fall 2022 cotton harvest. Traders will also keep an eye on U.S. cotton exports and shipments, with an increasing portion of that attention focusing upon the potential carryover of commitments into the new crop year. The larger that shift, the larger the export potential for 2022/23. Outside events, especially on the economic and geopolitical fronts will also influence the cotton outlook. Developments concerning commodity inflation will also garner considerable trader attention, with fluctuations in crude oil prices being a key to market sentiment.

The latest Commitment of Traders report reflecting activity in the Tuesday-to-Tuesday week ending March 22 confirmed the funds increased their net long position for the first time in seven weeks.

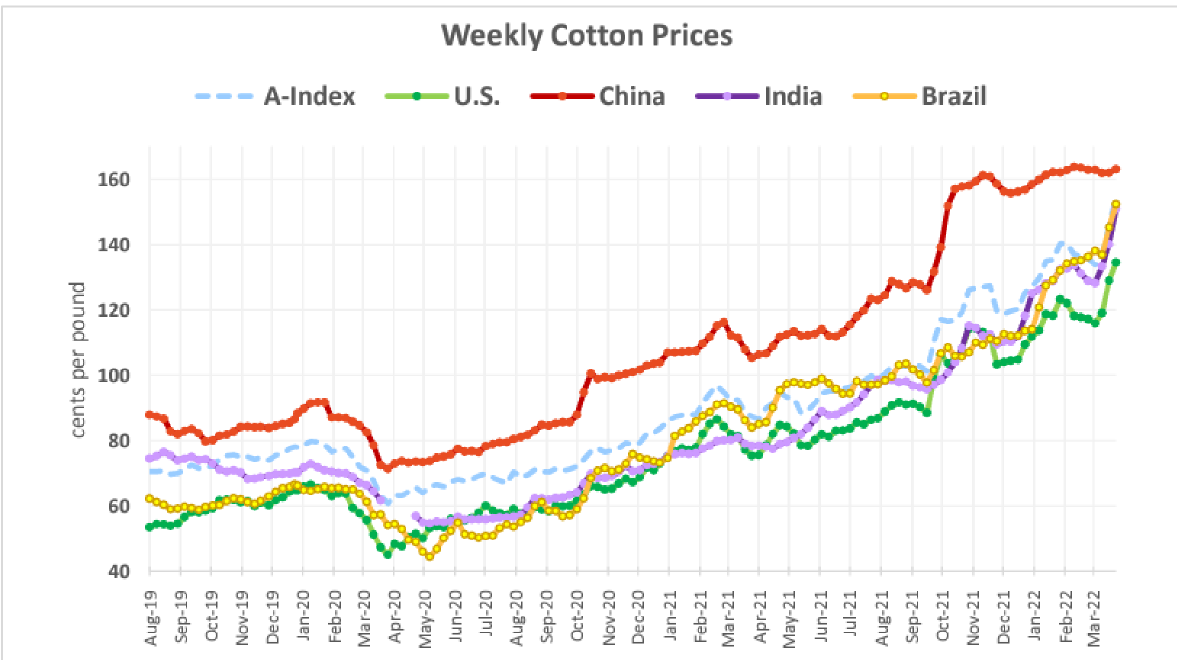
With the addition of 723,000 bales, their net long position now stands at 7.4 million bales still shy of the 9.7 million in October of last year. With May futures gaining over five and a half cents since last Tuesday, it's a good bet the funds are still adding to their longs.

Also contributing to the rally is a large volume of out of the money call options purchased by traders last week. No doubt these individuals are extremely bullish foreseeing another 2011. But the immediate effect is it creates buying pressure since those selling the options need to hedge the market by buying an equal number of futures. Lastly, over eight million bales of on call sales remain based May and July. This will supply valuable support as mills will take advantage of any dip in the market to price cotton. The return of speculative money is being prompted in part by favorable cotton fundamentals, strong demand, and prospects of shorter supplies.

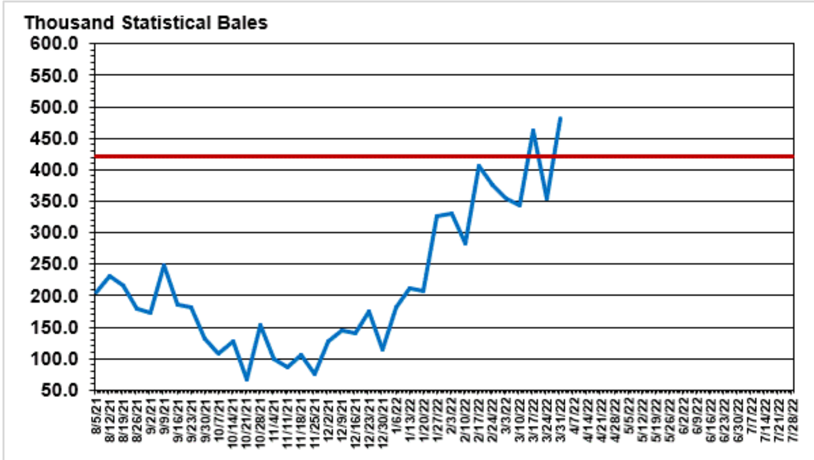
Another enticement for big money, cotton, along with other commodities, provide a hedge against inflation thus encouraging their shift from securities to something physical. Though this return is certainly welcomed as it drives futures prices higher, we are beginning to see early signs the cash market cannot keep pace. There has been word some larger mills in India and China are cutting back production with margins squeezed at these lofty prices.

Global cotton prices surged since last month's WASDE, with the A-Index rising over 20 cents per pound to 154 cents and nearly 70 cents above the same period last year. Despite the ongoing conflict in Ukraine, prices on the Intercontinental Exchange have witnessed an exuberant rally. Large quantities of unfixed sales on the May contract coupled with significantly low certificated stocks both supported the rise.

Contrary to price movements across the world, spot prices in China were unchanged. Large commercial stocks and slowing demand for cotton lint and yarn capped any significant climb. High lint prices and its large cotton yarn and fabric stocks are both helping to suppress cotton lint demand. The A-Index is roughly 10 cents lower than domestic prices in China compared with roughly 30 cents last month, signaling that China's price gap has narrowed dramatically. This is expected to slow China's short-term foreign purchases despite the recent issuance of sliding scale quota.



U.S. cotton exports jumped to a fresh marketing-year high at 455,500 bales during the week of March 31. Total old crop commitments (exports + outstanding sales) are above USDA's March forecast. Regardless of when they have shipped, export demand is supportive. The blue line in the chart below (from Texas AMU) shows actual weekly export shipments through the past week of the 2021/22 marketing year. The week ending March 31 saw export shipments above the needed pace- a big improvement over the first half of the marketing year. There were reportedly complicating external factors earlier in the year involving 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.



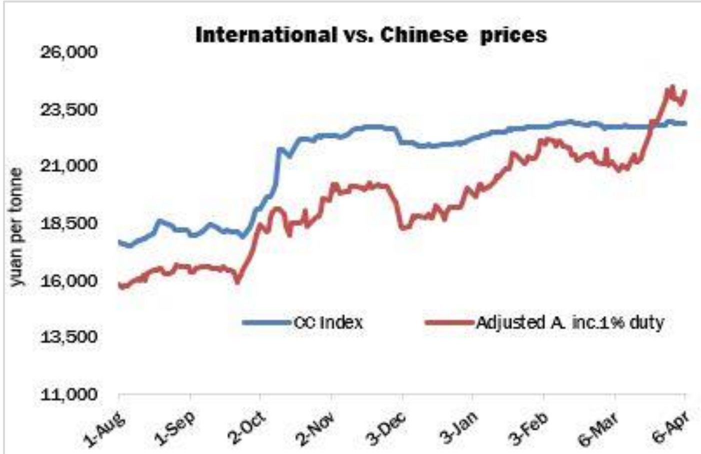
International cotton prices resumed their upward trajectory in earnest during the second half of March, prompted by a dramatic rise in New York futures. The Cotlook A index fell to its low point of 133.15 US cents per lb early in the period, and rose to 156.55 on the last day of the month, its highest level since June 2011.

Market attention was of course dominated during the month by developments unfolding in Ukraine. Cotton futures initially failed to follow the spectacular advance of grain markets, esp. wheat, but made up ground from around the middle of the month. The implications of the conflict for the price and availability of fertilizers was a further major concern in the context of input costs that were already rising.

The steep advance of raw cotton prices was influenced by several bullish factors, including the large number of outstanding on-call contracts awaiting fixation on the May and July futures contracts, a tightening US balance sheet for current season and increasingly worrisome drought in the major US growing region of West Texas and persistent freight disruption. The volatile behavior of futures prompted mills generally to approach purchases with caution. Any shippers able to guarantee delivery in the second quarter were able to command very firm prices, but a scarcity of current crop supply, as well as a lack of available vessel space, rendered the volumes of nearby business concluded relatively modest.

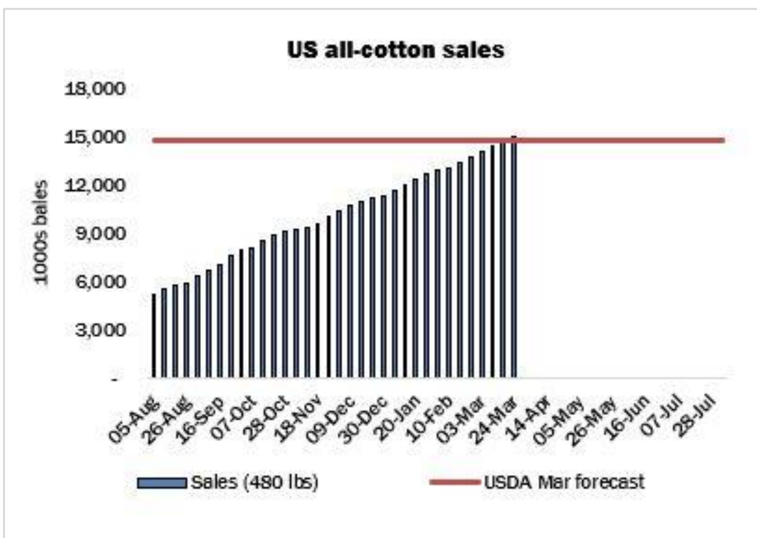
Yarn prices, meanwhile, have failed to keep pace with the latest sudden rise in raw cotton replacement costs and by the end of the month, many mills found they were no longer profitable at current levels. However, those same spinners had enjoyed very good remuneration in recent months and most mills may be able to weather the inversion of their margins for the time being.

The relationship between Chinese and international prices (as measured by comparing the CC Index with the A Index adjusted to local terms) underwent a transformation during March. Whereas for many months the latter value had traded at a significant discount to Chinese offering rates, late in the month that dynamic was reversed, and by March 31 import offers had moved to an equivalent premium of almost 11 US cents per lb.



The timing of such a reconfiguration was unwelcome on the part of Chinese mills, who, unlike their international counterparts, have for some time been spinning local cotton at a loss. On the cusp of allocation of this year's Sliding-Scale quota, which may have provided Chinese mills with some relief, international parities skyrocketed and rendered any import buying intentions largely unworkable.

That being said, China continued to appear as the major destination in United States export sales reports released during March. Net additions to the overall commitment remained robust, and by mid-month had already exceeded Washington's projection for the season (14.75 million statistical bales of 480 lbs). Shipments maintained the improvement observed since late January and registered a marketing-year high in the week ended March 17th. However, with that exception, export numbers were well behind the average required to meet USDA's projection.



Cotlook's March estimate of global production in 2021/22 was lowered by 165,000 tonnes, to slightly more than 25,500,000 tonnes, while the figure for next season was unchanged from our initial estimate of 26,903,000 tonnes, which, if achieved, will be the second largest world crop on record. However, the outlook for 2022/23 became less clear during the month, owing to various macro-economic and weather factors.

The biggest change for the current season concerned India, where it now seems certain that the crop will fall well short of initial expectations. Disappointing seed cotton arrivals prompted a reduction of our production number to 5,525,000 tonnes, the lowest since 2009/10. That fall was partially offset by modest increases for China, in accordance with the latest ginning data, and Brazil, to reflect the positive tone of field reports.

As for next season, the U.S. Department of Agriculture released its Prospective Plantings report on March 31, to little fanfare. The figure of 12.2 million acres was largely within market expectations but may not have captured the full impact of the rise in cotton futures from mid-March. In addition, the severe drought affecting West Texas renders large-scale abandonment increasingly likely, should significant precipitation not be received before the planting window opens. Hence, the outlook for US production in 2022/23 remains subject to considerable change.

The above-mentioned difficulties experienced by Chinese spinners this season were of course a factor in the reduction, as were the large unsold yarn stocks in spinners' hands, the ongoing Covid restrictions, and concern as regards retail customers' sourcing policies. Taking the above adjustments into account, world stocks by the end of the current season are expected to decrease by 219,000 tonnes. Conversely, Cotlook envisages an increase of global stock levels by July 31, 2023, of 465,000 tonnes.

Outside Market Influences

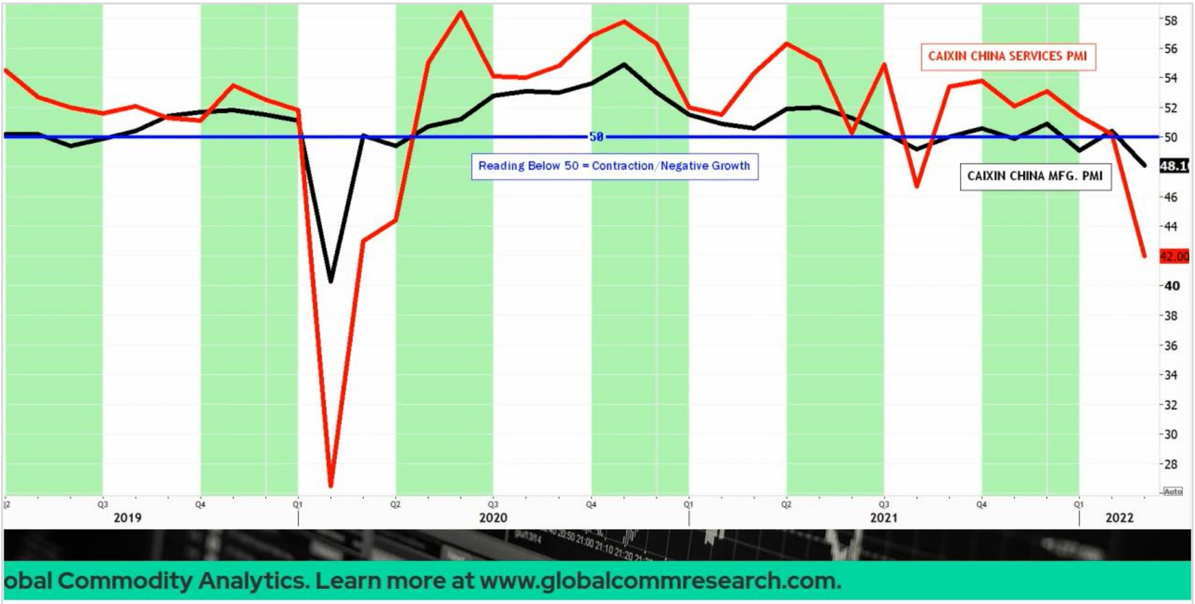
In other news, the commodity markets came under pressure as traders tried to shed risk over shipping concerns in China. The bearish sentiment was driven by fresh COVID-19 concerns in China that caused officials to shut down transportation amid a two-pronged lockdown.

Chinese governmental officials in Shanghai announced rolling lockdowns in order to conduct coronavirus testing. In the city of 26 million people, residents will be barred from leaving their homes. There's concern any suspension of commercial activity in Shanghai will have global ripple effects.

The city is one of China's primary centers for finance, manufacturing and trade. Shanghai has been the world's busiest port when it comes to container volumes since 2010. Even though Chinese state media says the port continues to operate, other reports say that trucking services in and out of the city will be severely impacted and several warehouses are closed. All this is coming as officials work to contain an outbreak of a highly transmissible Omicron variant.

The graph below (from Caixin Global) on Chinese Service and Manufacturing Purchasing Managers Index (PMI) indicates the performance of the economy inside China. In short, the PMI is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.

The blue line in the graph can be a threshold for contraction or negative growth in the economy- with growth contracting below a reading of "50" on the index. The Caixin/Markit Manufacturing Purchasing Managers' Index (PMI) fell to 48.1 in March, indicating the steepest rate of contraction since February 2020, from 50.4 in the previous month. For example, as unemployment increases due to shutdowns imposed by the Chinese government, aggregate demand for commodities decreases. The service PMI gauge is falling to some of its lowest levels since 2020 COVID-levels.

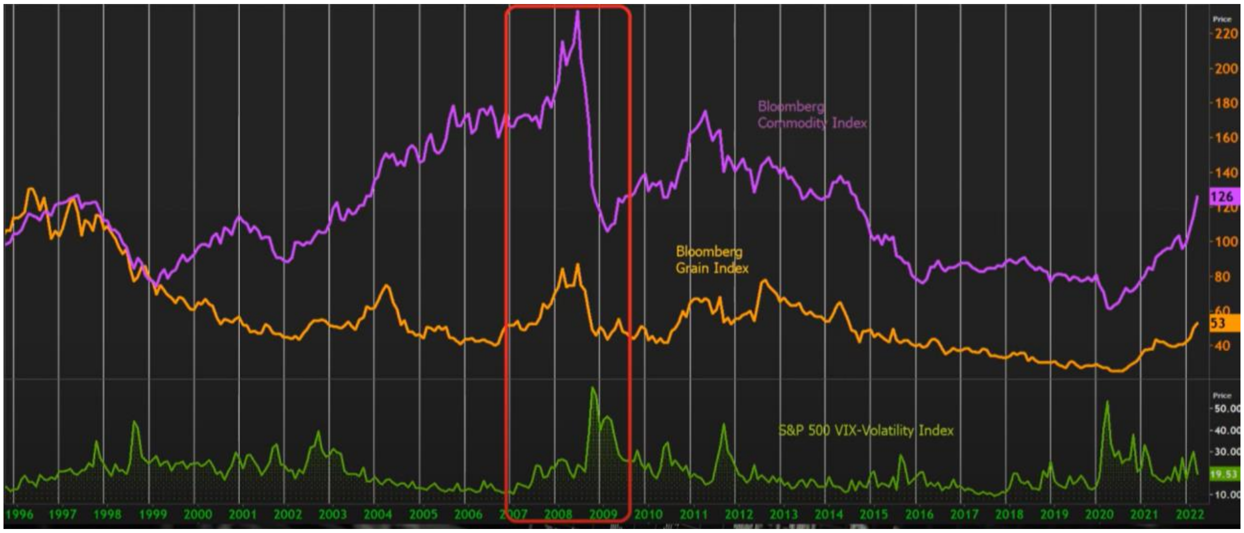


The U.S. hog and soybean futures performance can be correlated, in part, to a chart like this. U.S. April hog futures since the end of March are $10 off their highs and U.S. May soybeans are roughly $1.00 off their highs. In order to encourage more fund-related buying in these markets, the Service PMI (red line) needs to exceed the "50" threshold (blue line). Leading indicator that soybeans could be an issue from an investor standpoint opposed to the corn and wheat market.

In other macroeconomic news, minutes released from the Federal Reserve's latest Federal Open Market Committee (FOMC) meeting in mid-March suggested that Fed governors are taking a more hawkish tone on raising interest rates than ever before as inflation remains high.

Market uncertainty following the Russian invasion of Ukraine kept Fed governors from raising the Federal Funds interest rate further than the 0.25% increase following the March 2022 FOMC meeting. Fed Chairman Jerome Powell had previously assured markets that interest rate hikes would be gradual, but in light of market volatility caused by the Russian war, it appears more drastic rate hikes could be on the way.

The graph below (as of April 5th) presents the Bloomberg Commodity Index (purple line) – energies, metals, softs, commodities. The crude oil market leads grains as it drives higher. Also featured is the Bloomberg Grain Index (gold line) – a sub-index of the Bloomberg Commodity Index for grains only. The Grain Index and the Commodity Index has correlated with one another since the financial crisis of 2008 (Red Box on chart). Lastly, the S&P 500 VIX or volatility index (green line) – represent the "fear factor" in the S&P equities market. The U.S. stock market's so-called "fear gauge" sharply jumped April 6th as Federal Reserve officials signaled a more aggressive stance against hot inflation than investors had anticipated. The volatility index surged as much as 17% to 24.65, the highest level since March 21st.



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	$5.80	$3.70	--
Grain Sorghum	$5.85	$3.95	--
Long Grain Rice	$13.80	$14.00	$0.20
Medium Grain Rice	$14.00	$14.00	--
Seed Cotton	$0.4608	$0.3670	--
Soybeans	$13.25	$8.40	--
Wheat	$7.60	$5.50	--

*national marketing year average (MYA) prices reflect the midpoint price level from the April 8, 2022 WASDE report.

Covered Commodity	***2022/23 MYA Price*****	*Effective Reference Price*	***2022/23 CY PLC Payment Rate***
Corn	$5.00	$3.70	--
Grain Sorghum	$4.70	$3.95	--
Long Grain Rice	$14.00	$14.00	--
Medium Grain Rice	$14.50	$14.00	--
Seed Cotton	$0.4047	$0.3670	--
Soybeans	$12.75	$8.40	--
Wheat	$6.80	$5.50	--

**national marketing year average (MYA) prices reflect the prices contained in the USDA Ag Outlook Forum. February 24-25, 2022.

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, Gro Intelligence, 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, Sovecon, 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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