Staff Report No. 2021-53 **October 14, 2021**

October Market Update
Corn, Soybeans, Rice, and Cotton

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WASDE Summary

WASDE'S October 2021/22 U.S. corn outlook projects slightly higher production, increased exports, lower feed and residual use, and larger ending stocks. Corn production is forecast at 15.019 billion bushels, an increase of 23 million bushels brought about by a marginal increase in yield projections to 176.5 bushels per acre. Between slightly higher production and increased beginning stocks based on the September 30 USDA NASS *Grain Stocks* report, corn supplies are forecast up 72 million bushels from last month. Exports are raised 25 million bushels reflecting larger supplies and expectations of reduced competition from other major exporters. Projected feed and residual use are lowered 50 million bushels based on indicated disappearance during 2020/21. With supply rising and use falling, corn ending stocks for 2021/22 are raised 92 million bushels. The season-average corn price received by producers is unchanged at $5.45 per bushel.

U.S. soybean production's forecast has been increased by 74 million to 4.4 billion bushels as a result of higher yields. Harvested area remains unchanged at 86.4 million acres. Soybean yield is projected at 51.5 bushels per acre, 0.9 bushels up from September estimates with the largest production changes being made for Iowa, Minnesota, and Nebraska. Soybean 2021/22 supplies are projected at 4.7 billion bushels, up 145 million on higher production and beginning stocks. With higher crush and unchanged exports, 2021/22 ending stocks are projected at 320 million bushels, up 135 million from last month. The U.S. season-average soybean price for 2021/22 is forecast at $12.35 per bushel, down 55 cents reflecting larger supplies.

The outlook for 2021/22 U.S. rice this month is for reduced supplies, lower domestic use, unchanged exports, and smaller ending stocks. Lower projected imports have caused a reduction in rice stocks as they more than offset minimally higher production. USDA NASS increased the average all rice yield by 2 pounds per acre, to 7,625 pounds in the October 12 *Crop Production* report, as production is fractionally higher. Imports are reduced 2.0 million cwt, to 36.0 million, on the continuation of the trend of lower year-to-year long-grain monthly imports and expectations that higher freight costs and reduced availability of shipping containers will persist into 2021/22. Total domestic and residual use is decreased by 1.0 million cwt to 146.0 million on lower supplies and ending stocks are decreased to 33.2 million cwt, down 1.0 million. The season average farm price forecast for long grain rice is unchanged at $13.00 per cwt. The season average farm price forecast for southern medium grain rice remains unchanged at $14.00 per cwt.

U.S. 2021/22 cotton supply and demand estimates show lower production, lower ending stocks, and a higher price compared with last month. Production is lowered 3 percent, to 18.0 million bales as projected yields in Texas are reduced. With domestic mill use and exports unchanged, ending stocks are 500,000 bales lower. At 3.2 million bales, U.S. ending stocks in 2021/22 are projected at 18 percent of use, compared with 17 percent in 2020/21. The 2021/22 season-average farm price for upland cotton is forecast at a record-high 90.0 cents per pound, 6 cents higher than last month and nearly 2 percent above the previous record of 88.3 cents in 2011/12.

Commitment of Traders Report, Tuesday, October 5, 2021

CORN - CHICAGO BOARD OF TRADE — Code-002602

Disaggregated Commitments of Traders - Options and Futures Combined, October 05, 2021

	Open Interest	Producer/Merchant/ Processor/User Long	Producer/Merchant/ Processor/User Short	Swap Dealers Long	Swap Dealers Short	Swap Dealers Spreading	Managed Money Long	Managed Money Short	Managed Money Spreading	Other Reportables Long	Other Reportables Short	Other Reportables Spreading	Nonreportable Positions Long	Nonreportable Positions Short
(CONTRACTS OF 5,000 BUSHELS) Positions														
All	1,826,338	472,584	942,266	264,586	47,071	47,402	285,156	34,560	147,959	102,328	41,897	337,122	169,201	228,060
Old	1,683,952	435,491	854,532	256,343	43,570	45,803	249,425	47,773	128,772	100,088	47,011	316,839	151,190	199,652
Other	142,387	37,093	87,734	8,433	3,691	1,409	52,381	3,438	2,537	10,771	3,417	11,752	18,011	28,408
Changes in Commitments from: September 28, 2021														
	1,566	-9,689	505	-9,888	174	-1,981	9,979	4,125	-5,310	9,558	1,778	676	8,219	1,598
Percent of Open Interest Represented by Each Category of Trader														
All	100.0	25.9	51.6	14.5	2.6	2.6	15.6	1.9	8.1	5.6	2.3	18.5	9.3	12.5
Old	100.0	25.9	50.7	15.2	2.6	2.7	14.8	2.8	7.6	5.9	2.8	18.8	9.0	11.9
Other	100.0	26.1	61.6	5.9	2.6	1.0	36.8	2.4	1.8	7.6	2.4	8.3	12.6	20.0
Number of Traders in Each Category														
All	841	366	409	28	12	28	105	26	78	98	80	121		
Old	834	359	403	28	12	28	101	28	77	95	85	120		
Other	438	96	280	17	6	7	21	11	8	33	33	23		

Percent of Open Interest Held by the Indicated Number of the Largest Traders

	By Gross Position: 4 or Less Traders Long	By Gross Position: 4 or Less Traders Short	By Gross Position: 8 or Less Traders Long	By Gross Position: 8 or Less Traders Short	By Net Position: 4 or Less Traders Long	By Net Position: 4 or Less Traders Short	By Net Position: 8 or Less Traders Long	By Net Position: 8 or Less Traders Short
All	12.2	13.3	20.0	20.2	10.8	11.2	16.6	16.7
Old	12.8	13.1	20.6	20.0	11.5	10.9	17.5	15.9
Other	29.0	20.2	41.3	30.9	28.5	19.9	40.1	30.2

SOYBEANS - CHICAGO BOARD OF TRADE — Code-005602

Disaggregated Commitments of Traders - Options and Futures Combined, October 05, 2021

	Open Interest	Producer/Merchant/ Processor/User Long	Producer/Merchant/ Processor/User Short	Swap Dealers Long	Swap Dealers Short	Swap Dealers Spreading	Managed Money Long	Managed Money Short	Managed Money Spreading	Other Reportables Long	Other Reportables Short	Other Reportables Spreading	Nonreportable Positions Long	Nonreportable Positions Short
(CONTRACTS OF 5,000 BUSHELS) Positions														
All	908,200	286,513	407,450	140,672	35,902	37,246	82,105	32,652	86,394	39,857	39,156	179,298	56,114	90,103
Old	856,667	272,092	383,264	136,340	34,842	35,717	73,555	34,176	79,492	39,613	41,665	168,501	51,356	79,009
Other	51,533	14,421	24,186	5,707	2,434	154	14,404	4,329	1,048	4,401	1,647	6,641	4,757	11,094
Changes in Commitments from: September 28, 2021														
	36,858	6,858	-3,648	3,898	-574	-403	-2,398	7,460	6,166	864	-2,338	22,638	-765	7,557
Percent of Open Interest Represented by Each Category of Trader														
All	100.0	31.5	44.9	15.5	4.0	4.1	9.0	3.6	9.5	4.4	4.3	19.7	6.2	9.9
Old	100.0	31.8	44.7	15.9	4.1	4.2	8.6	4.0	9.3	4.6	4.9	19.7	6.0	9.2
Other	100.0	28.0	46.9	11.1	4.7	0.3	28.0	8.4	2.0	8.5	3.2	12.9	9.2	21.5
Number of Traders in Each Category														
All	600	202	229	25	13	25	78	43	83	66	103	114		
Old	597	199	224	25	13	25	77	44	80	65	106	109		
Other	267	41	149	11	6	4	16	10	6	22	34	18		

Percent of Open Interest Held by the Indicated Number of the Largest Traders

	By Gross Position: 4 or Less Traders Long	By Gross Position: 4 or Less Traders Short	By Gross Position: 8 or Less Traders Long	By Gross Position: 8 or Less Traders Short	By Net Position: 4 or Less Traders Long	By Net Position: 4 or Less Traders Short	By Net Position: 8 or Less Traders Long	By Net Position: 8 or Less Traders Short
All	16.0	10.8	24.5	19.3	12.5	8.7	18.2	14.4
Old	16.3	10.9	25.0	19.2	12.9	8.6	18.8	14.3
Other	25.9	18.3	41.1	29.5	25.5	16.4	39.6	26.0

COTTON NO. 2 - ICE FUTURES U.S. Code-033661

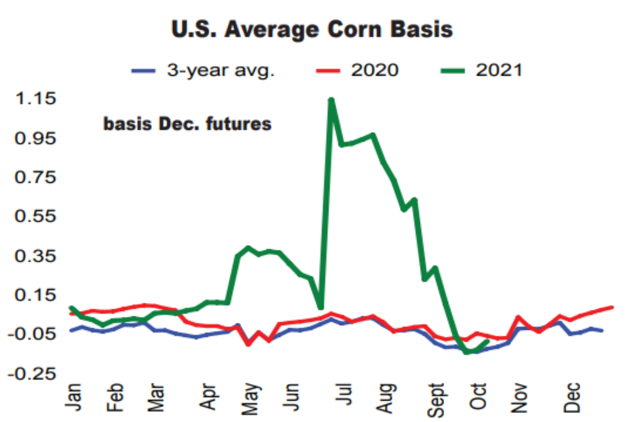
Disaggregated Commitments of Traders - Options and Futures Combined, October 05, 2021

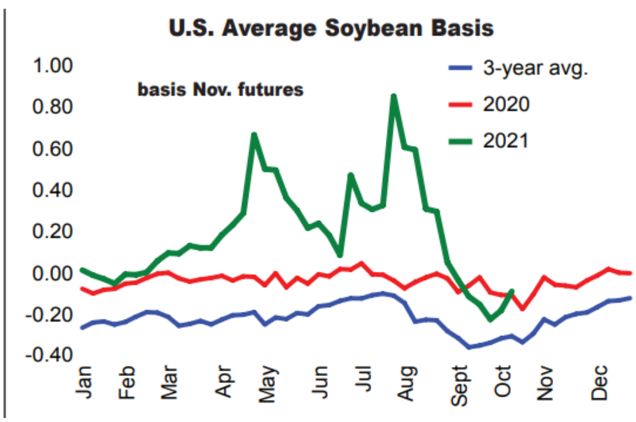
	Open Interest	Producer/Merchant/ Processor/User Long	Producer/Merchant/ Processor/User Short	Swap Dealers Long	Swap Dealers Short	Swap Dealers Spreading	Managed Money Long	Managed Money Short	Managed Money Spreading	Other Reportables Long	Other Reportables Short	Other Reportables Spreading	Nonreportable Positions Long	Nonreportable Positions Short
(CONTRACTS OF 50,000 POUNDS) Positions														
All	381,378	53,777	237,893	59,720	14,891	16,697	97,956	1,213	30,042	39,738	8,562	60,342	23,104	11,736
Old	353,713	43,710	217,291	60,307	12,605	14,492	92,623	2,432	28,594	33,501	8,141	58,685	21,800	11,472
Other	27,664	10,067	20,602	1,184	4,058	435	6,779	227	1	7,431	1,615	463	1,305	264
Changes in Commitments from: September 28, 2021														
	24,652	4,845	11,857	-1,387	815	1,464	1,911	-233	1,211	5,968	-11	9,359	1,281	190
Percent of Open Interest Represented by Each Category of Trader														
All	100.0	14.1	62.4	15.7	3.9	4.4	25.7	0.3	7.9	10.4	2.2	15.8	6.1	3.1
Old	100.0	12.4	61.4	17.0	3.6	4.1	26.2	0.7	8.1	9.5	2.3	16.6	6.2	3.2
Other	100.0	36.4	74.5	4.3	14.7	1.6	24.5	0.8	0.0	26.9	5.8	1.7	4.7	1.0
Number of Traders in Each Category														
All	324	43	50	19	12	20	115	10	48	70	37	62		
Old	321	42	49	20	10	20	112	12	46	67	42	57		
Other	92	18	23	5	6	4	10	.	.	30	5	11		

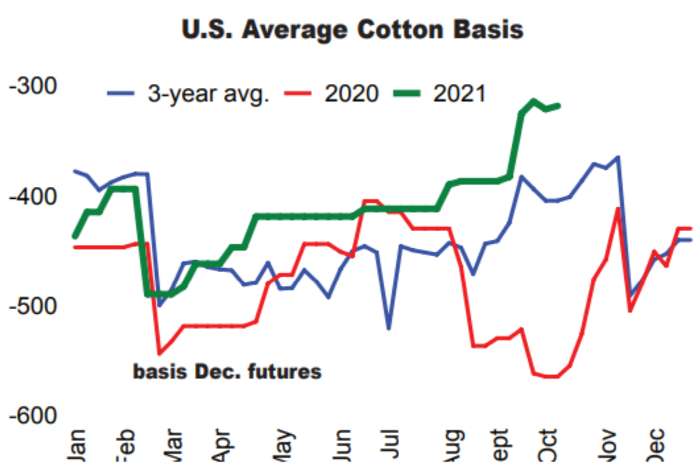
Percent of Open Interest Held by the Indicated Number of the Largest Traders

	By Gross Position: 4 or Less Traders Long	By Gross Position: 4 or Less Traders Short	By Gross Position: 8 or Less Traders Long	By Gross Position: 8 or Less Traders Short	By Net Position: 4 or Less Traders Long	By Net Position: 4 or Less Traders Short	By Net Position: 8 or Less Traders Long	By Net Position: 8 or Less Traders Short
All	13.3	35.8	21.7	47.8	8.4	30.1	12.8	39.0
Old	12.2	37.7	20.8	48.1	8.8	33.0	13.6	40.1
Other	49.4	56.0	61.6	80.1	47.3	55.8	59.0	80.0

Cash Market Basis Charts, Wednesday, October 13, 2021

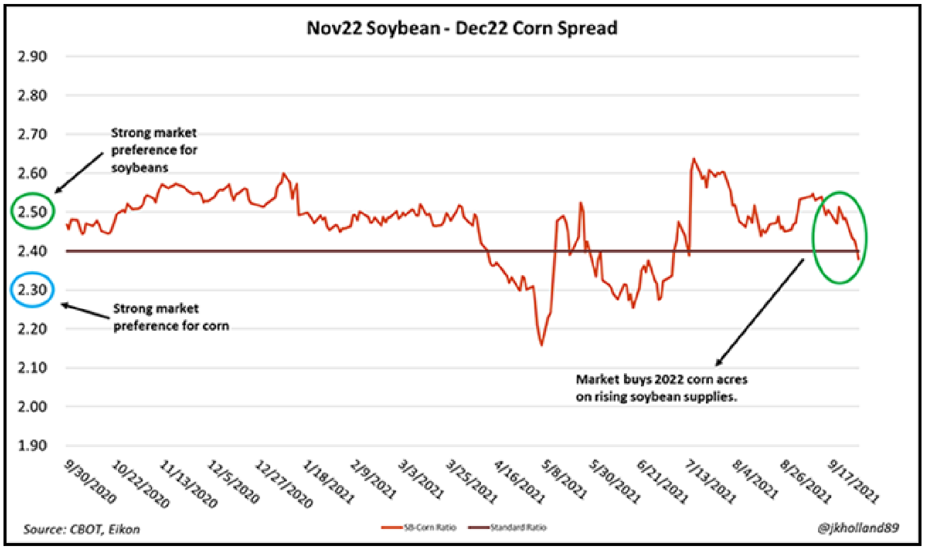






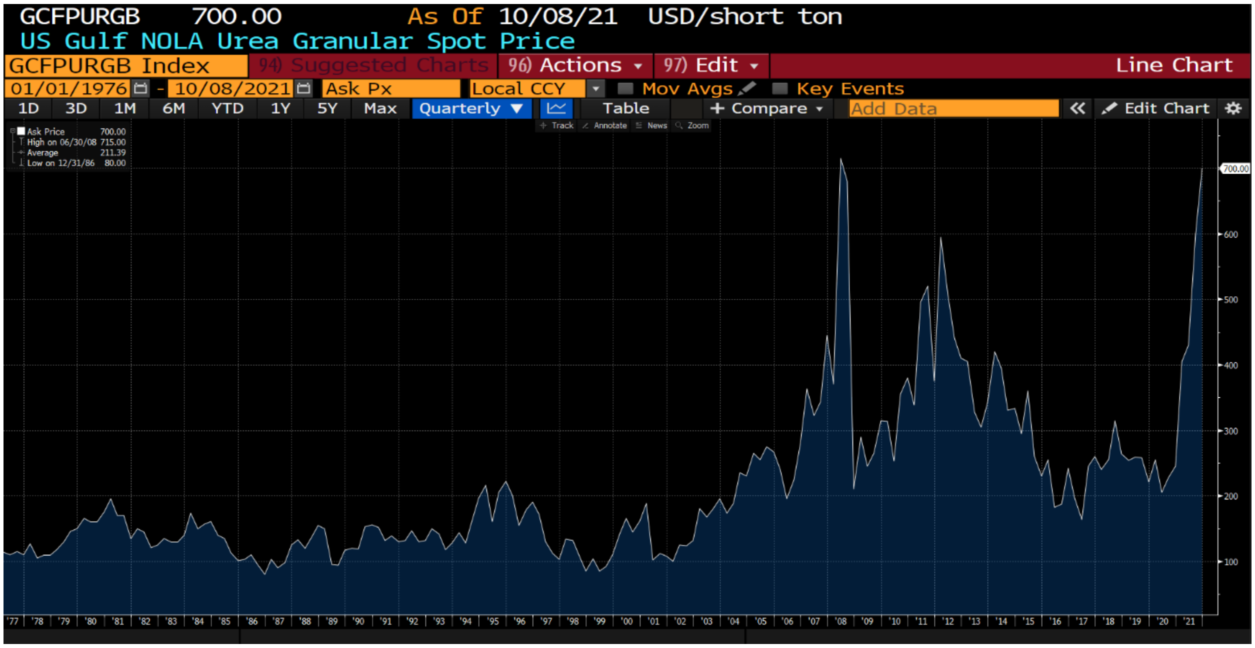
Corn

The new crop (2022) soybean-corn price ratio reversed after USDA's quarterly *Grain Stocks* report published on September 30, indicated that markets now slightly favor more corn acres in 2022,.



Increases in fertilizer prices usually indicate a significant rise in per-acre expenses for corn in the upcoming 2022 crop. With strong demand and supply chain disruptions brought about by Ida, some producers may be unwilling – or unable – to put down fertilizer this fall.

That risk took December 2022 corn to a new contract high last week even as December 2021 corn languished. Old crop still trades around a nickel premium to new; the spread has retreated sharply after topping $1.10 during the spring rally. Harvest weakness in the spread is not unusual, even in bull years. Old crop has so far avoided its normal tendency to trade at a 15- to 20-cent discount to new, but this year's fade has been much sharper than typically seen.



The unusual thing about October's WASDE is that we already have strong hints of what lies ahead thanks to USDA announcing 1.236 billion bushels of corn stocks on hand as of September 1st, a higher-than-expected ending stocks figure for 2020/21. The September 30 *Grain Stocks* report also noted USDA revised its estimate of 2020 corn production 71.0 million bushels lower to 14.111 billion bushels.

The combination of lower production in 2020 but higher ending stocks are not the types of adjustments one would normally expect; it will be interesting to see how USDA's old-crop estimates change to explain the new numbers. A 125 million bushel reduction in the feed and residual account is the most likely explanation, but we will see what USDA says.

For the new-crop, USDA's new-crop estimate will get plenty of attention and so will some demand items. Dow Jones' survey of analysts expects USDA to keep its corn crop estimate near 15.0 billion bushels. More specifically, the survey estimates a slightly lower corn crop of 14.948 billion bushels based on a yield of 175.9 bushels per acre and 85.0 million harvested acres. Ending corn stocks are expected to increase from 1.408 billion bushels in September to 1.421 billion bushels in October.

Since September's WASDE, USDA surprised markets when they reported that the inventory of U.S. hogs and pigs had fallen to 75.4 million head as of September 1st, 4% lower than a year ago. Given the lower inventory, a modest reduction in estimates for corn feed demand is likely Tuesday. The larger demand concern is for corn exports. USDA's export estimate of 2.475 billion bushels is looking suspiciously high with numerous shipping problems keeping transportation costs high late in 2021. Also, damage from Hurricane Ida to grain terminals along the Mississippi River in late August put U.S. corn shipments in an early hole, down 32% at the end of September from a year ago.

From a world perspective, South American corn crops are just getting planted and have a long way to go until the next harvest. On October 7, Brazil's crop agency, CONAB, estimated Brazil's 2021/22 corn crop at a record-high 116.3 million metric tons or 4.58 billion bushels.

In the wake of the October WASDE release, the changes to the corn yield were more modest: 15.019 billion bushels on a yield of 176.5 bushels per acre, up from 14.996 and 176.3 last month. Analysts were expecting, on average, a crop estimate somewhere around 14.973 billion bushels on a yield of 176.0 bushels per acre. Corn production is projected at 15.019 billion bushels with and new crop ending stocks of 1.5 billion bushels, all larger than expected and above September estimates. Harvested area was unchanged at 85.085 million acres. In 2020, corn production was 14.111 billion bushels with an average yield of 171.4 bushels per acre and harvested area of 82.313 million acres. The new projected corn carryout is also higher than projected, at 1.500 billion bushels, up from 1.408 billion last month and well above the average analyst estimate of 1.432 billion bushels. Along with the increased production and increased carry-in based on the September 1st stocks report, the corn carryout was higher due to a 50-million-bushel reduction in feed and residual use, which more than offset a 25-million-bushel increase to expected exports. Ethanol usage was left unchanged from last month.

Following the October report, corn prices dropped to between 4 to 7 cents in the red. They had a 9.5 cent range in the first minute after the Crop Production number was released. Futures were weaker going into the fundamental update. The projected cash price was unchanged at $5.45 per bushel.

The October USDA NASS *Crop Production* report put average corn yield at 176.5 bushels per acre, compared to the 175.9 bushels per acre average guess and 176.3 bushels per acre last month. With that boost, USDA has corn production at 15.019 billion bushels – the trade was looking for 14.973. Ending stocks were 92 million bushels higher at 1.5 billion, implying an extra 20 million bushels of corn was pulled out of demand.

Corn ending stocks was a little disappointing at 1.500 billion versus the expected 1.432 billion bushels. World ending stocks are higher too and corn is about five cents lower overall. Corn should have support at $5.20 and then $5.00. If ending stocks should continue to grow (and demand does not pick up) then $4.80 is possible.

October 2021 Corn

Acreage, Yield, and Production

	Planted (1,000 Acres)	Harvested (1,000 Acres)	Yield (Bushels/Acre)	Production (1,000 Bushels)
United States	**93,304**	**85,085**	**176.5**	**15,018,542**
% Change from Previous Estimate	NC	NC	↑ 0.1	↑ 0.1
% Change from Previous Season	↑ 2.9	↑ 3.4	↑ 3.0	↑ 6.4

Top 5 States - By Production

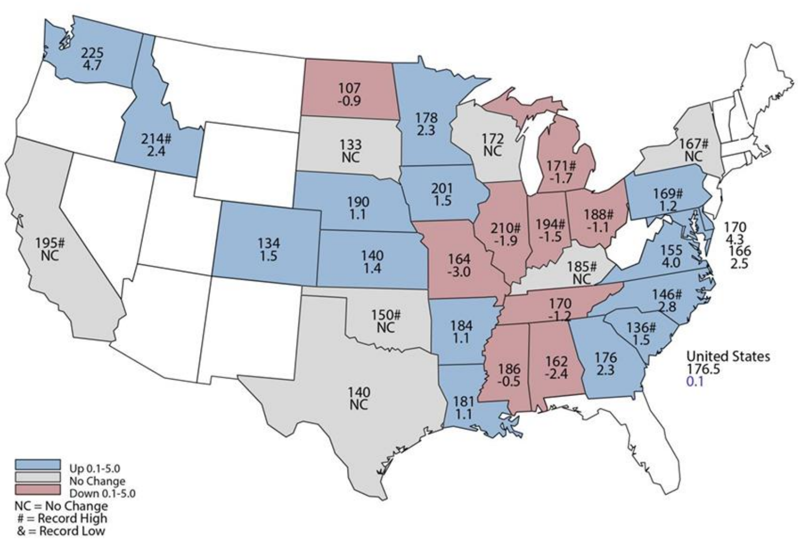
	Planted (1,000 Acres)	Planted % Δ PY	Harvested (1,000 Acres)	Harvested % Δ PY	Yield (Bushels/Acre)	Yield % Δ PY	Production (1,000 Bushels)	Production % Δ PY
Iowa	12,900	↓ 5.1	12,450	↓ 3.5	201	↑ 13.6	2,502,450	↑ 9.6
Illinois	11,000	↓ 2.7	10,800	↓ 2.7	210	↑ 9.9	2,268,000	↑ 7.0
Nebraska	9,900	↓ 2.9	9,600	↓ 2.9	190	↑ 5.6	1,824,000	↑ 2.5
Minnesota	8,300	↑ 3.8	7,800	↑ 3.9	178	↓ 6.8	1,388,400	↓ 3.2
Indiana	5,400	NC	5,250	NC	194	↑ 3.7	1,018,500	↑ 3.7

United States Department of Agriculture
National Agricultural Statistics Service

October 12, 2021

October 2021 Corn Yield

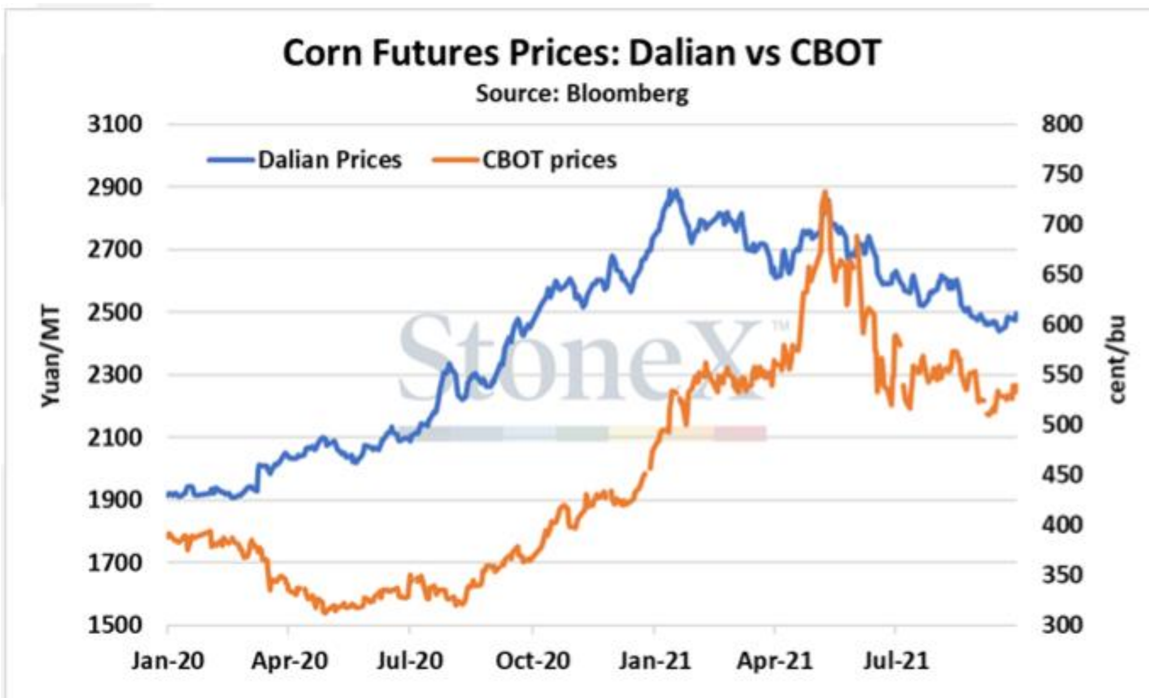
Bushels and Percent Change from Previous Month



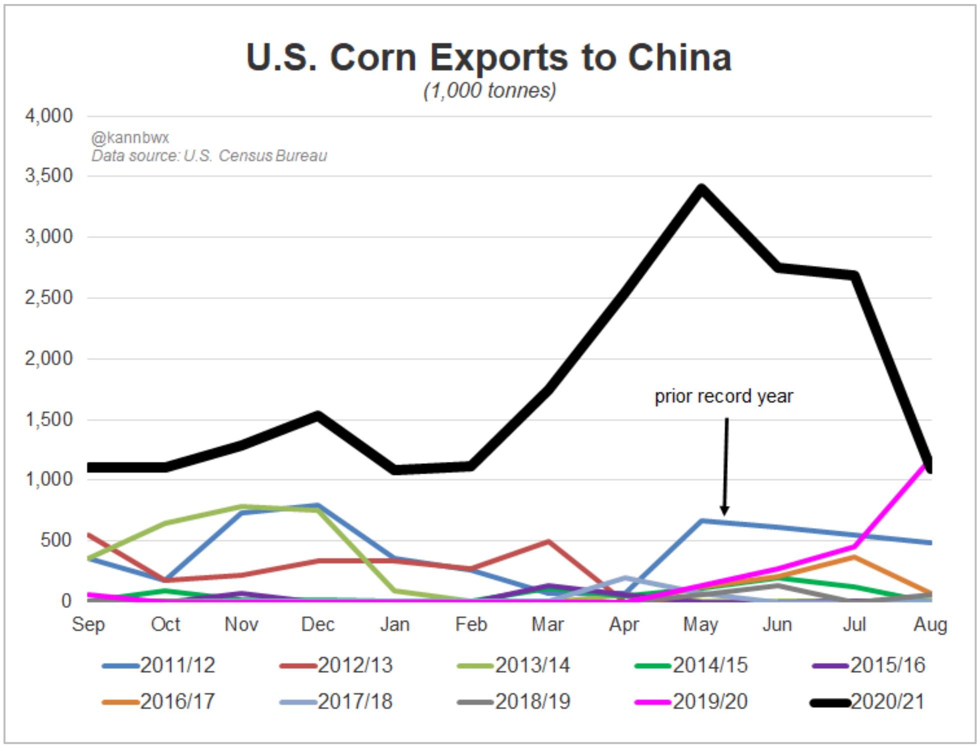
United States Department of Agriculture
National Agricultural Statistics Service

October 12, 2021

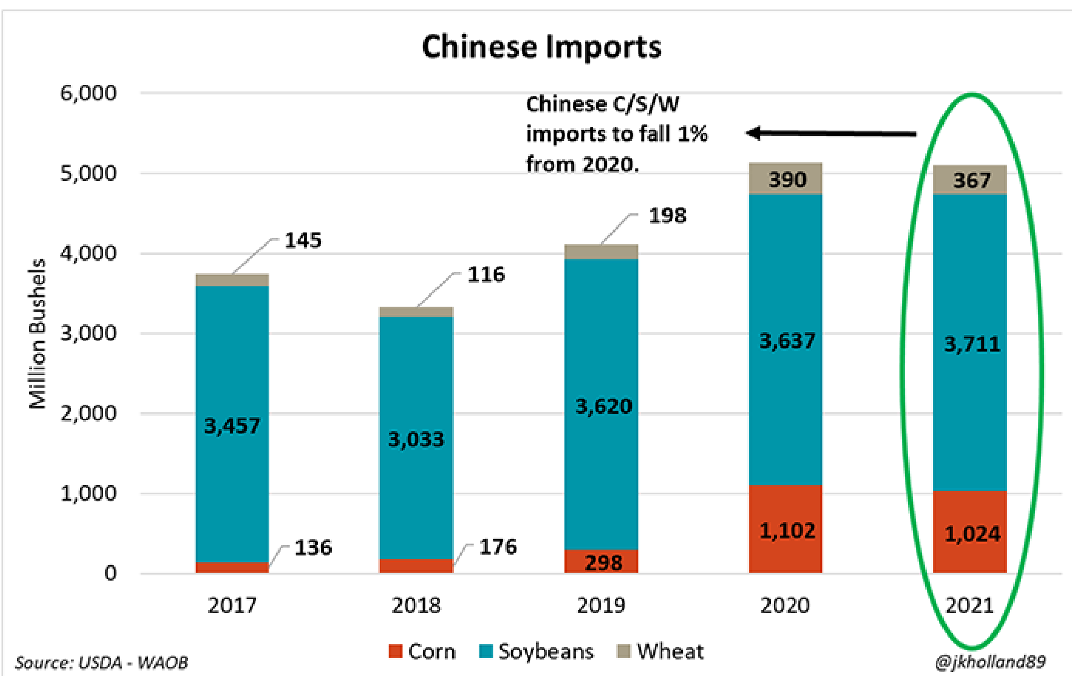
China's most-active corn futures hit a one-year low on September 22. Although futures closed well off the low, the contract is nearly 16% below the all-time high set back in January. China expects to harvest a record corn crop this fall, and the rise in imports has helped pad supplies.



U.S. Census Bureau data shows U.S. corn exports to China at 1.1 million metric tons in August, bringing the September 2020 to August 2021 total to 21.5 million tons (845 million bushels). The prior high was 5.15 million metric tons (203 million bushels) in 2011/12. U.S. corn exports to China topped 1 million metric tons in each month from August 2020 to August 2021.



USDA's attaché in Beijing reported that China's 2021/22 corn imports would reach 20 million metric tons, down from 30 million metric tons in 2020/21. That's due to the expected use of cheaper feed alternatives and a slowing growth rate of feed demand. USDA only increased China's 2020/21 corn import target by 73 million bushels, bringing the total to 1.024 billion bushels. A U.S. consular expert recommended last week that the figure be increase by 147 million bushels, so it is assumed that the lower old crop usage rate certainly played a role in keeping USDA from raising 2021/22 corn import estimates for China further.



The same USDA attaché forecasts dropping 2021/22 Chinese corn imports by 33% from 2020/21 to 787 million bushels. But USDA left 2021/22 Chinese corn imports unchanged in today's report, kicking the can of a potential market bloodbath down the road for another month.

USDA also made no revisions to China's 2021 corn crop. Heavy rains this fall have triggered harvest delays and raised concerns about quality losses. But USDA kept China's 2021 production target unchanged at 10.748 billion bushels, a 5% increase from the 2020 crop. China is not likely to import as much corn and wheat as it did in 2020/21. Those purchases supported the price rallies of the past year. If its import forecasts further shrink in 2021/22, farmers can expect more bearish price action.

Soybeans

To begin the month of October, soybean futures are receiving pressure from larger-than-expected U.S. stocks, a lack of Chinese buying and technically-driven selling, with the nearby November futures contract falling to a nine-month low. With that being said, November futures have traded as low as $12.35, which is their lowest level since March 31. Coincidently, this was the day that USDA estimated 2021 U.S. soybean planting intentions were below trade expectations. Some observers in the trade note that the November contract could potentially test the $12.00 level in the near term, although the market normally puts in a harvest low in October.

Soybeans continued to be pressured by the USDA's estimate of larger U.S. soybean inventories last week made after a long period in which the general perception was of tight U.S. supplies.

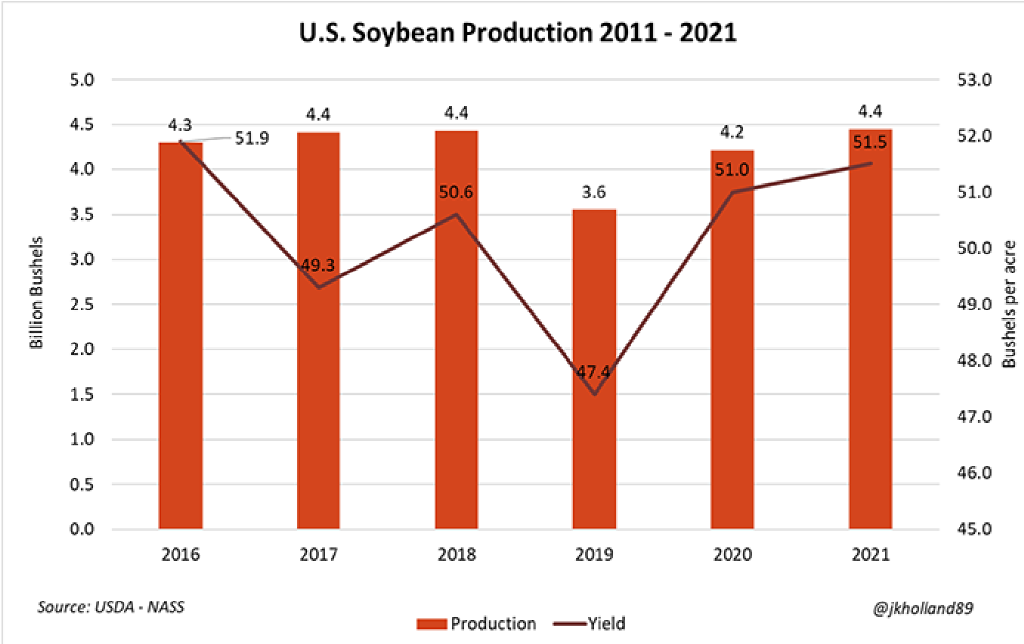
After USDA reported 256 million bushels of soybean stocks in its September 30th report, the October WASDE was expected to show a more 'bearish' ramification in the 2021/22 season. As USDA explains, the higher ending stocks estimate for 2020/21 will largely be explained by an 81 million bushels increase in the soybean production estimate for 2020.

Of course, not only will old-crop ending stocks be higher, but the unexpected increase will also show up as an 81 million bushel increase in beginning soybean supplies for 2021/22. In addition, Dow Jones' survey expects USDA to also increase the soybean production estimate for 2021, from 4.374 billion bushels to 4.409 billion bushels, based on a higher yield of 51.1 bushels per acre.

With higher old-crop ending stocks and a higher 2021 soybean production estimate, Dow Jones' survey expects USDA to increase its ending U.S. soybean stocks estimate for 2021/22 from 185 million bushels in September to 289 million bushels in October. It may only be a 104-million-bushel adjustment, but it gives soybean supplies much more breathing room in the new season and eases bullish concerns.

Like corn, USDA's 2.090-billion-bushel soybean export estimate may be difficult to live up to the next 11 months given current transportation logistics. Chinese purchases will be the big wildcard again. Judging by the high price of soybeans in China, it looks like another year of record purchases is possible, but so far, China's actual purchases of U.S. soybeans in the first month of the new season are down 32% from a year ago.

Soybeans are projected at a record 4.448 billion bushels with an average yield of 51.5 bushels per acre and new crop ending stocks of 320 million bushels, all above pre-report estimates and the previous month's projections. Harvested area held at 86.436 million acres. In 2020, soybean production was 4.216 billion bushels with an average yield of 51 bushels per acre and harvested area of 82.603 million acres.



The October supply and demand updates shows USDA expects soybean yield to average 51.5 bushels per acre. That was above the 51 bushel average trade estimate and above the 50.6 bushels per acre estimate from last month and above the 50.8 bushel per acre trendline projection. That left bean output at 4.448 billion bushels. Soybean use was raised 10 million bushels (to crush) absorbing 7% of the additional supply, for a net 135 million bushel increase to stocks now seen at 320. The trade was looking for carryout between 217 and 373, with 298 as the average of estimates.

USDA

October 2021 Soybeans

Acreage, Yield, and Production

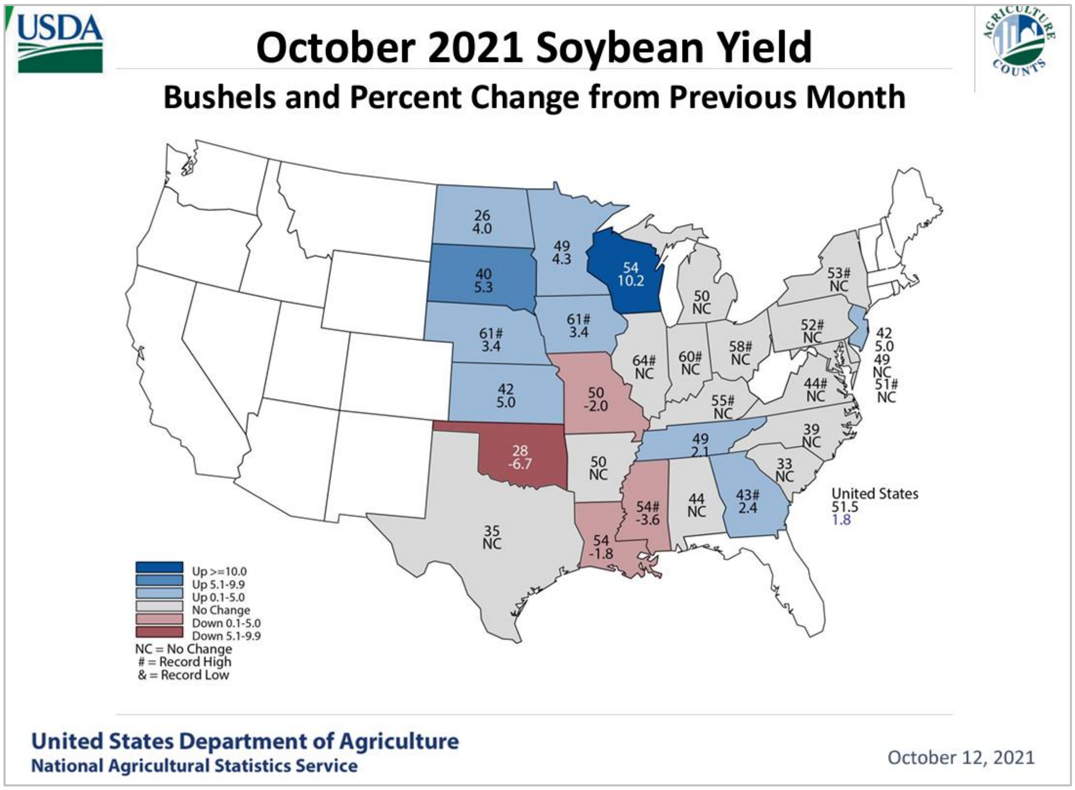
	Planted (1,000 Acres)	Harvested (1,000 Acres)	Yield (Bushels/Acre)	Production (1,000 Bushels)
United States	87,235	86,436	51.5	4,448,043
% Change from Previous Estimate	NC	NC	↑ 1.8	↑ 1.7
% Change from Previous Season	↑ 4.7	↑ 4.6	↑ 1.0	↑ 5.5

Top 5 States - By Production

	Planted (1,000 Acres)	% Δ PY	Harvested (1,000 Acres)	% Δ PY	Yield (Bushels/Acre)	% Δ PY	Production (1,000 Bushels)	% Δ PY
Illinois	10,600	↑ 2.9	10,550	↑ 2.9	64.0	↑ 6.7	675,200	↑ 9.8
Iowa	10,100	↑ 6.9	10,020	↑ 6.9	61.0	↑ 13.0	611,220	↑ 20.8
Minnesota	7,700	↑ 3.4	7,630	↑ 3.4	49.0	↓ 2.0	373,870	↑ 1.3
Indiana	5,700	↓ 0.9	5,690	↓ 0.7	60.0	↑ 1.7	341,400	↑ 1.0
Nebraska	5,600	↑ 7.7	5,550	↑ 7.6	61.0	↑ 5.2	338,550	↑ 13.1

United States Department of Agriculture
National Agricultural Statistics Service

October 12, 2021



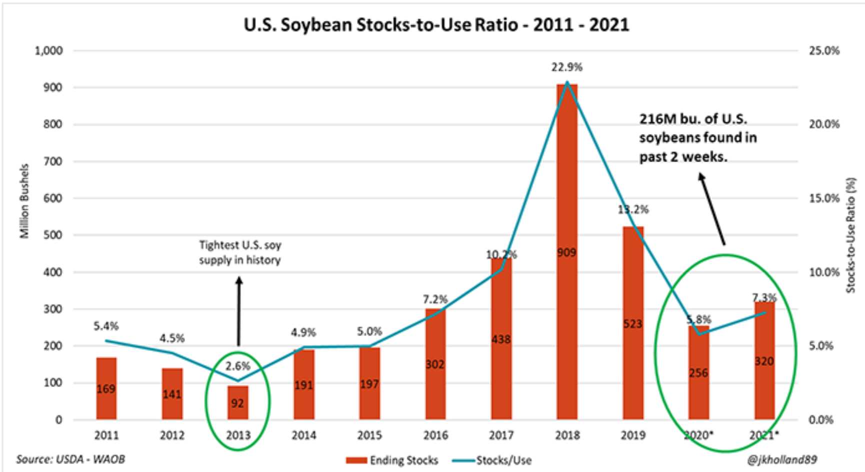
The USDA's October *Crop Progress* report saw 49% of U.S. soybeans harvested as of last Sunday. That marked a 15% increase from area harvested a week prior. Harvesting rates continued to pull ahead of the five-year average of 40% for the same time period. The southern states of Arkansas (45%), Kentucky (30%), Mississippi (54%), Louisiana (73%), and Tennessee (22%) continue to hold back the nationwide average harvesting rate, falling 3%-16% behind each state's respective five-year average this week.

These states typically account for the first bushels to be sold into export channels at the U.S. Gulf, so the delayed season has kept weekly soybean shipping volumes 70% lower than last year's paces in the first five weeks of the 2021/22 marketing year. But with nearly half of the crop out of the fields thanks to rapid harvest rates in the Midwest, we may begin to see those soybean loading paces bulk up in the Gulf of Mexico. That's a great sign for U.S. soy producers as it adds bullish sentiment to pricing fundamentals

Soybean ending stocks in the U.S. are estimated at 320 million bushels, an increase of 135 million since last month and the most bearish number of the report. World ending stocks are also higher by over 3 million tons. The market was looking for a bearish report and you can make the case it was more bearish versus expectations. Support for November Soybeans comes in at $12.00 and then at $11.80 per bushel. If soybean ending stocks are in the 300 range then soybeans historically trade in a range for $10.00 to $12.00 per bushel. Inflation and high prices among the other grains are helping soybeans stay around $12.00 at the moment.

Farm Futures report that the extra supply cushion from 2020/21 ending stocks (+81 million bushels) paired with the 74 million-bushel increase in 2021 production estimates increased total 2021 soybeans by 145 million bushels. USDA kept demand revisions minimal this month, only adding 11 million bushels of consumption targets, largely to crush volumes.

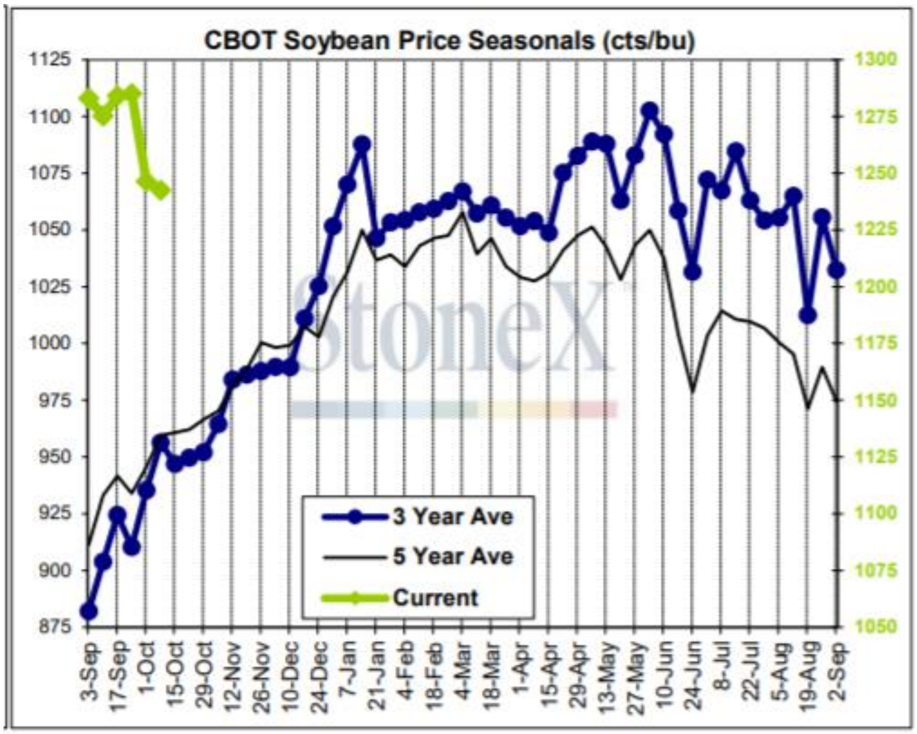
That places the 2021/22 stocks-to-use ratio for soybeans at 7.3%, up from 4.2% in last month's forecasts. Soybean supply just went from being at their third tightest on record to sixteenth tightest. That will alleviate most supply related issues for soybeans end users have had to face over the past year. Globally, high soybean prices are expected to trigger demand rationing and lower usage rates through 2021/22. The U.S. crop made up the lion's share of the 209 million bushel increase to global stocks. Lower forecasted usage rates also helped ease tight supplies and were a key contributor to bearish price action on the Chicago Board of Trade.



On October 12th, midday soybean futures were 20 to 30 cents in the red. Beans were already down by double digits on reports of higher yield. The cash average soybean price estimate was reduced by 55 cents to $12.35 per bushel. Soybean meal's average cash price was also reduced to $325 per ton. Soybean meal and oil prices ranged from $1.20 to $1.40 per ton and 150 to 151 points in the red at midday.

The daily November soybean chart shows the ongoing bearish move was no fluke, as USDA pegged soy yield, production and ending stocks at a much higher level than most had expected (DTN ProphetX chart).

To summarize the soybean futures price movement post-WASDE, soybean futures fell after USDA lifted the 2021/22 production forecast, thus raising domestic supply. Some in the trade delt as though the market was 'surprised' with the upward revision in ending stock, even higher than was what was anticipated leading into the October WASDE report. Soybean futures have been trading lower, as futures are eyeing their lowest settlement of the year.



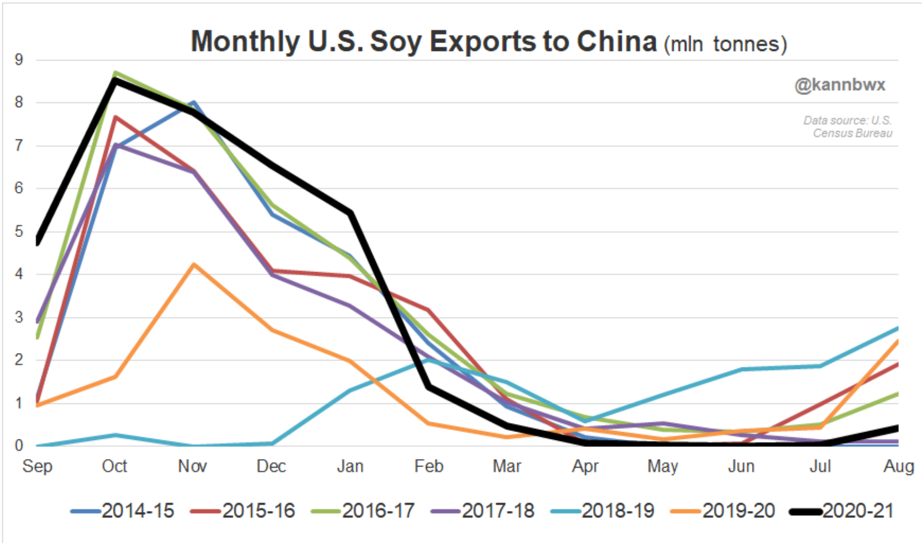
August 2021 trade data for soybeans showed signs of optimism after an unusually quiet second half of the 2020/21 marketing year for soybean exports. Of course, that is typically the time period in which Chinese demand shifts exclusively from the U.S. to the freshly harvested, cheaper, and more readily available Brazilian soybean crop. In August 2021, the U.S. exported 48.1 million bushels of soybeans, dwarfing previous volumes in the three months prior. Peak soybean export season typically lasts from September to January, depending on the availability of the Brazilian crop in the early winter season.

That brought the total 2020/21 soybean export volume to 2.28 billion bushels, surpassing the previous high of 2.17 billion bushels set in 2016/17 to set the new record high for soybean exports on a marketing year basis.

The cumulative marketing year volume shattered the previous record high of $24 billion set in 2013/14. In 2020/21, international buyers bought a staggering $28.2 billion worth of U.S. soybeans, providing lucrative pricing opportunities to growers across the Heartland.

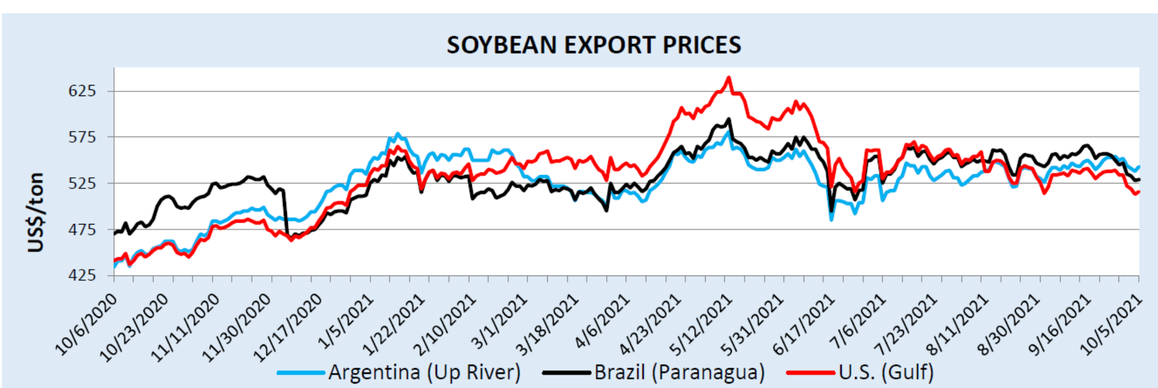
With lower pig prices and economic challenges facing the Chinese economy – not to mention the U.S. Gulf's shipping issues– it remains to be seen if the pace of Chinese soybean buying will even match that set in 2020/21. An increasingly competitive Brazilian crop will also play a significant role in 2021/22 U.S. soybean exports.

Exports of U.S. soybeans to China in August hit a five-month high of 417,000 tons but were still below the recent average for the month. Per U.S. Census data, September to August 2020-21 exports to China hit 35.5 million metric tons (1.306 billion bushels), missing the 16-17 high of 36.1 million metric tons (1.327 billion bushels).



China imported 6.88 million metric tons of soybeans during September, a 30% drop from the 9.79 million metric tons of the oilseed the country brought in last September and a 28% drop from August's 9.49 million metric tons, according to customs data. Demand has faded as a drop in demand from hog producers weighed on crush margins. Crush margins hit their lowest level on record in June and remained in negative territory until late-August. Meanwhile, Hurricane Ida created shipping uncertainty out of the U.S. For the first nine months of the year, China has imported 73.97 million metric tons of soybeans, a 0.7% dip from last year.

September export prices for U.S. soybeans declined 2 percent on the slower pace of export sales and rising supplies. This contrasts with South America where prices strengthened as supplies declined from harvest. Early October price trends show further declines for U.S. soybeans following supply gains from the September 30th stock report. Similar declines were noted in Brazil on slowing China demand while prices in Argentina are holding firm on recent sales to China. Prices for U.S. and Brazil soybean meal in September were down slightly from August reflecting the downward trend in soybean prices. Argentina prices rose on stronger demand with buyers shifting purchases early in the month to Argentina away from U.S. Gulf Coast export facilities hampered by Hurricane Ida.



Rice

The shipment against the sale of the two bulk vessels to Iraq has been a difficult situation to deal with logistically. The devastation in the aftermath of multiple hurricanes has been promulgated, not only in this country, but around the world. Traffic on the Mississippi River has been hampered for months now in hardest hit areas such as New Orleans and Lake Charles.

In Louisiana, the market is mostly quiet. Prices for long grain are unchanged, at $22.00 per barrel basis FOB farm ($13.25 per cwt 55/70). The bid for medium grain is at $22.00 per barrel. In the Mid-South, CME futures are down sharply this week. Prices are down $0.250 to 0.405. However, bid/asked levels for barges of long grain CIF NOLA for November-December are still mostly $15.00 to $15.25 per cwt. The harvest was interrupted by rain this past week, but overall, the progress of the harvest is still considered to be pretty much on schedule.

The supply chain for rice is approaching a difficult season; port damage coupled with COVID related inefficiencies means that despite a smooth harvest, shipping product will encounter more difficulties than in the past. Port problems are not isolated, but the Mississippi River and port systems have set the US apart as a reliable supplier; this will be one of the most significant long-term challenges facing the entire transport system.

Labor shortages, the availability of fertilizer for 2022 (urea), and price increases across the board for all inputs in general have some farmers rethinking next year's planting intentions. Prices on the ground in Texas have prices at about $14.58 per cwt over loan, and harvest has been all but complete for close to two weeks there. In Louisiana, bids are appx $13.58 per cwt and harvest is complete. In California, harvest is rounding the corner to beyond 50% harvested. The market is strong in the west, with paddy prices trading with liquidity at $22 per cwt over loan. Much like Arkansas, initial yield reports are above average, and milling yields are below average, albeit better than last year. However, it's still too early to provide definitive results.

In Haiti, the exchange of local currency for dollars has been extremely difficult for nearly a year. To further complicate matters, the assassination of the President by renegade forces has turned domestic security into a massive challenge due to riots. The NGO's have come to the rescue, but only to find out that there is very little in the way of stocks on the ground, compounded by the logistical issues with U.S. exports and infrastructure storm damage.

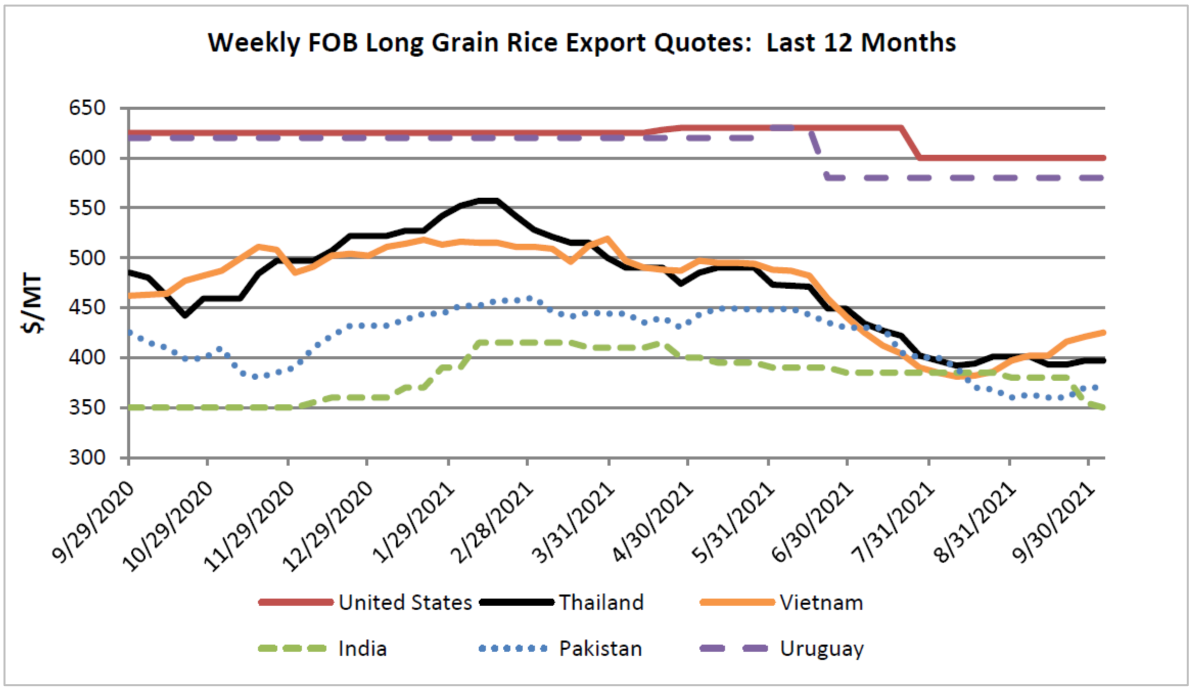
There has been no definitive positive change in market conditions, in particular, no fresh demand for milled rice in Uruguay- certainly not like the mills need. Iraq, or Cuba, or Mexico, or EU is the solution, but it does appear to be happening tin the short run.

There has been some improvement with the market situation in Argentina, as domestic stocks are becoming reduced, in concert with local consumption and border trade with Chile. The big news was that three vessels have been sold to Cuba. They might be receptive to the kind of demand mentioned above; but, in no way similar to the needs of the Uruguayans, as their domestic consumption is about 50% versus less than 5% for the Uruguayans.

Brazil is clearly an origin market, as the smallish import needs have been sourced out of Paraguay. They are potential options for sales to Cuba, although Argentina got the first three, certainly, paddy to Latin America heads the list.

Post WASDE-release, USDA NASS reported an increase the average all rice yield by 2 pounds per acre, to 7,625 pounds in the October 12 Crop Production report, as production is fractionally higher. Imports are reduced 2.0 million cwt, to 36.0 million, on the continued trend of lower year-to-year long-grain monthly imports and expectations that higher freight costs and reduced availability of shipping containers will persist into 2021/22. In summary, the USDA also had no surprises for the rice market as it lowered its all-rice carryout estimate only slightly to 33.2 million hundredweight. For long-grain specifically, USDA cut the carryout to 23.0 million from 23.9 million last month. The reduction was due to increased projected imports. Rice futures were higher. November rice gained 10 cents to $13.80 ½, after trading a range of $13.67 ½ to $13.82. January rice was up 7 ½ cents to $14.06, and March was up 5 ½ cents to $14.22. The rice crop (as of October 10) was 81% harvested per USDA, versus 73% the prior week and the five-year average of 85%.

U.S. and Uruguayan prices remain steady with U.S. quotes at $600 per ton and Uruguayan quotes at $580 per ton. In Thailand, prospects for a large crop harvested in November and consequent downward price pressure were offset by strong recent sales, as quotes dropped modestly by $4 per ton to $397. Alternatively, Vietnam quotes have gone up $23 per ton to $425, due to logistical constraints amid COVID lockdowns. Similarly, Pakistani quotes are up $7 per ton to $370 due to prolonged logistical issues and shipping container shortages. Indian prices are back to being extremely globally competitive, with a $30 per ton decline to $350 in light of the harvest of another large *kharif* (autumn) crop.



Central America continues to be a key rice importing region in the Western Hemisphere. Demand is expected to grow given rising consumption trends for this staple grain. With limited production in most of these countries, imports will remain significant. While the United States is a major rice exporter to the region, South American countries have been formidable competitors, although not this year.

Despite U.S. free trade agreements with Central American countries, U.S. market share has been trending down. Both the U.S.- Panama Trade Promotion Agreement and the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) offer U.S. exporters expanding tariff-rate quotas and gradually declining tariffs. Nevertheless, U.S. rice only accounted for half of total Central American imports in 2020. In contrast, exports from South American countries, primarily Brazil, Paraguay, Uruguay, and Argentina, have increased over the past decade.

For 2020/21, the Central American region is importing less as its production rebounds. In a reversal of the trend, the United States has recaptured most of the market share this year with competitive prices and more ample supplies. Looking forward to 2021/22, Central America is anticipated to import more rice. With a smaller U.S. crop and ample South American supplies, U.S. exporters may face challenges in maintaining the majority of market share in the coming year.

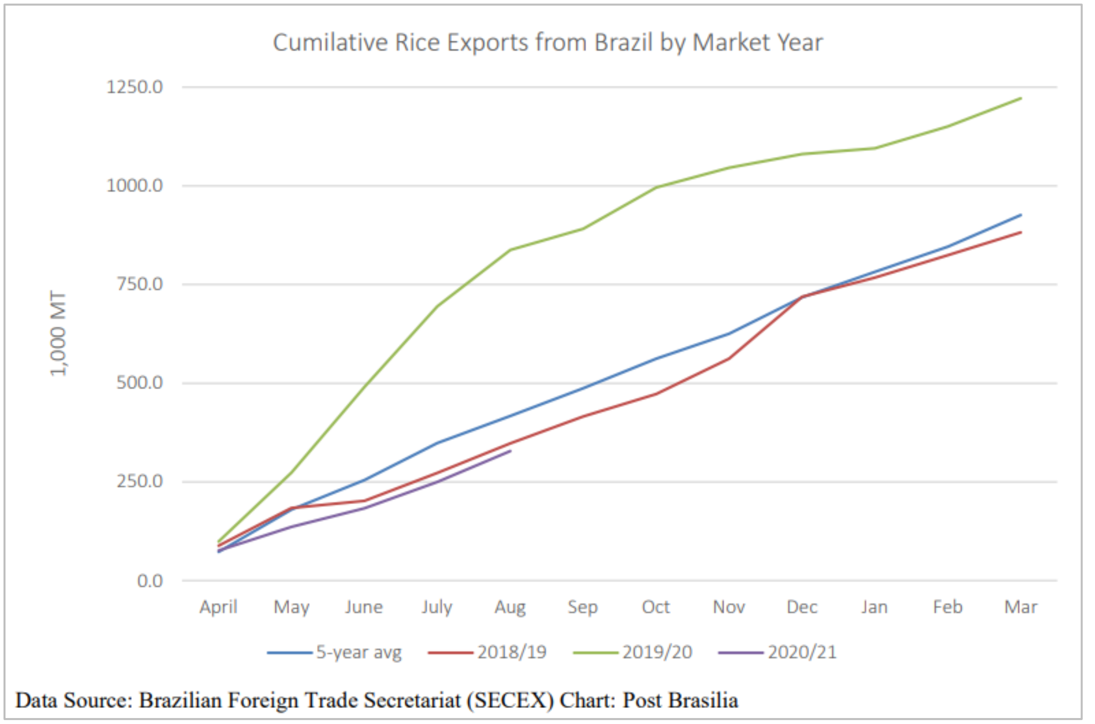
In Asia, prices are sideways, with a slight firming in Vietnam at $435 per metric ton. The reason behind this slight increase is thought to come from a tight supply situation because the government buys rice from farmers for reserve, leading to higher domestic prices. Moving forward the Vietnamese government, as of October 1st, has lifted their national shutdown which is a great first step in clearing up the log jam there. India continues to export at record pace with prices between $350-355 per metric ton.

A recent USDA FAS GAIN report on China reveals that rice production for MY 2021/22 is forecast at 150 million metric tons, and consumption to be 155.7 million metric tons. Consumption is 2.3 million metric tons higher than estimates and can be accounted for because of increased feed demand. Reports would indicate that over 10 million metric tons of feed stock was sold between $200-$230 per metric ton to four Chinese State-Owned Enterprises from August 2020-March 2021.

Official rice imports increased to 3.6 million metric tons, but unaccounted cross-border trade certainly increases that number. The U.S. industry is still fighting for enforcement of the Phase 1 trade deals, where a market to China would be key to the US rice industry.

USDA expected Brazilian rice exports to expand on improved freight costs. The USDA FSA Post forecasts MY 2021/22 rice exports at 1 million metric tons, an increase of 100,000 metric tons from the estimated exports in the current season.

For MY 2020/21 Post estimates rice exports at 900,000 metric tons. Brazilian rice exports in the five months of the current season have lagged far behind the record levels seen in MY 2019/20, and even below the five-year average.



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

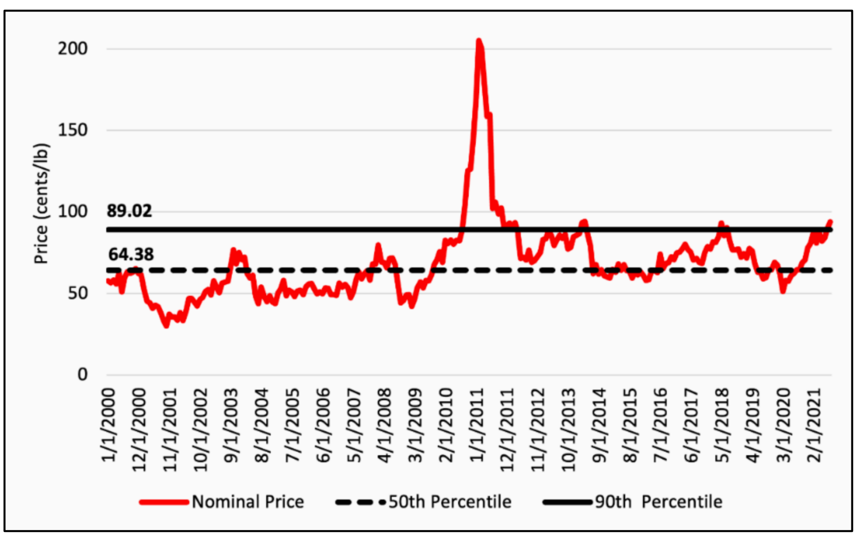
Expectations were that export sales would be supported by the relatively cheap domestic currency since from the onset of the pandemic the Brazilian real (BRL) has depreciated > 30 percent. This has made Brazilian commodities more attractive globally. However, the devaluation of the BRL has not been enough to offset surging rice prices in Brazil and, as a result, Brazilian rice prices have surpassed those of its main competitors.

Exports have been adversely impacted by logistical difficulties in shipping. According to the Brazilian Association of Rice Industry (Abiarroz), maritime freight rates have increased by 170 percent this year. Industry contacts have confirmed that costs for containers have tripled and, in some cases, even quadrupled since the onset of the COVID. Much of is associated with rapidly changing expectations and dynamics of trade in the wake of the pandemic and is not linked to any one specific commodity. Goods, such as rice, that require container storage have been much more adversely affected than commodities that can be shipped in open vessels,

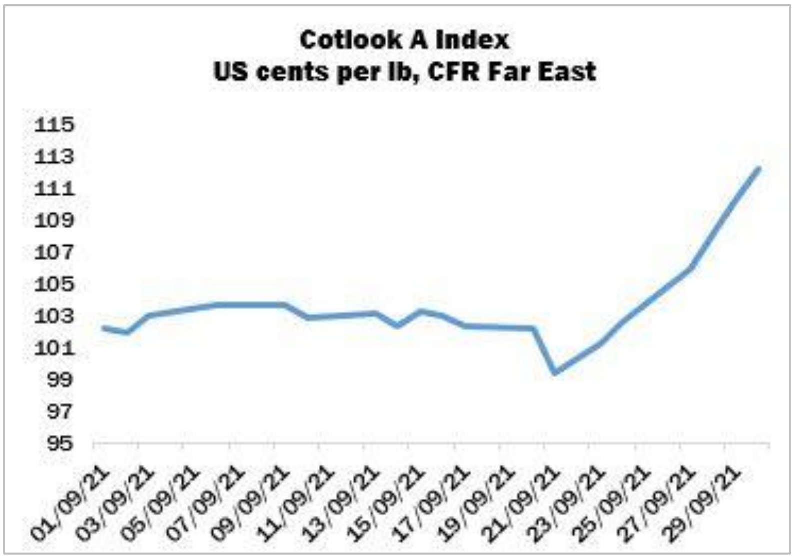
In the first five months of the current MY, rice exports are down nearly 70 percent as compared to the first five months of the record-setting 2019/20 export season. Brazil has completely lost markets in Mexico and Cuba, while exports to Senegal are down almost 90 percent. Several markets are up, including the United States which increased purchases from Brazil by almost 50 percent so far this MY, as compared to this time last season. Venezuela remains the top destination for Brazilian rice exports with purchases of both paddy rice and white rice. However, rice exports to Venezuela in the first five months of the current MY (April-August) have totaled just over 44,300 metric tons, almost 100,000 metric tons less than in the same period of 2019/20 MY. Much of this decrease is driven by the fact that Venezuela's bulk rice imports from Brazil are acquired by the state to be used in the subsidized food program.

Cotton

Since March 2020, cotton futures prices have climbed from below 50 cents per pound to north of 95 cents. The current outlook for cotton prices remains bullish; however, prices are currently above the 90th percentile (89.02 cents) of the historic price range going back to January 2000. Cotton producers may want to consider removing some additional price risk – depending on production costs, current price protection levels, and year-to-date sales. Over 83% (15.5 million bales) of 2021 U.S. cotton production is projected, by USDA, to be exported. As such, prices will be reactive to events overseas that can be unpredictable but potentially have dramatic ramifications domestically (for example, recent events with Evergrande).



International cotton prices stayed within a narrow range for most of September, before staging a dramatic rally late in the month, influenced by a sharp rise in New York. The ICE December contract first fell to its lowest level since late July, as part of a general sell-off in commodity and share markets that was associated with the financial difficulties of a major Chinese property group, before reversing direction to surpass the dollar mark for the first time in over ten years. The increase in cotton futures was prompted by a range of factors including strong speculative buying and evidence of active import purchasing from China (more of which below). The Cotlook A Index, meanwhile, started the period at 102.15 U.S. cents per pound, and ended ten cents higher than that level, at 112.15 cents per pound.

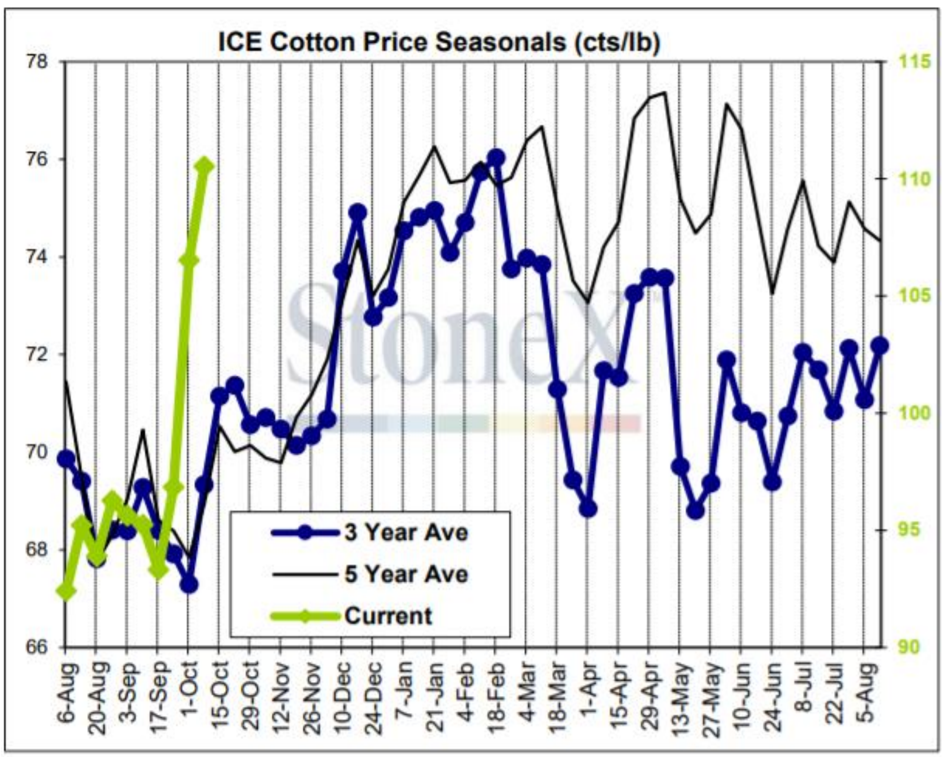


Mill buying continued to be constrained by the shipping and freight issues that have blighted international trade for some months now, and the very well sold position of those growths from origin that would usually be employed to bridge the gap between the last of the old season stocks and the arrival of new crop lint in the Northern Hemisphere. Many shippers have suspended their offers for delivery up to the end of 2021. Spinners in need of cover have turned to virtually any cotton available nearby, but even those supplies became depleted during the month. Some mills in Bangladesh and Far Eastern markets such as Indonesia were at risk of running out of cotton, a situation that would be inimical to the fulfilment of downstream orders, which generally remained robust.

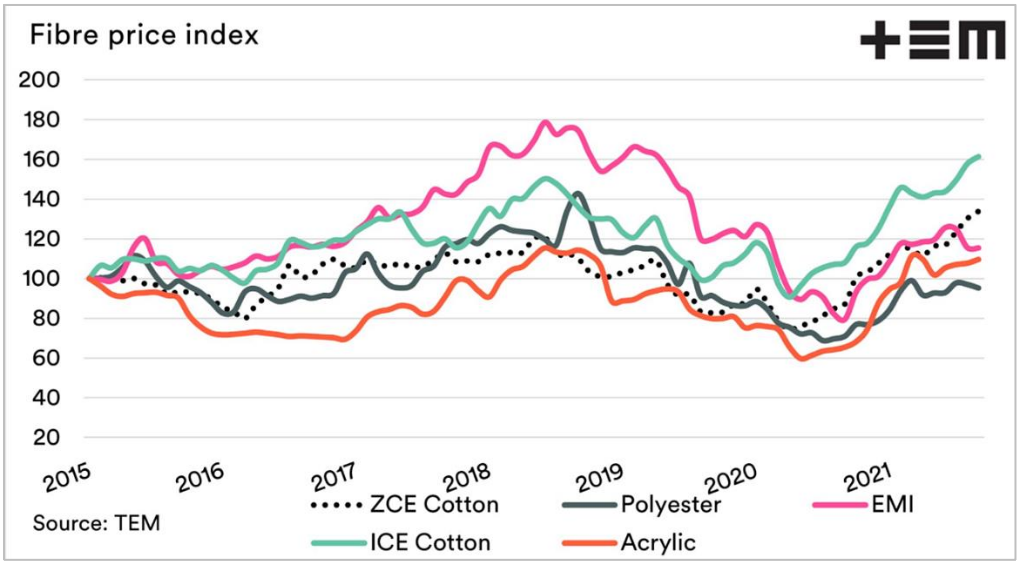
The major exception to the limited mill purchasing in evidence during September was in China. Market participants reported strong demand from that quarter, mainly from state-owned enterprises but also from some private mills. Those reports were confirmed in US export sales reports, which featured China as the major buyer in four consecutive weeks, and showed a net addition during the month of almost 1.4 million statistical bales (480lbs). In the wake of the strong buying, Beijing made an announcement late in the month to the effect that additional Sliding-Scale import quota will be allocated in due course, to add supply to the domestic market in an attempt to rein in the recent rises in physical and futures prices. Further details regarding quantity and eligibility are awaited. However, conjecture was rife in market circles that the quota may be utilized to fulfil the 'rotation' policy that has for some years been adopted by China's State Reserve.

The State Reserve auction series was due to conclude on September 30th but was instead suspended on that day and rumors began to circulate that the sales program would be extended. When China returned from a week-long national holiday on October 8th, auctions recommenced and will continue until the end of November. Given the fact that the auction series to September 29th had disposed of around 630,000 tons of lint, Cotlook estimates the volume remaining in State Reserve warehouses at slightly more than two million tons, or around three months' worth of local consumption. With this in mind, the smoothest method for China to replenish reserve warehouses with imported cotton, without exacerbating the current high world prices and tight nearby supply, would seem to involve stocks already on consignment at Chinese ports, and in the wake of the announcement reports were forthcoming that some state owned enterpriseshad already begun the process of moving those stocks through customs and into their hands.

Dr. O.A. Cleveland notes that as one explores cotton demand needs, one must acknowledge that current demand is also associated with futures contracts as much as with physical cotton. Case-in-point, on-call sales and on-call purchases. In simple terms on-call sales represent cotton sold to textile mills, but the mill has not yet fixed the price. The price will be fixed by the mill at its own discretion. The mill fixes the price by buying futures. On-call purchases could be viewed as cotton that the merchant has purchased from the grower, but the grower has delayed fixing the price, but will at some later date. The grower fixes his price by selling futures contracts. The controlling futures contract month is December (the can may be kicked down the road—March, May, or July futures, but let's keep it simple). The situation: the latest report shows that mills must fix the price on 14,190,000 bales between now and June. However, growers need to fix the price on only 2,941,800 bales between now and June.



With cotton futures prices at 105 cents some spinning mills are likely facing the decision to switch from cotton fiber to polyester. Quite possibly, and in many cases factually, the mill has already used the fiber, spun it into yarn and sold the yarn to a weaving mill. In fact, the shirt may already be on your back. The cash demand for that particular physical cotton is past. Yet, the demand to fix the price, that is, to buy cotton futures is imminent.



That demand still exists. Thus, cotton futures must be purchased thereby giving the market appearance of immediate demand for cotton. This dichotomy has caused some to suggest that cotton demand has slowed. The demand function facing the cotton market includes the demand for cotton futures that must be purchased—on-call sales as well as for cash physical cotton.

Additionally, it also includes the any selling pressure that could result from on-call purchases. Most tend to forget that the cotton demand function cannot be expressed the same as that for grains, oilseeds, or livestock. Because of the cotton market's unique ability to use on-call sales and on-call purchases, cotton's demand function is a bit more complicated.

Physical demand remains very strong as well.

The current administration in Washington has continued the previous administration's policies of agricultural trade with China. Thus, the Phase One trade package signed under President Trump continues, and China continues to be an exceptional buyer of U.S. cotton. The U.S. has continued its policy of prohibiting Xinjiang cotton/cotton products from entering the U.S. due to China's discrimination and slave/child labor practices in the Xinjiang Chinese province.

Europe has continued its support of the Xinjiang cotton ban as well. The magic word, China, continues to linger in the market. Thoughts swirl as to how much more cotton China will buy. They have not finished. Additionally, mills have been given more authority to purchase U.S. cotton and unconfirmed reports are that mills need greater authority to by U.S. growths.

Cotton prices have skyrocketed in China, matching the increase in U.S. prices. Actually, Chinese buying has been the basis for the explosion in New York futures prices. China is on a countrywide weeklong holiday this week so news could be sparse.

U.S. crop size continues to field second guessers. The Mid South and Southeast crops have suffered the most. The market is seeing resistance at 106, basis December. For old crop prices to move higher the market needs to see the Red December contract move above its 85.50 level, up to the 87-88.50 cent level, clearly expressing longer term demand.

In terms of economic fundamentals impacting the market, exports have been very good including large sales to China destinations. This has provided continued strong optimism for demand/use and support/fuel for prices.

The explosion in cotton prices continued this week as U.S. and offshore funds poured bags of cash into both the New York Cotton Exchange and the Chinese ZCE. The climb to the top continues, wherever that is. The price objective of $1.25 to $1.35 is still in the realm of possibility.

Speculators have hit the market hard and heavy as the primary fundamental on which speculators are focusing is the ratio of on-call sales to on-call purchases. That ratio has become more bullish in each of the past two weeks and now exceeds 5 to 1. However, what goes up does come down, but that is no more than a caution. Higher prices will continue if the speculators money lasts.

The only demand in the picture is the demand for futures contacts, nothing else, simply the speculative demand to own a long futures position. The technical charts are suggesting the possibility, not the probability of topping action in the market. However, the magic word China has a few more cards to play and that can keep the speculators interested. China will buy more. Yet, demand outside of China has come to a standstill and that must be reconciled in the market sooner or later with lower prices. The trade is out of the picture.

Speculators are in control and until they flinch there is no stopping this market. Prices are higher, but a minor correction of 200-300 points is in order before the $1.15 level is hit again and then $1.25-$1.35 level is challenged.

As suggested last week, the market has reached the stage of pure speculation as funds are attempting to squeeze the mills who must buy futures contracts against on-call sales. Mills have somewhat buried their head in the sand, saying ‘so what’: Keep bidding the price of cotton higher and higher and we will just forfeit our on-call contracts and leave merchants holding the bag.

There will be some of that; yet, any mill that defaults will face future shunning by U.S. and all major international cotton merchants. Many merchants encountered this between 2008 and 2012 and were forced to cease business operations, closing their doors for good. The U.S. does not need to lose any mechanizing companies as there are too few now. Competition is good.

The funds will continue to try to push prices higher. However, the funds already hold record long positions. However, the CFTC recently approved a major increase in speculative trading limits. This, coupled with the ICE’s failure to increase margin requirements even though the market had advanced 22 cents, gave funds carte blanche to run over any trader and send price volatility to new highs. This should not be implied in any way that speculators are anything other than a major participant. They are very valued.

The following chart is from October 11, one-day prior to the WASDE release. Note the cotton large specs in white versus the front ICE in red (specs in number of contracts). Also, the fund position of cotton spec in 2010 is depicted by the blue line with and 2021 shown in red, for those in the trade that make the analogy to market conditions in associated with the 2010 crop.

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94) Suggested Charts
96) Actions
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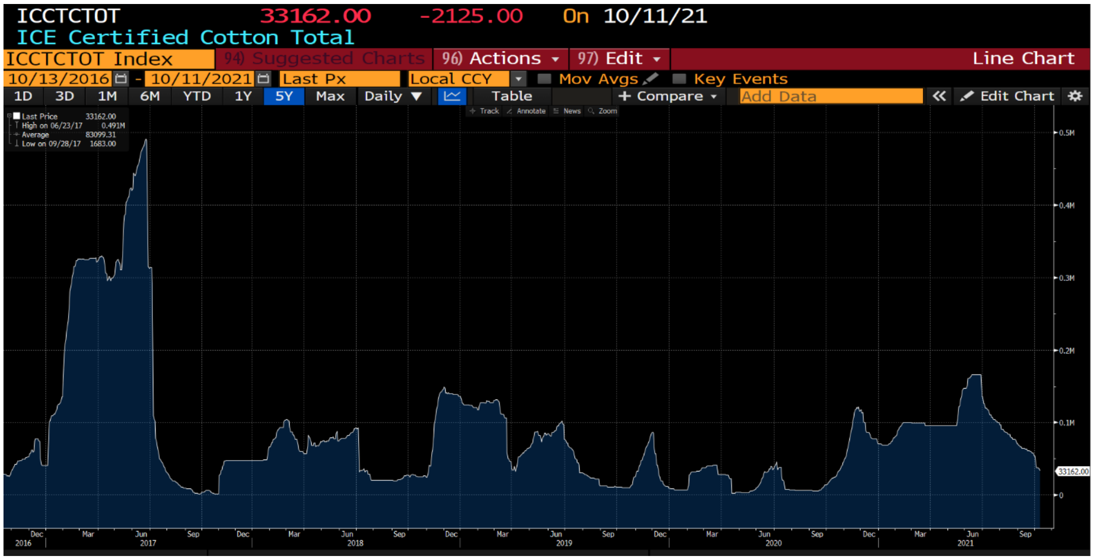

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Historically, ICE has increased margin requirements when the cotton market began to act in this fashion. It's failure to do so in the current market has encouraged the massive increase in market volatility to a dangerous level. Therefore, the trading now is by funds on both sides of the market. Consequently, the market has lost its ability to discover or determine a true value for cotton as well as failing to afford any opportunity to hedge or shift risk for mills and growers.

Thus, two major market participants have been forced out of any market participation. Few, if any growers can sell their cotton, basis December. They are forced to sell basis March. Granted, they are receiving an excellent price, but they also see that the market has taken some 3 to 5 cents away from them.

The new crop December, red December futures have climbed above 90 cents and are down to 88 cents plus. Growers are encouraged to price as much as 40% of their anticipated production at these levels, or better. Plantings in the U.S. and globally could be up 5 to 7 million acres in 2022. More seasoned marketers may want to price 100% of their expected production using any combination of puts and calls. Very experienced users should look at selling calls at 4-5 cents above the market and use that money for marketing opportunities as they present themselves.

With prices in the top 1 percent of the historical price range, coupled with the fact that mills cannot profitably spin cotton at current prices, one must question the future strength of the market. Prices are headed higher, but any sell off will hold the market above $1.05.

Post October WASDE, midday cotton futures are fading with triple digit (buy the rumor, sell the fact) losses out of the USDA report. Cotton's cash average price was 6 cents stronger to 90 cents per pound in the USDA update.

USDA trimmed cotton's yield by 24 pounds per acre. Output was seen at 18 million bales, after a 510,000-bale cut. The demand was UNCH from the Sep estimates reducing carryover to 3.2 million bales. That level implies a stock-to-use ratio of 17.8%.

USDA made no change to the supply-side of the old-crop balance sheet for cotton. For 2020/21 demand, USDA increased total use 50,000 bales with all the increase in domestic use. Estimated exports were unchanged at 16.37 million bales. Unaccounted use was trimmed 50,000 bales to keep ending stocks at 3.15 million bales. The national average on-farm cash cotton price for 2020/21 is 66.3 cents, down 0.2 cent from last month.

On new-crop cotton, USDA cut total supplies by 500,000 bales, the result of steady beginning stocks, a cut to the cotton crop and a 10,000-bale increase in imports (to 10,000 bales). On the demand-side, USDA held domestic use at 2.5 million bales and exports at 15.5 million bales. There was also no change to unaccounted use, so the 500,000-bale cut to supplies pulled ending stocks down by that amount to 3.2 million bales. USDA puts the 2021/22 national average on-farm cash cotton price at 90 cents, up 6 cents from last month.

October 2021 Cotton

Acreage, Yield, and Production

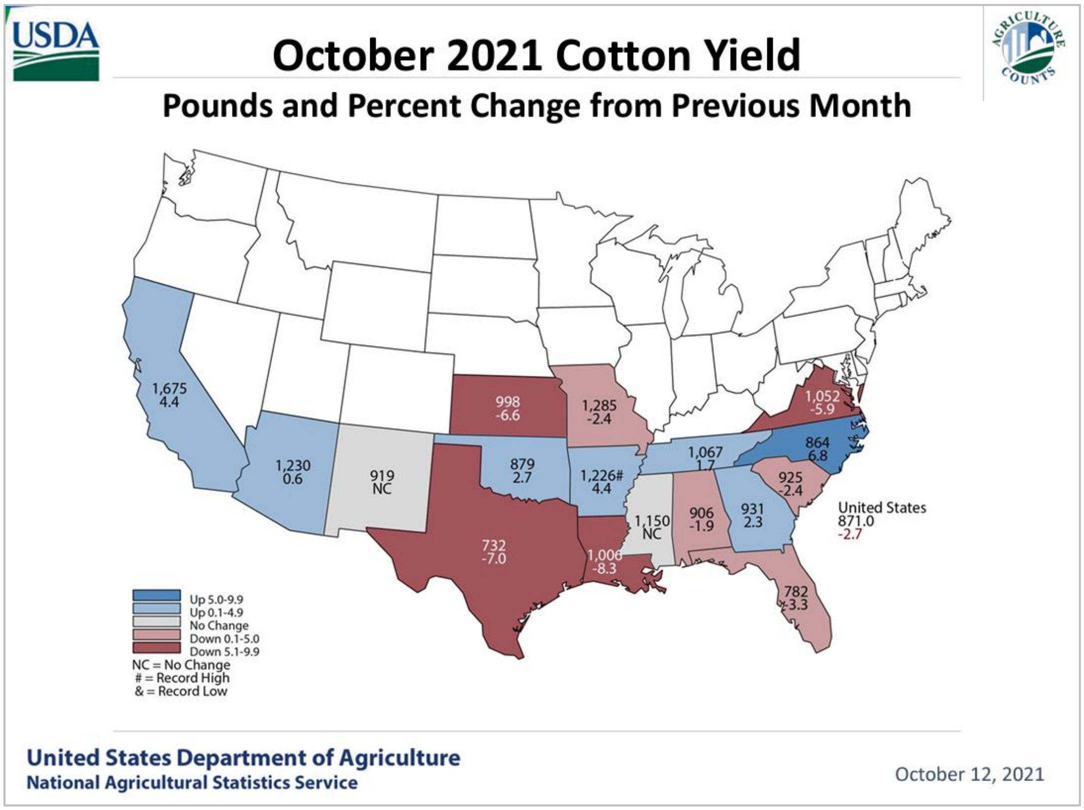
	Planted (1,000 Acres)	Harvested (1,000 Acres)	Yield (Pounds/Acre)	Production (1,000 Bales)
United States	**11,191**	**9,922**	**871**	**18,004**
% Change from Previous Estimate	NC	NC	↓ 2.7	↓ 2.7
% Change from Previous Season	↓ 7.5	↑ 19.9	↑ 2.8	↑ 23.3

Top 5 States - By Production

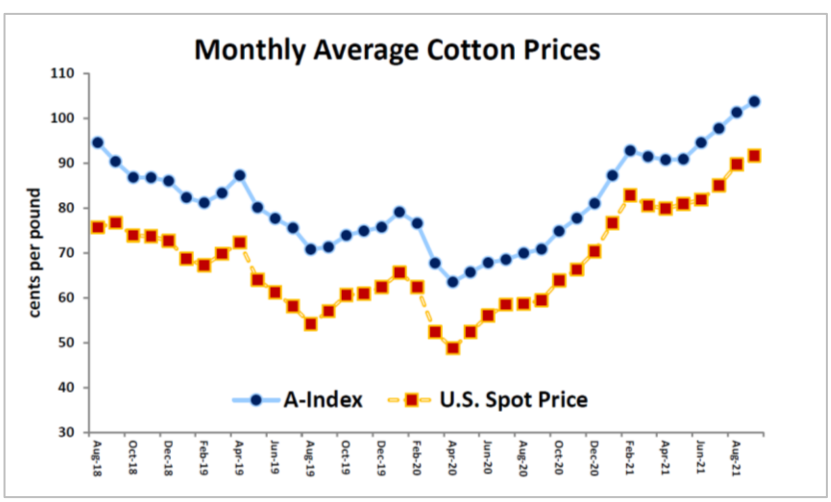
	Planted (1,000 Acres)	Planted % Δ PY	Harvested (1,000 Acres)	Harvested % Δ PY	Yield (Pounds/Acre)	Yield % Δ PY	Production (1,000 Bales)	Production % Δ PY
Texas	6,367	↓ 6.9	5,266	↑ 63.0	732.0	↑ 6.9	8,032	↑ 74.1
Georgia	1,170	↓ 1.7	1,160	↓ 1.7	931.0	↑ 5.0	2,250	↑ 3.2
Arkansas	475	↓ 9.5	470	↓ 9.6	1,226.0	↑ 4.0	1,200	↓ 6.0
Mississippi	445	↓ 16.0	430	↓ 18.1	1,150.0	↑ 6.6	1,030	↓ 12.7
Missouri	315	↑ 6.8	310	↑ 8.0	1,285.0	↑ 12.3	830	↑ 21.3

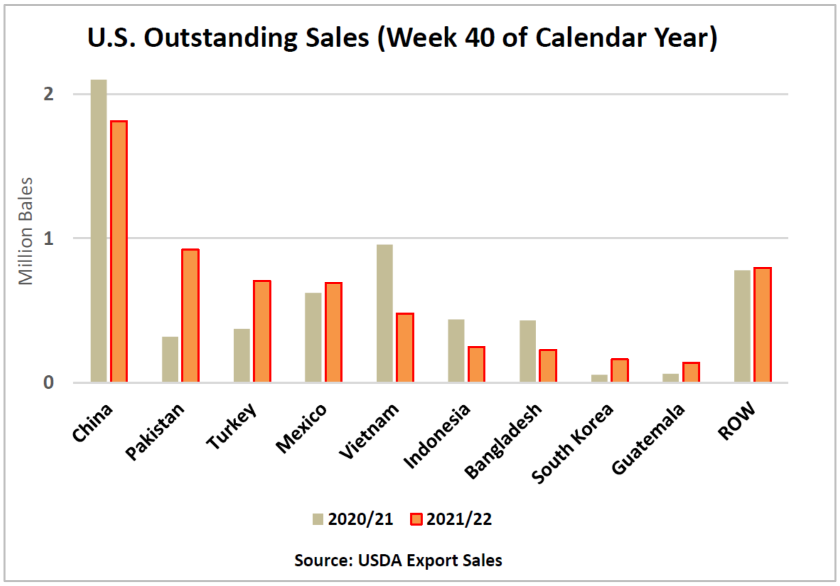
United States Department of Agriculture
National Agricultural Statistics Service

October 12, 2021



The A-index and U.S. spot price were higher for the fifth consecutive month in September and the monthly average for the A-Index continued at a 10-year high. Global prices initially dipped during the first half of the month, mostly due to global macroeconomic concerns. However, the December contract's prices on the Intercontinental Exchange (ICE) surged over 16 cents to 106 cents per pound by September 30, compared with 89 cents just 10 days prior. The surge of speculative (i.e., noncommercial) buying has mostly been attributed to higher prices, however, fundamental factors have also contributed. Robust reported U.S. sales to China in September (rumored for the State Reserve) further constrained supplies amid ongoing logistical issues, further driving up the December contract. All cotton put up for sale in September by China's State Reserve sold out for the third consecutive month, signifying robust demand for nearby supplies. In contrast to past programs, State Reserve sales have been continued through November.





Since rally's onset on September 21st, the market has closed 22.59 cents higher over the last thirteen sessions. Total volume has been massive, totaling 602.1k contracts during this advance, which averages around 46.3k contracts per session, while open interest increased by around 25k to 289k contracts.

Surprisingly, open interest has remained unchanged at 289k contracts over the last five sessions, even though we had two locked limit moves and a wide trading range of 1200 points, not counting synthetic values. This suggests that there has been a lot of churning among longs and shorts. While some traders were taking profits or covered shorts, others took their place, with the overall exposure staying about the same.

The CFTC spec/hedge report for the period of September 22nd-28th, during which December traded between 89.95 and 101.55 cents, confirmed that it was massive speculative buying that forced prices higher. Speculators bought 2.81 million bales to boost their net long to 10.54 million bales, while index funds added 0.12 million bales to increase their net long to 8.32 million bales.

The trade was on the other side, adding 2.93 million bales to its net short, which grew to 18.86 million bales, and this position is probably closer to 20 million bales by now. It is quite astonishing that the trade has been sticking with its position and even expanded it during this rally! What will it take to scare these shorts into covering?

The latest CFTC on-call report as of last Friday, when December settled at 104.53 cents, showed that very little progress has been made. Unfixed on-call sales on December were down just 0.29 million to 3.96 million bales, while unfixed on-call purchases on December were down 0.19 million to 1.25 million bales.

Overall unfixed on-call sales were down just 0.09 million to 15.05 million bales, of which, 14.01 million bales are on current crop futures and 1.04 million bales on December 2022 and later. With overall on-call purchases at just 3.86 million bales, the net position in favor of sales is still at a bullish 11.19 million bales.

US export sales had another strong showing, as a total of 315,400 running bales of Upland and Pima cotton were added, with China's 214,500 running bales accounting for more than two-thirds. In total there were 14 markets buying, while 20 destinations received shipments of 128,800 running bales. The slow pace of shipments is due to the lack of available cotton.

Total commitments are now at 7.9 million bales for the current season, of which 1.75 million have so far been exported. This compares to 8.7 million sold and 2.5 million shipped a year ago.

While cotton futures have seen a big inflow of speculative money in recent weeks, the same cannot be said for other key commodities. Be it corn, wheat, soybeans, lumber, copper, or precious metals, we have seen hedge funds take money off the table, which does not correspond with the inflation or commodity ‘super cycle’ narrative.

Could it be that this apparent ‘red hot’ economy is not really that great and that demand is slowing? The Atlanta Fed’s real GDP estimate for the 3rd quarter shows a dramatic drop from over six percent in August to just above one percent today.

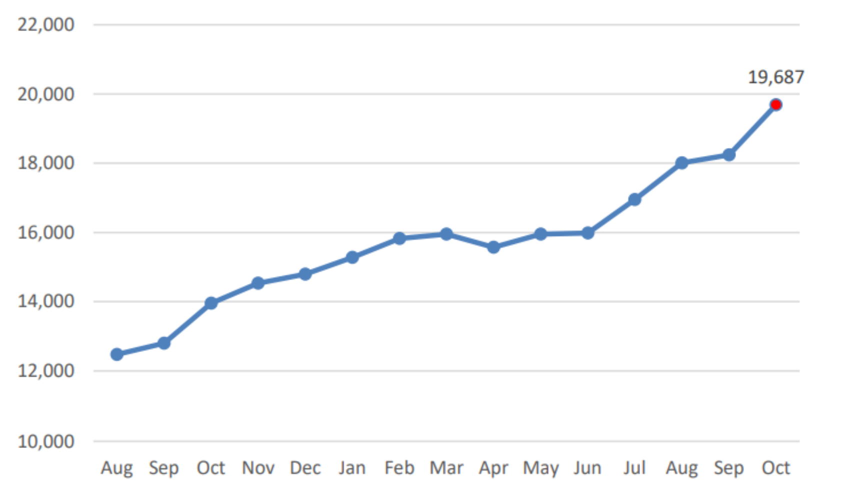
In such an environment we see it difficult for mills to pass this 20% price increase on to the downstream sector. This may explain why the trade has so far refused to get out of its net short position and keeps fighting the speculators. However, while the cash market is rooted in reality, the past has shown that the futures market can take on a life of its own and resemble more a casino than a true price discovery mechanism.

So where from here? With China probably coming back with speculative vigor after its week-long holiday and with the WASDE next Tuesday possibly showing some bullish corrections (Indian stocks and Chinese imports), it is difficult to see this rally coming to an end anytime soon.

Trade shorts have been defending their positions thus far, but on a 20 million bale net short position every cent costs an additional USD 100 million in margin money, one wonders where does the trade’s pain threshold lie? Big trade houses with sufficient credit might be able to hold on, but smaller entities and traders could get forced out, in turn, adding further fuel to the rally.

With the China Cotton Index (CC Index 3128B) price surging 58 percent from its August 2020 level to RMB 20,150 (or, approximately U.S. $3,100) per metric ton on October 8, 2021, the Chinese government is taking steps to rein in prices. The rapid increase in the cotton price in just the past few weeks has fueled anxiety across China’s cotton industry supply chain, including spinning mills, ginners, and farmers.

Table 1. China: Cotton Price Increases from August 2020
(CC Index 3128 B at RMB/Ton)



In effort to meet industry demand and curb price increases, the Chinese government announced it would sell reserve cotton on workdays from October 8th through November with a daily volume established at 15,000 metric tons through auctions that can be adjusted based on market conditions. The price set for the auctions will be the average of the domestic market spot price index and the international market spot price index.

Based on information from the Xinjiang Cotton Association, the seed cotton price was already high and continued to increase along with the rapid increase of the cotton price on the Zhengzhou Commodity Exchange. The price already exceeds RMB 20,000 (or, approximately U.S. $3,076) per metric ton. As of October 2nd, the price of the 0.5 million metric tons of seed cotton purchased from Xinjiang averaged RMB 9.96 per kilogram. For comparison, the nominal price in 2020 averaged RMB 6.8 per kilogram. The bull market driving the seed cotton price higher has ginners rushing to buy seed cotton to cover obligations while farmers remain hesitant to sell as they hope for higher prices.

In consideration of a forecast smaller cotton production volume of about 5.92 million metric tons and a recovery of consumption at 8.7 million metric tons for MY 2021/22, China's cotton imports for the marketing year may be partly impacted by how the Chinese government plans to replenish state reserves. FAS China previously forecast China's global cotton imports for MY 2021/22 at 2.6 million metric tons and it remains to be seen how the potential release of 0.6 million metric tons from state reserves will shape the market.

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	$0.4324	$0.3670	--
Soybeans	$12.35	$8.40	--
Wheat	$6.70	$5.50	--

*national marketing year average (MYA) prices reflect the midpoint price level from the October 12, 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, LSU AgCenter, National Cotton Council, Peterson Institute of International Economics, Pro Farmer, Reuters, Rice Market Letter, Southeast Farm Press, StoneX, Successful Farming, Texas A&M University, University of Arkansas, University of Illinois, U.S. Grains Council, USA Rice Federation, U.S. Soybean Export Council, and the Wall Street Journal.

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