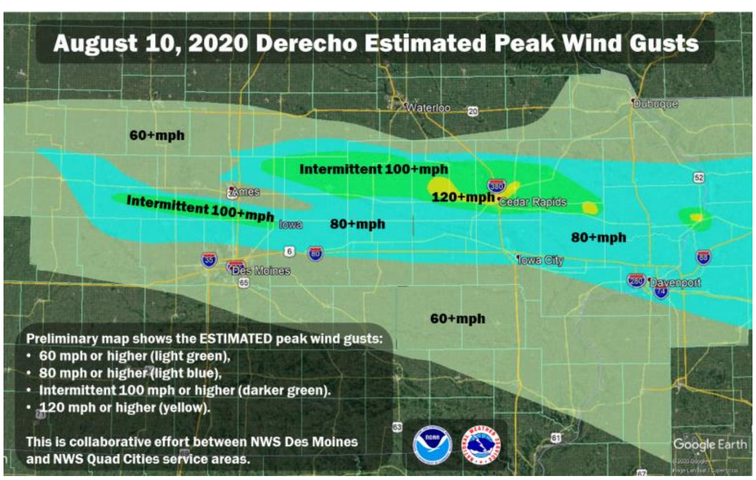
Staff Report No. 2020-52 **September 16, 2020**

September Market Update
Corn, Soybeans, Rice, and Cotton

Dr. Michael Deliberto
Louisiana State University Agricultural Center
Department of Agricultural Economics & Agribusiness

Derecho Storm Impact

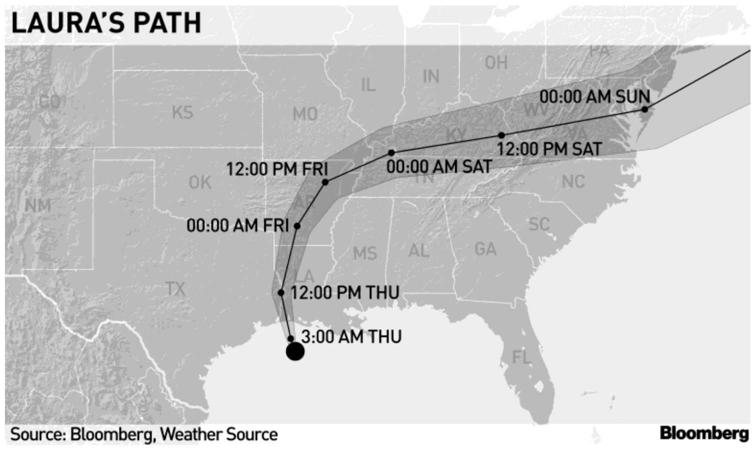
A devastating derecho struck Iowa along with several other states in the Midwest on August 10th. As the storm moved through Iowa, it significantly strengthened. Rainfall and wind intensified as it marched east. In total, the storm held together for 14 hours and traveled 770 miles from southern South Dakota to western Ohio. After the storm passed, millions of acres of damage crops and crumpled grain storage were left in its wake.



Grain markets are finding gains as the latest Pro Farmer crop tour suggests that the USDA's estimate of record corn and soybean yields is out to lunch. Nationally, the crop tour suggested average corn yields of 177.5 bushels per acre for a 14.82 billion bushel crop and average soybean yields of 52.5 bushels per acre for a 4.362 billion bushel crop. This is noticeably lower than the USDA's August WASDE estimate of 15.3 billion bushels at 181.8 bushels per acre for corn and of 4.42 billion bushels at 53.3 bushels per acre for soybeans.

Hurricane Laura's Impact to Louisiana's Row Crops

On August 27, 2020, Hurricane Laura made landfall near the Texas-Louisiana border as a Category 4 hurricane, packing winds of 150 miles an hour, catastrophic storm surges and flash flooding. It was the most powerful storm to hit the region since 1856.



Preliminary damage estimates were compiled by Dr. Kurt Guidry of the LSU AgCenter that estimate lost production revenues, lost revenue associated with stored commodity damage, and increased production costs associated with reduced harvest efficiency and replanting. Those results are tabulated in the table below.

Commodity	Units	Acres Impacted	Average Yield Loss	Estimated Reduced Production	Estimated Volume of Commodity Lossed in Storage	Estimated Acres With Reduced Harvest Efficiency	Estimated Acres Forced To Be Replanted	Economic Impact Due to Loss Revenue	Economic Impact Due to Storage Losses	Economic Impact of Increased Harvest Costs	Economic Impact of Increased Costs With Replanting	Total Economic Impact
1st Crop Rice*	Cwts	54,020	38.15%	1,520,267	486,000	54,020	0	$19,003,340	$6,075,000	$1,336,987	$0	$26,415,327
2nd Crop Rice	Cwts	20,275	37.01%	172,689	0	0	0	$2,158,610	0	$0	$0	$2,158,610
Sugarcane	Pounds	182,287	3.24%	50,098,514	0	0	1,224	$8,164,467	$0	$0	$667,080	$8,831,547
Corn	Bushels	16,955	14.88%	525,865	0	11,145	0	$1,840,528	$0	$124,155	$0	$1,964,684
Soybeans	Bushels	153,166	9.62%	828,420	0	113,550	0	$8,077,098	$0	$1,296,741	$0	$9,373,839
Sorghum	Bushels	580	8.00%	4,408	0	0	0	$42,978	$0	$0	$0	$42,978
Cotton	Pounds	59,863	11.24%	7,754,440	0	26,636	0	$5,001,614	$0	$1,547,818	$0	$6,549,432
Sweet Potatoes	Bushels	40	12.00%	1,488	0	0	0	$29,760	$0	$0	$0	$29,760
Pecans	Pounds	3,904	34.23%	573,262	0	0	0	$745,240	$0	$0	$0	$745,240
Hay	Tons	10,750	32.00%	8,120	16,900	0	0	$649,600	$811,202	$0	$0	$1,460,802
Crawfish	Pounds	5,000	75.00%	2,062,500	0	0	0	$2,681,250	$0	$0	$0	$2,681,250
Total								$48,394,486	$6,886,202	$4,305,701	$667,080	$60,253,469

* In addition to the rice reported to be lost in storage, there is another 1.6 million hundredweight with an estiamted value of $20 million that is in stoarge and at risk due to damaged infrastructure and/or lack of electricity.

In total, estimated losses attributed to crop commodities and crawfish are estimated at $60.25 million with rice representing roughly 47% of that total. Wind damage and lodging were reported as the most significant impact to most row crops while parts of the rice growing area experienced significant damage to on-farm storage damaging a significant amount of rice in storage and placing additional rice in storage at risk. There were also significant acres of rice that was in the flowering stage of its development. High winds during that time is expected to lead to reduced pollination and reduced overall production. Over the next several weeks, additional information and observations as crops continue to mature may prove to alter the impacts currently estimated.

WASDE Summary

The 2020/21 U.S. corn outlook is for reduced production, lower corn used for the manufacture of ethanol, larger exports, and smaller ending stocks. Corn production is forecast at 14.9 billion bushels, down 378 million from last month on a lower yield forecast and reduction in harvested area. Corn supplies are reduced from last month, as a smaller crop more than offsets greater beginning stocks mostly due to lower estimated exports for 2019/20. Corn used for ethanol for 2020/21 is lowered 100 million bushels based on the continued slow recovery in motor gasoline demand as a result of COVID-19. Exports were raised 100 million bushels reflecting reduced supplies in competitor countries. With supply falling more than use, corn ending stock estimates have been lowered 253 million bushels from last month. Corn price was raised by $0.40 to $3.50 per bushel.

U.S. soybean supply and use changes for 2020/21 include lower beginning stocks, production, and ending stocks. Lower beginning stocks reflect increases in exports and crush for 2019/20. Soybean production is projected at 4.3 billion bushels, down 112 million on a lower yield forecast of 51.9 bushels per acre. Yield is down 1.4 bushels per acre from August's forecast. With soybean crush and exports unchanged, ending stocks are projected at 460 million bushels, down 150 million from last month. Other changes this month include higher peanut and lower cottonseed production. Soybean and product prices are all projected higher for 2020/21. The U.S. season-average soybean price is forecast at $9.25 per bushel, up $0.90 from last month.

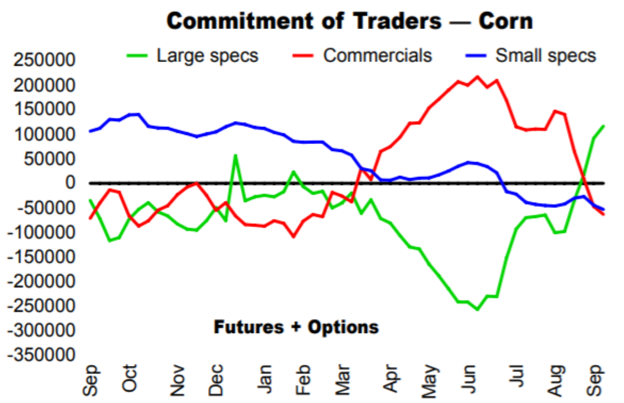
The latest outlook for U.S. rice in 2020/21 calls for lower beginning stocks, with increased production, imports, and total use. The August *Rice Stocks* report reduced 2020/21 beginning stocks by 2.0 million cwt. Imports for 2020/21 are raised 0.8 million cwt to 36.8 million on expectations of continued strong demand for combined medium- and short-grain varieties. In the September *Crop Production* report, NASS raised the 2020/21 rice crop by 6.9 million cwt to 225.0 million on increased harvested area. The average all rice yield is down 71 pounds per acre to 7,529 pounds. Long grain production is raised 9.8 million cwt to 168.9 million, and combined medium- and short-grain production is cut 3.0 million cwt to 56.0 million. With the increased supplies, domestic and residual use and exports were each raised by 2.0 million cwt, all long grain. The season average farm price for long grain rice is forecasted at $11.30 per cwt, down $0.30 from last month. The southern medium grain price is forecasted $0.10 per cwt lower at $11.40.

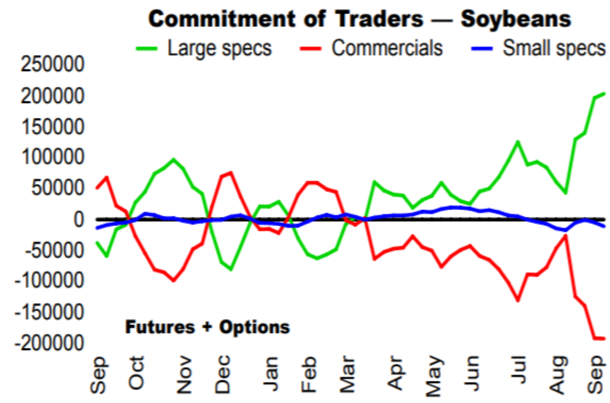
The 2020/21 U.S. cotton estimates include slightly higher beginning stocks relative to last month but lower production, mill use, exports, and ending stocks. Production was lowered 1.0 million bales to 17.1 million, with a lower projection for every region. Mill use is projected to be lower by 200,000 bales this month but, compared with its revised 2019/20 level, is still expected to rise 16 percent. Exports and ending stocks are 400,000 bales lower, reflecting reduced U.S. supply and stronger foreign competition. Ending stocks in 2020/21 are projected at 7.2 million bales, equivalent to 42% of use. The season-average price for upland cotton is forecasted at $0.59 per pound, unchanged from the previous month.

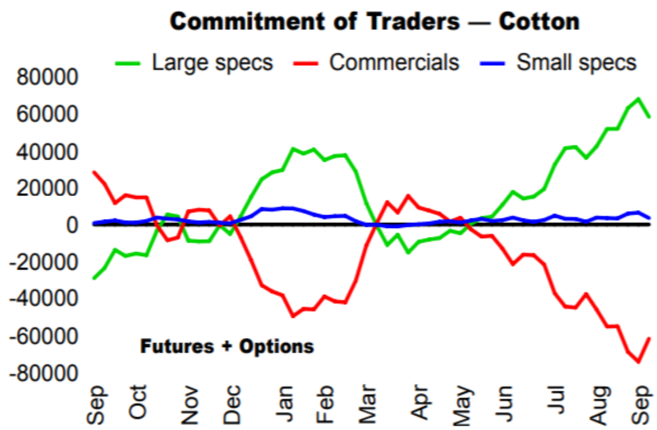
Commitment of Traders Report (COT) September 15, 2020

The Commodity Futures Traders Commission (CFTC) regulates the U.S. derivatives markets, including futures, swaps, and certain kinds of options. The report provides positions held by commercial traders, or those using futures to hedge their physical assets; noncommercial traders, or money managers (also called large speculators); and non-reportables, or small speculators. A net-long position indicates more traders are betting on higher prices, while a net-short position means more are betting futures will decline. The COT Report has value in offering transparency to the marketplace. Market participants get to know who the other participants are, not by name or firm, but the sector players. For instance, it tells you how heavy the commercial positions are vs. the producers' positions. Also, the report tells you the positions of the hedge funds vs. the index funds. This is important because all of those groups trade the market differently.

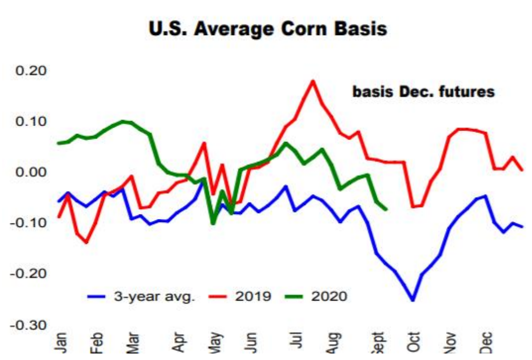
As of Friday, September 11th, the COT report shows that funds continued to buy corn and soybeans. Funds bought 15,000 contracts of corn and are now long 34,000 contracts. Funds bought 12,000 contracts of soybeans and are now long 174,000 contracts of soybeans.

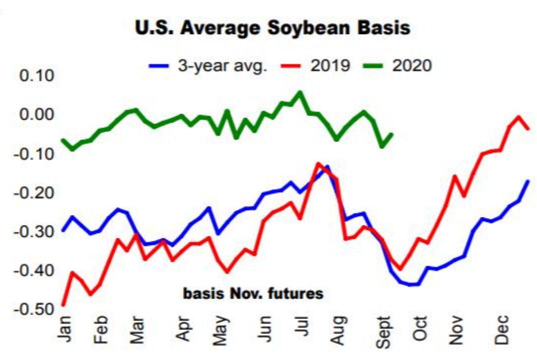






Cash Market Basis Charts September 9, 2020





Corn

The USDA's September WASDE report proffered plenty of supportive data for corn and soybean prices, which moved substantially higher following its release**.** December corn futures rallied to their highest point since late-March and November as soybeans challenged their June 2018 high ahead of the USDA's report. Besides anticipation of lower crop estimates from the USDA, strong Chinese buying fueled both markets.

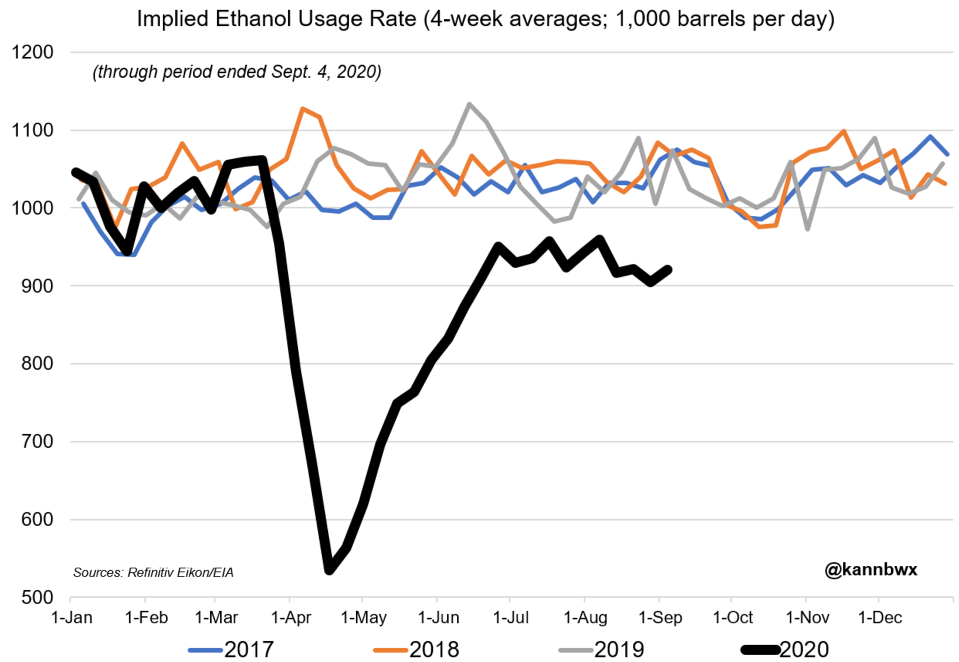
While momentum is squarely with the bulls, funds are now long corn. Funds switched to a net-long position in corn by almost 19,000 contracts on September 1st with the purchase of more than 80,000 futures and options, the largest weekly purchase since June 2019 and the first net-long position in 13 months. In June, funds were net short almost 300,000 contracts, the second largest ever. Commercials have moved from a rare net long in early June to a net short of nearly 221,000 contracts, a major change of ownership, but that only produced a rally back up to long-term resistance near $3.70 basis December futures. Money managers extended the net long in soybeans futures and options to almost 163,000 contracts, the most bullish view for early September since 2012. Funds increased longs nearly seven-fold in the past three weeks. Fund money is coming into corn and we can see corn trading another $0.05 to $0.15 higher. Export demand is stronger, yields will probably come down again, and you can't discount the fund money coming into the market as an inflation hedge.

Traders' pre-report crop production estimates turned out to be fairly accurate. With pre-report estimates looking for a corn yield of 177.7 bushels per acre and 14.833 billion bushel production, yield was instead pegged at 178.5 bushels (record large), and production came in at 14.9 billion bushels- slightly above expectations but down 378 million bushels from August. Corn ending stocks fell less than expected, by 253 million bushels to 2.503 billion bushels, the largest ending stocks number in over 30 years. Corn exports for 2019/20 fell by 25 million bushels. For 2020-21, corn used for ethanol was reduced by 100 million bushels, while exports were raised by 100 million bushels to account for increased demand from China. The season average price was raised by $0.40 to $3.50 per bushel.

Corn prices jumped substantially higher on supportive export, supply and demand data released by the USDA. Traders are also continuing to monitor an outbreak of African swine fever (ASF) situation in Germany, which could help domestic feed demand. September futures climbed nearly 2.5% higher, adding close to a dime and closing at $3.66. December futures saw gains of nearly a nickel, reaching $3.695. In the short term, the corn market can still go higher until harvest ramps up. Ending stocks are likely to come down between now and release of the January WASDE but it is hard to see it go below 2 billion bushels. Front month corn could trade to $3.80 if Chinese demand continues. Otherwise, the market will be waiting to hear about yields from the field to get a handle on the crop size.

New crop corn sales reached 71.8 million bushels for the week ending September 3rd, which was on the high end of trade estimates that ranged between 35.4 million and 78.7 million bushels. With the 2019/20 marketing year now in the books, the USDA reported a 14% year-over-year decline, to 1.704 billion bushels. Another 49.2 million bushels in outstanding sales were carried over into the 2020/21 marketing year. Corn export shipments from September 1-3 reached 9.7 million bushels, with China occupying the top position (2.7 million bushels). The USDA also increased global new crop corn trade by 1.37 million metric tons to 186.03 million metric tons. U.S. market share, at 31.75% of the world total, was 1.14% higher than August's forecast, and 5.43% higher year-over-year.

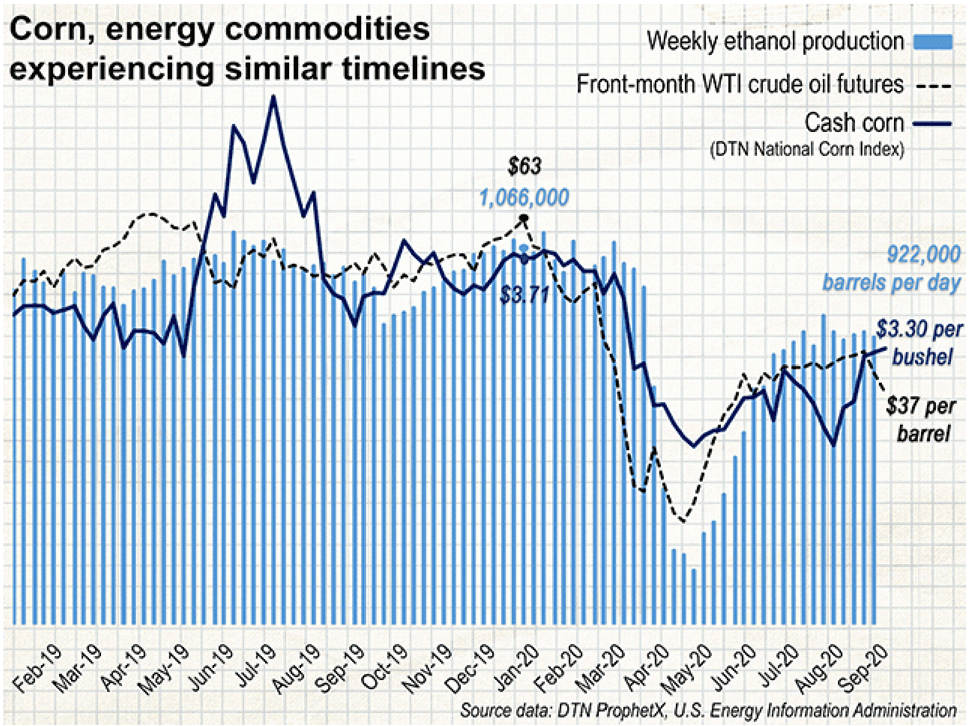
Weekly ethanol production rebounded 2.1% but was still more than 8% below output earlier this year. Stocks fell to 839 million gallons, 11% down from last year as blenders and producers do not want to be caught with excessive stocks should a second wave of COVID-19 develop. Funds have switched to holding a net long, leaving the market vulnerable heading into harvest. U.S. ethanol output has averaged 930K barrel per day for the last four weeks, down about 11% from the 3-yr avg for the week. No upward progress has been made since mid-July. Stocks remain at 5yr lows for time of year. U.S. gas demand trended downward in the latest period and is down 10% from average.



The fuel market (i.e. the ethanol market) has been watching for a recovery or boost in demand since the April doldrums. From here through the end of the year, the market already has a sense of how many consumers (automobile drivers) have been lost as a result of increased individuals that are working from home and/or the lack of entertainment destinations, both of which, serve to fuel demand for fuel, and hence, ethanol. Until something drastically changes, fuel demand appears to have plateaued. As an "energy" commodity, corn is even better insulated from the recent market volatility than ethanol. The loss of that chunk of business that would otherwise have gone to the ethanol plants has been noticeable, but the corn market has other participants (chiefly livestock feeders-both domestic and international) who have continued to be faithful purchasers.

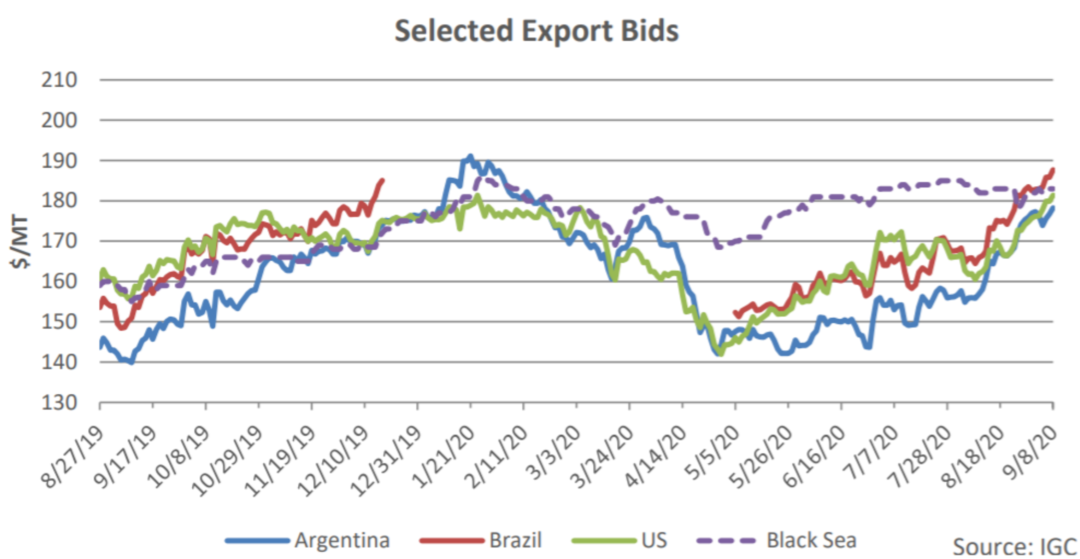
The DTN National Corn Index, an average of cash bids collected daily from over 3,000 locations, ended 2019 at $3.71 per bushel, dropped to a low of $2.86 during the April nadir of COVID panic, and now around $3.30 is only 11% off its starting point.

Looking at this cash price index reflects the movement of both futures prices and basis bids during the slowdown and the recovery. Going forward, much will influence the corn market's local basis values (especially harvest pressure) and overall price level. But for any traders or corn sellers who were waiting for a recovery in energy demand, the flattening charts for weekly ethanol production and energy sector prices seem to be indicating we've already climbed to the top of this particular plateau.



Corn exports showed strength over the near term and provided a bright spot for corn demand. Outstanding sales of corn for the next marketing year sit at 512 million bushels. Driven mainly by Chinese buying (249 million bushels), sales are off to a strong start. The USDA projects corn exports in 2020/21 at 2.225 billion bushels, 430 million bushels up from the current marketing year estimate. While the strong start to the marketing year and low corn prices support-reaching USDA projections, economic conditions in global markets and expanding foreign supply keep export potential uncertain.

Since the August WASDE, U.S. bids have climbed on supply concerns over extreme weather and robust early season sales. Strong foreign demand continues to support South American bids. U.S. bids are up $19 per ton to $181, while Argentine and Brazilian bids are both up $22 per ton, to $178 and $188, respectively. Black Sea bids are down $1 per ton to $183, remaining little changed.



Global corn supply outside the U.S. appears set for expansion in 2020/21. The August WASDE report calls for total foreign corn production somewhere in the neighborhood of 30.8 billion bushels, this amounts to a 648 million bushel increase over last year. Corn production for major exporters expanded by 330.3 million bushels over the previous marketing year to 8.9 billion bushels. Brazil looks set for a large corn crop. At 4.2 billion bushels, the projection for the Brazilian corn crop encompasses almost half of the major exporter production. Argentina is expected to hold corn production at 1.97 billion bushels next marketing year. Quite a bit of discussion on export potential have focused on the changing fortunes of the dollar. The Brazilian real sits down over 39% against the dollar since the turn of the year. The Argentine peso sits 23% down over the same period. While the dollar is stronger than it was in June, the potential for continued dollar weakness against significant competitors seems limited as we move into 2021 due to various economic issues around the world. It is too early to assess production potential in South America, but larger crops seem in the offing and hold the potential for changes in U.S. export levels during 2021. Corn exports may reach USDA projections in 2020/21, but it might require low prices to get there.

Before COVID-19 came along, African swine fever hit China's hog herd, cutting pork production by 21% in 2019. USDA's July report of *World Livestock and Poultry* expects another 15% drop in production in 2020. China's national average hog price is currently trading near 37.36 yuan/kilogram or $2.45 a pound, not far from the 2019 peak of $2.74 a pound (using 6.92 yuan per dollar and 2.20462 pounds per kilogram).

China's hog prices remain near record highs. January corn on the Dalian exchange is going for ¥2,305 yuan per metric ton or $8.46 a bushel. January soybeans are priced at ¥4,499 yuan per metric ton or $17.69 a bushel. At this point, it is difficult to say just how much potential is in China's current buying spree. But until more is known about South America's harvests early in 2021, the U.S. is the main source of corn and soybeans for large-scale buyers.

Soybeans

On September 4th, the most-active CBOT soybean futures hit $9.695 per bushel early in the session, the highest for the contract since June 11, 2018, when the U.S. and China were descending into the trade war. Prior to the WASDE report, soybean futures seem to indicate that the big risk is probably to the downside post-report, an idea held for both hedgers and speculators. Soybeans are up over $1.00 in a month’s time. The funds are long over 200,000 contracts, which is only about 75,000 to 80,000 from their record long. However, the market would need a very bullish report tomorrow to make a big push higher. With November Soybeans flirting with $9.80, a "big push" means reaching the $10 mark.

Soybean prices saw a big round of technical buying Friday, September 11th that resulted in double-digit gains in today’s session. The day began with two large export sales announcements and a bullish round of export sales data from USDA. The agency’s WASDE report lent additional support as it confirmed lower yield and production estimates that analysts had been expecting. September futures closed $0.205 higher, moving back above $10 per bushel for the first time since June 2018. November futures climbed $0.20 higher to $9.975.

Soybean futures started Friday’s (September 11th) rally early, and after a report release pause, never looked back. Futures ended the session just off the highs, and were at times trading at an inverse. Gains at the closing bell were $0.105 to $0.185. New crop ending stocks are forecasted at 460 million bushels. The USDA foresees the 2020/21 average cash bean price at $9.25, up nearly $1.00 from last month. Exports were unchanged but global trade was up 850,000 metric tons to 166.34. From this Friday’s *Export Sales* update, new crop bean sales were well above the trade average guess despite already knowing 1.43 million metric tons of business. The 3.162 million metric tons (116.18 million bushels) of new crop bean sales for the first reporting week of 2020/21 was an all-time record for any week. On September 8th, soybean spec traders were net long 173,907 contracts, increasing the net long position by 11,300 from last week.

It is safe to say that the market's initial reaction is that "soybeans are back." Back to price levels where they were pre-tariff trade war and before the Chinese swine flu disaster. Before those two precipitous events, soybeans traded between $9.00 and $10.50, with summer rallies (US or South America) making $12 possible. As for soybeans, ending stocks were 456 million bushels and likely to go lower. Some in the market see Chinese demand increasing and yields coming down another bushel per acre. If soybean stocks get into the mid 300 million bushel range, it would not be unexpected to see soybean prices (per bushel) somewhere in the high $9's to the mid $10's for a while. If South America experiences any adverse issues from La Niña, soybeans could trade up to $11 (and possibly higher).

The chart below shows November soybeans up sharply before the report and rising to a new yearly high after the report. Soybean yield and production came in about as expected, with soybeans still at a record-large yield. The report was neutral to bearish (DTN ProphetX chart).

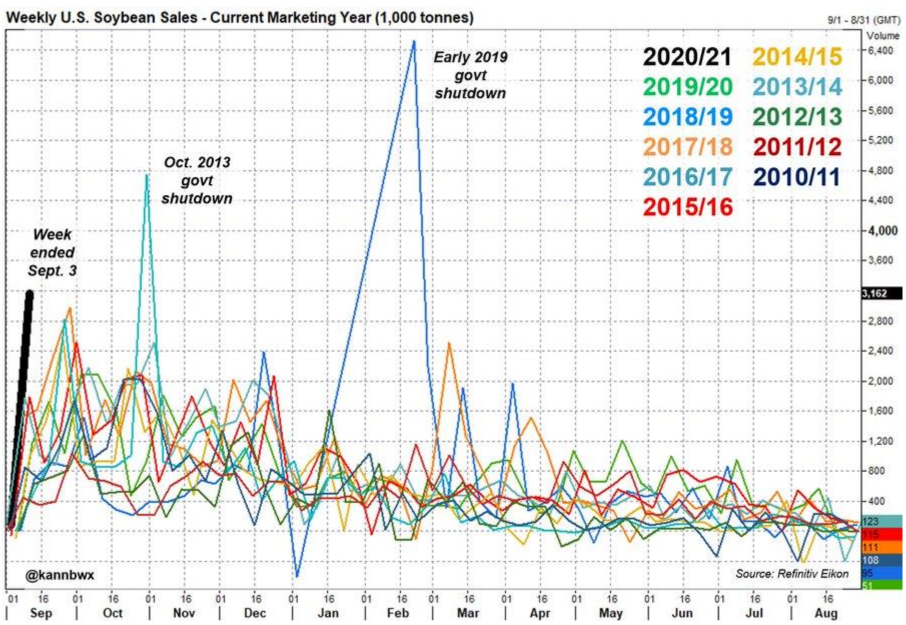
September 14th was a milestone for CBOT soybean futures, as the most-active contracts broke $10.00 per bushel for the first time in the post trade war era (since June 6, 2018). The relative strength index is at 86+. For perspective, the last 2 times it was stronger was March 3, 2008 and July 7, 1993. In the historical perspective, soybean futures hit an all-time high mark on March 3, 2008 of $15.86-1/2 per bu. They quickly retreated but rallied back to a new high of $16.36-3/4 on July 3, 2008. That record high in the most-active contract would stand until July 19, 2012.

The USDA noted several significant changes in supply and usage since August. Yield potential dropped 1.4 bushels per acre from a month ago, dropping to 51.9 bushels per acre. That was very close to analyst estimates, with an average trade guess of 51.8 bushels. With total harvested acreage expected to remain stable, that sets the table for an expected production of 4.313 billion bushels.

Soybean exports saw an impressive tally last week, climbing to 116.2 million bushels. That was well above all trade estimates, which ranged between 36.7 million and 73.5 million bushels. China accounted for around half of the total, with 58.5 million bushels. An additional 93.3 million bushels in outstanding 2019/20 sales were carried over into the new marketing year, leaving cumulative sales down 4% year-over-year at 1.651 billion bushels. Soybean export shipments for September 1-3 reached 19.3 million bushels. China accounted for most of that total, with 14.7 million bushels. Export optimism is based mostly on USDA's latest calculations for outstanding sales- the amount of new crop soybeans purchased so far, but not exported. USDA puts that number at a record-breaking 29.4 million metric tons, as of September 3rd.

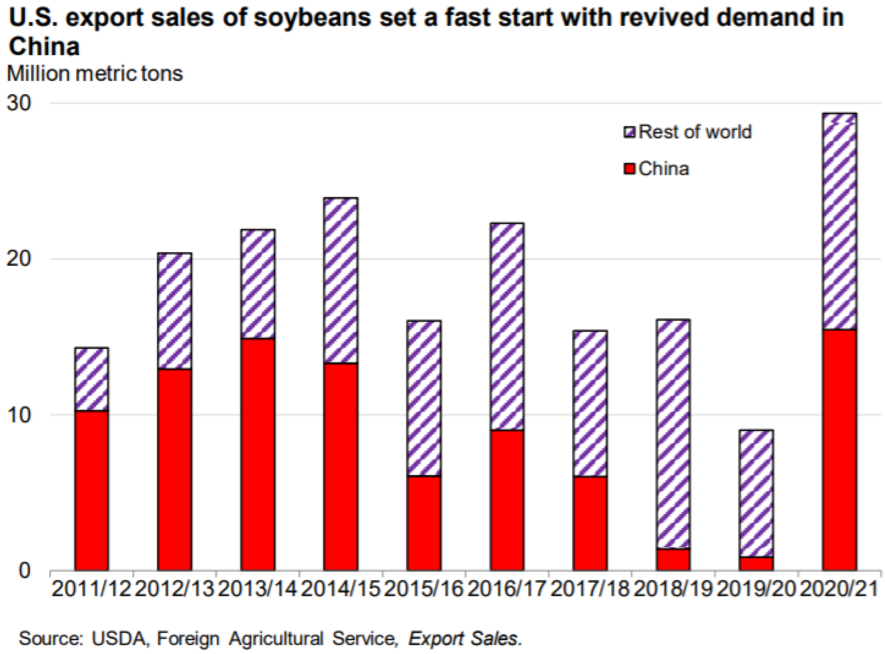
China has been purchasing soybeans from the three major exporters at a record pace. Preliminary data for the September-June period indicate that together, Argentina, Brazil and the U.S. have shipped an estimated 81 million metric tons to China. That is an increase of 28% or 18 million metric tons over the same 10-month period last year and even exceeds the 2013/14 crop year when Sept-June shipments to China rose 23%/11 million metric tons year to year.

For instance, in the week ended September 3rd, the U.S. sold 3.16 million tons (116 million bushels) of soybeans for export in 2020/21, which appears to be a weekly record for a single marketing year. Note that Government shutdowns in 2013 and 2019 spoil this chart a little, as multiple weeks of data were issued at once.



Another encouraging sign are the prices and freight rates to China. U.S. soybeans are going for $417.50 a ton, freight on board, out of the Pacific Northwest and $402.75 out of the Gulf. By comparison, Brazilian soybeans cost $427 a ton and Brazilian supply is tightening.

A recent rally in soybean prices reflects the yield deterioration as well as an acceleration of export sales. As of September 3, U.S. export sales commitments of soybeans total 29.9 million metric tons (1,098 million bushels). Exporters have booked record high sales for this date that are nearly four times the level of a year earlier. Revitalized U.S. sales to China are primarily responsible for the gains. A resurgence in soybean exports is forecast for 2020/21 to 2.125 billion bushels from a revised 1.68 billion in 2019/20.



Rice

In the domestic market, damage from Hurricane Laura is still being assessed. It is widely accepted that damage has occurred to the 2020 rice crop in most production areas, however the size and scope of that damage has yet to be determined. Cash prices have continued to be somewhat firm as a result in most areas. Quality and milling yields are still big question marks to be determined that will drive the pricing equation for the remainder of the year. Overall, prices in the long-grain states have been largely sideways over the past few weeks. Given the focus on harvest and the lack of obvious direction in the cash market, flat prices are likely to continue until some disruption in the market occurs.

Reports from South America suggest that the supply situation there is getting tighter. Buyers from the Mercosur trading area have already made overtures to purchase US rough rice at harvest to offset these deficiencies. Any sale of consequence to those destinations would boost the demand side of the balance sheet and help to firm up prices even further.

The South American rice complex grows more intriguing by the moment as producers brace for a drier growing season and prepare for fewer rice acres. Planting milo already seems to be captivating the interest of rice growers concerned about water shortages. A perfect storm is brewing in Brazil as well, as they are coming off a year of reduced production, increased exports along with the devastating effects of COVID-19. A tight stock situation followed by a smaller crop from South America may very well result in a smaller presence in Central America and even Mexico, which bodes well for the US. With export demand for US long-grain rice slow to develop at this point, the industry could greatly benefit from increased market share in those key Central American markets. We remind you that the Mercosur harvest is not until February-March.

With regard to Brazil’s rice shortage, the Brazilian government made it formal with the announcement of a duty-free access of up to 400,000 metric tons of rice regardless of origin. Brazil's Executive Secretary of the Foreign Trade Board, "CAMEX," voted to provide duty-free access for up to 400,000 metric tons of paddy and milled rice from all origins, effective today through December 31, 2020. The measure was officially published in Brazil's Official Governmental Register. Two U.S. vessels have been confirmed and others are being negotiated. Also reports of rice imports from Guyana and India were confirmed. With the Brazilian state of Santa Catarina beginning its harvest in December and a full harvest in Mercosur expected in January and beyond, the needs of the country should normalize by the end of the year.

Up until now, all rice imports from outside of the MERCOSUR bloc (Argentina, Brazil, Paraguay, and Uruguay), including the U.S., faced a 12% import duty on milled rice and a 10% duty on paddy rice. During this three-month period, U.S. exports will be more competitive without the import tariffs, however, they will still be subject to a slew of internal value-added and transportation-related taxes.

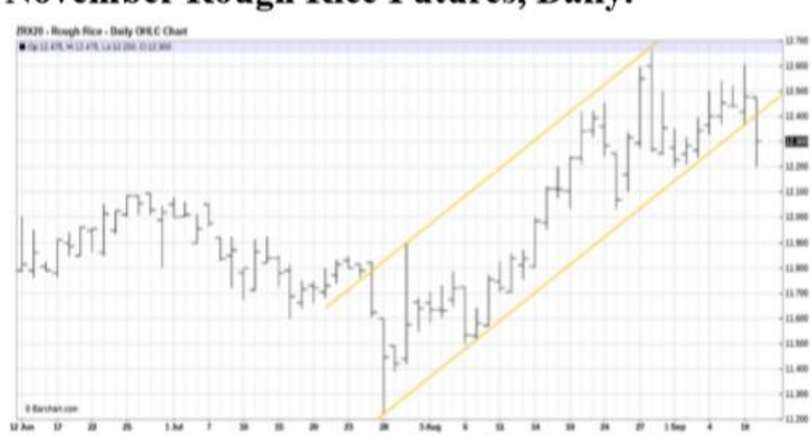
Potential U.S. exports to Brazil will continue to face competition from that country's South American neighbors, as well as major Asian exporters, who will also benefit from the limited duty-free access. U.S. exports to Brazil over the last decade have averaged less than 1,000 MT annually

The September WASDE report called for lower beginning stocks, with increased production, imports, and total use. Imports for 2020/21 are raised 800,000 cwt to 36.8 million on expectations of continued strong demand for combined medium and short grain varieties. In the September *Crop Production* report, the USDA NASS raised the 2020/21 rice crop by 6.9 million cwt to 225 million on increased harvested area. The average all rice yield is down 71 pounds per acre to 7,529 pounds. Long grain production is raised to 168.9 million and combined medium and short grain production is cut to 56 million. With the increased supplies, domestic and residual use and exports are each raised 2 million cwt, all long grain. The "all rice" ending stocks are increased by 1.6 million cwt to 45.9 million and the season-average farm price is dropped for both classes of rice.

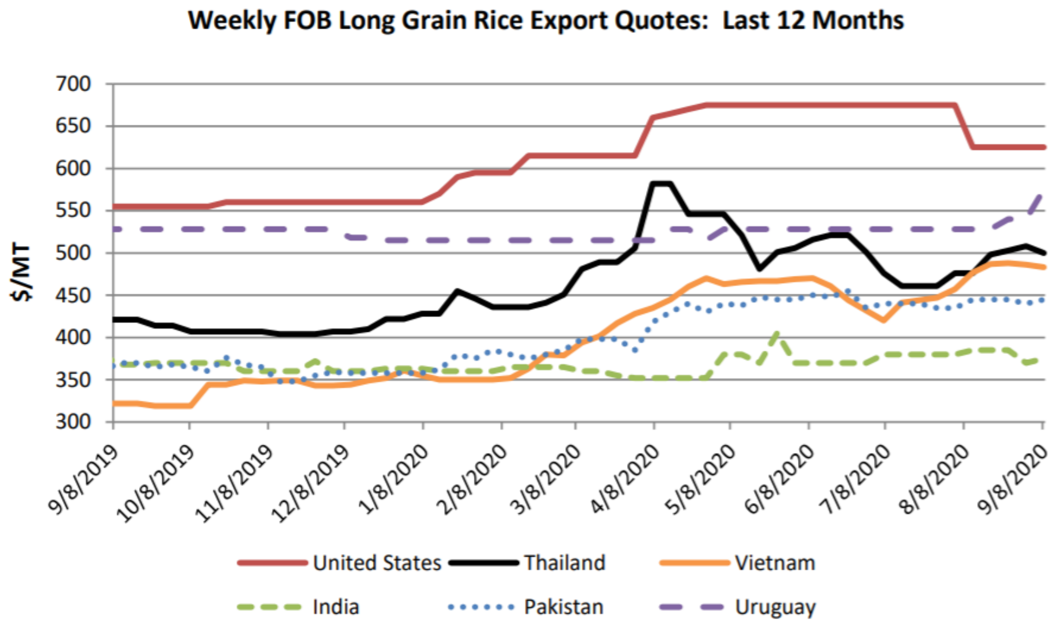
Increases in demand this month offset almost a third of the total supply increase. Domestic use was increased by 2 million to a record 111 million cwt. Exports were also increased by 2 million cwt. Total demand at 182 million cwt. would be the highest since 2010. Projected 2020/21 ending stocks were increased to 32.8 million cwt, up 8.5 million from last month and the highest since 2010's 35.6 million cwt. The 2020/21 season-average "all rice" farm price was lowered $0.30 to $11.30 per cwt (or $5.09 per bushel).

The sharp increase in new crop production and ending stocks turned November '20 futures $0.35 lower at midday Friday, September 11th. The technical picture turned negative with trading slipping out of the up trending channel that has been in place since late July. Initial support for the November contract is being found near $12.10 or the 38% retracement of the monthlong July 28th to August 28th uptrend.

November Rough Rice Futures, Daily.



Over the past month, U.S. long-grain export quotes have remained at $625 per ton. As of the beginning of September, over a quarter of the crop has been harvested; though prices have been slow to decline until more new crop becomes available. In contrast, the Uruguay quotes have spiked to $575 per ton on tightening supplies in South America. Thai prices at $500 per ton are the highest among Asian suppliers, supported by reduced prospects for the upcoming crop and currency strength. Vietnamese quotes have risen to $48 per ton as the market awaits the 10th month harvest. Pakistani quotes are still at $445 per ton, while Indian quotes have declined to $375 per ton. Among the major exporters, only Indian quotes are on par with levels a year ago, while others have risen significantly.



Iraq could prove to be a huge shot in the arm; especially, when comparing the recent trade activity out of MERCOSUR. Iraqi tenders have once again surfaced in the rumor mill; however, details are opaque at best. It appears that there is some anticipation that the Iraqi Grain Board will announce a tender for US long-grain rice before long. The Iraqi Prime Minister and a trade team are in Washington D.C. and among the list of issues to be discussed are purchases, financing of U.S. rice.

U.S. rice farmers are counting on a recent $450 million loan from the U.S. Export-Import bank to Iraq to restart the country's rice imports. The Export-Import Bank of the United States (EXIM) Board of Directors unanimously voted (August 14th) to notify the U.S. Congress, pursuant to the law, of its consideration of a potential transaction that would facilitate the authorization of $450 million of insurance coverage on letters of credit issued by the Trade Bank of Iraq (TBI) for the purchase of U.S. goods and services, such as agricultural commodities, including wheat and rice, and engineering services. Additionally, under this approval, EXIM is expected to authorize various transactions that will insure covered U.S. banks including J.P. Morgan in relation to TBI's irrevocable letters of credit associated with the purchase of U.S. goods and services such as agricultural commodities, including wheat and rice from America's great agricultural exporters, and engineering services.

Iraq has not purchased any rice yet this year, a stark contrast to 2019. Last year Iraq imported about $15.5 million worth from the U.S. from January through June, according to USDA data. And the U.S. could really use that business now because exports are down from last year.

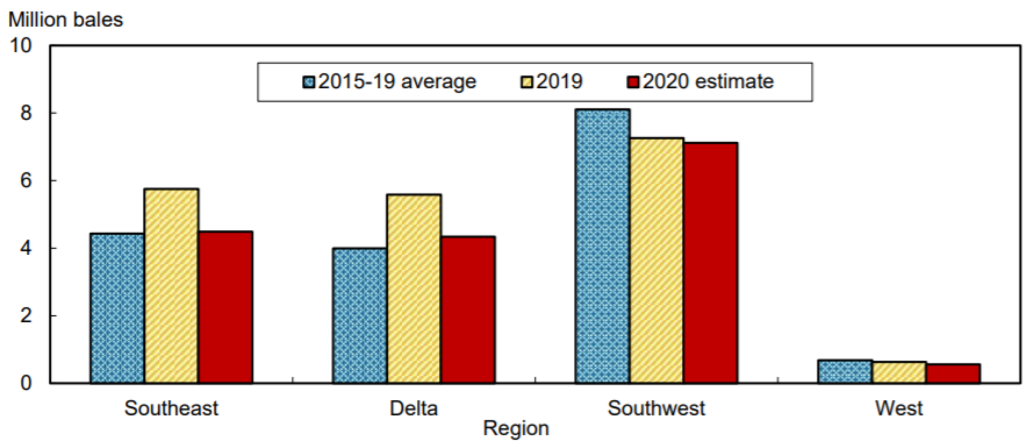
Iraq has long been a big importer of U.S. rice, but the COVID-19 pandemic has thrown a wrench into the finances of a country that buys grain through government-run tenders. The steep decline in oil prices has hit Iraq particularly hard, says Peter Bachmann, vice president of international affairs for the USA Rice Federation, and it's the oil revenues that enable the Iraqi Grain Board to import rice and wheat.

A bright spot for U.S. rice farmers this year has been food aid. The U.S., through its three main food aid programs, has bought and shipped a record amount of U.S. rice to needy people around the world. Through July the U.S. government donated more than 100,000 metric tons of rice through its F*ood for Progress*, *Food for Peace* and *Food for Education* programs. On top of that, the USDA tendered last month for 31,500 tons of rice to benefit West Africa with another similar tender expected soon.

Another gripping story in the world rice industry pertains to the Yangtze River in China where roughly 13 million acres of agricultural land have been flooded, most of which is believed to be engaged in the production of corn, beans, rice, and livestock. Currently, rice damage is believed to be downplayed by the Chinese government for both political and food security purposes. Regardless, this behemoth of a rice market has seen stocks rise for more than 10 consecutive years, making the potential impact of these floods on the global rice market extremely difficult to predict.

Cotton

According to the USDA's September *Crop Production* report, 2020 U.S. cotton production is forecast at nearly 17.1 million bales, 1 million below the August estimate and 2.8 million bales below the 2019 crop. The smaller September forecast is attributable to a lower area estimate and a reduced national yield projection. If realized, the 2020 U.S. cotton crop would be the smallest since 2015, when only 12.9 million bales were produced. U.S. cotton planted area for 2020 was reduced slightly in September based on acreage reported to the USDA FSA. Planted acreage was estimated at 12.1 M acres by the USDA NASS, while harvested area was projected at 9.0 million acres, about 2.5% below the August forecast. As a result, 2020 abandonment is projected at approximately 25.5%, compared with 15.5% in 2019. The national yield is projected at a record 910 pounds per harvested acre this season, slightly above the 2017 level.



The USDA's U.S. cotton balance sheet was moderately price friendly. The USDA lowered projected U.S. carryout for 2020/21 by 400,000 bales to 7.20 million. That estimate, was still above the average of trade estimates, which was 7.01 million bales, according to a survey conducted by Bloomberg. In a disappointing move, the USDA lowered projected U.S. exports by 400,000 bales, partially offsetting a cut of 1.02 million bales to U.S. production, which is now pegged at 17.06 million. The most notable cuts to

U.S. cotton production were 440,000 bales in Georgia and 300,000 bales in Texas, while Arkansas's crop was raised by 80,000 bales. The USDA left its projected average U.S. on-farm price unchanged at 59.0 cents per pound while trimming its projections for expected 2020/21 world cotton carryout by 1.07 million bales.

After a five-month rally, cotton futures seem to be searching for fresh, friendly, fundamental news. Prices slipped earlier this week, posting an outside bearish reversal on daily charts. Seeing this technical signal makes me wonder if investors may be headed to the sidelines due to uncertain news that President Trump was considering blocking imports of cotton and cotton products from China's western region of Xinjiang over accusations of forced labor.

Cotton futures tested support on reports the U.S. may impose restrictions on Chinese cotton products because of forced labor. Europe is also banning imports. However, this could boost Chinese imports to keep its mills running. Compared to the August estimates, although the 2020 crop was cut roughly by 1 million bales, U.S. mill use for the 2020 crop year was cut 200,000 bales and exports were cut 400,000 bales. Lower exports may reflect the lower crop (lesser supply), but also World Use was lowered 360,000 bales from the August estimate. This trend is worrisome, but it is also worth noting that use was not trimmed further in the vital US export markets of China, Vietnam, Mexico, Turkey, Pakistan, and Indonesia. Projected U.S. exports were cut, exports were raised for competitors Australia, Brazil, and India. But the crop is only one piece of the price puzzle. The trend in weakening World demand and continued uncertainty in exports and U.S./China relations is problematic. September's WASDE estimate of a 17 million bale number should be supportive—provided that exports can remain "good." An even smaller U.S. crop may be needed to take us where growers want to be price-wise.

After the August WASDE report, it was hoped that the September WASDE numbers would be more realistic and "in line" with what the trade was thinking. Fortunately, they were as U.S. production was lowered by one million bales to 17.1 million. So, the bullish response will be limited, at least for now. The chance for the market to climb to the $0.69 price level awaits more demand, likely from China, and a further reduction in world cotton carryover. However, it does reverse a series of seemingly bearish reports that did, in fact, lead to lower prices.

First, the equity markets suffered another single-day triple-digit loss, bringing commodities down with it. In addition, the European Union banned all textile imports from the Xinjiiang Province of China where mills are suspected of using slave labor.

The U.S. Customs Department was said to do the same, although no official announcement was handed down. This, along with other political tensions, instilled a fear the Phase One trade agreement could be in jeopardy. Through all this posturing, it was known the true test of stamina would come on Friday with the release of two very important reports, the weekly export sales and September's USDA Supply/Demand estimates.

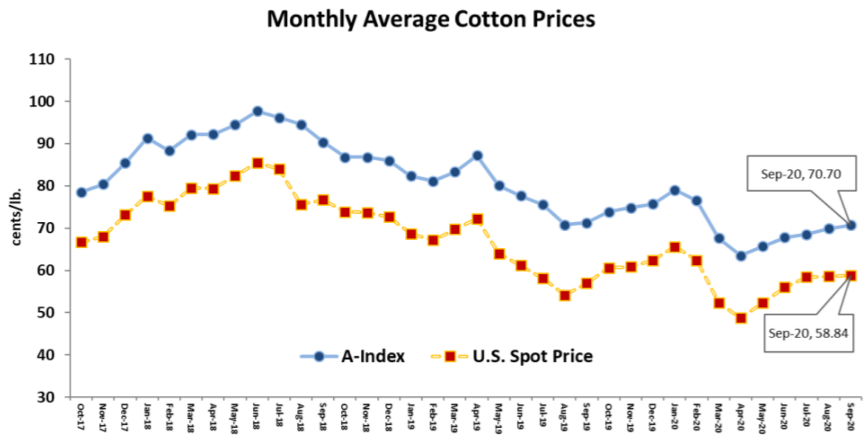
Fortunately, both were supportive of the market with net sales of 126,700 bales and shipments of 230,500 bales, the majority of which was to China. The biggest positive takeaway from the report was the lack of cancellations. More importantly, though, mill use and exports dropped slightly, with ending stocks declining to 7.2 M bales. Globally, the same was true with ending stocks declining to 103.8 M bales, which was one million bales lower than last month. Though these numbers weren't "limit up" bullish, they certainly were supportive enough to keep the funds content in their long position.

Cotton futures tend to move in tandem with the funds market sentiment. Obviously, prices advance as they take on long positions. After increasing their net long position for five weeks in a row, the latest

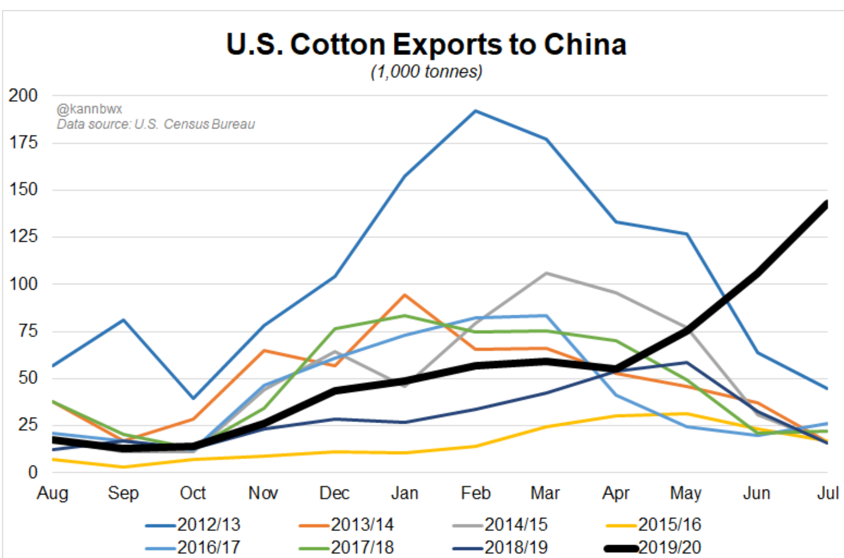
Commitment of Traders report showed them shorting the market by 676,000 bales. It's no surprise that in the five weeks they were adding 2.8 M bales to their long position the market went from 61.11 to 65.40 while the week they went short 676,000 bales, the market dropped 150 points to 64.02.

On the other side, the trade went longer by 1.2 M bales. This was the biggest move by the trade in the long direction since last March. Ironically, this was when weekly export sales were 350,000 to 400,000 bales. This could be an indication that sales are being made, which will be reflected in future weekly export sales reports.

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.



What is becoming apparent is that China is the major weekly buyer. Vietnam and Turkey are generally major buyers but down the list. Then come some combination of Bangladesh, Indonesia, Pakistan, Mexico and Malaysia representing a third level of buyers. China is either the largest or second largest buyer. However, total U.S. export sales are lagging to countries other than China and Vietnam, based on historical norms. On the other hand, sales by Brazil to other countries are increasing. Thus, the U.S., in the absence of some promotion, is facing a decline in its share of the world cotton trade. U.S. cotton exports to China for the 2019/20 are estimated at 659,000 tons, their best since 2012/13.

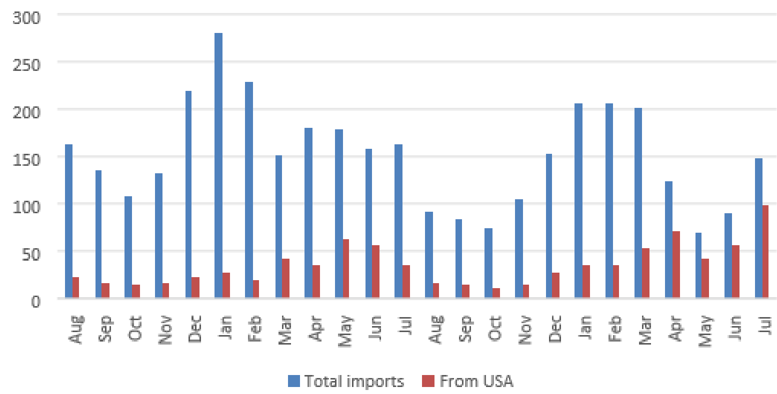


China’s MY20/21 cotton imports are forecast at 1.96 MMT, up from the 1.55 MMT in the 2019/20 marketing year based on an anticipated recovery of spinning use in 2021. Both the 2020/21 forecast and the 2019/20 estimate are lowered from the previous report due to a longer than expected production slowdown and a slower than expected recovery during the first half of 2020.

China’s cotton imports fell to 1.55 million metric tons in 2019/20, a 26% decline year-over-year. However, U.S. market share expanded to 30% in 2019/20, with total imports from the United States reaching 473,000 tons as opposed to 370,000 tons in 2018/19. While Chinese end users favor U.S. cotton for its quality and reliability, additional tariffs on U.S. products puts U.S. cotton at a disadvantage compared to China’s other main cotton suppliers: Australia, Brazil, and India. In 2019/20, Brazil maintained its 36% market share, while Australia's share fell to 13% in 2019/20 as it lost market share to the U.S.

In addition to market demand, China’s cotton imports are subject to how the government administers tariff rate quote (TRQ). China’s WTO TRQ obligation is 894,000 tons of cotton annually, subject to an in-quota one percent tariff and conditioned on processing for re-export. During the last two years, China made additional TRQ available, subject to a sliding duty, to meet demand from the domestic spinning industry.

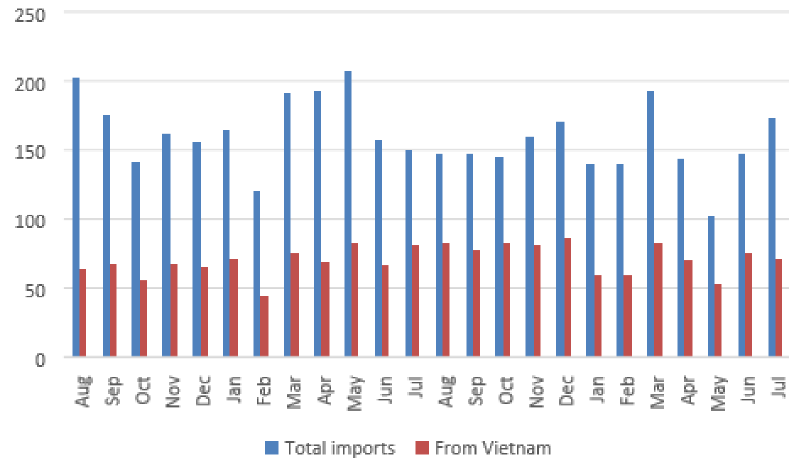
Chart 1 - China’s Cotton Imports in MY18/19 to MY19/20
(Monthly in 1,000 tons)
Source: TDM



Source: TDM

Unlike cotton imports, yarn imports do not face quota restrictions, and thus fill the supply gap in years when no additional cotton TRQ quota is allocated. Based on weak demand for textile and apparel products, yarn imports feel to 1.8 million metric tons in 2019/20, down 10.5% from the previous year. Given China’s large spinning capacity, Chinese spinners are expected to maintain market share which shall spur cotton imports in 2020/21. Vietnam continues to be the largest yarn supplier to China with market share up to 48.7% in 2019/20.

Chart 2 - China's Yarn Imports
(August 2018 to July 2020; Monthly in 1,000 tons)



Source: TDM

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	$3.60	$3.70	$0.10
Grain Sorghum	$3.30	$3.95	$0.65
Long Grain Rice	$12.00	$14.00	$2.00
Medium Grain Rice	$11.60	$14.00	$2.40
Seed Cotton	$0.3048	$0.3670	$0.0622
Soybeans	$8.55	$8.40	--
Wheat	$4.58	$5.50	$0.92

*national marketing year average (MYA) prices reflect the midpoint price level from the September 11, 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	$3.50	$3.70	$0.20
Grain Sorghum	$3.50	$3.95	$0.45
Long Grain Rice	$11.30	$14.00	$2.70
Medium Grain Rice	$11.40	$14.00	$2.60
Seed Cotton	$0.3057	$0.3670	$0.0613
Soybeans	$9.25	$8.40	--
Wheat	$4.50	$5.50	$1.00

*national marketing year average (MYA) prices reflect the midpoint price level from the September 11, 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	$3.60	$3.70
Grain Sorghum	$3.30	$3.98
Long Grain Rice	$12.00	$14.00
Medium Grain Rice	$11.60	$14.13
Seed Cotton	$0.3048	$0.3670
Soybeans	$8.55	$9.63
Wheat	$4.58	$5.66

*national marketing year average (MYA) prices reflect the midpoint price level from the September 11, 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 September 11, 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.

Contact Michael Deliberto at 225-567-7267 or by email mdeliberto@agcenter.lsu.edu
Department of Agricultural Economics and Agribusiness
Louisiana State University Agricultural Center, Baton Rouge, LA