**Staff Report No. 2024-24** **February 12, 2024**

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

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### Prices at a Glance

| Crop | 2023/24 U.S. MYA Price Projection |
|---|---|
| Corn | $4.80 per bu. |
| Soybeans | $12.65 per bu. |
| Long Grain Rice | $16.00 per cwt. |
| Southern Medium Grain Rice | $17.50 per cwt. |
| Upland Cotton Lint | $0.77 per lb. |
| Seed Cotton | $0.3982 per lb. |

### WASDE Summary

Lower food, seed, and industrial use and larger ending stocks are factors of interest in February's WASDE projections for U.S. corn in 2023/24. Corn used for glucose and dextrose has also been reduced 10 million bushels based on indicated usage to date. With no other use changes, U.S. corn ending stocks are up 10 million bushels from last month. The season-average corn price received by producers is unchanged at $4.80 per bushel.

This month's 2023/24 U.S. soybean outlook is for lower soybean exports and higher ending stocks. Soybean export forecasts are down 35 million from last month's projections to 1.72 billion bushels, reflecting the slow pace of shipments through January and strong Brazilian competition. With crush unchanged, ending stocks are forecast at 315 million bushels, up 35 million. The U.S. season-average soybean price for 2023/24 is forecast at $12.65 per bushel, $0.10 down from last month.

The outlook for 2023/24 U.S. rice this month is for slightly higher supplies, unchanged domestic use, higher exports, and lower ending stocks. Total supplies are increased, all on higher imports. All rice imports were raised by 1.0 million cwt to a record 43.0 million with all of the increase in long-grain being rooted in the strong pace of Thai jasmine rice imports to date. All rice exports were raised 2.0 million cwt to 87.0 million with all of the increase in long-grain on an improved pace of sales and shipments to

Western Hemisphere countries. Projected ending stocks are reduced 1.0 million cwt to 42.5 million but are still 40 percent higher than last year.  The season-average price for both long grain and southern medium grain rice are unchanged from last month at $16.00 and $17.50 per cwt, respectively.

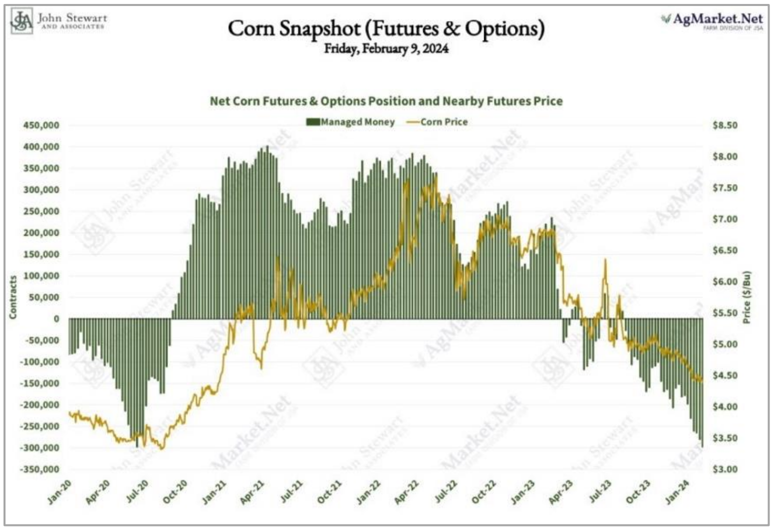
The 2023/24 U.S. cotton balance sheet has lower ending stocks relative to last month, with higher exports and lower mill use, while production is unchanged. The export forecast is raised 200,000 bales to 12.3 million based on a strong pace of shipments and sales to date. Similarly, projected mill use has been reduced by 150,000 bales due to tepid U.S. domestic spinning activity. Ending stocks are now estimated at 2.8 million bales which equates to 20 percent of total disappearance. The upland cotton marketing year average price received by producers is projected at 77 cents per pound, 1 cent higher than previously encapsulated in January estimates.

## Corn

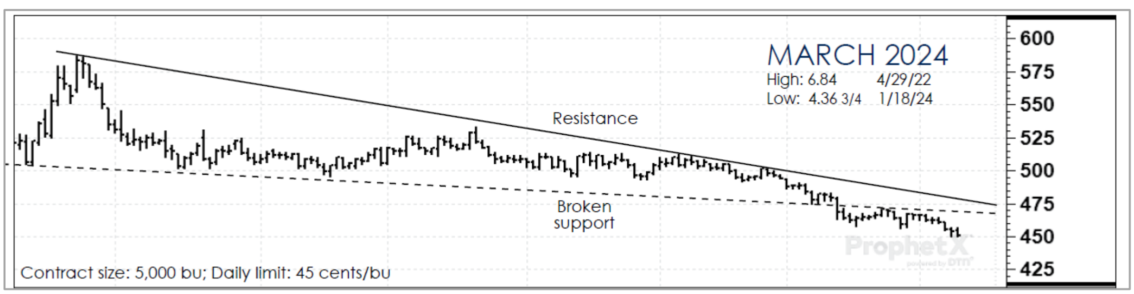
USDA increased carryover supplies by 10 million bushels to 2.172 billion in the February WASDE report. They did so by reducing the food/seed usage by 10 million. They left the expected average price alone at $4.80.

The USDA Outlook Forum (scheduled for February 15-16) will shed first light onto expectations for the 2024-24 U.S. corn crop. In the current pricing environment, most analysts anticipate corn acres falling and soybeans increasing, though expectations vary widely firm to firm. March will bring the Prospective Plantings report, giving the first in-depth look into farmers' intentions for new crop. Corn continues to do a poor job in bidding for acres, especially fringe acres, though a relatively painless and quick harvest allowed for the highest amount of fall anhydrous applications on record, which essentially locks those acres in for corn. Despite soybeans relatively expensive to corn, producers have shown a reluctance to shift their plantings, which will favor corn acres and ultimately continued expansion of the balance sheet, barring any unexpected crop problems over the next couple of months in South America. Upcoming acreage reports are likely to help drive price action in the coming months, though current signs point to the potential of continued weakness.

In the CFTC's Commitment of Traders report, commercials continued to increase their long position. That can either be the result for covering export sales or more than likely buying corn on DP contracts that the producer has yet to price. Commodity funds continue to increase their short position. It is a rubber band ready to pop, but it is hard to imagine what the fundamental change might be to cause prices to reverse in the near-term.




Responding primarily to a very bearish soybean report, corn prices went into new lows nullifying the five-wave buy signal that was given a couple weeks ago. The next major support area for March corn is $4.00 which is 30 cents below where the market is trading. Concentration will now be on planted acreage this spring. Corn planting in the south will begin within four weeks. Some in the trade anticipate some acreage shift from corn to soybeans and in the south, we will see some shift to cotton. Cotton prices have been soaring and offering better profit opportunities than corn. But the USDA report's bearish stance on soybeans could cool enthusiasm for switching from corn to soybeans.




The daily March corn chart set another new contract low after the February WASDE report showed slightly bearish changes to the U.S. balance sheet and a Brazilian production estimate that is still far above other estimates (DTN ProphetX chart below).

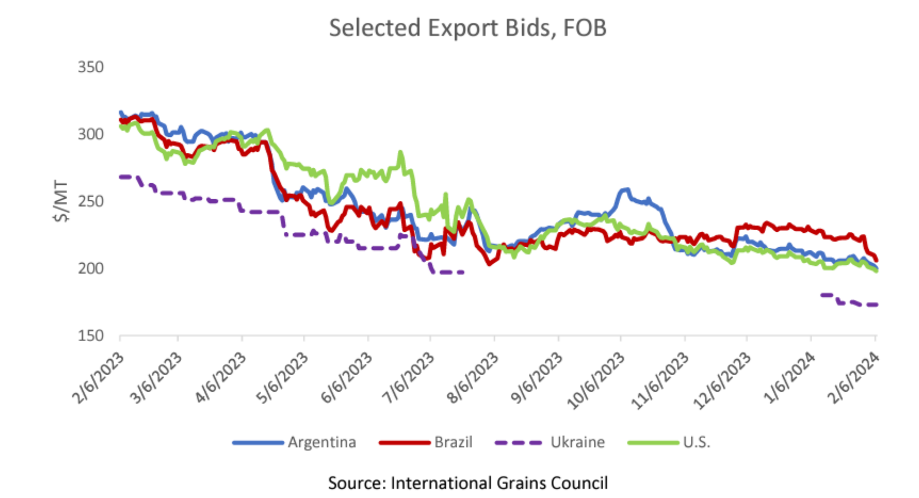


Global corn production is forecast down this month, primarily on a smaller crop in Brazil. Global trade is forecast down slightly, as cuts to Brazil, India, and Serbia are mostly offset by higher exports for Argentina, Ukraine, and Pakistan. Imports are down on trimmed forecasts for Bangladesh and the European Union. The U.S. season-average farm price is unchanged at $4.80 per bushel.

Safrinha planting continues in Brazil at the fastest clip since AgRural started keeping track. Earlier this week, the Brazilian Conab agency lowered its crop forecast down 3.9 million metric tons to 113.7 million metric tons, down 13.8% from a year-ago. Most of that decline can be attributed to smaller safrinha production, as the February estimate is the first that incorporates field observations into its safrinha crop forecast. Conab lowered their estimate for 2023-24 corn exports by 3 million metric tons to 32 million metric tons. If that proves correct, it will shift most of that demand to the U.S. USDA was not as pessimistic about Brazilian production, slashing their forecast by 3 million metric tons to 124 million metric tons. History suggests that CONAB is often very conservative in their estimates, so the crop could prove better off than they anticipate, though many unknowns remain, as low corn prices and expensive inputs have dissuaded producers from planting corn and have even led to more Brazilian farmers than

usual declaring bankruptcy. More clarity on South American corn production is likely to dictate much of the price action over the coming month.

Since the January WASDE, export bids for Argentina, Brazil, and the United States softened. Argentine bids were down $20/ton to $200. Despite the recent hot, dry period, good weather in January has supported forecasts for a year-to-year rebound in supplies, easing prices. Brazilian bids were down $24/ton to $210, as a seasonal decline in exportable supplies weakened demand. International Grains Council resumed publishing Ukraine bids on January 11, 2024. Ukrainian bids are $173, $25/ton under the next lowest bid. Higher risk for Ukraine exporters results in lower export bids to maintain a competitive edge. U.S. bids were down $14/ton to $198 as downward pressure from large domestic stocks and robust global supplies were somewhat offset by larger export sales.




| Export bids (fob, US$ per ton) | 6-Feb-24 | 10-Jan-24 | 6-Feb-23 | *% change, YoY* |
|---|---|---|---|---|
| Argentina, Up River | 200 | 220 | 307 | -37% |
| Brazil, Paranaguá | 206 | 230 | 286 | -34% |
| Ukraine | 173 | - | 256 | -35% |
| U.S. #3 Yellow Corn, Gulf | 198 | 212 | 304 | -35% |

## Soybeans

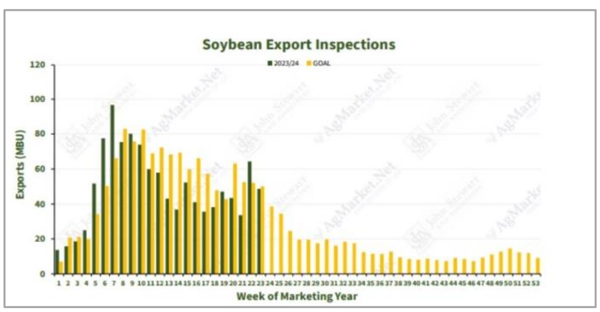
USDA will conduct its annual Economic Outlook Forum on February 15-16, 2024, that will shed light onto 2024-25 U.S. soybean production, and will ultimately release its Prospective Planting Report on March 28th. Moreover, spring crop insurance prices are being averaged through the month of February, which could largely dictate what crops ultimately get planted. The current corn-to-soybean ratio is at about 2.46, with a ratio over 2.4 historically favoring soybeans to corn. Our studies suggest soybean acres could rise by 4.7% from 2023 to around 87.5 million acres.

Midwest weather will be at the forefront of the marketplace as producers plant the 2024-25 crop, while a close eye will remain on export activity from South America along with U.S. crush. Argentina is shaping up to have much larger production, compared to last year's drought-riddled soybean crop, which could in turn slow U.S. soymeal business as Argentine crushers resume operations after having been idle due to lacking soybean supplies throughout the country. Declining U.S. crush business could be the result after having notched records over the past several months. However, strong demand for soyoil for biodiesel will likely keep crush plants running at capacity.

Traders were expecting little change to the U.S. soybean balance sheet in the February WASDE report, although some traders were looking for a cut in U.S. exports due to the slow pace of sales and shipments. They got more than they bargained for, with USDA choosing to lower U.S. soy export sales by a hefty 35 million bushels to 1.720 billion bushels. That translated right to the bottom line, raising the U.S. soy ending stocks by 35 million bushels to 315 million bushels. The change was certainly legitimate with U.S. soy sales down 19% from a year ago, and with the U.S. having lost the competitive edge to South America.

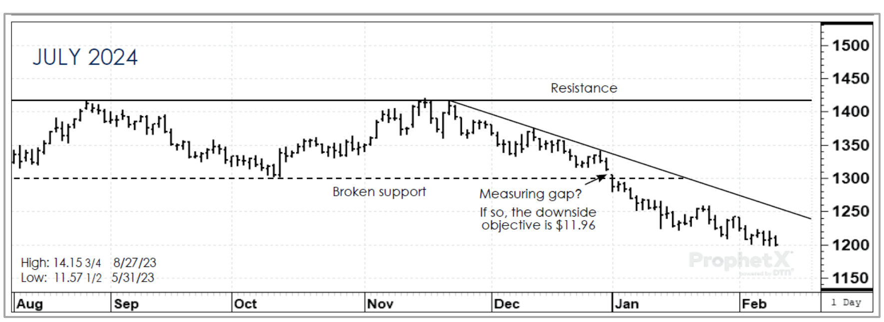
The USDA increased carryover supply by 35 million bushels by removing the equivalent amount from their most recent projections regarding export expectations. Brazil's production was decreased only one million metric tons from the January report, pegging it now at 156 million. Last year's crop is seen at 162 million metric tons, which was revised 2 million metric tons upward. World ending stocks for 2023/24 are now forecast to be a record 116.03 million metric tons compared to last year's 103.57. All these numbers were increased well above trade expectations which sent the market sharply lower.

In January, U.S. export inspections of soybeans totaled 198 million bushels, up 23 million bushels from December, but down 104 million bushels compared with January 2023. Cumulative export inspections for September 2023–January 2024 were down 23 percent (or 318 million bushels) from the MY 2022/23 pace. U.S. exporters faced strong competition from Brazil that reported a record export volume during the same period. Consequently, USDA reduced the U.S. soybean exports forecast for MY 2023/24 this month to 1.7 billion bushels, down 35 million bushels from last month's forecast.



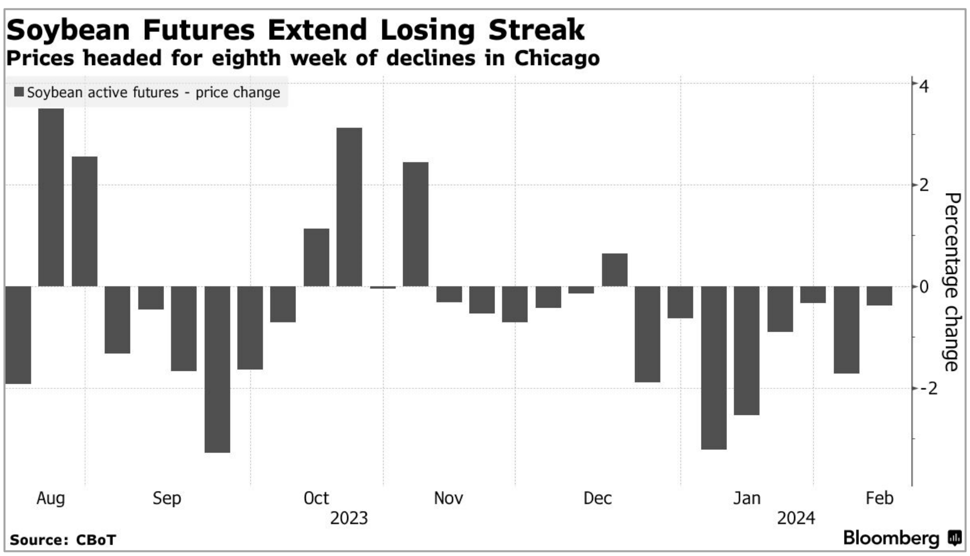


The positive news from February's WASDE is that soybean oil stocks are tightening. As has happened in the past year, soybean oil takes the lead on the way up and then also on the way down. Oil prices are making a bottom. Technically, July soybeans have major support at $12.00. All of the soybean contracts have hit the gap objective that was left on January 2nd.




Soybeans futures capped an eighth straight week of losses, the longest stretch of declines since 2006, on an outlook for record global stockpiles and sluggish appetite for US exports. The losing streak underscores how soybean traders have lacked any incentive to buy futures of the commodity used in everything from animal feed to truck diesel. Most-active futures settled at the lowest level since December 2020 on the Chicago Board of Trade.

Global supplies are expected to be abundant in the current season even after extreme weather conditions adversely impeded crop growing conditions in Brazil. What's more, shipments from the world's largest producer are trading at a major discount to US benchmark prices, eroding American farmers' ability to compete overseas. In the latest bearish news, the USDA raised its current season's global ending stock forecast to what would be an all-time-high. The increase was because Brazil harvested more soybeans last year than previously estimated, and the surplus was carried over as inventory into the current season, according to the USDA.




The USDA also said that the US will export less than previously expected in the current season, citing a slow pace in sales and increased competition from Brazil. Limiting the downside, farmers in the US have been reluctant to sell at current prices, and there is speculation that the USDA's latest forecast on Brazil

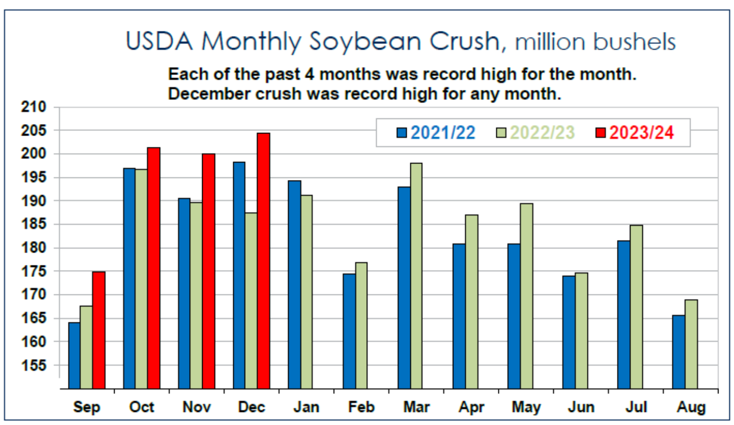
output still doesn't fully reflect the yield losses seen in the nation because of drought. Brazil's state-run forecaster Conab said on Thursday that the country should produce about 149 million metric tons this year, less than expected by the USDA.

U.S. soybean crush hit a new monthly high in December for a third straight month at 204.3 million bushels, driven by booming demand for soyoil from renewable diesel producers. The December crush was slightly below the average of trade expectations but was about 17 million bushels or 9.1% above a year earlier and indicated that soybean crushings are on pace to meet or exceed USDA's 2023/24 forecast of 2.3 billion bushels.

The September-December U.S. soybean crush of roughly 780.5 million bushels was up 5.3% from 740.3 million a year earlier. Looking at the crush pace from a straightforward viewpoint, if the current pace were maintained, the full 2023/24 crush would wind up 117 million bushels above the 2022/23 level of 2.2 billion at roughly 2.3 billion bushels, 29 million above USDA's current forecast.

Right now, though, there is nothing to suggest the pace of crush will slow significantly during January-August. The February NOPA crush was record high again, U.S. soybean stocks do not look nearly as tight as they once did and crush capacity will be increasing in coming months. Crush margins are expected to tighten in the second half but should remain good. Meanwhile, even with capacity being added, an annual crush of 2.389 billion bushels appears to be out of reach for this year.

Rising demand from U.S. soybean crushers will soften the blow from the loss of exports to South American competition, although ultimately it is dangerous for the U.S. soybean sector to become too dependent on the renewable diesel industry for demand.



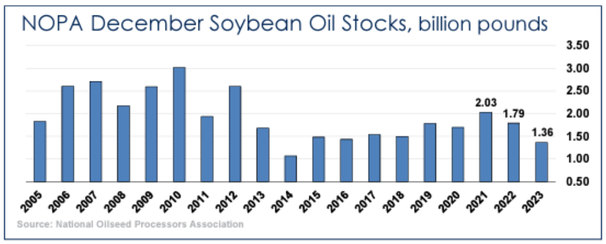

USDA Soybean Crush and 2023/24 Pace, million bushels

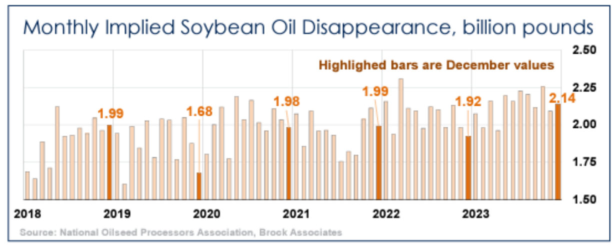
| Period | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | Y/Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Sep | 134.6 | 138.3 | 145.4 | 169.6 | 162.3 | 171.1 | 164.2 | 167.6 | 174.8 | +4.3% |
| Oct | 170.1 | 175.9 | 175.9 | 183.6 | 187.0 | 196.6 | 196.9 | 196.7 | 201.4 | +2.4% |
| Nov | 165.8 | 170.7 | 173.3 | 178.1 | 174.6 | 191.0 | 190.6 | 189.6 | 200.1 | +5.5% |
| Dec | 167.0 | 169.0 | 176.3 | 183.8 | 184.7 | 193.1 | 198.2 | 187.4 | 204.3 | +9.0% |
| Sep to Dec | 638 | 654 | 671 | 715 | 709 | 752 | 750 | 741 | 781 | +5.3% |
| Sep to Dec (%) | 33.8% | 34.4% | 32.7% | 34.2% | 32.7% | 35.1% | 34.0% | 33.5% | 33.8% average | |
| Full year | 1,887 | 1,899 | 2,055 | 2,092 | 2,165 | 2,141 | 2,204 | 2,212 | 2,309 | pace |

Despite the record crush levels, U.S. soyoil stocks look tight. December 31st soyoil stocks of 1.36 billion pounds were above trade expectations but were still down 24% from a year earlier to the lowest level in nine years. December soyoil disappearance surged 11.5% from a year earlier to 2.14 billion pounds. The most recent Energy Information Administration data shows November use of soyoil for renewable diesel

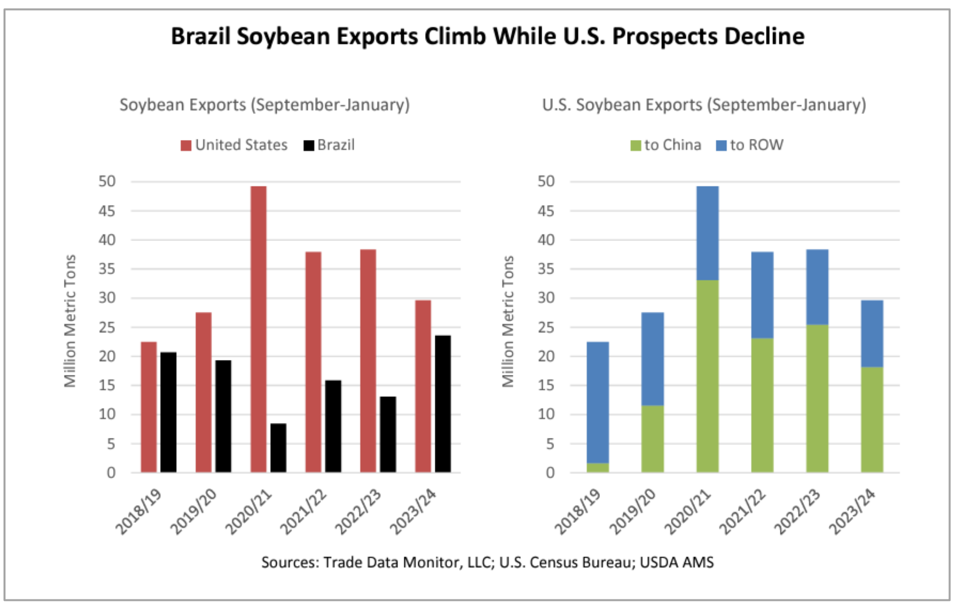
was up 28.3% year-over-year, although total November use of soyoil for biofuel production was only 12.6% higher as use for biodiesel rose just 3.2%.

Strong soybean crush is supported by record soybean meal exports and strong domestic soybean oil demand for biofuels production. Soybean meal and oil demand are unchanged this month. The seasonal soybean meal average price forecast is unchanged at $380.00 per short ton, while the soybean oil price forecast is revised down $0.03 from last month's forecast to $0.51 per pound. The soybean oil price in Decatur, Illinois declined 6 percent during January 2024 to an average of $0.49 per pound, or 26 percent lower than last year.




This month, 2023/24 Brazil soybean production is cut 1.0 million tons to 156.0 million, yet exports are raised 500,000 tons to a record 100.0 million. The export forecast change comes on the heels of record October-January shipments, combined at over 17.0 million tons. The record volumes reflect abundant carryin supplies from the previous record soybean crop, now estimated at 162.0 million tons.




Brazil early-season shipments are 6 percent higher than the previous record from 2017/18 when China imposed retaliatory tariffs on the United States, and Argentina soybean supplies were tight. Larger 2023/24 carryin supplies and abundant new crop prospects allow Brazil to continue exporting with highly competitive prices, reaching $400 per ton in early February 2024, compared to U.S. export prices at $467.

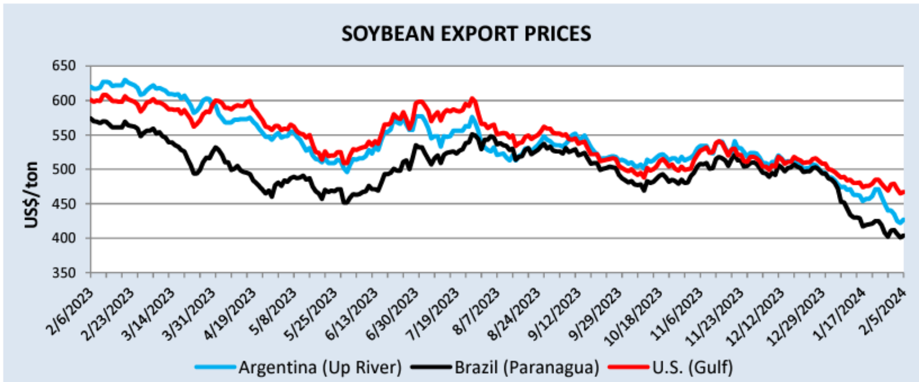
Meanwhile, September-January U.S. soybean shipments have dropped 23 percent compared to last year with typical U.S. sales to China mostly replaced by Brazilian exports. As a result, the U.S. export forecast for 2023/24 is cut this month by 950,000 tons to 46.8 million.

Soybean prices dropped in the past month with the Brazilian harvest proceeding at a faster than average pace and import demand falling behind as much of Asia slows purchases before Lunar New Year. Soybean meal prices moved in tandem with soybean prices. Soybean oil declined in line with price movement in the soybean complex. Argentina and Brazil soybean oil is trading at 3-year lows as demand ebbs with many key buyers sitting on ample stocks. Palm oil prices continued to rise with a seasonal drawdown in Malaysia production and stocks. Black Sea sunflowerseed oil prices were up after a strong selling season has reduced stocks, narrowing the discount compared to soybean and rapeseed oil.

**Soybean Export Prices** (U.S. dollars per metric ton)

| | U.S. | Argentina | Brazil |
|---|---|---|---|
| January 5 | $492 | $478 | $472 |
| February 7 | $467 | $427 | $404 |
| **Change** | **-$25** | **-$51** | **-$68** |

Source: International Grains Council. All prices are FOB: U.S. Gulf, Argentina Up River, and Brazil Paranagua.




## Rice

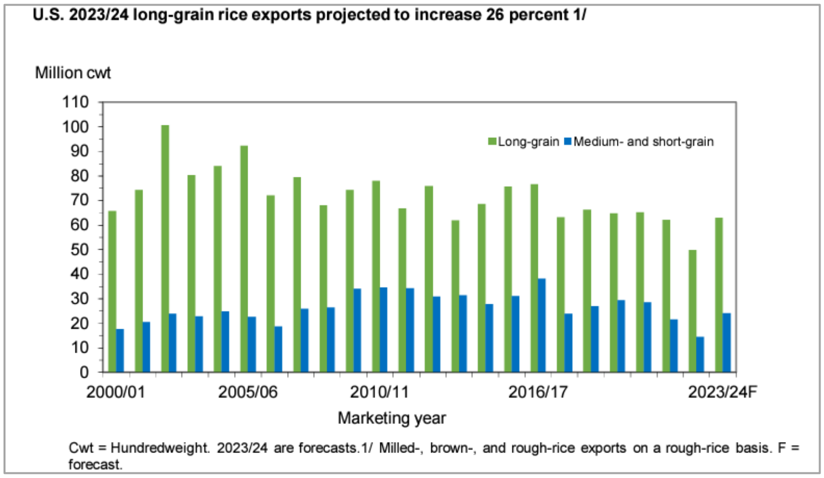
Rice futures surged to new contract highs once again on strong export demand, as shown in both the weekly sales report and the monthly Supply and Demand report from USDA. March rice settled up 16 1/2 cents to $18.65, after trading a range of $18.44 1/2 to $18.69 1/2. May was up 10 cents to $18.83 1/2. New crop September rice was down 8 cents to $15.15 1/2.

U.S. rice export sales for the week ended February 1st totaled 110,600 metric tons, more than double the previous week's and the largest in 8 weeks. USDA this morning raised its forecast for U.S. 2023-24 rice exports by 2 million cwt to 87 million cwt and cut its all-rice carryout estimate by 1 million cwt. to 42.5 million. USDA's world rice carryout forecast was little changed from January.

The total U.S. rice export forecast for 2023/24 is raised 2.0 million cwt to 87.0 million cwt, 35 percent above a year earlier and the highest since 2020/21. Long-grain rough rice accounts for all of this month's upward revision in the U.S. rice export forecast.

U.S. long-grain exports are forecast at 63.0 million cwt, up 2.0 million from the previous forecast and 26 percent larger than a year earlier. The upward revision is largely based on shipment and sales data through late January and expectations regarding shipments for the remainder of the market year. Shipments through late January were well ahead of a year earlier across Latin America, especially to Mexico and Venezuela. In Mexico, Central America, and Venezuela, the United States is regaining markets lost in recent years to South American exporters due to tight U.S. supplies and uncompetitive prices. U.S. will likely again face competition from South American exporters in these markets this spring as the South American harvests get fully underway.

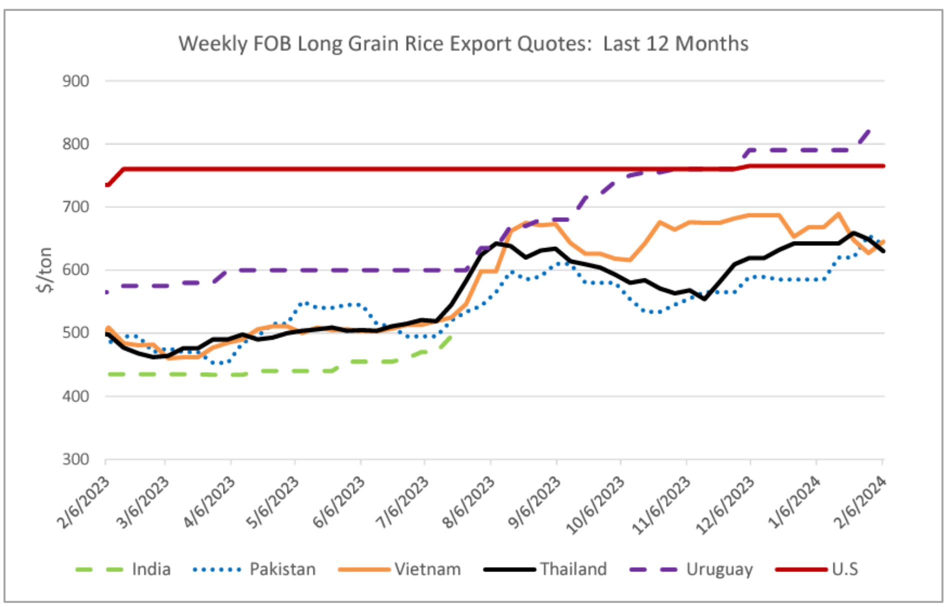
U.S. medium- and short-grain exports remain forecast at 24.0 million cwt, 66 percent larger than a year earlier. The projected export expansion is based on a bumper California harvest, as prices for California milled rice have already dropped more than 40 percent since their mid-September record highs. California supplies the bulk of U.S. medium- and short-grain exports. Northeast Asia is the largest market for U.S. medium- and short-grain exports, followed by Jordan, Canada, Mexico, and Israel.




Rough rice futures continue to push higher. The past five trading days in rice futures saw prices make (or come close to making) new highs on four of those days, only to be hit with some fairly good selling and/or profit taking early last week. After moving to a new high at 18.58, the nearby March contract was down 9 cents to 18.485 at Wednesday’s close and down 1½ cents in last night abbreviated trade suspension at 18.47. And open interest is quite good, with yesterday's close of business figure at 11,727 active rice contracts, up by 120 contracts from last week at this time. This action was fairly impressive, but one should anticipate on waiting for some sort of solid follow through to the downside before jumping wholeheartedly to the short side. We are not yet convinced that the sideways-to-up moves are over just yet.

It will be interesting to observe rice futures activity over the next 60 to 100 days as the South American crop matures and is harvested. It will also be worth watching how our planting goes for long grain in the South. Demand looks pretty good right now, and we suspect it will remain so, at least for the next few months. The total number of delivery receipts was unchanged over the past week, still at 724 in various locations. Regardless of what the Chicago futures do, we must continue to watch for any additional large cash market purchases of both long grain rough and/or long grain milled. Prices appear to be good at present. Although the export business certainly seems to have improved, we still need to see continuing confirmations of large sales to export buyers.


In the past month, U.S. prices remain unchanged at $765/ton. Uruguayan quotes jumped $30 to $820/ton with continued strong demand, exporting 1.0 million tons in 2023. Vietnamese quotes declined $23 to $645/ton due to larger supplies after the recently harvested crop. Pakistani quotes jumped $55 to $640/ton as harvest pressure was offset by continued strong demand. Thai rice quotes dropped $12 to $630/ton on a weaker Thai Baht, falling to become the lowest-priced competitor. Export quotes for India white rice have been unavailable since imposition of an export ban for milled white rice on July 20, 2023.

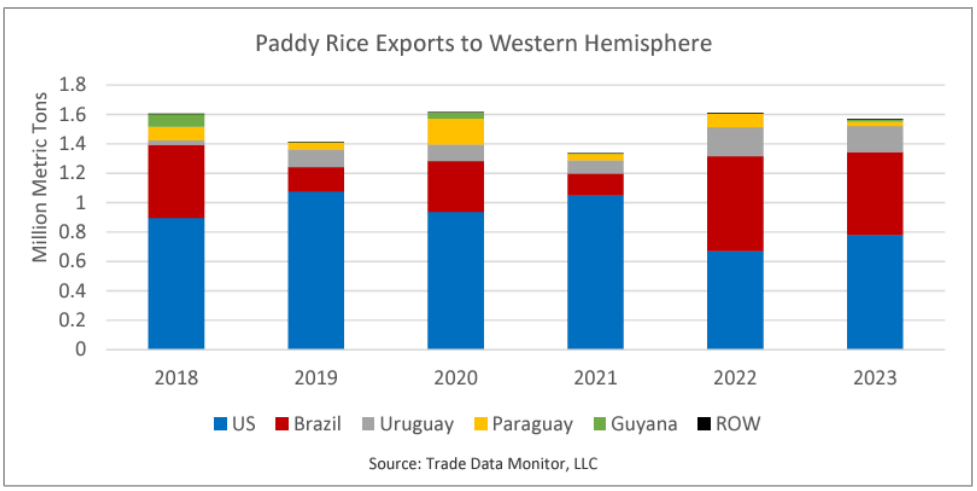



Over the past month, quotes for trading prices for most grades of regular (neither parboiled nor aromatic) whole-grain milled rice from Thailand decreased 1–2 percent, mostly due to the weakening of the Thai baht. In addition, prices are being pressured lower on expectations of supplies entering the export market from Thailand's dry season crop harvest to begin in late February. For the week ending February 6, Thailand's 100-percent Grade B long-grain milled rice for export was quoted at $647 per ton, down $12 from the week ending January 9. Despite the recent declines, Thailand's rice trading prices continue to be supported by India's export bans and restrictions.

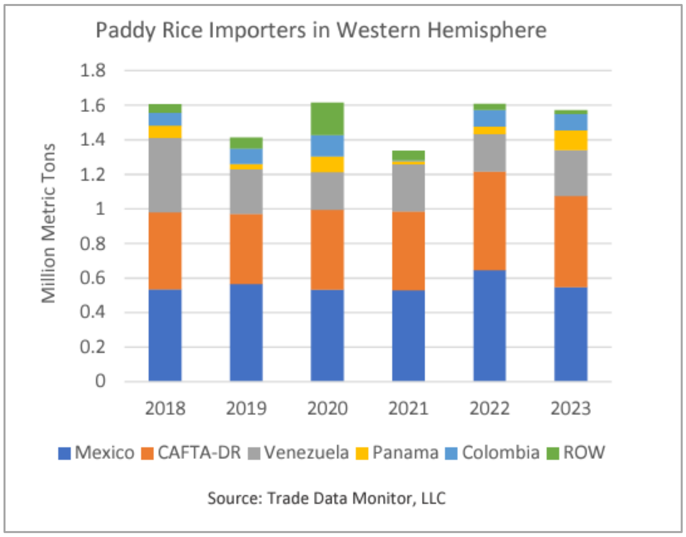
Price quotes for 5-percent brokens from Vietnam for the week ending February 6 also declined, dropping $20 per ton from the month ending January 9 to $645 per ton. Price quotes for rice from Pakistan were reported at $618 per ton for the week ending February 6, down just $2 from the week ending January 9 as strong demand was offset by a bumper crop. Price quotes for regular-milled white rice from India have been unavailable since the country's imposition of an export ban on July 20. In South America, price quotes for 5-percent brokens from Argentina for the week ending February 6 were reported at $740 per ton, down $30 from the week ending January 9. In contrast to Argentina, price quotes from Brazil, Paraguay, and Uruguay rose over the past month.

U.S. trading prices for long-grain and medium-grain milled rice were unchanged over the past month. Prices for U.S. long-grain milled rice, Number 2 Grade, 4-percent broken kernels (Iraqi specifications) were quoted at $765 per ton for the week ending February 6, unchanged since late November and the highest since early November 2008. U.S. price quotes for Latin American markets are also unchanged from a month earlier, quoted at $730 per ton for the week ending February 6. Price quotes for California medium-grain milled-rice, Number 1 Grade, 4-percent brokens, remain quoted at $950 per ton (free on board at a domestic mill) for the week ending February 6, unchanged from the week ending December 5. The California price quote is down $700 per ton from the mid-September record high and is the lowest since early May 2021.

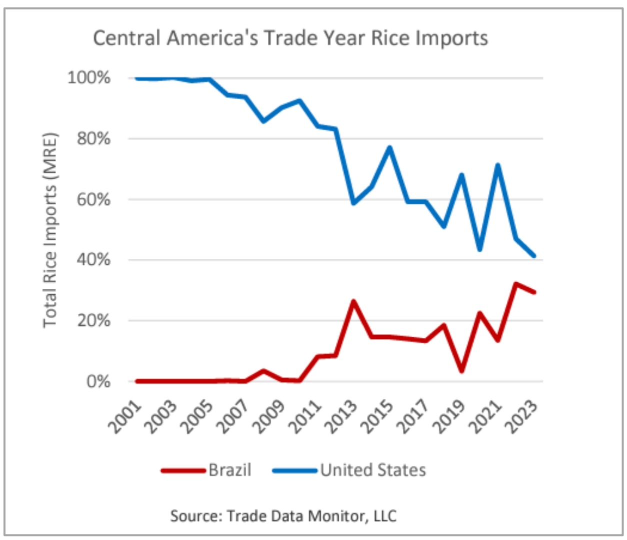
In 2023, the Western Hemisphere accounted for nearly 13 percent of global rice imports. While rice is traded in all parts of the world, the Western Hemisphere is unique in that paddy rice accounts for a third of rice imports. Demand for paddy is popular in countries that prefer to purchase the more affordable unmilled rice, use existing in-country mills to provide employment, and capture the by-products such as rice bran.




Historically, the United States accounted for most of the paddy rice exports in the region. Nearly every paddy rice importer in the Western Hemisphere has a trade agreement with the United States. The largest paddy rice buyers are Mexico and the CAFTA-DR region, which, together, account for nearly 68 percent of the region's paddy imports. However, U.S. dominance in the Western Hemisphere paddy market has been challenged by rising South American exports. Additionally, over the past couple of years, high U.S. export prices and overall high food price inflation led multiple countries to allow duty-free access from all origins, making the United States lose its competitive edge.




Central America reflects these changing dynamics, as the U.S. market share plummeted over the past 2 years. In the early 2000s, the United States supplied virtually all rice exports to Central America, and in the past decade the United States supplied as much as 77 percent of annual rice exports. However, U.S. market share has dropped precipitously in recent years, falling below 50 percent, especially in years with lower U.S. rice production. South America's emergence as a paddy rice exporting region, led primarily by Brazil, has also been a major factor in steering Central America away from complete reliance on U.S. paddy rice imports.




Prices, production growth, and falling domestic consumption have been key factors in growing South American exports to Central American markets. While production has risen slightly among South American exporters, as a whole (Argentina, Brazil, Paraguay and Uruguay), consumption has declined, leading to greater exportable supplies. The largest drop in consumption happens to be in Brazil, where economic growth is a contributing factor, as consumers with higher disposable income opt for "superior" goods.

U.S. rice production for 2023/24 is estimated to be 36 percent larger than the previous year. In turn, U.S. paddy rice exports are forecast 82 percent higher with accelerated exports in recent months as U.S. prices

are competitive against South American prices. Supplies are currently tight in South America awaiting the upcoming 2023/24 harvest. However, after the South American harvest, competition will resume, especially in markets which allow duty-free access from all origins.

## Cotton

The February WASDE report provided overall bullish figures for the market to trade on. The U.S. export estimate was raised to 12.3 million bales, a necessary change to keep up with the sales pace. A decline in U.S. ending stocks tightened the stocks-to-use ratio to 19.93%, making this only the second time it was below 20% on the February report. The U.S. crop was unchanged at 12.43 million bales.

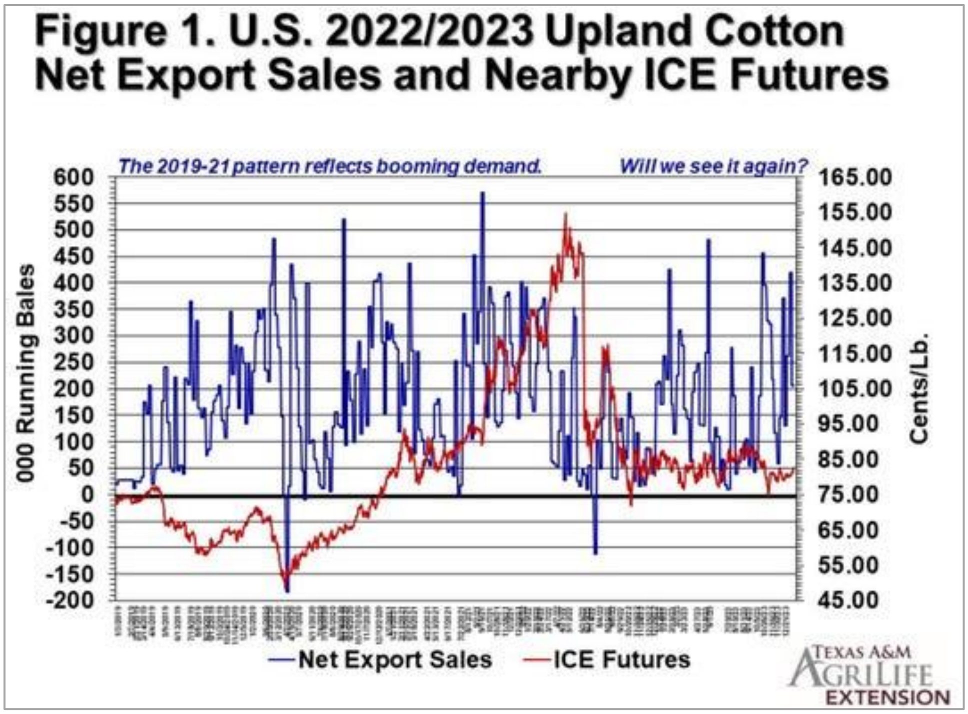
Bullish momentum continued in cotton futures this week, fueled by the prospect of robust demand associated with record highs in the US stock markets and consistently strong exports. Front month March stood out with higher closes in the last 9 sessions and closing out this week today up over 2.75+ cents coinciding with March option expiration. New crop December has also not had a down day in the last two weeks with today's high of 83.44 the highest print of the contract since September 2022.

Weekly export sales showed net sales of 284,100 RB for 2023/2024, which was down 19 percent from the previous week and 8 percent from the prior 4-week average. Exports of 248,500 RB were down 37 percent from last week's marketing year highs and 3 percent from the prior 4-week average yet exceeding the 200k+ bale mark in 6 out of the last 7 reports.

February's WASDE showed the 2023/24 US cotton balance sheet as having lower ending stocks relative to last month of 2.8 million bales, with a 200,000 bale gain in exports to 12.3 million bales while mill use was lowered by 150,000 bales. Production estimates were unchanged from last month.

Demand weakness has been balanced out by short U.S. cotton crops in 2022 (drought) and 2023 (drought, too wet, and then too hot). The basic story being told about 2024 is that similarly weak demand and potentially stronger production will increase ending stocks and bring weaker prices by the fall. The right-hand side of Figure 1 shows a picture of modest to poor demand. The red price line reflects a flat, sideways pattern at a relatively low level. Meanwhile, most export sales were 250,000 per week or less. Many of the strongest weekly export sales during this recent period reflected non-commercial, policy-driven buying by the Chinese government reserve. The rationale for weaker or continued slow demand is associated with the possible continued slowing of the world economy. In the U.S., this fear is related to the deliberate policy of the Federal Reserve in fighting inflation by maintaining higher interest rates. In China, recession fears are due to other issues.

But there are always bullish possibilities. One bullish scenario involves a mismatch between strong retail clothing sales with retail de-stocking (the latter a reaction to fears of an induced recession by high interest rates). Combined with short cotton supplies in the U.S., eventual cuts in interest rates, and assumed economic growth, this scenario paints a picture of surging demand to make up the gap. There are lots of ifs to play out under this bullish scenario, but if they did, it would show up in Figure 1 as a lot of upward spikes in weekly export sales, as well as strength in ICE cotton futures.




Technically, March futures traded up to 18 months highs this week, easily taking out last Fall's resistance levels of 88.60, which can now be viewed as close in support and further to last week's lows of 84 cents. A similar technical picture exists for new crop December, trading to 18-month highs, easily taking out last Falls resistance levels of 81.80, which can also be looked upon now as close in support. In the latest C-O-T report as of February 6th, managed funds continued to build on their long position at the ICE, adding an additional net 16,772 contract for the week, bringing their total net long position to 46,878 contracts. Open Interest continues to increase as well, currently at 264,909, a build of 13,411 contracts on the week.

March cotton bulls carried the torch to a near 18-month high, with persisting optimism stemming from another day of record highs across equities. Inflation fears are seemingly easing across the marketplace amid keener risk appetite this week. However, near-term overbought conditions in the natural fiber could spur a correction, especially with China's approaching Lunar New Year holiday, which begins this weekend. Chinese markets will be closed for several days next week for the annual holiday.

USDA's Prospective Plantings Report will be especially important after USDA cut ending stocks this week to the lowest level since 2016-17 after increasing projected exports 200,000 bales to 12.3 million bales. While the current rally bodes well for planted acres, mother nature will ultimately dictate production, and be at the forefront of trade in the coming months when the growing season commences.

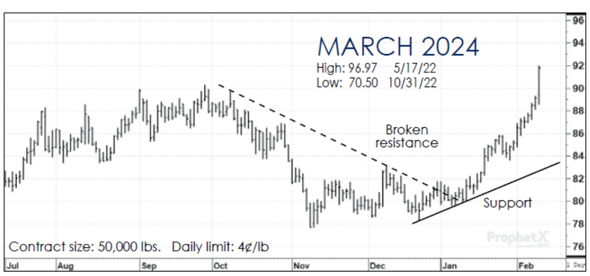
U.S. export sales continue to at a notable clip, with USDA reporting net sales of 284,100 RB during the week ended February 1st. Net sales were down 19% from the previous week and 8% from the four-week average. China was the primary purchaser during the week, followed by Vietnam and Bangladesh. Traders will continue to closely monitor export activity as a gauge of the global economy.

Demand for U.S. cotton remained steady for the week ending February 1st. A net total of 284,100 Upland bales were sold for the week, keeping sales above average for this time of the year. New crop sales of 34,600 bales were reported. A total of 248,500 Upland bales were exported, below average for what we typically see at this time of the year. Shipment disruptions in the Red Sea have exporters worried about

increased costs and delays. A net total of 9,500 Pima bales were sold and 11,900 bales were shipped for the week.

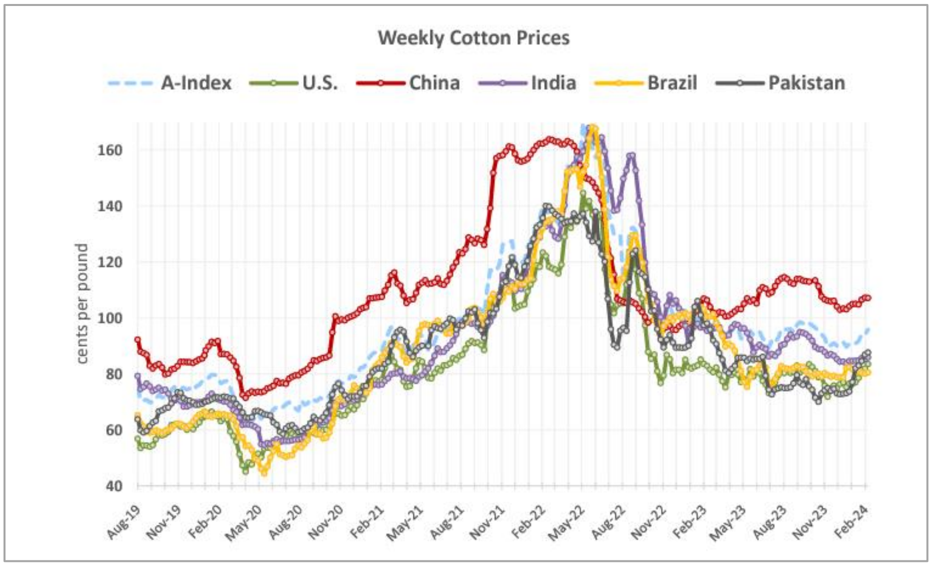

This market abruptly transitioned from a relentless climb up for most of the past three weeks to a ride higher on Friday, as old-crop contracts took out the 90-cent level, their contract highs just above that, and kept going. On a front month basis, cotton ended the week at its highest level since October of 2022. The market is significantly overbought, and with cotton soaring while corn and soybeans flounder, cotton is looking more attractive for planting in the South.

The February USDA report was mildly friendly. USDA lowered its 2023-24 U.S. carryout by a modest 100,000 bales to 2.8 million and lowered its projected world carryout by 680,000 bales to 83.70 million, mainly due to a crop revision for Argentina. Cotton futures had rallied earlier on support from good weekly U.S. export sales of 284,100 running bales for 2023-24 delivery and 34,600 for 2024-25. While cotton export sales have been supportive, as the chart below shows, they are still running well behind the five-year average. Rallying crude oil futures were a supportive factor for cotton this week.





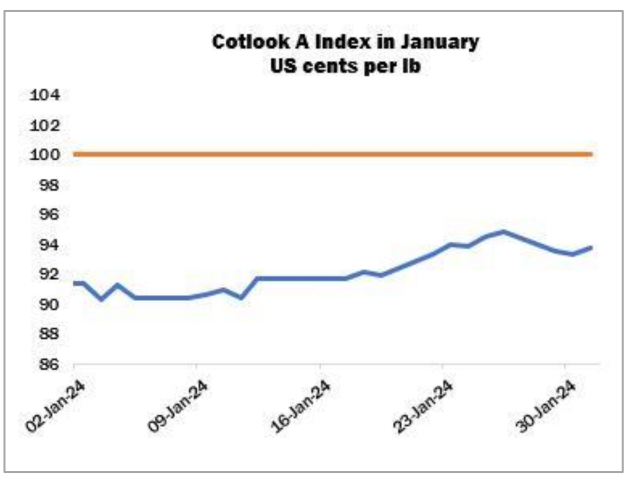
Cotton futures rose to their highest level in 4 months with the nearby March 2023 contract on the Intercontinental Exchange (ICE) settling at roughly 88 cents per pound. Strong January foreign sales for U.S. cotton relative to available supplies supported prices rising roughly 8 cents since last month’s WASDE. In contrast, commodity indices were lower compared with last month, further supporting the exuberant fundamental outlook for U.S. cotton (only deliverable origin on ICE). Greater speculative buying further supported prices. The latest Commodity Futures Trading Commission Commitment of Traders supplemental report for futures and options showed that the net long position for both Noncommercial and Index participants nearly doubled from roughly 46,000 contracts to over 80,000.




**Changes Since January *WASDE* (cents per pound)**

| | A-Index | U.S. | China | India | Brazil | Pakistan |
|---|---|---|---|---|---|---|
| 10-Jan | 90.9 | 76.4 | 104.7 | 84.6 | 80.5 | 82.2 |
| 6-Feb | 95.6 | 84.0 | 107.4 | 85.5 | 80.4 | 89.1 |
| **Change** | 4.7 | 7.6 | 2.7 | 0.9 | -0.1 | 6.9 |

Settlements for the March contract on ICE futures recorded relatively narrow fluctuations in the early part of January, continuing the trend observed in December. Later in the month, however, the contract moved steadily higher in several sessions, as speculators reacted to a tightening US balance sheet for the 2023/24 season. The net gain on the month was 4.17 cents per lb. Turnover was robust. International cotton prices, as measured by the Cotlook A Index, observed a similar trend to end January at 93.7 cents per lb with a net increase of 2.3 cents. The Index high for the month was 94.85 cents (achieved on January 26th), a figure not reached since October.




In China, Zhengzhou cotton futures also gained ground: the May contract settled on the first session of January at 15,555 yuan per tonne and ended the month at ¥RMB 16,045. Trade was characterized by relatively low volume, and open interest during the last week of January was the lowest since July 2022.

Mill buying in the physical market improved somewhat during the first month of the year, despite the rise in offering rates. Pakistan was one of the most active buyers as the domestic crop dwindled. Spinners purchased a wide variety of origins, often recaps or lots discounted on quality considerations. Bangladesh also procured additional volumes, mainly Indian, West African and Brazilian, but a series of problems face mills and manufacturers in the country, including the well-rehearsed difficulties acquiring Letters of Credit, as well as gas shortages, high inflation and interest rates, and the additional costs resulting from shipping disruptions in the Red Sea. A long-awaited uptick of import demand was observed in Turkey during the month in view as local prices increased, while activity was slow in the Far East. For many markets, yarn prices were slow to follow increases of raw cotton costs and spinners' profitability therefore remained poor.

Mills in China continued to be active buyers of raw cotton for much of January, particularly of consignment stocks of imported cotton. However, buyers retreated somewhat in the approach to the Lunar New Year holiday taking place in early February, as many had by then replenished stocks sufficiently and some had begun to reduce their operations for the break. China nonetheless featured prominently in the USDA's 2023/24 export registrations during January, accounting for 47 percent of total new net registrations. Ginning in Xinjiang had reached 5.45 million tonnes by the end of the month, about equivalent to Beijing Cotton Outlook's estimate of final output.

In the Northern Hemisphere, harvest activities have been drawing to a close, with India being the notable exception to this. According to the Cotton Corporation of India, domestic seed cotton arrivals had reached 17.2 million bales by January 31st, little more than half of anticipated output. An unanticipated feature of international trading was the emergence of competitively priced export offers from India. Local prices remained fairly stable during January, even when futures rallied during the second half of the month. As a result, from a basis perspective, Indian asking rates enjoyed a competitive advantage in relation to other export origins that followed the movement of New York more closely. Additional export business was concluded in Bangladesh but also in Far Eastern markets including China. On January 19th, an Indian quotation was introduced to the selection from which the Cotlook A Index is calculated.

Seed cotton arrivals approached a conclusion in Pakistan. The Cotton Ginners' Association reported that the figure by January 31st stood at 8.35 million lint equivalent bales, almost equal to private estimates of final output (excluding unreported arrivals). Attention is now turning to prospects for the next crop and the potential for early sowing. Farmers in some of the earliest planted areas had commenced field preparations by the end of the month. The late-season firmness of local and international prices may encourage farmers to maintain their cotton area in 2024/25.

Planting neared completion in parts of the Southern Hemisphere during January and developing crops were being monitored. In Brazil, sowing in Mato Grosso was well advanced by the end of the month, and ahead of corresponding figures in recent seasons. Frequent precipitation and sunny spells have benefited young plants in that state as well as in Bahia, leading to a largely favourable outlook for yields. The January official crop forecast of 3.1 million tonnes was therefore regarded as slightly conservative by some observers. Helpful weather was also evident in Argentina, where perhaps more than the 610,000 hectares estimated to be planted to cotton by the Ministry of Agriculture had been sown.

In Australia, where planting was complete before the year-end, Cyclone Kirrily brought heavy rains to some areas of Queensland and northern New South Wales toward the end of the month. Precipitation since November had boosted water reserves and dryland crop prospects, but many farmers hoped for clearer weather in February. Following the wet spell, local output estimates increased from around four million local weight bales to 4.5/5.0 million bales (1.0/1.14 million tonnes).

## PLC Farm Program Payment Projections – 2023/24 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* | ***2023/24 MYA Price**** | *Effective Reference Price* | ***2023/24 PLC Payment Rate*** |
|---|---|---|---|
| Corn | $4.80 | $3.70 | -- |
| Grain Sorghum | $4.85 | $3.95 | -- |
| Long Grain Rice | $16.00 | $14.00 | -- |
| Medium Grain Rice | $17.50 | $14.00 | -- |
| Seed Cotton | $0.3982 | $0.3670 | -- |
| Soybeans | $12.65 | $8.40 | -- |
| Wheat | $7.20 | $5.50 | -- |

**national marketing year average (MYA) prices reflect the prices contained in the USDA WASDE report on February 8, 2024.

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), ADM Investor Services, AgDay, Ag Fax Media, AEI, Ag Market Network, Agri-Pulse, AgRural, Ag Resource Company, Ag Web, Agricultural Market Information System (AMIS), Allendale, American Farm Bureau Federation, Bloomberg News, Brock Report, CME Group, Co-Bank, Cotbase.com, Cotton Grower, Cotton Incorporated, Cotton Outlook, Creed Rice Report, O.A. Cleveland, Daniels Trading, Delta Farm Press, DTN Progressive Farmer, Farm Futures, Fastmarkets, Fiber 2 Fashion, Gro Intelligence, Hightower Report, Intercontinental Exchange, International Grains Council, Iowa State University, INTER-RICE, Lakefront Futures and Options, LSU AgCenter, Mississippi State University, NOAA, National Cotton Council, NOAA, Peterson Institute of International Economics, Plains Cotton Cooperative Association, Plexus Cotton, Pro Farmer, Refinitiv, Reuters (Karen Braun), Rice Market Letter, Southeast Farm Press, Sovecon, StoneX, Standard Grain, Successful Farming, Texas A&M University (John Robinson), University of Arkansas, University of Georgia, University of Illinois, University of Tennessee, U.S. Grains Council, U.S. Rice Producers Association, USA Rice Federation, U.S. Soybean Export Council, United Nations Food and Agriculture Organization (FAO), and the Wall Street Journal.

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