Staff Report No. 2020-58 **October 16, 2020**

October Market Update
Corn, Soybeans, Rice, and Cotton

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WASDE Summary

The September grain stocks report was a big bullish surprise and the USDA will incorporate those numbers into the October WASDE report. The futures market is in "price rationing" mode with front month soybeans could break the 2018 high off $10.71 if stocks are below 300 million bushels in the WASDE report. On the contrary, if soybean stocks are closer to 400 million bushels, soybean futures may fall somewhere around $9.00 or $10.00.

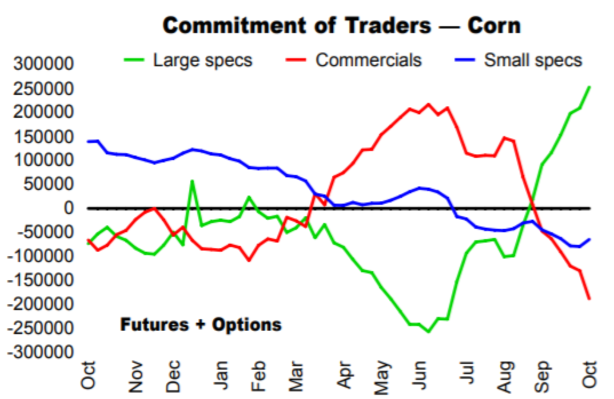
This month's 2020/21 U.S. corn outlook calls for lower production, reduced corn used for ethanol and feed and residual use, and smaller ending stocks. Corn production is projected at 14.722 billion bushels, 178 million bushels down with a reduction in harvested area and a slight decline in yield to 178.4 bushels per acre. Corn supplies are forecast down sharply from last month, on reports of a smaller crop and lower beginning stocks. Corn used for ethanol is down 50 million bushels, based on weekly ethanol production data as reported by the Energy Information Administration into early October. Projected feed and residual use is lowered 50 million bushels based on a reduced crop and higher expected prices. Corn ending stocks for 2020/21 have been lowered by 336 million bushels. The corn price was raised by 10 cents to $3.60 per bushel.

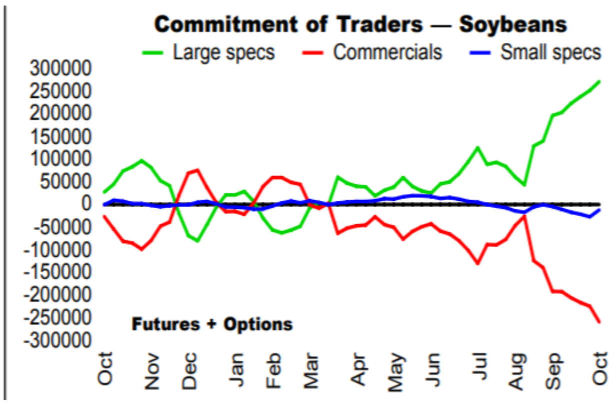
U.S. soybean production for 2020/21 is forecast at 4.3 billion bushels, down 45 million on lower harvested area. Harvested area is reduced 0.7 million acres to 82.3 million, with reductions for Kansas, North Dakota, and South Dakota. The soybean yield is projected at 51.9 bushels per acre, unchanged from the September forecast. Soybean supplies for 2020/21 are forecast at 4.8 billion bushels, down 96 million on lower production and beginning stocks. Despite reduced supplies, soybean exports are raised 75 million bushels on record early-season sales. With smaller supplies and increased exports, ending stocks are projected at 290 million bushels, down 170 million from last month. The U.S. season-average soybean price for 2020/21 is forecast at $9.80 per bushel, up 55 cents reflecting smaller supplies and higher exports.

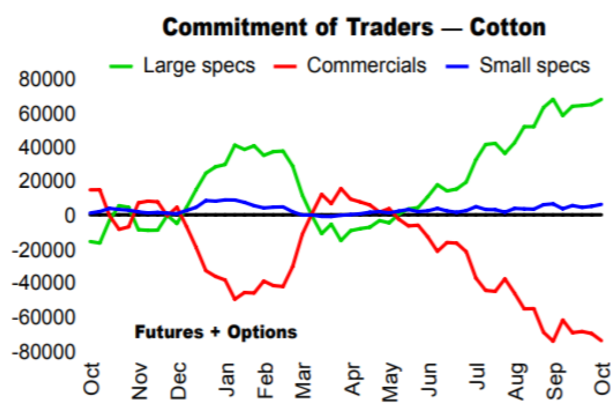
This month, the outlook for 2020/21 U.S. rice calls for increased supplies, unchanged domestic use and exports, and higher ending stocks. Supply estimates were raised as NASS increased the all rice production forecast on news of higher harvested area and yields by 1.3 million cwt to 226.3 million. The all rice yield is forecast at 7,567 pounds per acre, up 38 pounds from the previous forecast. Supplies are also increased on higher projected imports, which are raised by 0.5 million cwt to 37.3 million, with all the increase coming in for long grain. This nearly matches last year's record imports as strong demand for Asian aromatics is expected to continue for 2020/21. Projected 2020/21 all rice ending stocks are raised 1.8 million cwt to 47.7 million, up 66 percent from last year. The projected 2020/21 long grain rice season-average farm price was raised $0.20 per cwt to $11.50. The projected 2020/21 southern medium grain rice price was also raised $0.20 per cwt to $11.60.

U.S. cotton supply and demand estimates for 2020/21 are for marginally lower production compared with last month. Production has been lowered by slightly less than 1 percent, to 17.0 million bales. Domestic mill use, exports, and ending stocks are unchanged. At 7.2 million bales, U.S. ending stocks in 2020/21 are projected at 42 percent of use, compared with 41 percent in 2019/20. The 2020/21 season-average price for upland cotton is forecast at 61.0 cents per pound, 2 cents higher than last month and slightly above the final 2019/20 price of 59.6 cents.

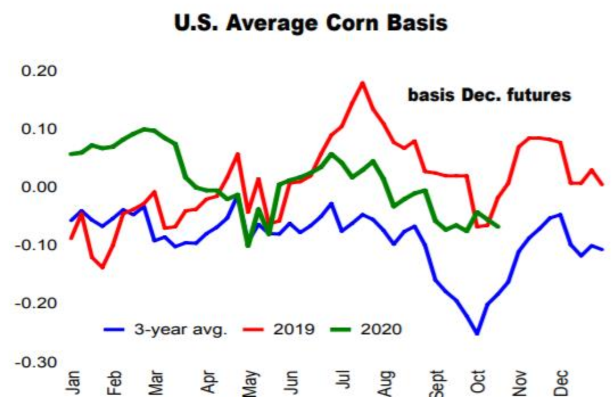
<u>Commitment of Traders Report (COT) October 13, 2020</u>

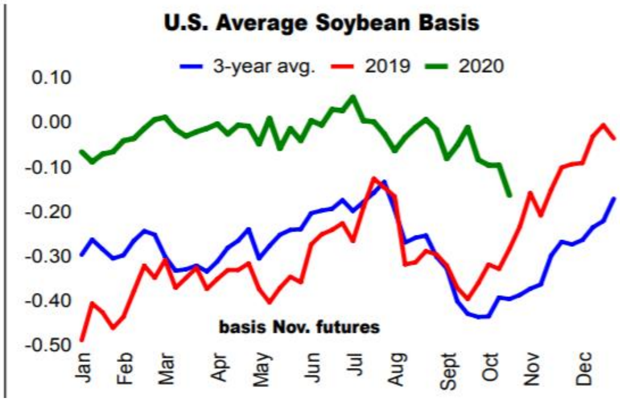


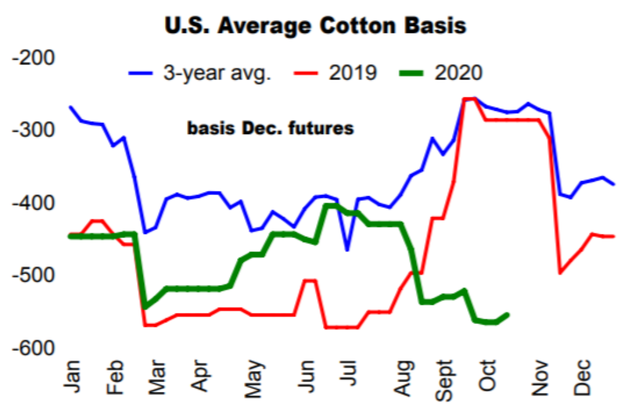




Cash Market Basis Charts October 14, 2020







Corn

Corn futures for December moved higher as demand remains supportive and speculative money continues to flow into agricultural futures markets. Last week's Grain Stocks report was bullish corn, and funds have continued to trade the tighter-supply outlook. Friday's WASDE will likely be important for determining the CBOT's direction as harvest continues to advance across the U.S.

Strong export demand continues to support the CBOT and U.S. cash market rallies. Exporters booked 1.225 million metric tons of net sales last week and increased the export pace 25 percent above the prior week. Shipments totaled 934,000 metric tons for the week ending October 1, bringing YTD exports to 3.67 million metric tons – up 77 percent. YTD bookings now total 25.8 million metric tons, up 159 percent from this time last year. The aggressive pace of this year's sales and shipments has many in the trade expecting USDA to increase its estimate of the 2020/21 U.S. export program in the October WASDE.

Typically, the October WASDE reflects a continuation of the supply increase/decrease adjustments USDA made from the August to the September reports. In this case, since the September WASDE and Grain Stocks reports showed tightening supplies, most in the trade are looking for both smaller U.S. production and ending stocks in the October report. One word of caution exists, that being that corn futures on October 8th made a reversal which may signal that traders are positioning for the October WASDE or may be looking for further demand confirmation before carrying the market to new highs. December corn is exhibiting many of the hallmarks of a bull market including rising open interest, strong technical indicators, and heavy trading volume, among others. The October WASDE will be the biggest factor in determining the market's future direction, but the current technical picture leans bullish.

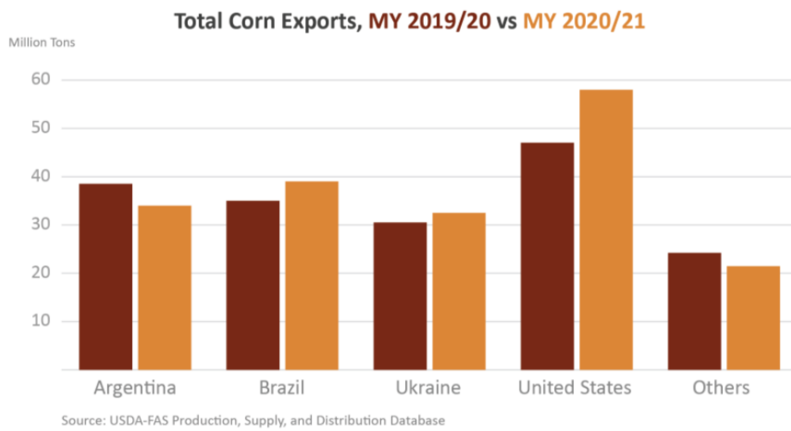
The corn market has marched dramatically higher since the USDA's quarterly grain stocks surprise at the end of September, and the nine-day Relative Strength Index has recently broken into overbought territory. Much of the tighter supply story has likely been baked into the market, and there is a risk of liquidation depending on how well demand holds up in the face of higher prices. The USDA will shortly update its Supply & Demand tables, with a smaller 2020 production estimate and lighter carry-in stocks expected to lower carryover to 2.113 billion bushels, down from 2.503 billion bushels last month.

Corn prices jumped higher on a round of supportive data from the USDA, which saw production estimates decline and stocks tighten significantly. December futures rose 7.5 cents to $3.9450, with March futures up 7 cents to $4.0175. That is the first time March futures have closed above $4 since last October.

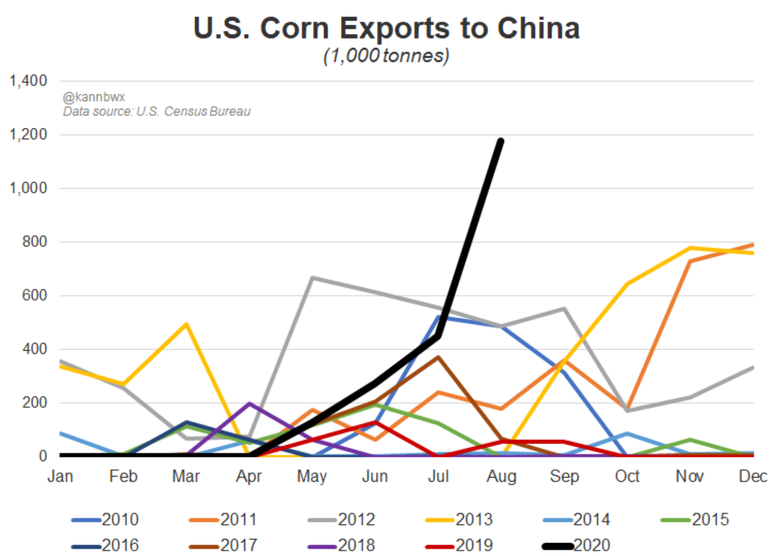
Currently, sentiment is quite bullish in the corn market as new-crop ending stocks and price forecasts are significantly better than was feared months ago. Funds have also built a sizable net long position in the corn market. Bull markets need to be fed bullish news on a near-daily basis or face the risk of a significant price correction. Bullish news must either come either from increases in demand or South American weather. The risk of harvest hedge pressure weighing on the market increases as prices rise. December futures were choppy overnight and that continued this morning. After falling to new session lows after the break, prices held above Monday's (October 12th) lows and rebounded back into the green at midsession and are challenging overnight highs. Short-term support is $3.84 to $3.87. Strong long-term resistance remains at $3.98 to $4.04. Reuters reported on October 15th that the most-active CBOT corn futures topped the $4.00 mark for the first time since 2019. Futures closed above $4.00 for the first time since August 2019. Funds remain net buyers as export demand remains strong and hints of potential weather disruptions in South America support higher pricing ideas.

Moving into 2020/21, the United States is currently forecast to have the second-largest corn crop on record. Exports are forecast up 23 percent (about 11 million tons) from a year ago. U.S. corn is expected to be competitive due to large available supplies and reduced competition from other exporters, namely Argentina, Brazil, and Ukraine.

Export growth in those countries is forecast to be limited due to smaller available supplies (Argentina and Ukraine) and strong domestic prices (Brazil). For Brazil, strong demand for meat exports to China has stimulated expansion in beef, pork, and chicken production. This development is expected to boost demand for corn in Brazil's domestic market and to moderate the volume available for export. With preferential terms and less than expected competition, U.S. corn should be able to regain market share in Latin America in the coming year.

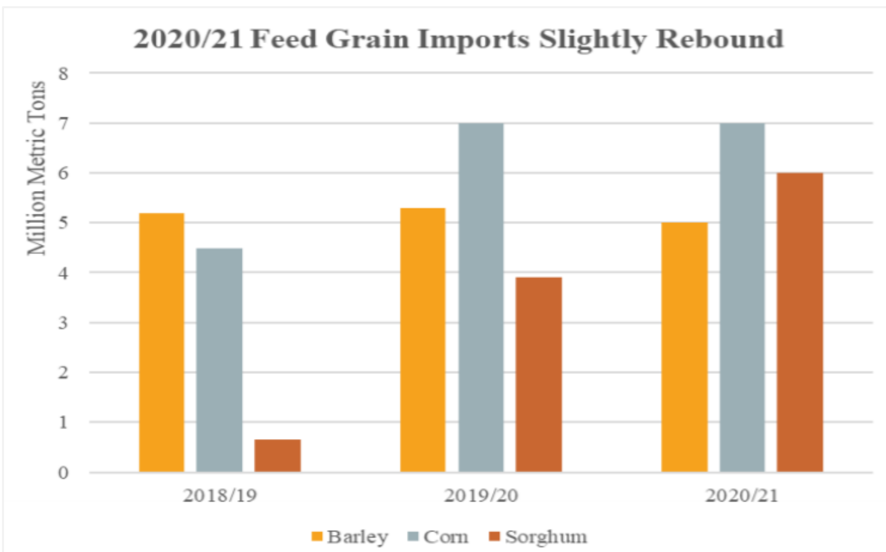


In August, the U.S. exported 1.18 million tons (46.4 million bushels) of corn to China, an all-time record for any month, topping October 1995's record of 952 thousand tons. There are only 11 marketing years on record (including 2019/20) where the U.S. shipped more than 1.18 million metric tons to China in the full year.



The USDA forecasts that China's corn imports for 2020/21 will remain unchanged at 7 million tons, while MY 2019/20 import estimates have been revised upwards to 7.0 million tons. Chinese Customs data shows that from January 2020 to July 2020, China had imported 4.6 million tons of corn, which amounts to an increase of 30.6 percent year-over-year. Several industry sources report that the 7.2 million-ton corn TRQ has been exhausted for CY 2020, and China has already issued an additional TRQ of 5 million. More specifically, 2 out of the 5 million tons are allocated to buy Black Sea corn, 3 million tons have been allocated to the purchase of U.S. corn. It is also rumored that Chinese state owned enterprises (SOEs) are drafting a report to China's National Development and Reform Commission (NDRC), the agency in charge of China's macroeconomic planning, recommending allocating an additional 20 million-ton special corn TRQ. According to Customs data, MY2019/20 has seen 5.5 million tons of corn having been imported through the end of July. China made two record purchases totaling at least 3.1 million tons of U.S. corn in July alone. Industry data shows China bought 2.13 million tons of U.S. corn for 2019/20 through the end of August and 3.58 million tons of U.S. corn for 2020/21.

Currently, imported corn prices are at least 10 percent lower than domestic corn. Industry reports that starting in July, the China Oil and Foodstuffs Corporation (COFCO) started selling U.S. corn at ¥2,030 (U.S. $298) per metric ton, which is at least ¥200 (U.S. $29) cheaper than local corn prices in South China.



Soybeans

The big takeaway from the USDA's October Crop Production and WASDE reports is the continued tightening of the balance sheet for both the corn and, more importantly, soybean markets. Soybean ending stocks have now moved from a burdensome 909 million bushels in 2018-19 to Friday's 290 million bushels ending stocks number.

With the decline in stocks and huge ongoing Chinese demand, more focus should now be put on South American weather. The other side of that coin is that, with good weather and soybeans in reals at a record high, the Brazilian farmer is likely to plant an enormous crop of soybeans. Right now, with good weather, the Brazilian ag company Companhia Nacional de Abastecimento (CONAB) is forecasting a record-large soybean crop of 133.7 million metric tons, or about 9 million metric tons higher than this year.

One thing to bear in mind is that, as bullish as the nonstop fund-buying is short term, watch out when they liquidate. However, for now, the bulls are certainly in control. Soybeans rallied early on daily export sales announcements and another strong weekly USDA export report. Some buying was also tied to consumers afraid of getting caught short-bought by another bullish USDA report on Friday. The calendar spread remained firm and inverted. The onset of the Chinese purchase program was very sudden and has been intense. If you remember back to the first week of August, our sales book to China was flat. Since then, they have bought almost 800 million bushels, all for delivery before January.

The market reaction post-October WASDE could start looking tight as the trade looks for a 300 million carryout. Corn stocks could come down to 2 billion. Soybeans prices in the mid $10 range are justified with a 300 million carryout, strong Chinese demand, and potential South American weather issues. A major weather event that brings down production could send soybeans up another dollar or more. A great South American crop could bring soybeans back down to the high $8s/low$9s. Soybeans will remain elevated and volatile until the South American crop is made.

The talk on the trade desks today was about China coming in for more soybeans after their holiday. The market is also going to try to price in more US soybean demand for February. The delays in South American planting mean the harvest will be later. For soybeans to break through the $10.70s the market has to believe Brazil and Argentina soybean production is going lower. The $10.70 level was the highs made right before Trump announced the first tariffs on China.

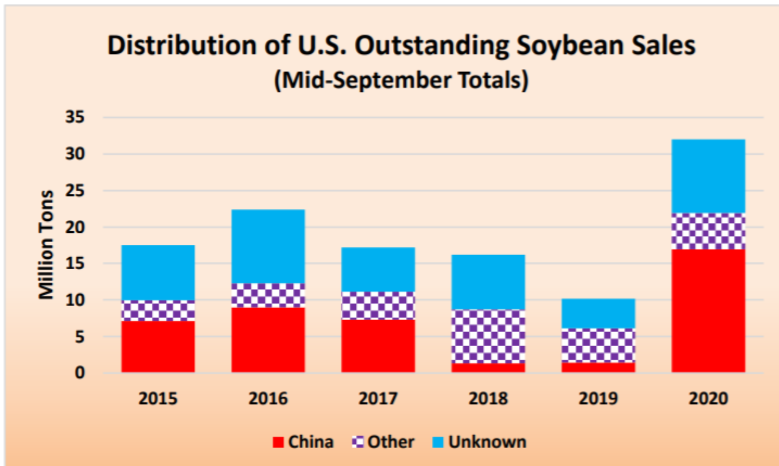
The daily November soybean chart shows the nearly $2.15-per-bushel move higher just since August 10. Huge Chinese demand and falling supply due to reduced acreage, along with what could be record-large fund-buying in the soy complex, has led to the rally (DTN ProphetX chart). November soybeans, prior to the report release, were trading 15 cents higher and by close they finished 15 1/2 cents higher, at $10.65 1/2. November beans at one point were $2.15 per bushel above the early August low. Managed money funds, who have steadily added to a growing net long, likely bought again on report day. Friday's Commodity Futures Trading Commission (CFTC) Commitment of Traders report indicated a near record net long in soybeans of 232,000 contracts that rivals the record long in the drought year of 2012.

New crop corn and soybean stocks will inevitably be lowered in the October WASDE report due to the news of reduced 2019 ending stocks reported in last week's USDA Quarterly Grain Stocks report. But the big market mover will be whether or not the USDA updates 2020 production levels and if so, by how much.

October's WASDE was bullish for soybeans, and largely in line with expectations for corn. Cuts to the carryout were inevitable following USDA's September 30th Grain Stocks report, but the soybean carryout of just 290 million bushels was well below the average analyst estimate of 369 million, and down from last month's estimate of 460 million. It was at the low end of the range of analyst estimates. Looking strictly at production, the USDA's yield estimate of 51.9 bushels per acre, steady with last month and higher than the average analyst estimate of 51.6, was more than offset by reduced harvested acreage. The USDA estimated harvested acreage at 82.3 million, down from 83.0 last month and the average analyst estimate of 82.9.

Soybean prices on the Chicago Exchange topped $10.00/bushel in mid-September, eventually peaking at $10.44/ bushel on September 18 before falling back to just below the $10.00 dollar mark at the end of the month. Subsequently, prices rallied again to near $10.50/ bushel following the release of the September Grain Stocks report and further export sales strength. This is the first time near-term soybean futures have reached the $10.00 mark since early June 2018. Current prices are roughly 27 percent above levels observed in early August prior to the first NASS 2020 soybean yield estimate. November soybeans closed at $10.62 Thursday, near its highest price for the November contract in over four years (DTN ProphetX chart). In the current soy complex, there are two large unknowns that keep us in the dark about where prices are headed. The first unknown is China's level of soybean demand. No one predicted how aggressive of a soybean buyer China would turn out to be in the same year that COVID-19 had us all concerned about how much demand soybeans would muster. The second unknown is weather as a new crop season begins in South America. Central Brazil has had a dry start but now shows beneficial rains in the forecast. La Nina conditions are in effect, which tends to produce a drier pattern for southern Brazil and Argentina.

The dynamics behind the mid-August to mid-September price surge are complex but basically reflect a rebound in China purchases of U.S. soybeans and limited availability of exportable supplies in South America. Recovery of the Chinese pork industry from African Swine Fever has spurred imports in 2020 with volume up 8.4 million tons (15 percent) for the first 8 months of 2020 compared to a year earlier. Most of these purchases were from Brazil, where exports to all markets (January-September) were up 30 percent year-over-year to a record 79.2 million tons. The strong pace of 2020 exports, driven by strong Chinese demand and a record low exchange rate, has depleted exportable supplies and is forecast to drive Brazil imports to their highest level since 2003. Consequently, Chinese buyers have turned aggressively to securing U.S. soybeans in recent months. Outstanding sales to China in mid-September totaled nearly 17.0 million tons, nearly equal to the record set in 2013. Total outstanding sales for all markets in mid-September, including unknown destinations, is at a record 32.0 million tons, a three-fold increase compared to 2019.

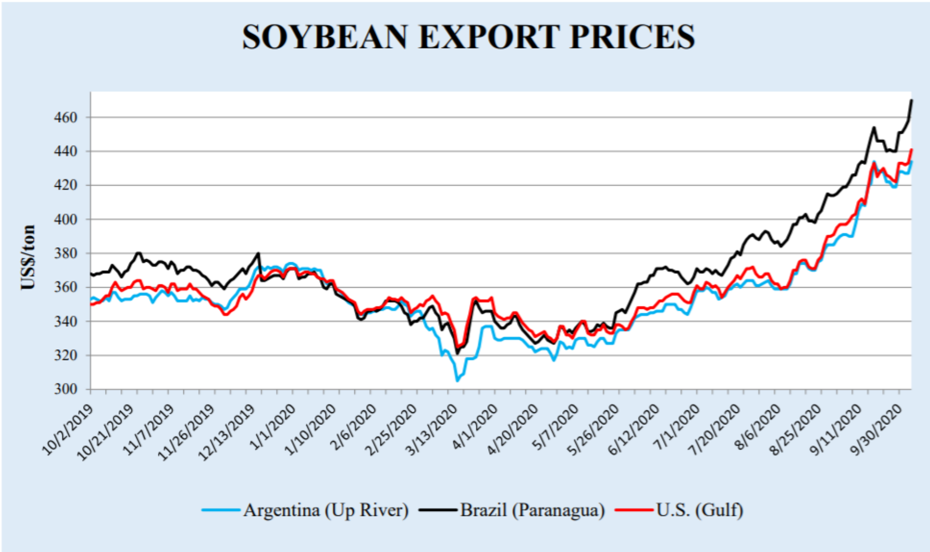


Weather issues in the United States and related reductions in forecast soybean production have further reduced forecast ending stocks when combined with lower 2019/20 carryout. This increases the possibility of global supplies tightening in 2021, particularly if the current La Niña weather pattern leads to drier conditions in South America. This has likely added some strength to futures prices. However, soybean stocks in China are currently high, rivaling the stock levels seen at this time in 2018, and could mitigate any price strength resulting from production shortfalls.

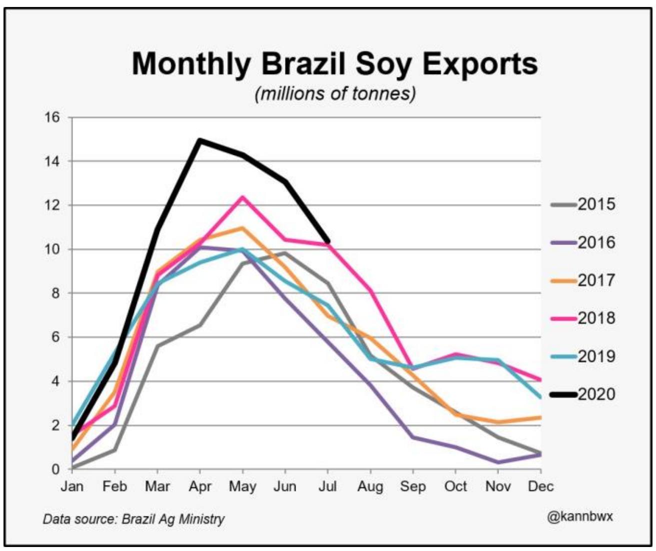
Futures markets do show some softening of soybean prices timed with the 2021 South American harvest yet currently remain above $10.00/bu through the August 2021 contract. The strong rebound in China purchases and further draw down in U.S. stocks should keep near-term prices well above the low levels observed in 2019 and earlier this year.

Soybean prices jumped 1.5% higher Friday after USDA severely trimmed its ending stock estimates in this morning's WASDE report, which fueled a round of technical buying today. November futures climbed 15.5 cents higher to $10.6550. January futures jumped 17.5 cents higher and also closed at $10.6550.

Rising oil prices persisted in September due to stronger demand for oils and reduced crushing in South America. Brazil soy oil prices climbed to a six-year high in September, owing to tight supplies and strong biodiesel demand. Palm oil prices continued to rally, tracking strong soy oil prices and higher demand in Asia.



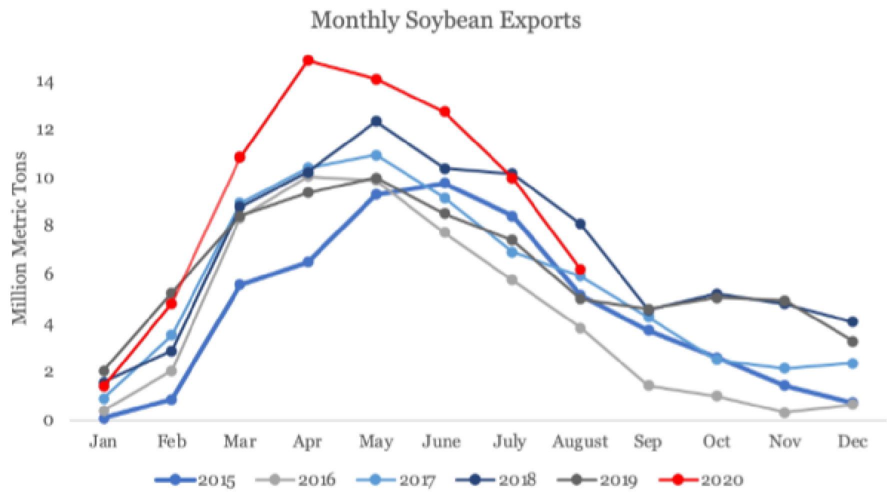
Dry soil conditions in Brazil continue to delay planting, potentially reducing the Brazilian crop size. Brazil usually runs out of soybeans toward the end of the calendar year, but the country did not over the past two years, against expectations, overlapping the U.S. season. Attention is drawn specifically to the October to December period of 2018 and 2019 versus the other years. Chronic crop underestimation also contributed to this surprise.



For the current 2019/20 (February 2020 to January 2021) season, Post increased the soybean export estimate by one million metric tons to 82 million metric tons. So far this season, almost three-quarters of Brazil's soybean shipments were destined for China.

For some time now, China has been the principal buyer of Brazilian soybeans, further solidifying its status in the wake of U.S.-China trade tensions that broke out in 2018. Over the previous several seasons, Chinese crushers often sourced soybeans from Brazil because its massive supplies were the only viable alternative to the U.S. supply. With the Phase One Trade Agreement between the United States and China announced in December 2019, the market assumption was that soybean trade would revert – at least partially – to the previous pattern, whereby China would source the cheapest soybeans on the market. In the first half of the year during the height of the Brazilian harvest, China would purchase soybeans from Brazil; in the second half of the year, Chinese crushers would switch to sourcing from the United States, once American farmers began harvesting their crop in September.

With the onset of the coronavirus pandemic at the start of 2020, the factors driving global demand shifted. The chart below shows that during the March-June timeframe - when the pandemic was roiling Brazil - the country shipped substantially more beans than during the same months in the previous five years. In January-August 2020, Brazil shipped just over 75 million metric tons of soybeans, one million metric tons more than during all of 2019.



Source: SECEX trade data, OAA Brasilia chart

The volume shipped in the first eight months of 2020 was 33 percent greater than in the same period last year (56 MMT), and 38 percent greater than the 54 MMT shipped on average during these same months in the last five years.

Soybean Volumes Shipped Monthly (in MMT)

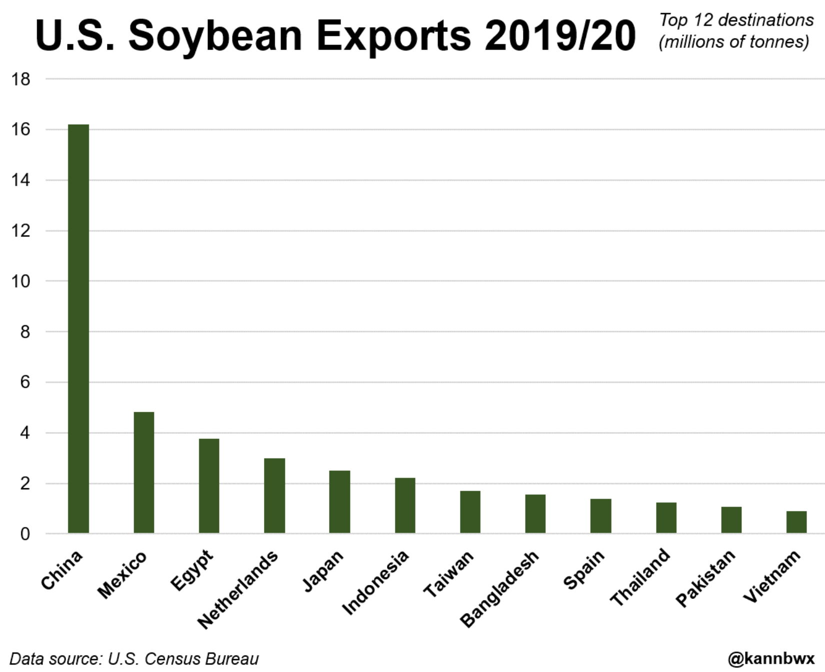
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Jan-Aug Total
5-yr avg	1.00	2.91	8.04	9.35	10.52	9.15	7.76	5.61	**54.3**
2019	2.03	5.27	8.46	9.40	10.01	8.55	7.44	5.00	**56**
2020	1.40	4.83	10.88	14.88	14.12	12.75	10.02	6.23	**75**

Source: SECEX trade data

Rather than trade tensions driving the calculus behind China's purchases, Post interlocutors indicate that the uncertainty of how the pandemic would disrupt global shipping led to a sharp spike in demand. As the data shows, Brazil's ports delivered in a big way, shipping unprecedented volumes on the monthly basis. It should be noted that the real devaluation further stoked the export boom, with traders taking advantage of the cheaper Brazilians prices in dollars. Amid scarce remaining supply, Post estimates that shipping volumes will level off substantially in the last quarter of the marketing year.

U.S. soybean export volumes to China in August sent agricultural exports for the month soaring to a seven-and-a-half-year high, according to trade data released by the U.S. Census Bureau yesterday. About $2.1 billion in ag products were exported from U.S. ports during August. Corn volumes to China notched a record high also. About 41% of August's trade volumes consisted of soybeans – largely destined for China.

The top 12 destinations for U.S. soybeans 2019/20 is shown below. Along with Egypt, the volume to Bangladesh was record, as was that to No. 18 Saudi Arabia. For six of these 12, the 2019/20 volume was greater than in 2018/19, including China, the Netherlands, and Japan.



Despite a new tax cut on soy exports announced last week by the Argentine government, farmers insist that they have little incentive to sell soy bushels into international markets. Indeed, the new tax cut favors soymeal and soyoil exports over raw soybeans, with levies on soybeans remaining high. Argentina is the world's largest exporter of processed soy products and the third largest export of soybeans.

Rice

Rice harvest throughout the USA marches on with Louisiana and Texas leading the charge at 94% and 99% complete. Growers in these two states are now largely monitoring their second crops and looking for marketing opportunities following the dramatic weather events in the region. Meanwhile, further north, harvest conditions have finally improved allowing Arkansas' harvest to advance to 57% complete, still significantly behind the historical norm for this time of year. The story is similar in both Mississippi and Missouri where harvest progress is also behind schedule.

Similar to the cash market, the futures market traded sideways to slightly down from last week. Average trading volume bumped 11% against last week but open interest was relatively flat.

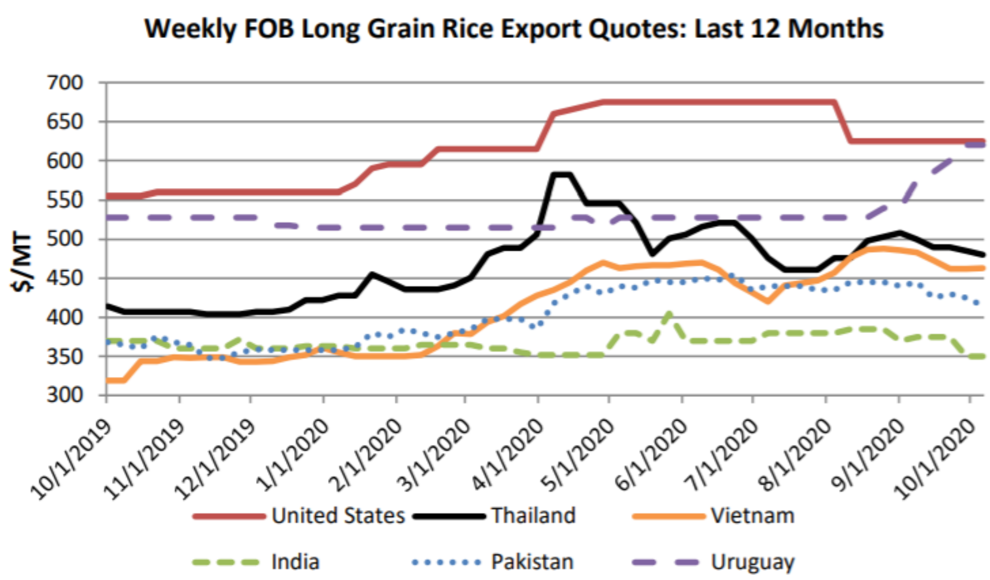
Aside from weather concerns along the coast, the rice industry has again slowed to a crawl as the trade digests the harvest data and begins to position itself for the marketing year. Export sales for the week were up significantly, largely a result of more rice being available to ship. This week noted a marketing year high at 258,000 metric tons. Vessel loadings did not respond in kind but were also up significantly over the previous week's volume. The next few weeks should see notable increases in export loadings as new sales are shipped to end users.

The futures market for the week posted very modest net gains on all of the open contracts on the board. Gains were largely a result of the surge in values across the other grain markets as those moves were transposed into rice. The average daily volume for the week was higher than in the last traded week, although daily open interest was lower at the weekly close.

Rice futures took a big hit early this morning as some 500+ contracts were sold very aggressively during a 5-minute period early in the day session. With about 30 minutes remaining in today's trading, November was down 21 cents at 12.445 (low was 11.85), January was down 24 cents at 12.60 (low was 12.05), and March was down 45 on the low at 12.50. Volume was substantial at over 1,300 contracts as of that time.

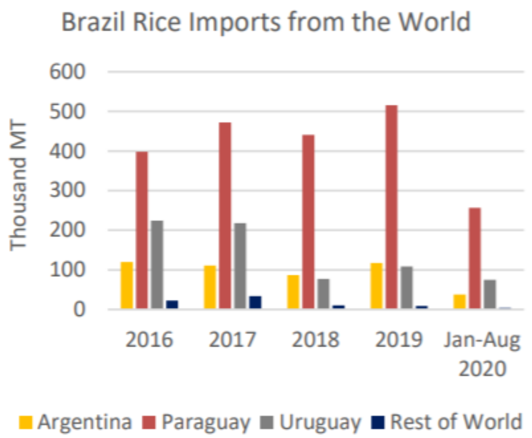
With the situation that COVID-19 has created throughout the world including the US and Mexico, leaders in the Mexican rice industry shared some interesting data with the US Rice Producers Association (USRPA) regarding rice consumption in their markets. "April and May had a sales increase of between 150% to 200% (due to government support, not direct purchase from the final consumer) June and August maintained an average increase of 50%," said Juan Carlos Chaidez, Director Grupo Ansera.

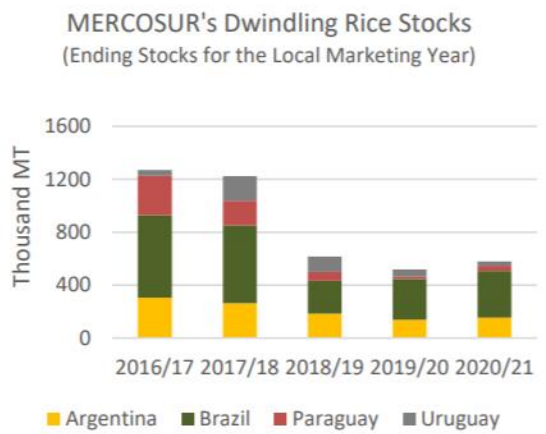
Over the past month, U.S. long-grain export quotes have remained stable at $625 per ton, while Uruguayan prices have spiked to $620 per ton due to tight supplies in South America. Although Thai prices remain the highest among Asian suppliers at $480 per ton, prices have fallen this past month based on slow demand ahead of new-crop arrivals. Vietnamese quotes have fallen to $463 per ton based on reduced buying interest but remain high due to tight supplies and a slowdown in the 10th month crop harvesting. Pakistani quotes are at $415 per ton, which have been declining since last month based on new crop arrivals, while India quotes have also declined as logistical delays limited fresh purchasing.



Earlier this year, Brazil harvested a large crop which supplied a temporary domestic surge in purchases after COVID-19 response measures were put in place. Strong demand for Brazilian rice has also come from exports. Since the beginning of 2020, the Brazilian real has lost 30 percent of its value, allowing Brazil to export a significant amount, especially to the Western Hemisphere and West African markets. In fact, it has exported 1.1 million metric tons in the first 8 months of 2020, up 80 percent compared to the same period last year. With increased internal and external demand, Brazilian supplies have tightened, resulting in sharply lower stocks and rising prices.

Consequently, Brazil's 2020 imports are forecast at 850,000 tons, the highest since 2003. Over the past 5 years, Brazil has imported essentially all of its paddy and milled rice duty-free from MERCOSUR countries Argentina, Paraguay, and Uruguay. However, tight stocks and rising export prices in Paraguay and Uruguay have caused Brazil to now seek imports from non-traditional sources. In September, Brazil implemented a duty-free tariff rate quota for up to 400,000 tons outside of MERCOSUR, eliminating the 10 percent tariff on paddy rice and 12 percent tariff on white rice through the end of December.





Some of these non-traditional suppliers may include the United States and South Asian countries. Last month, the United States sold 108,250 tons of paddy rice to Brazil, the highest since 2010, when Brazil last had large non-MERCOSUR imports due to tight supplies. When Brazil's stocks were tight in the past, the United States shipped paddy rice allowing mills in Brazil to add value through processing. While the United States does have an advantage in exporting paddy rice, it has a disadvantage in shipping milled rice due to challenges in labeling and packaging requirements for the short term. In contrast, milled rice exports from Asia would not only meet the requirements to be packaged in kilogram-based bags, but also are far more competitively priced, ranging from $100/ton to $200/ton less than Western Hemisphere suppliers. With U.S. paddy rice poised to meet immediate needs for Brazilian millers and Asian milled rice able to meet consumer needs at competitive prices, these non-traditional sources are well positioned for export opportunities to Brazil.

Looking ahead to 2021, Brazil's imports are forecast slightly lower, but still relatively high. This demand will most likely be met by traditional MERCOSUR countries, given the expiration of the duty-free tariff rate quota and the expected decline in South American prices following new-crop supplies.

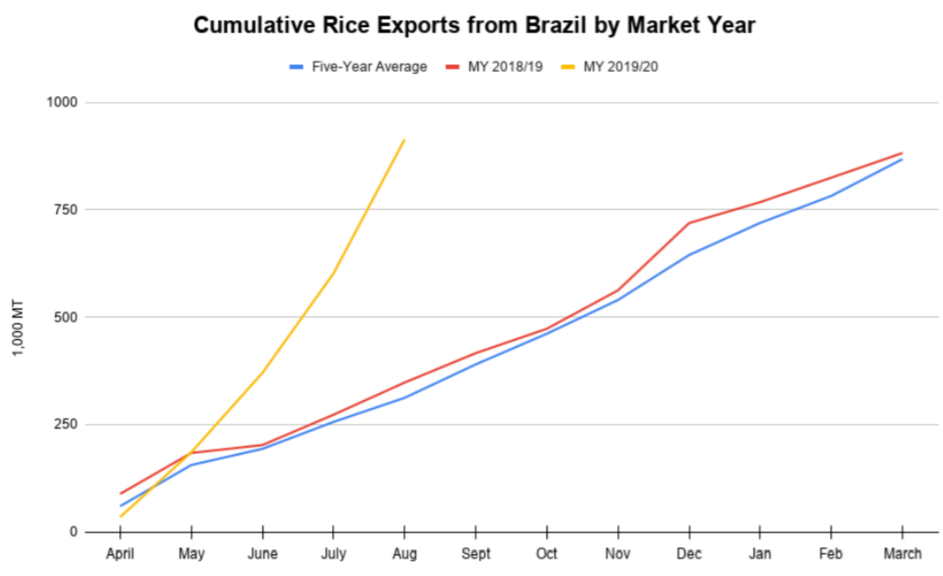
The USDA Post raised its MY 2019/20 exports by 250,000 metric tons over Post's projection in June, based the rapid pace of trade in the first five months of the market year. The change is also based on increased production estimates and the weakening real which continue to make Brazilian rice more attractive on the international market. Post also raises its MY 2020/21 export forecast to 700,000 metric tons, based on the expectation of expanded planting in the next season paired with a return to trend yields.

As noted above, the weakening real has improved profitability for rice producers, as well as making exports more attractive, given that international sales are generally dollar-denominated. Brazil has exported above-average volumes of rice since April, when the bulk of the current crop hit the market.

Brazil exported 842,918 metric tons of rice (milled equivalent) in the first five months (April to August) of MY 2019/20. That is 170 percent larger than the five-year average for the same period. In fact, Brazil has already exported in the first five months of MY 2019/20 more rice than the total average exported for the last five market years. Only MY 2017/18 saw more exports (1.15 million metric tons) for the entire market year, but the pace of the current MY exports is still well ahead of the same point in MY 2017/18. Additionally, the months of May, June, July, and August for the current market year represent the top four monthly export volumes in at least five years.

Venezuela has been one of the largest markets for Brazilian rice exports in recent years, and that trend has continued into 2020, with large purchases of both paddy rice and white rice. As Venezuela fell deep into political and economic turmoil over the last few years, Brazil's abundant production and relative geographic proximity made it a convenient rice supplier. Because the real remains weak against the dollar, Brazilian rice continues to be relatively cheap, and Venezuela has repeatedly turned to its South American neighbor to purchase staple foods like rice. From April to August, Brazil exported to Venezuela nearly 143,000 metric tons (milled rice equivalent) of paddy and white rice, accounting for 17 percent of total exports during that period. So far in MY 2019/20, Brazil has also sold more than 90,000 metric tons of paddy rice to Costa Rica, along with another 89,000 metric tons to Montenegro (between May and July). Brazil also sold one-off paddy rice shipments in excess of 25,000 MT to Honduras and Turkey. Aside from Costa Rica, which has been a periodic buyer of Brazilian paddy rice, the other shipments are likely a direct consequence of the devalued real making Brazilian exports extremely attractive to non-traditional foreign buyers.

Brazil also exported more than 325,000 metric tons of white rice between April and August, including 60,000 metric tons to Peru, 35,000 metric tons to South Africa, and 25,000 metric tons to the United States. Broken rice typically makes up one of the largest shares of Brazilian exports, accounting for a quarter of all exports so far this market year. Brazil exported nearly 86,000 metric tons of broken rice to Senegal from April to August and another 54,000 metric tons to Sierra Leone during that period.



Data Source: Brazilian Foreign Trade Secretariat (SECEX)

Each October, the China tariff authority announces its plan of TRQ for major grains for the next year. Recently, the China National Development and Reform Commission announced detailed rules for the application and allocation of import tariff-rate quotas (TRQs) for major grains including rice. TRQ of rice remains unchanged for 2020, which totals 5.32 million tons (2.66 million tons of long grain rice and 2.66 million tons of medium and short grain rice). State-owned enterprises control 50% of the rice TRQ. Normally, long grain TRQ is fully subscribed and medium grain is not fully subscribed.

Cotton

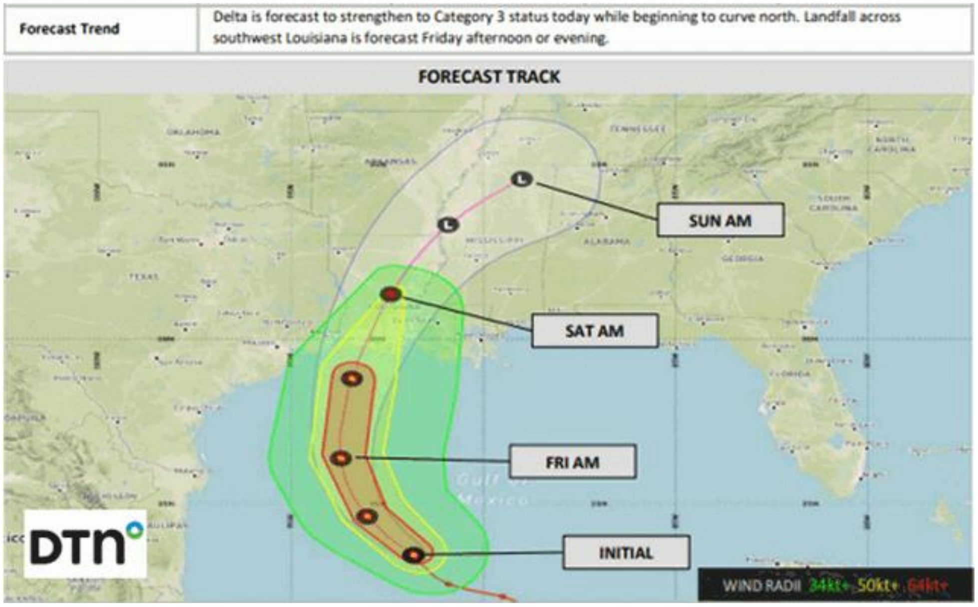
The low-range close in futures may be hinting the bulls are near-term exhausted, but more likely it is just some normal profit-taking pressure from recent gains and ahead of the USDA's October WASDE report. In pre-WASDE technical analysis, cotton bulls have the solid overall near-term technical advantage amid a six-month-old price uptrend in place on the daily bar chart. The next upside price objective for the cotton bulls is to produce a close in December futures above solid technical resistance at 70.00 cents. The next downside price objective for the cotton bears is to close prices below 64.75 cents. First resistance is seen at today's high of 68.29 and then at 69.00 cents. First support is seen at 67.00 cents and then at Wednesday's low of 66.42 cents.

December futures rose 15 points on the October WASDE release date to 64.64 cents, extending the weekly gain to 1.82 cents. Focus next week will be estimating crop damage after Hurricane Delta runs up the heart of the Mississippi River Valley this weekend. The USDA surprised the trade with only a token cut in U.S. production from last month. The USDA did not change harvested acreage and reduced to yield 1 lb. to 909 lbs. per acre. The yield would still be up more than 10% from last year and a record. The USDA estimates cotton production at 17.05 million bales, down from 17.06 million last month and 19.91 million harvested last year. The USDA's new-crop cotton carryover forecast was unchanged from last month at 7.2 million bales. The USDA did raise its average price forecast 2 cents to 61 cents.

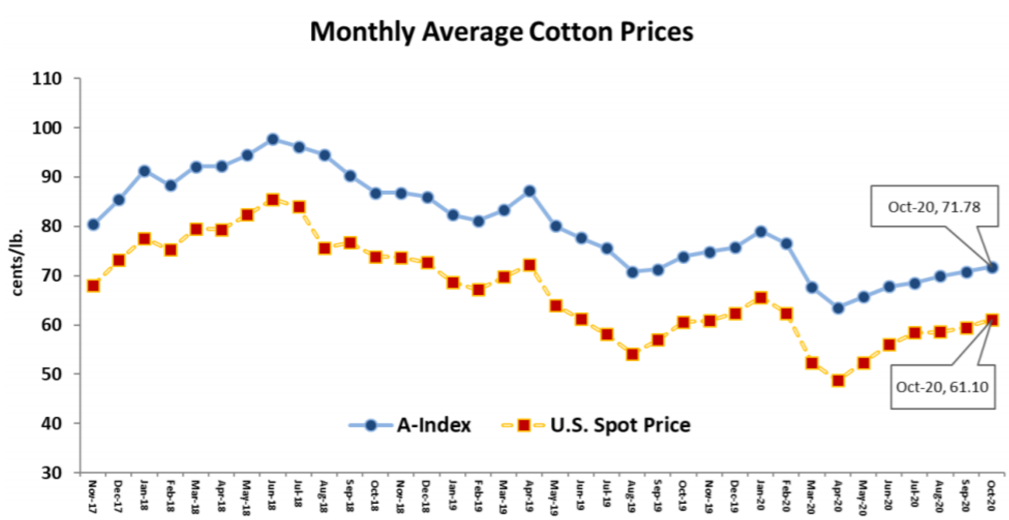
Stalled congressional efforts to get a second major stimulus package for American citizens and businesses also likely limited buying interest in the cotton futures market as the session progressed. House Speaker Pelosi today in an interview was downbeat on a deal anytime soon.

Harvest is running behind the five-year average pace in Arkansas, Mississippi, and Louisiana, according to the USDA's latest Crop Progress report, but the majority of bolls are open, exposing them to damage from wet, windy weather. In early August, the USDA estimated that the U.S. cotton crop could reach 18 million bales. It lowered that estimate by nearly a million bales in September, and analysts anticipate that the USDA will make another cut in its forthcoming Crop Production report. When combined with expectations for increased exports, the pressure on supplies have contributed to the highest December cotton futures price since August.

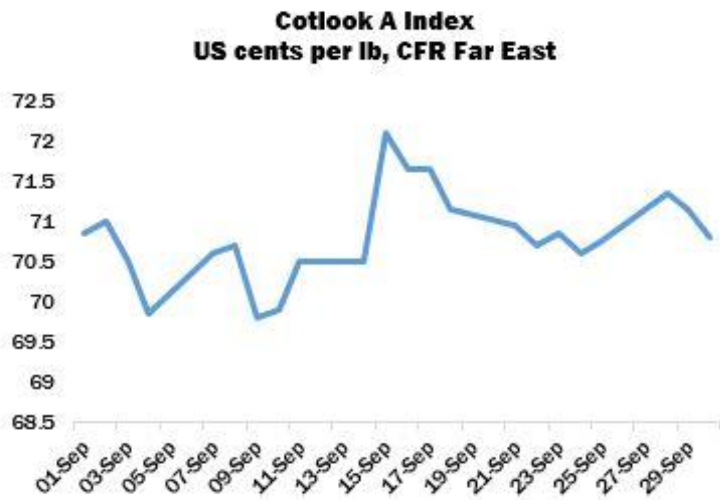
Hurricane Delta intensified in the central Gulf of Mexico and heavy rainfall and some flooding is expected along Delta's northward track through the lower Mississippi River Valley into Tennessee and northwestern Alabama.



Focus will now be on estimating crop damage from Hurricane Delta after it runs up the heart of the Mississippi River Valley. The USDA surprised the trade with only a token cut in U.S. production from last month. The USDA did not change harvested acreage and reduced to yield 1 lb. to 909 lbs. per acre. The yield would still be up more than 10% from last year and a record. USDA estimates cotton production at 17.05 million bales, down from 17.06 million last month and 19.91 million harvested last year. The USDA's new-crop cotton carryover forecast was unchanged from last month at 7.2 million bales. The USDA did raise its average price forecast 2 cents to 61 cents. Both the A-index and U.S. spot price have continued to rise slowly as old-crop supplies tighten and Northern Hemisphere new-crop remains unavailable for shipment.



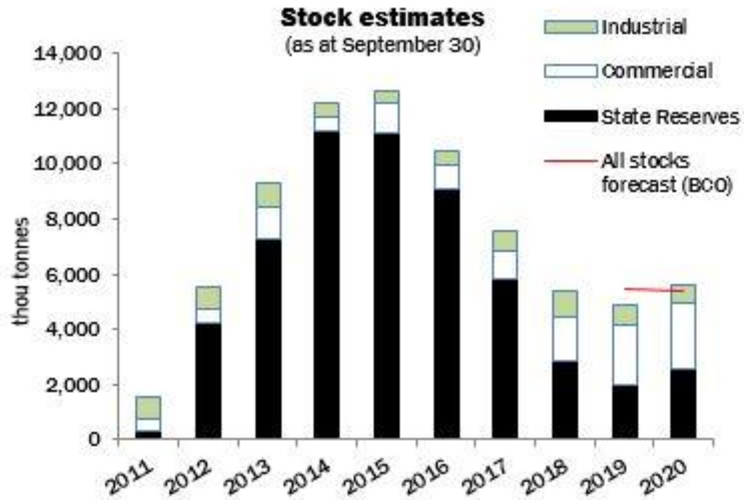
International cotton prices stabilized to trade within a narrow range during September, influenced by modest fluctuations in New York futures over the same period. The Cotlook A Index started on September 1 at 70.85 US cents per pound and ended virtually unchanged from that level. The highest and lowest values registered in the period were 72.10 and 69.80 US cents per pound, respectively, representing a range of just 230 cent points.



The sideways direction of prices largely alleviated the recent pressure on basis levels, which saw some stability during September, to the relief of international traders. Mills in various countries that have in recent months worked through a significant portion of their inventories were persuaded to enter the market to cover their nearby requirements. Brazilian lint remained the most sought-after origin, with competitively priced lots continuing to attract a fairly broad-based demand. Spinners in Bangladesh and Pakistan were actively enquiring for that origin as well as African Franc Zone lots. Generally, Far Eastern markets remained relatively subdued, but as the month wore on pockets of demand did begin to emerge, most notably from Vietnam, South Korea, and Taiwan.

Chinese demand for 'outside' growth was also prominent in the month, mainly Brazilian, although competitively priced Indian lots purchased by international shippers from the Cotton Corporation of India's stocks earlier in the year also found some buyers. The upturn in business coincided with the Chinese government's announcement that 400,000 tons of 'processing trade' quota (under which finished textile goods must be exported in order for duty to be waived) would be made available to non-state entities, under the Sliding-Scale price mechanism. However, factors other than price appear to be a major consideration for Chinese import buyers: during September the US House of Representatives passed legislation that would place additional obstacles to the entry of textile imports containing cotton from China's major Xinjiang region, owing to humanitarian concerns. That sentiment was echoed by several major retail brands, and if maintained could have a potentially far-reaching impact on the future of textile and garment trade flows.

The Chinese State Reserve auction series came to a close on September 30, having disposed of over 500,000 tons of lint in its three-month run (almost all of the catalogue offered for sale), around 55 percent of which was Xinjiang cotton. The volume of lint now residing in state warehouses (including Xinjiang cotton purchased earlier in the year, as well as imported lots) is roughly 2.5 million tons, down from a peak of over 11 million in 2013/14, and representing just below four months' worth of domestic consumption.



PLC Farm Program Payment Projections - 2019 CY

Below are projections for the Price Loss Coverage (PLC) program national Marketing Year Average (MYA) prices for 2019/20 and 2020/21 for specific commodities. A PLC program payment is triggered when the 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 is made on 85% of base acres.

Covered Commodity	*2019/20 MYA Price**	*Effective Reference Price*	*2019 CY PLC Payment Rate*
Corn	$3.56	$3.70	**$0.14 (Final)**
Grain Sorghum	$3.34	$3.95	**$0.61 (Final)**
Long Grain Rice	$12.00	$14.00	*$2.00 (Projected)*
Medium Grain Rice	$11.60	$14.00	*$2.40 (Projected)*
Seed Cotton	$0.3058	$0.3670	**$0.0612 (Final)**
Soybeans	$8.57	$8.40	**No Payment Triggered**
Wheat	$4.58	$5.50	**$0.92 (Final)**

*national marketing year average (MYA) prices reflect the midpoint price level from the October 9, 2020 WASDE report.

PLC Farm Program Payment Projections - 2020 CY

Covered Commodity	*2020/21 MYA Price**	*Effective Reference Price*	*2020 CY PLC Payment Rate*
Corn	$3.60	$3.70	$0.10
Grain Sorghum	$3.60	$3.95	$0.35
Long Grain Rice	$11.50	$14.00	$2.50
Medium Grain Rice	$11.60	$14.00	$2.40
Seed Cotton	$0.3057	$0.3670	$0.0613
Soybeans	$9.80	$8.40	--
Wheat	$4.70	$5.50	$0.80

*national marketing year average (MYA) prices reflect the midpoint price level from the October 9, 2020 WASDE report.

ARC-CO Farm Program Price Parameters - 2019 CY

The table below presents the five-year Olympic average national marketing year average prices for purposes of the Agriculture Risk Coverage (ARC-CO) program in addition to the projected national MYA price used for in the calculation of actual county (parish) revenue. An ARC-CO program payment is triggered when the actual parish revenue for a particular commodity falls below that commodity's historical revenue guarantee. ARC-CO farm program payments are capped at 10% of the benchmark revenue. The payment rate is then made on 85% of base acres. No individual farm level production data is used for the purposes of ARC-CO program payment calculation.

Covered Commodity	*2019/20 MYA Price**	*2019 ARC-CO Benchmark Price (5-yr Olympic Average)*
Corn	**$3.56**	$3.70
Grain Sorghum	**$3.34**	$3.98
Long Grain Rice	*$12.00*	$14.00
Medium Grain Rice	*$11.60*	$14.13
Seed Cotton	**$0.3058**	$0.3670
Soybeans	**$8.57**	$9.63
Wheat	**$4.58**	$5.66

*national marketing year average (MYA) prices reflect the midpoint price level from the October 9, 2020 WASDE report.

ARC-CO Farm Program Price Parameters - 2020 CY

Covered Commodity	*2020/21 MYA Price**	*2020 ARC-CO Benchmark Price (5-yr Olympic Average)*
Corn	$3.50	$3.70
Grain Sorghum	$3.50	$3.95
Long Grain Rice	$11.30	$14.00
Medium Grain Rice	$11.40	$14.00
Seed Cotton	$0.3057	$0.3670
Soybeans	$9.25	$9.25
Wheat	$4.50	$5.50

*national marketing year average (MYA) prices reflect the midpoint price level from the October 9, 2020 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 Web, Agricultural Market Information System (AMIS), Allendale, American Farm Bureau Federation, Bloomberg News, CME Group, Cotton Grower, Cotton Incorporated, Cotton Outlook, Creed Rice Report, Delta Farm Press, DTN Progressive Farmer, Farm Futures, Fiber 2 Fashion, 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, Successful Farming, 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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