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June Market Update
Corn, Soybeans, Rice, and Cotton

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WASDE Summary

The June 2020/21 U.S. corn outlook remains relatively unchanged from last month, with fractional increases to beginning and ending stocks. The USDA raised beginning stocks, as a 45 million bushel reduction in estimated production for 2019/20 is largely offset by a 50 million bushel reduction in projected corn used for ethanol. Corn for ethanol use is lowered reflecting a slower-than-expected rebound in ethanol production as indicated by *Energy Information Administration* data during the month of May and into early June. For 2020/21, with supply up slightly and no changes to projected use, ending stocks are 5 million bushels higher at 3.3 billion bushels. The season-average farm price for corn remains unchanged at $3.20 per bushel.

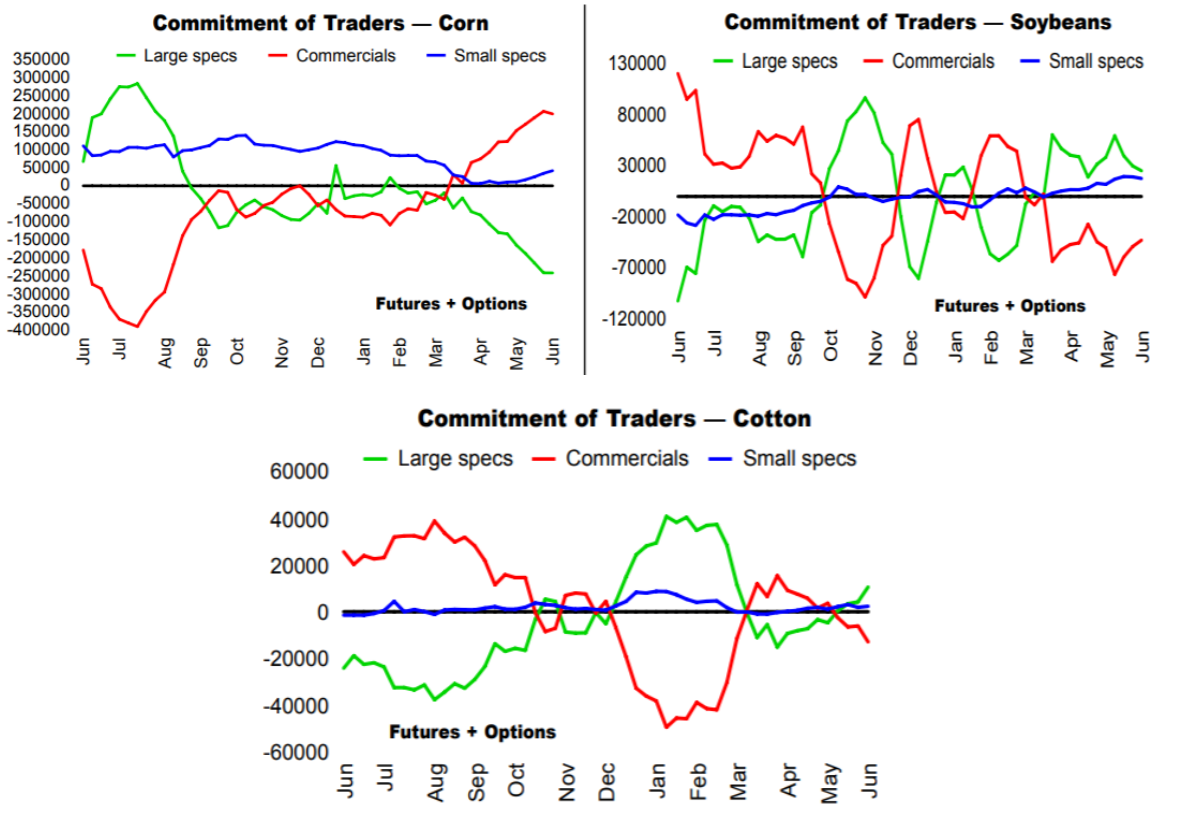
This month's U.S. soybean supply and use projections for 2020/21 include higher beginning stocks, higher crush, and slightly lower ending stocks. Beginning stocks are raised 5 million bushels with higher crush for 2019/20 more-than-offset with lower production and a lower export forecast. The 2019/20 soybean crush was raised 15 million bushels reflecting increased domestic soybean meal use. Soybean exports were reduced 25 million bushels on increased competition from South America. Increased beginning stocks for 2020/21 are more than offset with a higher soybean crush forecast, which is raised along with increased domestic soybean meal use. With higher soybean crush more than offsetting higher beginning stocks, 2020/21 ending stocks are projected at 395 million bushels. The 2020/21 season-average soybean and product price forecasts are unchanged this month at $8.20 per bushel.

The outlook for 2020/21 U.S. rice this month is for larger supplies, greater domestic use, reduced exports, and increased ending stocks. Most of the 2020/21 revisions are the result of 2019/20 supply and use changes. The 2020/21 all rice beginning stocks are increased 1.5 million cwt to 32.0 million, a result of higher 2019/20 imports, now forecast at a near-record 33.5 million, raising 2019/20 ending stocks. Long-

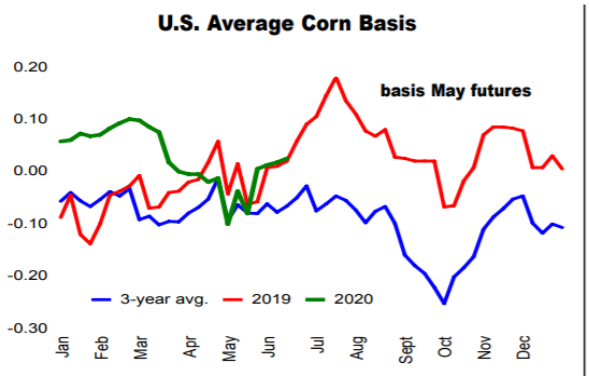
term growth in imports is expected to continue in 2020/21 as projected imports are raised 1.0 million cwt to a record-high 33.6 million. The combination of increased beginning stocks and higher imports raises 2020/21 total supplies by 2.5 million cwt to 281.8 million. Total 2019/20 domestic use and residual is raised 2.0 million cwt to 135.0 million, based on the higher import forecast. Similarly, total 2020/21 domestic use is also raised by 2.0 million cwt to 139.5 million, based on higher imports. Total 2019/20 exports are lowered by 2.0 million cwt to 96.0 million, all for long-grain as the U.S. is becoming increasingly uncompetitive as the marketing year nears completion. Total 2020/21 exports are reduced by 1.0 million cwt to 99.0 million, all based on lower long-grain exports as the U.S. is expected to remain uncompetitive early in the marketing year. Projected 2020/21 all rice ending stocks are raised 1.5 M cwt to 43.3 million, up 35% from the 2019/20 revised ending stocks. The season average farm price for long grain rice remains unchanged at $11.80 per cwt for 2020/21. The season average farm price for Southern medium grain rice is pegged at $11.80 per cwt.

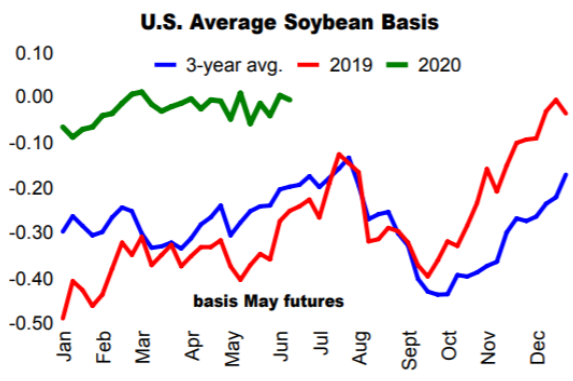
The most significant revision to this month's U.S. cotton supply and demand estimates is a 200,000-bale decrease in 2019/20 mill use, to 2.5 million bales. U.S. mill use in 2020/21 was also revised downward by 100,000 bales, and ending stocks are now projected at 7.3 million bales in 2019/20 and 8.0 million bales in 2020/21. While the 43% stocks-use ratio (STUR) projected for 2020/21 is marginally higher than the year before, and is substantially above recent levels, it would still be below the 55% ratio realized in 2007/08. The season average farm price is projected at $0.57 per pound.

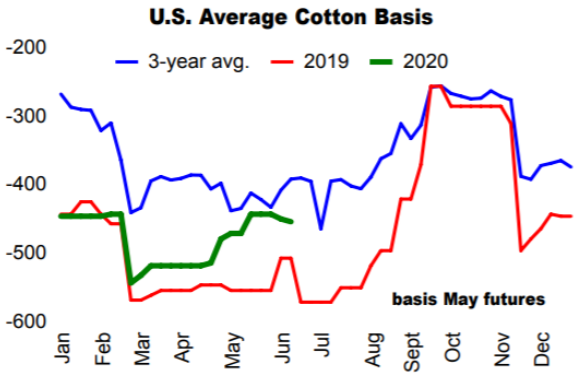
Commitment of Traders Report, Tuesday, June 9, 2020



Cash Market Basis Charts June 10, 2020







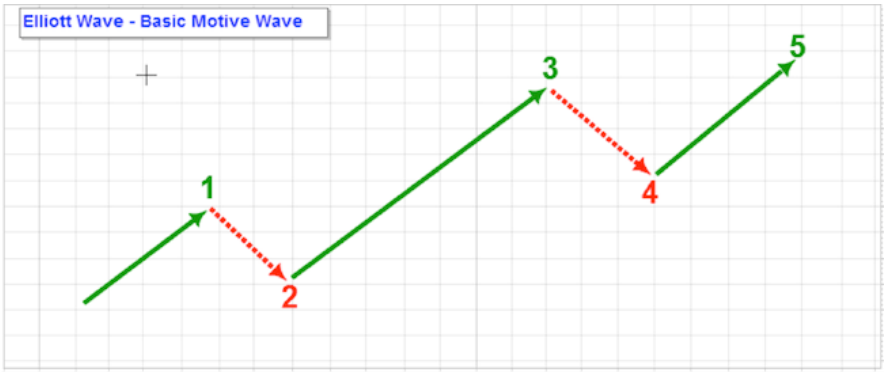
Corn

The June WASDE report featured only minimal changes to both the U.S. and world corn balance sheets. Beginning stocks were raised by 5 million bushels, with a 45 million bushel reduction in 2019/20 production being more than offset by the 50 million bushels decline in corn used for ethanol. The reduction in production was primarily due to North Dakota, where a resurvey revealed a decline of 38.2 million bushels from the previous year due to the state's yield falling to just 131 bushels per acre, down 22 bushels per acre from a year ago. U.S. corn production fell from 13.663 billion bushels to 13.617 billion. Ending stocks for 2020/21 rose by 5 million bushels to 3.323 billion, which was about 17 million bushels lower than Dow Jones' pre-report estimate. The 2020/21 ending stocks number is burdensome by any measure. With good growing conditions, it could even move higher if corn ethanol usage is lowered in future reports.

Funds were covering short positions on optimism that China will continue to make agriculture purchases to prevent the White House from labeling Beijing as “spoiler.” Corn futures have found support from technically-driven short covering/buying with nearby July corn moving to a nearly eight-week high. Concerns about the large net short position held by large speculators in corn futures/options may be a supportive The situation is similar to what it was before corn futures rallied last spring, although we see much less upside potential for prices with demand still suffering from the impact of the coronavirus. The stronger crude oil markets also added to the underlying support and optimism for increased ethanol production.

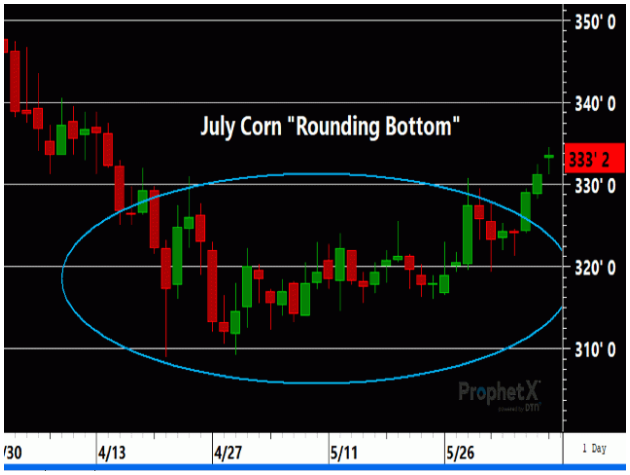
Corn prices were spared from the June USDA supply and demand release, finding some support after the agency showing lower-than-expected ending stocks for 2020/21. Forecasts of drier weather later this month lent additional support.

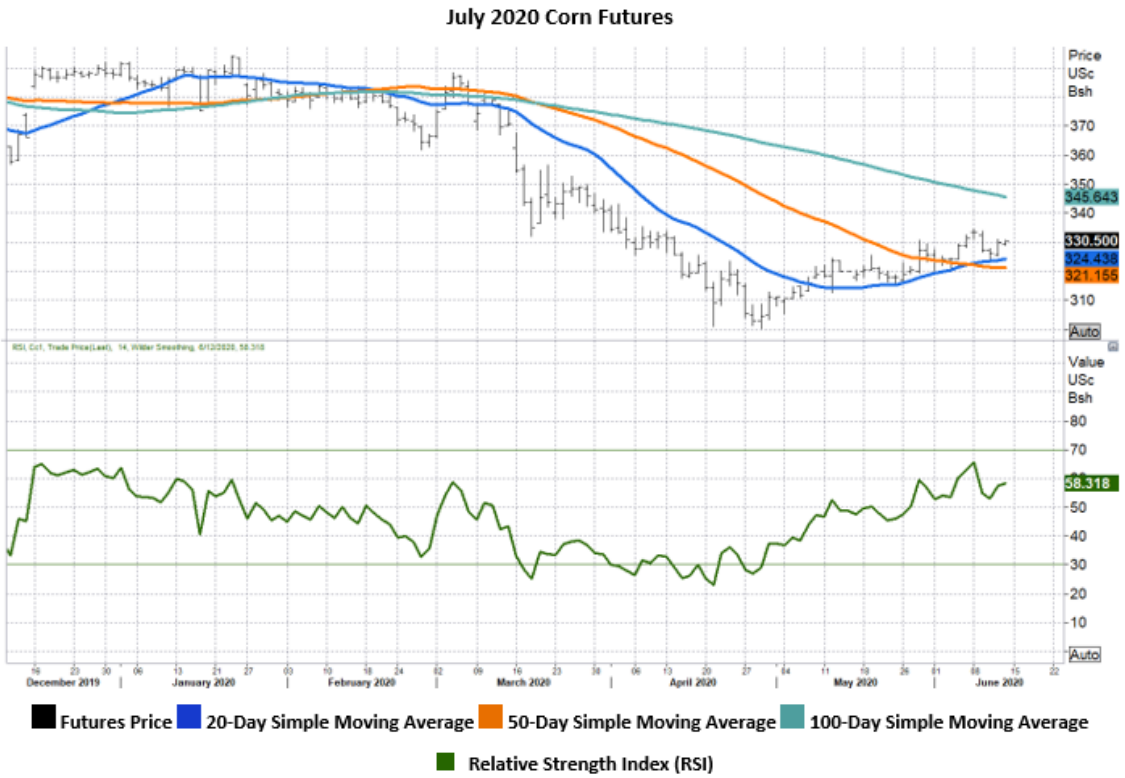
DTN conducted analysis that looked at both the July corn contract as well as the active-continuation chart of corn futures. Both contracts have rebounded since making lows in late April. The July corn contract looks increasingly likely that the lows made at $3.09 on April 21st marked the end of a complete five-wave Elliot sequence. Elliott Wave Theory (as shown in the example below) is a method of market analysis that is based on the idea that the market forms the same types of patterns on a smaller timeframe (lesser degree) that it does on a longer timeframe (higher degree). These patterns provide clues as to what might happen next in the market. According to the theory, it does not depend on what timeframe you are analyzing; market movements follow the same types of patterns.



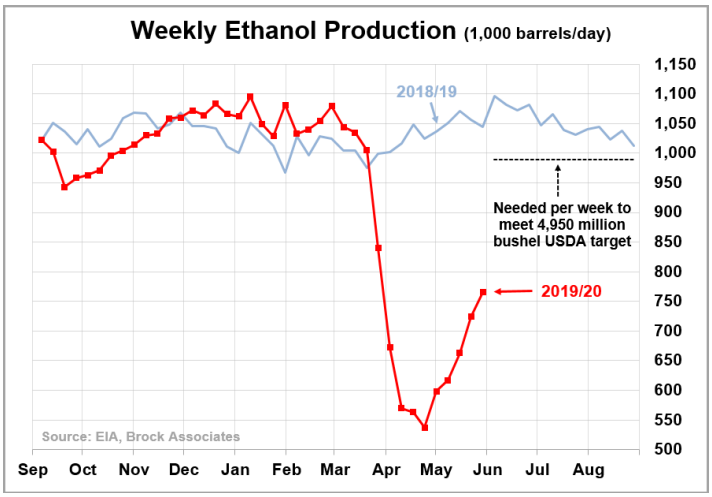
Relating the Elliot sequence to July corn futures, confidence can be had in this call because of the impulsive, trendy behavior exhibited in the way down from January highs near 4.04 as well as the bullish divergence in momentum from the April lows as the contract takes out former corrective highs. The question now becomes where the contract goes from here.

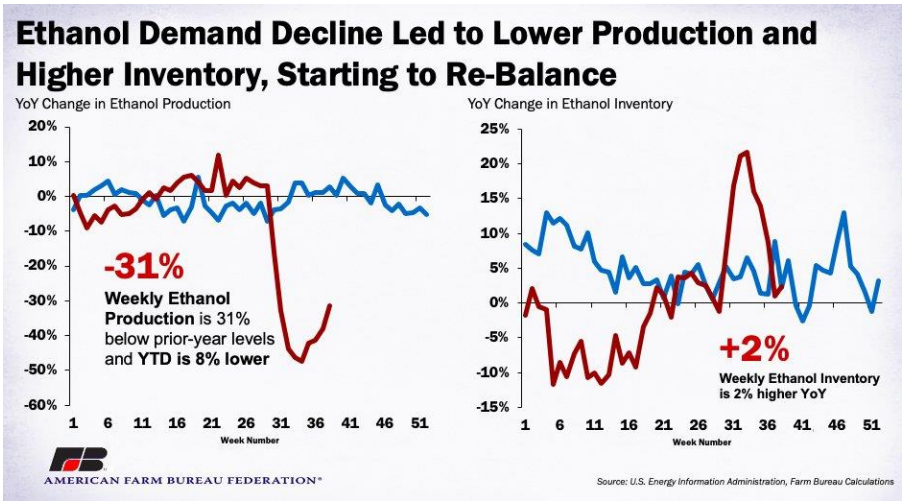
It is too early to tell whether the current rally is the beginning of a major counter-trend higher, or whether we are staring at a corrective rally ahead of a new round of lows below $3.09. What is crucial at this juncture is to determine the scale at which we are measuring this market. From a shorter-term, daily scale, we would expect the current uptrend to continue to at least the 38.2% retracement of the $3.94 (continuous chart) high on January 23rd to the $3.09 low on April 21st around $3.41. Whether the contract heads directly there or makes a B-wave correction matters little but should still achieve that target as part of this pattern. From a longer-term scale looking all the way back to the July 2019 highs at $4.64, the current rally looks rather small in terms of scale. It is also evident there is little in the way of resistance between spot levels and March highs around $3.86 in terms of actual price resistance. July corn is emerging from a rounding bottom pattern which should act as solid support on any setback attempts.



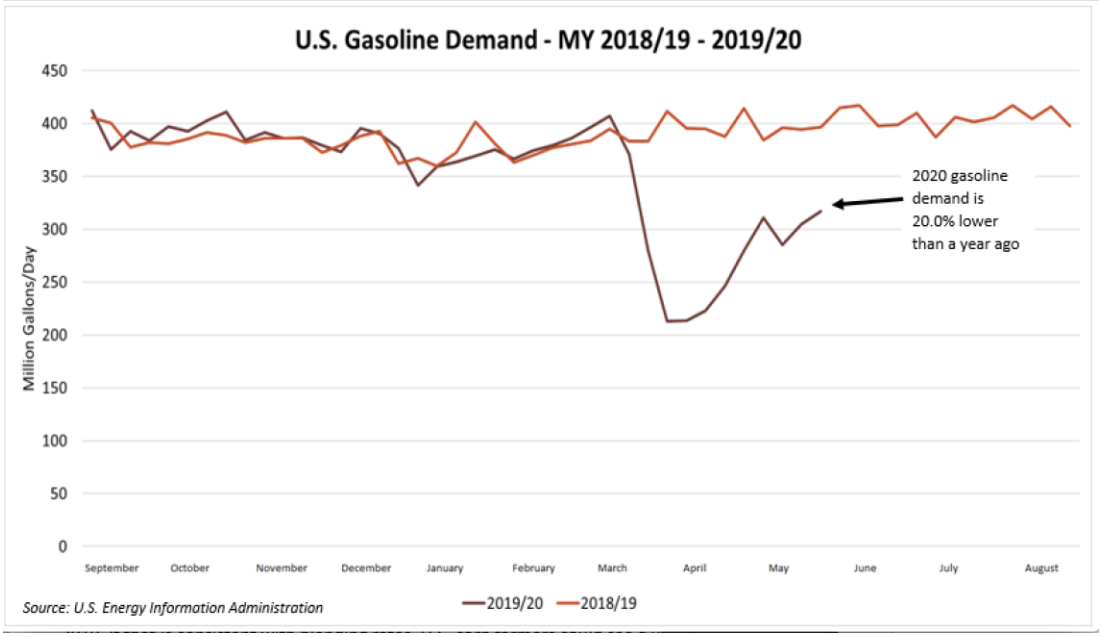


One factor that cannot be completely ignored by the market is that corn futures are struggling to find any upward momentum amid favorable early crop conditions and improved Corn Belt weather, with coronavirus-related demand weakness also still a negative market factor. Corn traders looked to the EIA's report that showed a continued recovery in weekly ethanol production, but production has a long ways to go to get back to pre-coronavirus levels. Rising gasoline demand should help boost ethanol production, but gasoline futures remain discount to ethanol futures, which is not a favorable indicator for ethanol blending demand. As reported on June 3rd, the weekly ethanol output rose for a fifth straight week, to 765,000 barrels per day, up from 724,000 the prior week. The four-week average is down 34.4% from a year ago. Ethanol stocks contracted to 22.5 million barrels, slightly down from the previous week. Stocks are now actually down 0.3% from a year ago, although with usage down substantially, those stocks are still more burdensome.



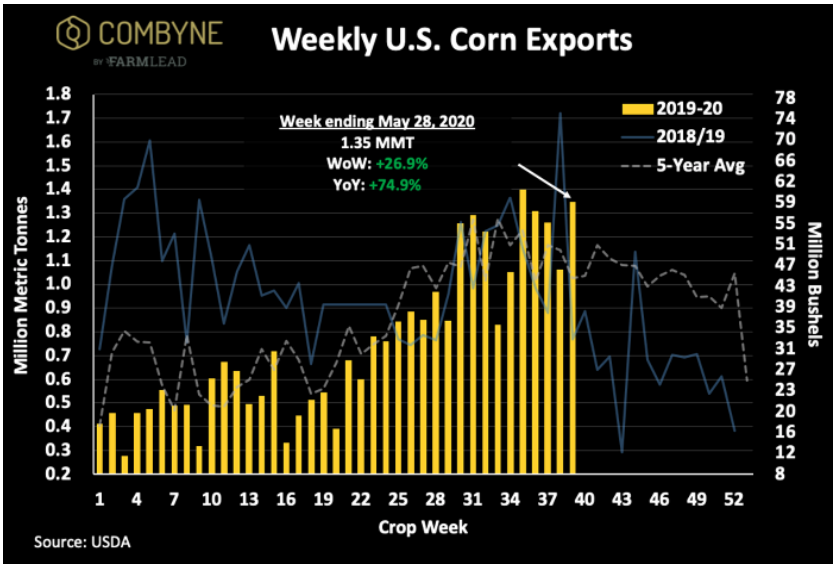


With the advent of summer nearly here, many are wondering what that entails for gasoline demand and consequently ethanol blending rates. Ethanol blending into gasoline appeared to have stabilized in last week's Petroleum Inventory Status report, but will that continue through the summer? Gasoline demand last week was 79.5 million gallons/day or 20.0% lower than the first week of June 2019. If that is consistent with blending rates, U.S. corn farmers could see a year-over-year demand decrease of 428 million bushels of corn consumed for ethanol through the remaining summer months. While corn demand from ethanol normally accounts for approximately one-third of total corn consumption, it is currently nowhere near 'normal.' Through the end of May, U.S. gasoline consumption was tracking roughly 1/3 below consumption levels a year ago but with appetite to go on summer vacation hampered by preventative measures in place to reduce the transmission of COVID-19, a lot of experts continue to be bearish in their outlook on the prospects of corn demand, namely from the standpoint of the demand for corn to be converted into ethanol. Ultimately, corn prices are facing some tough headwinds and so if any pricing rallies for corn should arise, individuals should consider them as selling opportunities (unless you can afford to wait and see what happens to corn demand over the summer months).



The increase in oil prices over the last few weeks has corn prices seeking to improve as there is hope that stronger oil demand will translate to stronger ethanol demand, triggering higher demand for corn. Regardless, managed money continued to be bearish on corn prices, increasing their net short position to sit on their most bearish position in almost a month. Point being, even with increased ethanol demand, there's still a lot of corn supply available.

The current pace of corn exports and prospects for further improvement in the pace of distillers' grains and ethanol exports are encouraging. Current marketing year estimates for U.S. corn exports sit at 1.775 billion bushels. Recent export inspection and sales data for corn signal support for reaching the USDA's estimate. After a slow start to the marketing year, the U.S. Census Bureau estimates of corn exports were increased in April. At 199.5 million bushels, April's corn exports indicated four straight months of higher export totals. Corn exports from September through January never eclipsed 100 million bushels. The weekly rate of export inspections accelerated beginning in the first week of February so that cumulative exports as of June 4th totaled 1.24 billion bushels. With a little over 12 weeks left in the marketing year, additional exports need to reach near 559 million bushels to reach current USDA projections. The weekly pace that is needed to reach that level would need to average 42.6 million bushels per week for the remainder of the period. For the eight weeks ended June 4th, weekly export inspections averaged 44.5 million bushels per week. As of May 28th, 451 million bushels of U.S. corn had been sold for export, but not yet shipped. Currently, total unshipped sales sit slightly below the estimated 559 million bushels required to reach USDA estimates.



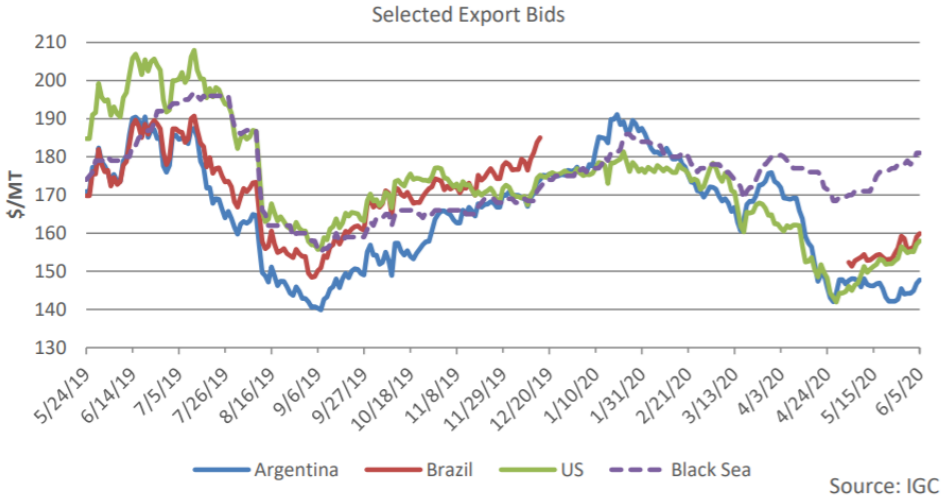
Corn export sales were lackluster last week (ending June 5th), at 26.0 million bushels in old crop sales and just 1.0 million bushels in new crop sales for a total tally of 27.0 million bushels. Analysts generally offered more bullish estimates, which ranged between 19.7 million and 43.3 million bushels. Japan was the top purchaser, with 10.5 M bushels. Cumulative totals for the 2019/20 marketing year are now at 1.191 B bushels-still trailing last year's levels by more than 430 million bushels. Corn export shipments were much better, holding steady with the prior four-week average of 48.9 million bushels. Mexico was the top destination, with 11.6 million bushels.

While export demand for U.S corn for the remainder of the marketing year remains uncertain, the potential for a repeat performance like last marketing year appears less certain. Last year saw corn exports drop considerably due to Brazilian competition in the latter half of the marketing year. At this time last year, outstanding sales sat at 310 million bushels. Total corn exports from June to August came in at around 347 million bushels. U.S prices sit much lower than the large run-up in prices in 2019 due to planting difficulties. Corn prices in Brazil remain high and domestic demand may limit a repeat performance of the huge export pace seen last year. While the acreage planted for the Brazilian second crop sits up about nine percent this year, recent reports point toward lower yields in some key regions. The second crop harvest just began in many areas and indications of potential production look to become more evident over the next few weeks.

The U.S. corn market relies, to a lesser degree, on exports of ethanol and distillers' grains. Due to a near virtual global lockdowns, expectations in April were for ethanol exports were forecasted lower. On a corn marketing year basis, U.S. ethanol exports through April sit almost 26 million gallons below last year. Before the drop off in April, ethanol exports sat above last year's pace despite weaker exports to Brazil, the largest market for ethanol exports. Higher sales to South Korea, India, Colombia, and Canada made up for the market loss due to Brazilian domestic production. While ethanol exports to China failed to materialize in April, the prospect of buying under the trade agreement remains in place. Through the first eight months of the current marketing year, ethanol exports total 1.08 million gallons. While there is no publically available information on ethanol export commitments for the remainder of the year, economic recovery around the world looks to support increased ethanol exports as production recovers and the world emerges from lockdown.

Overall, distiller's grain exports for the current corn marketing year sit down over four percent through April. Prior to 2016, China was the largest export market for U.S. distillers' grain, with Mexico a distant second. The withdrawal of China from the distillers' grain export market in late 2016 slowed exports some but growth in exports to Vietnam, the EU, South Korea, Thailand, and Indonesia provided support. They kept distiller's grain exports at a steady pace over the last few years. Exports through the first eight months of the marketing year came in at 6.98 M metric tons. Exports to China have yet to materialize in a robust way. The prospects for exports remain hopeful through the summer months and into the fall. DDGS prices in Central Illinois increased to above $200 per ton in early April as ethanol production waned. Prices came down in mid-May as production picked back up and currently sit near levels earlier in the year. Export demand appears set to pick back up in conjunction with ethanol production and the burgeoning recovery of the economy.

Since the release of the USDA's May WASDE report, U.S. corn bids have strengthened by $12 per ton to $157. An improved outlook for fuel ethanol has boosted prospects in the domestic market, while the weakening of the dollar has supported competitiveness overseas. Argentine bids are unchanged at $148 per ton on harvest pressure and Black Sea bids are up $11 per ton $181 reflecting continued strong demand amid tight old-crop supplies. Brazilian bids are up $9 per ton to $160 reflecting dryness in southern states.

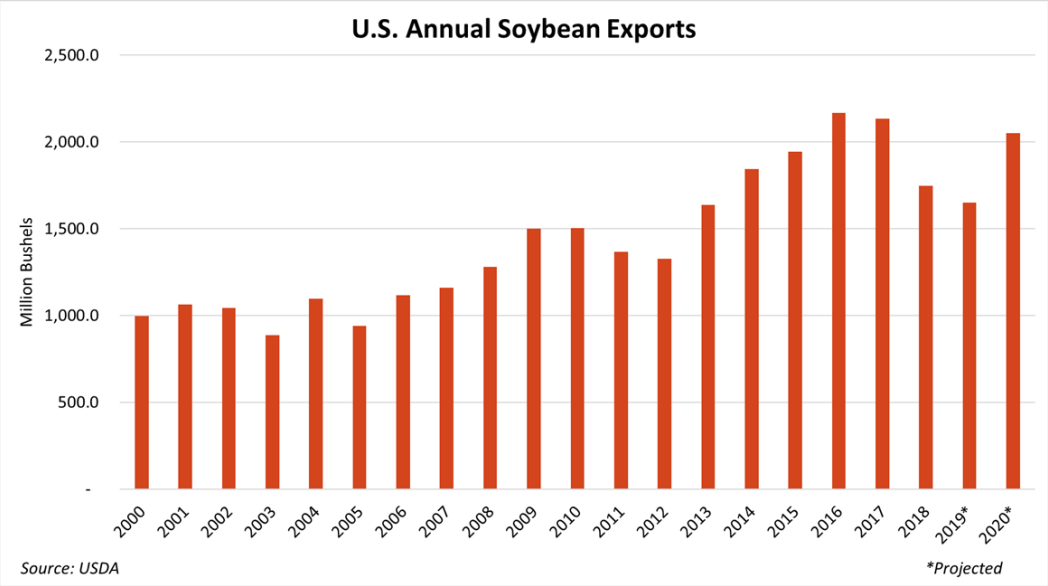


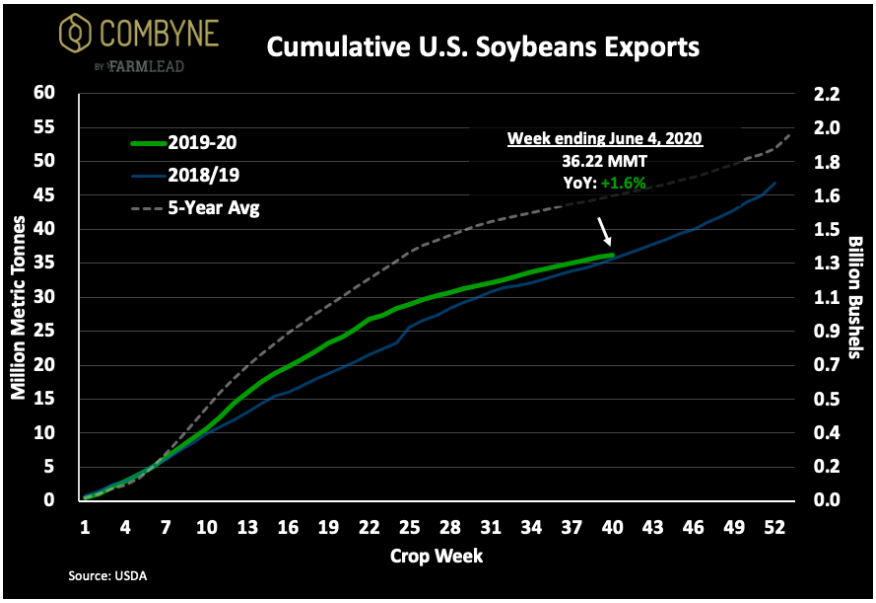
Soybeans

The June Crop Production and WASDE reports are typically not big market-movers and 2020 was no exception. The USDA increased soybean crush by 15 million bushels while soybean exports were lowered by 25 million bushels due to competition from Brazil. With the higher (585 million bushels) carry to start 2020/21 and increased domestic use of soybean meal, 2020/21 ending stocks fell to 395 million bushels, down 10 million bushels from May, but 64 million bushels lower than predicted pre-report. The average prices for both soybeans and products were left unchanged.

Post-WASDE report release, soybean prices finished the daily session with fractional gains. Even though USDA supply and demand data were not very supportive, prices stayed in the green after another large sale to China was announced early in the morning. July futures closed 0.75 cents higher to $8.6625, while August futures picked up half a penny to reach $8.6825.

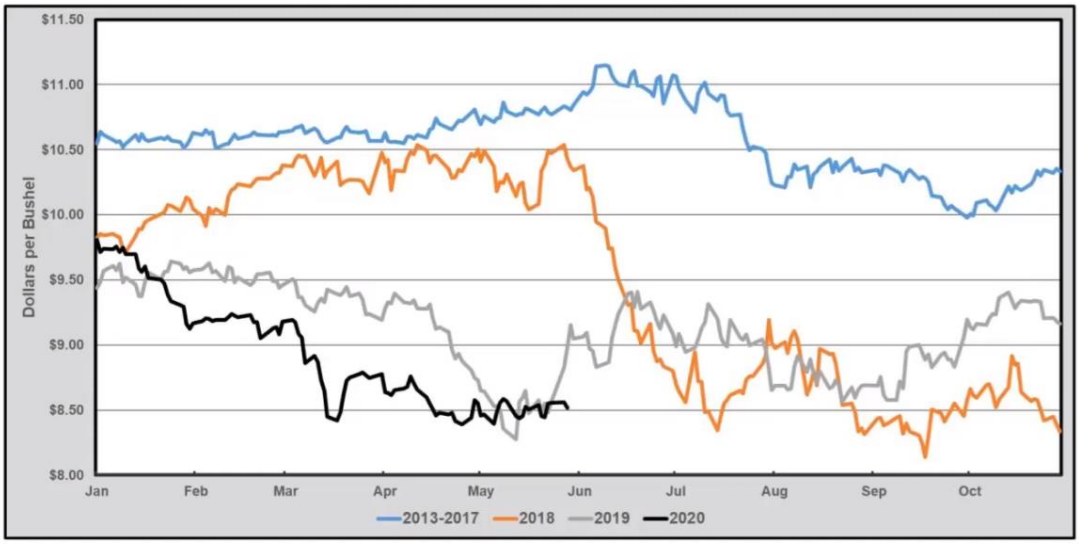
The USDA edged old crop (2019/20) ending soybean stocks slightly higher from 580 million bushels in May to 585 million bushels in June – a reversal from analysts' expectations of old crop levels somewhere around 577 million bushels. With the June WASDE report, it can be expected new crop (2020/21) soybean ending stocks to remain tight. "The June reports ending stocks at 395 million bushels, which mean that at harvest next year, there will only be 33 days of supplies available to end users before new crop enters the system, down from 34 days in the May WASDE report. And even with the recent downturn in exports, a longer view shows some optimism around 2020 soybean exports. This year could see the third-most U.S. soybean exports in the past decade, falling only to 2016 and 2017.





Typically, November soybean futures prices see a bit of a rally in June. Hopes grew recently for a similar rally this year. The potential for any such price movement rests on the 2020 crop and export prospects. November soybean futures prices fell almost 13% since the start of the year. The prospect of a seasonal price rally for soybeans relates directly to the 2020 crop.

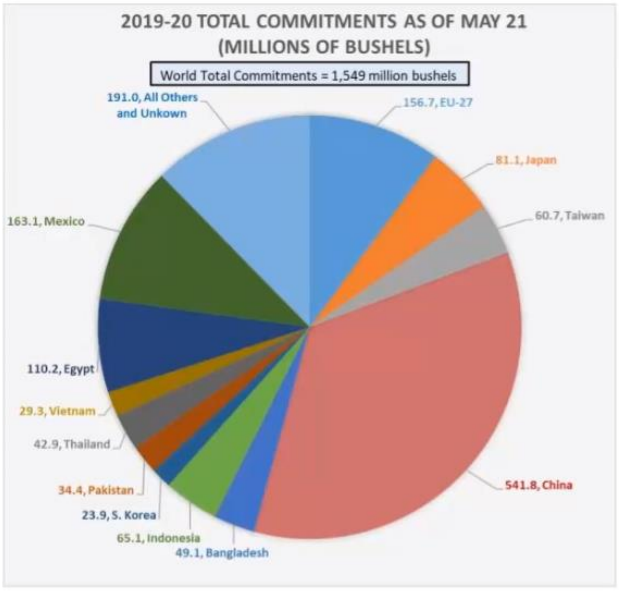
November Soybean Futures Price (January – October)

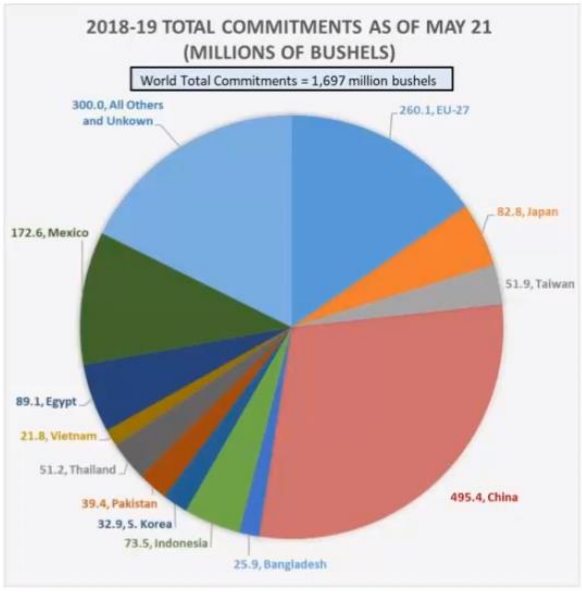


http://www.farmdoc.illinois.edu http://farmdocdaily.illinois.edu

The USDA projects that U.S. soybean exports during the current marketing year at 1.675 billion bushels, 4% less than last year. With about 12 weeks remaining in the marketing year, soybean exports sit near 1.37 billion bushels. To reach 1.675 billion bushels for the year, exports during the remainder of the marketing year need to total about 305 million bushels or about 22.5 million bushels per week. For the eight weeks ended May 28th, export inspections averaged 16.5 million bushels per week. Chinese buying picked up recently with outstanding sales sitting near 75 million bushels. Sales for the 2020/21 marketing year sit at 124 million bushels through March 21st with China accounting for 30 million bushels of those sales. Both total sales and Chinese buying outpaced last year's sales for the next marketing year. While recent sales show some improvement in U.S. export prospects, Brazil continues to export at a torrid pace.

Soybean Total Commitments (Sales and Exports): May 21 Export Sales Report



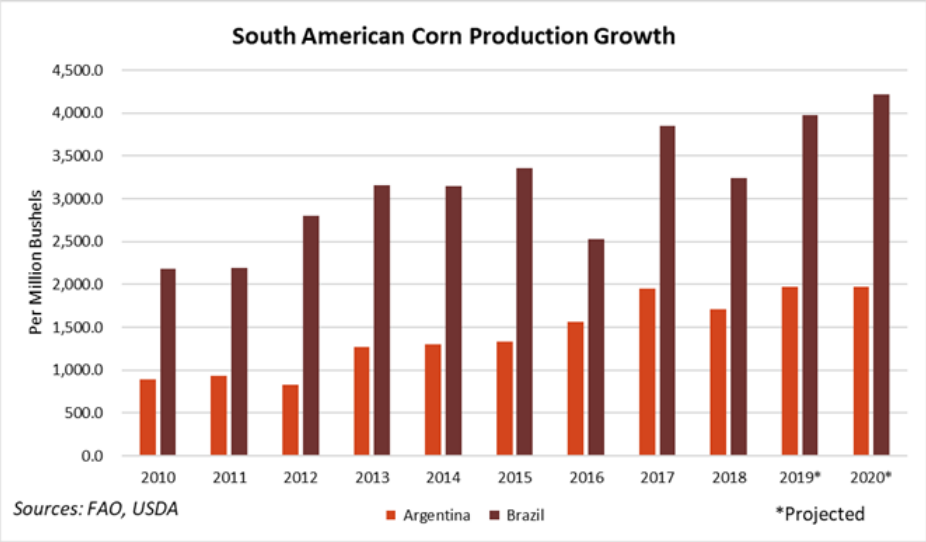


Data: FAS

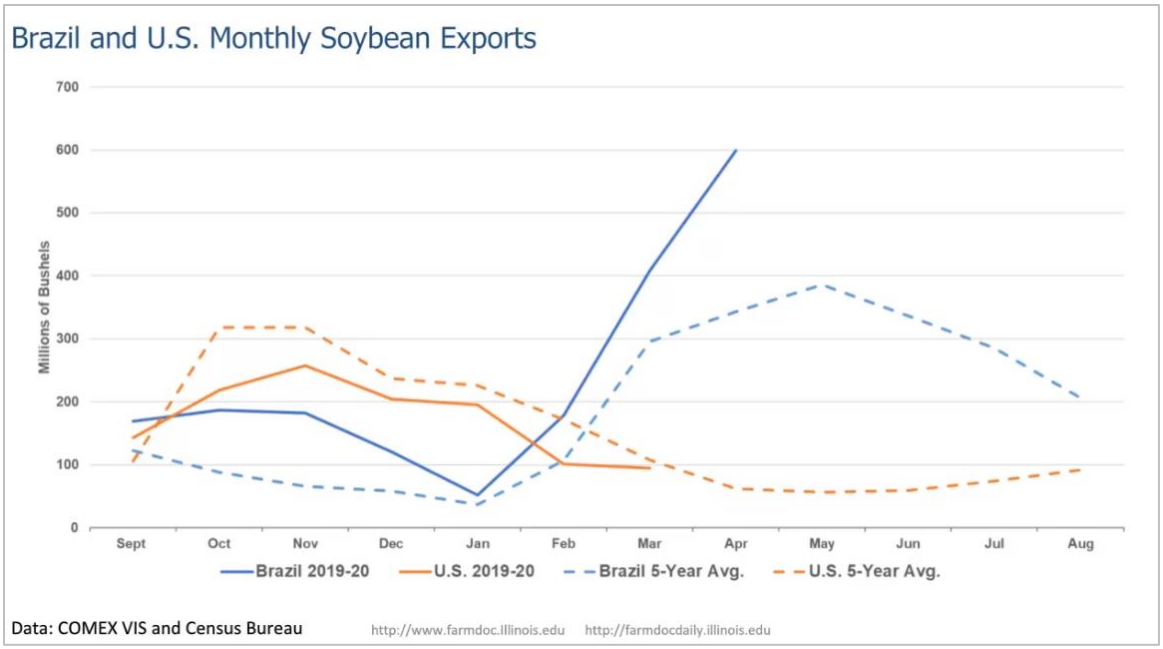
http://www.farmdoc.illinois.edu http://farmdocdaily.illinois.edu

Globally, the USDA anticipates higher oilseed production and lower ending stocks in 2020/21 as compared to last month's outlook. South American exports are on the rise, with the USDA adding 36.7 million bushels to the ledgers of both Argentina and Brazil. With China buying the bulk of these soybeans, the USDA says that the revisions result in higher Chinese stocks and lower South American stocks.

Brazilian soybean production has trended higher consistently over the past decade and is now projected to surpass U.S. production in 2019 and 2020. Argentina remains a distant third as a soybean producer but is still a strong competitor for soybean and soymeal exports.



Brazilian soybean exports since February came in at record levels in March and April. The robust export pace continued into May. A weak real and plentiful crop helped Brazil capture world market share. The Brazilian real strengthened recently but still depreciated around 33% since the turn of the year. Chinese buying of Brazilian soybeans remains strong. Continued deterioration on the political front with China adds substantial uncertainty to any export scenario moving forward for U.S. soybeans. The USDA forecast of 2.05 B bushels for the 2020/21 marketing year relies on Chinese buying under the phase one trade deal. As the last two marketing years show, reduced exports to China limit U.S. soybean export totals. No one, including the people setting the policy, seems to know how the growing political impasse will turn out. It seems China cannot avoid some buying from the U.S. in the fall. The magnitude of those purchases contains some flexibility. As the political back and forth between the U.S. and China continue, volatility in soybean prices looks to increase.



China may be sourcing more soybeans from the U.S., but the U.S. isn't China's main buying destination right now. Chinese Customs data shows China's total soybean imports jumped up 40% in May compared to April, with the biggest buys happening in Brazil. According to the data, Brazilian shipments to China shot up 27% compared to May 2019. With all this buying, is Brazil running out of soybeans? Not yet, but their supplies are dwindling quickly, although they will continue to export fairly aggressively into the middle of August. Brazil hasn't run out of soybeans yet, but Chinese buyers are counting on Brazilian supplies to start getting tight soon, said the U.S. Soybean Export Council. Thereafter, the U.S. has the market opportunity and you can see and basis levels this week, Brazilian beans are about 54 cents more expensive now than the U.S. Gulf. Hence, it's reasonable to expect that the U.S. will realize a shift in business. If the Chinese government was refilling its reserves- and the USDA kind of indicated this in their May WASDE- those additional imports are going into reserves, not the crush. So, the Chinese look like they forward bought maybe in the anticipation that there could be some political problems here as the Chinese are very wary about the Trump administration and how the rhetoric will play out heading into the election.

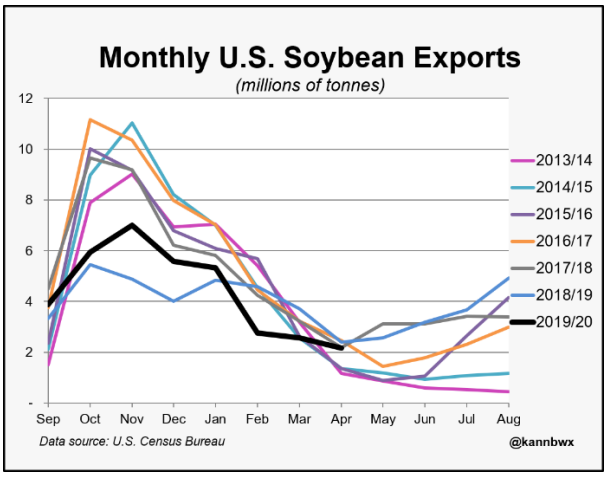
It was reported on June 5th that many market analysts believe China was the buyer behind two consecutive days of private export sales to unknown destinations. U.S. soybean exports to China dropped to 16-year lows in May as cumulative exports for the current marketing year to China total a mere 128.6 million bushels, according to trade data released by the Census Department yesterday. A falling U.S. dollar has contributed to a recent uptick in soybean purchases. Weekly export data released yesterday show that U.S. corn and wheat growers have also benefited from a falling dollar over the past two weeks. The USDA reported another soybean export sale to "unknown destinations." The sale of 258,000 metric tons is presumed to be China, and it includes one cargo for the current marketing year, while the rest is for 2020/21. The suspected China buying is not unexpected and does not change the global balance sheet, but it does change the mood. But is also increases the importance of more sales announcements to sustain the rally in the weeks ahead.

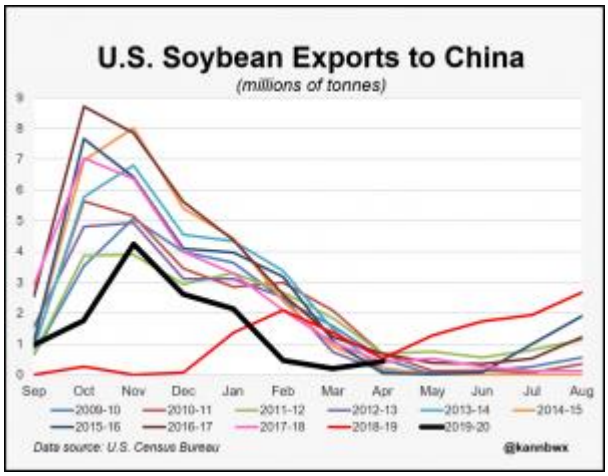
Fast forward less than one week's time to June 10th and rumors of Chinese demand continued to swirl after the Chinese state-owned grain company Sinograin purchased two cargoes of U.S. soybeans out of the Pacific Northwest. Sinograin is believed to have purchased at least 4.4 million bushels of soybeans to

be loaded out in December according to traders. Fellow Chinese trader COFCO had also inquired about pricing on a November U.S. soybean shipment, but traders could not confirm if a deal had been struck.

This may signal that China is calculating the growing tightness of Brazilian supplies and locking in deliveries past September. Only about 63,000 tons of the total is for delivery in the 2019/20 marketing year, while the remaining 657,000 tons is for delivery in 2020/21, which begins September 1st. Private buyers are still nervous about the fate of the U.S./China "phase one" trade pact amid growing tensions and are still more likely to rely on South American soybeans because there's no risk of tariffs. China, in a move tied to the "phase one" deal, began waiving trade war tariffs for importers to buy soybeans and other U.S. commodities. Those waivers are key to future sales and were necessary for recent sales, which are substantial.

"U.S. soybean exports had a dismal April performance and possibly an even worse showing in May as shipments to China remain historically low, but corn exports hit a one-year high in April and improved on those volumes last month." Reuters noted that, "The U.S. exported 2.16 M tons of soybeans in April, down 10% from the previous year and the smallest volume for any month since June 2017. That is according to data published on Thursday by the U.S. Census Bureau." "April shipments to top buyer China totaled 423,891 tons, down 20% on the year but more than twice the March volume," the Reuters column said. "Soybean exports to China are by far the U.S.' biggest agricultural trade relationship, which is why the oilseed probably has a great deal of leg work to do if the Phase 1 trade deal between the two countries were to be fulfilled. "That deal calls for China's 2020 U.S. agricultural imports to rise more than 50% over 2017 levels, making the recent snail's pace of U.S. soybean shipments to China even more alarming."





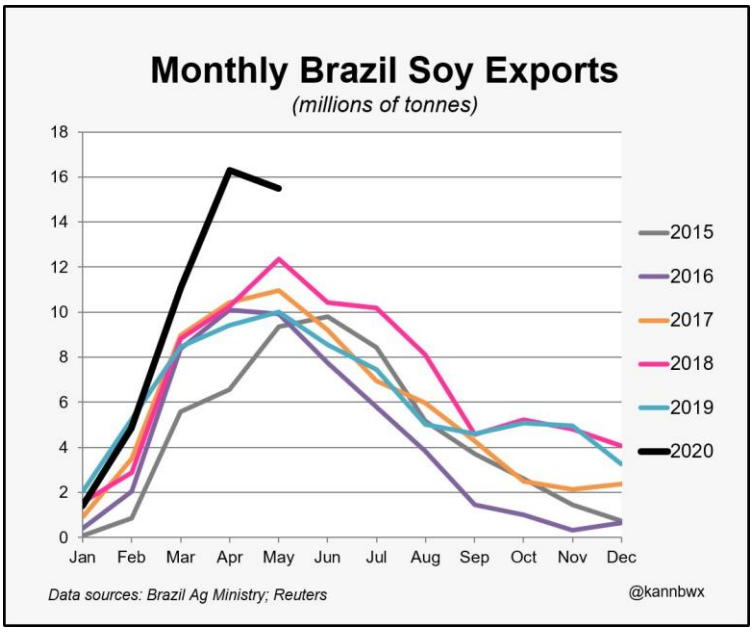
China imported 9.38 million metric tons of soybeans during May, more than a 2 million metric ton increase from last year when the country brought in 7.36 million metric tons. Improved weather led to a large volume of previously delayed shipments out of Brazil and favorable crush margins and strong feed kept demand for the oilseed high. Chinese bean buys are expected to top 9 million metric tons in both June and July, easily topping normal levels. Also, of note, China imported 816,000 metric tons of meat during May, a 5.3% retreat from the month prior. For the first five months of 2020, Chinese imports are up a dramatic 73%, as the country has a major protein deficit due to African swine fever. A further breakdown of specific meats will come later this month.

Meanwhile, Bloomberg News reported on Saturday that, "Soybean imports by China rose 27% in May from a year earlier, after crushers increased purchases from Brazil to take advantage of cheap supplies

amid strong crush margins. “The country shipped in 9.4 million tons in May, compared with 7.4 million tons in the same month last year, and 6.7 million tons in April, according to customs data Thursday. “That’s close to the record high of 10.08 million tons in July 2017.” The Bloomberg article added that, “Chinese imports could stay close to record levels until July, as crushers buy aggressively from top supplier Brazil due to a bumper harvest and the depreciation of the local currency earlier this year.”

Brazilian soybean exports are forecasted to be a record for May, pushing year-to-date shipments to a record of 50 million metric tons. Currently, the USDA is forecasting total Brazilian soybean exports to top 84 million metric tons. Ultimately though, a bumper harvest, combined with a weaker Real there have pushed up domestic soybean prices to hover around record levels. Accordingly, it’s tough for Brazilian farmers not to sell both the crop that just came off, as well as their 2020/21 crop, which won’t get planted until September. Reuters reports that Brazil's exports of soybeans are still off the charts, mind-blowing actually. Government data suggests that May exports came in at 15.5 million metric tons, 55% more than in May 2019, with most of those exports thought to be destined for China.

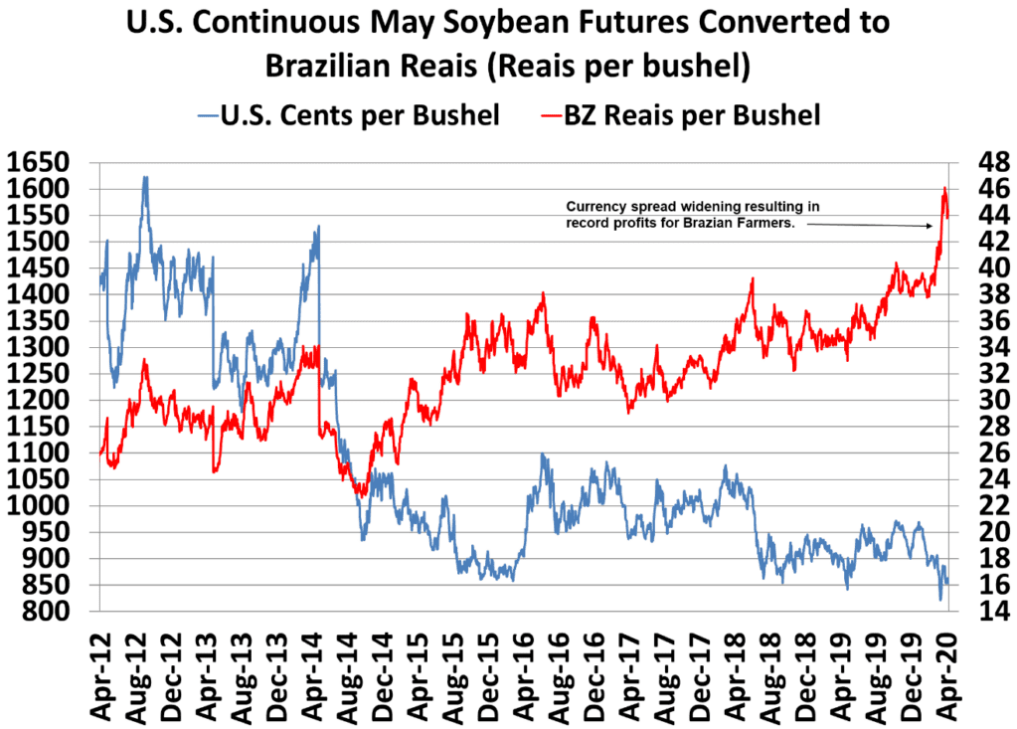
Bloomberg reports that though the U.S. technically sent the smallest amount of soybean exports to China since 2015. As a result of the trade war between the two countries, Brazil’s dependency on China as a buyer of their soybean exports has increased significantly. In fact, Brazilian government data suggests that Brazil’s May soybean exports totaled 15.5 million metric tons, a jump of 55% year-over-year. Further, 74% of Brazil’s March and April soybean exports headed to China.



A record South American crop, a high-valued dollar vs. the Brazilian real and Argentine peso, retrenched world protein meal and vegetable oil demand in the wake of the COVID-19 pandemic and of course the ongoing trade and security issues with China have all conspired to send this year's U.S. share of expected global soybean trade to what appears to be an all-time low of 34.5%, half the levels seen 25 years ago.

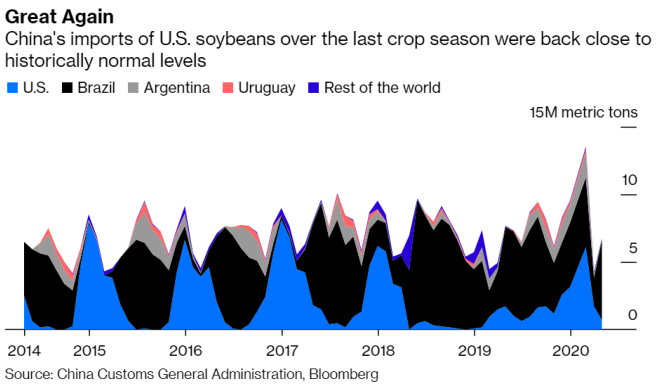
The U.S./China trade war also resulted in a flight to safety, which in turn sent the U.S. dollar to record highs versus the Reais. After Phase One, the currencies stabilized but COVID-19 sent the world traders towards the dollar and away from the Reais. The currency devalued between the Brazilian farmers buying inputs and selling the crops. Because commodities are quoted in dollars, the resulting price signal to Brazilian farmers in Reais is record high prices and profits for two straight years, which has resulted in an

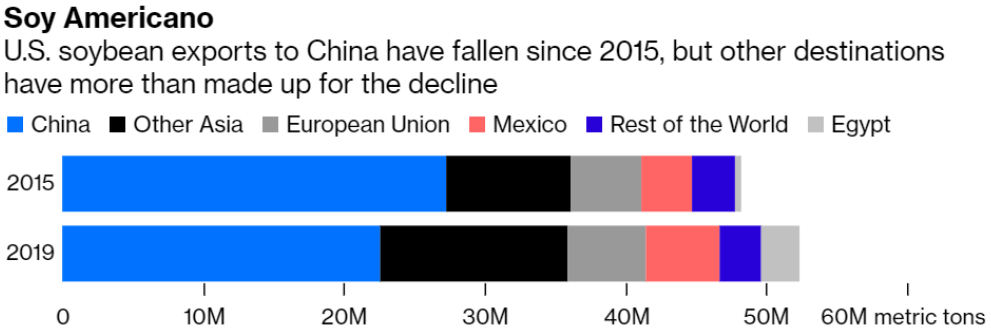
increase in planted area. Eventually the currency devaluation will stop or reverse, and the Brazilian farmer will lose money, but as a rule, once pasture and forest are converted to crop land, it remains in production even if commodity prices decline.



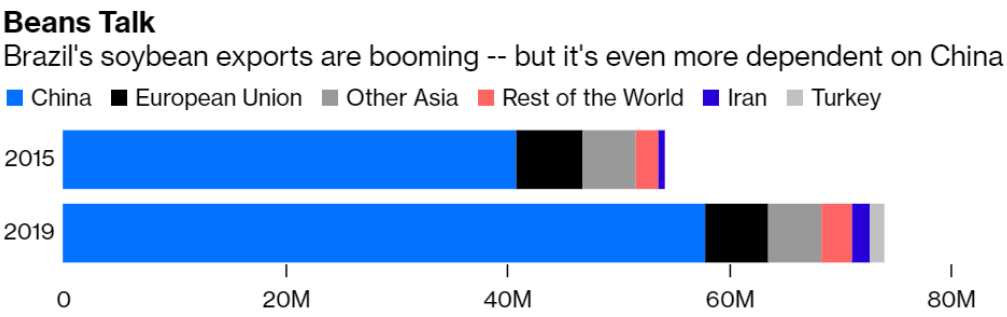
A long-term impact of the trade war and COVID-19 is that all market players in the international community are developing new supply chains that reduce dependency on any one country. To this end, a tremendous amount of infrastructure investment has occurred in the Asian Growth Center and Brazil. Examples of supply chain investment are new ports, deeper ports that can handle larger vessels, railroad tracks that service the ports, more sophisticated grain storage systems, and commercial animal operations.

Bloomberg News reports that since 2015, Brazil's soybean exports to China are up 42% whereas U.S. shipments to the People's Republic has dropped 17%. More significantly though, as Brazil's soybean exports have started to narrow in on one main customer (China), the U.S. field of countries it ships beans to has diversified. That's probably a good thing as we enter more trade turmoil leading up to the November U.S. Presidential election.



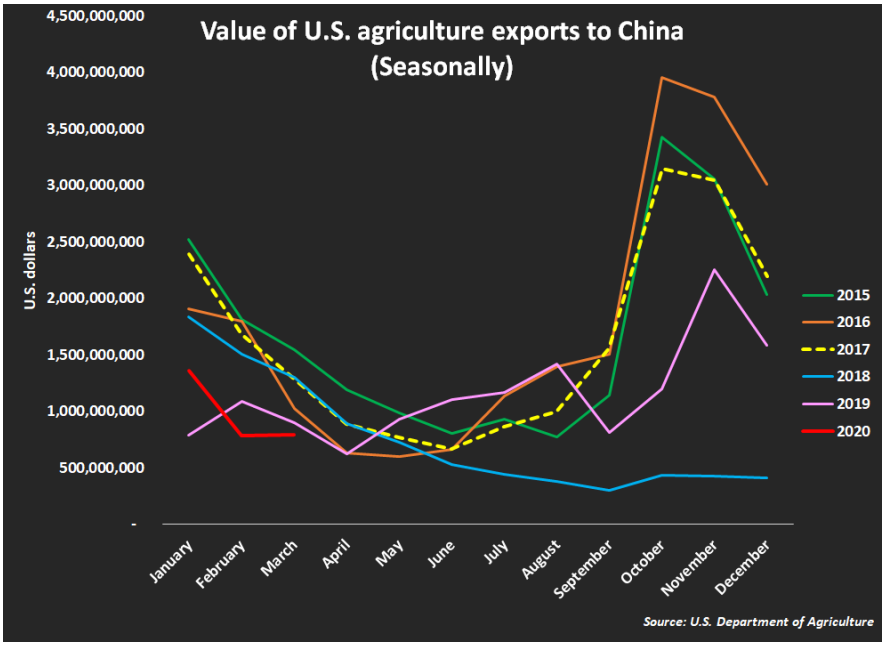


Source: International Trade Centre, Bloomberg Opinion calculations



Source: International Trade Centre

The big picture resembles one that yet another sign that the phase one trade pact might not be a game changer for farmers, ranchers and businesses after all. Under the deal, China was supposed to buy at least $36.5 billion in U.S. agricultural products this year. But USDA scaled back its export projections by $3 billion in part because of weaker Chinese demand.



China's economy remains weak. Data this week showed that the prices factories are able to charge for their goods continues to decline. A private survey indicated a worsening outlook for employment next quarter. The mood has been made even more dour by a growing uncertainty about how much more stimulus Beijing is ready to provide. China's central bank, The People's Bank of China, long worried about debt, has held back on the sort of broad-based stimulus other countries have employed. And with tax revenue expected to fall this year for the first time in two decades, any additional surge in government spending to support growth will be just as challenging. Meanwhile, China is stepping up efforts to internationalize the yuan among Southeast Asian nations under its *Belt and Road Initiative*, but the currency's use in global trade is still limited.

Rice

As several rice-exporting countries around the world begin to ease COVID-related export and other trade restrictions, global prices have become more competitive, falling from their peak earlier in May. While prices in the United States remain higher than pre-pandemic levels, global trade and competition have brought international prices to heel. Many key rice-exporting countries, including Myanmar and Cambodia among others, are beginning to resurface after several months of import restrictions designed to weather the impact of the COVID-19 pandemic.

Over the past couple of month, rice prices in the U.S. have been driven by short supply more than anything else. However, India and Thailand, for example, have gone back to pre-COVID-19 pricing levels. In Vietnam, they remain about $100 above pre-COVID prices. Overall, prices have become much more competitive after the peak a few weeks ago. India, the world's largest rice exporter, continues to struggle with the spread of the virus to a large degree, causing delays throughout its supply chain. There is no way of knowing when the global rice market will truly return to pre-COVID levels of efficiency.

Given the current stage in the U.S. agricultural planting cycle, it's unclear what opportunities the current situation may present for U.S. producers in 2020. "With planting decisions, we know that for the last two months, all the economic factors favor rice."

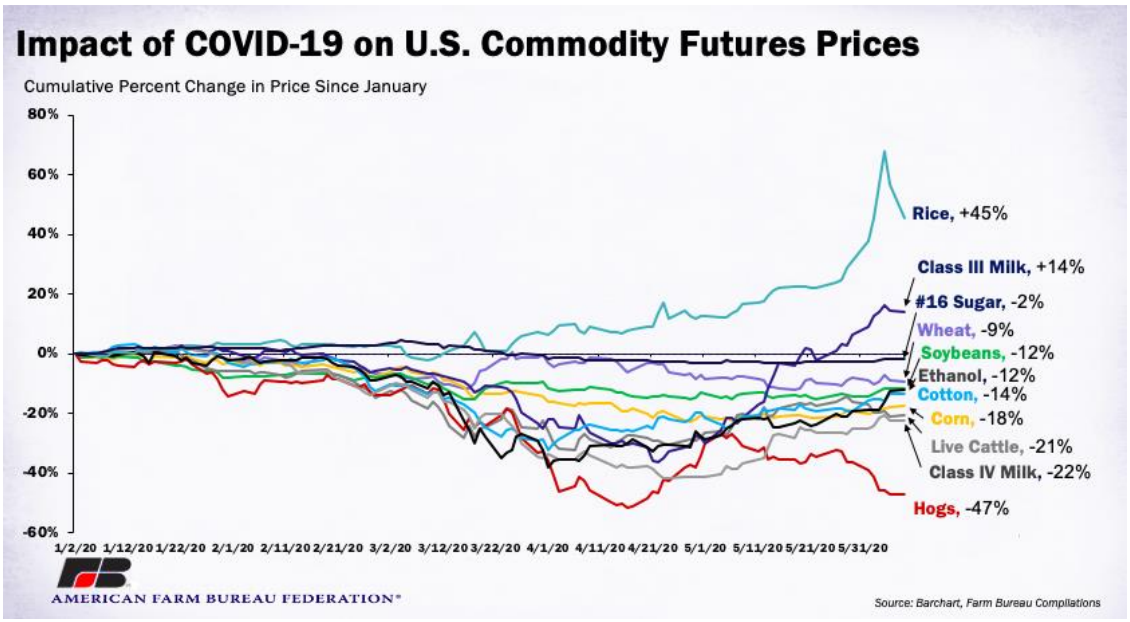
New crop pricing is becoming more aggressive although price discovery is still in its infancy. Cash prices for early shipment are notably stronger than the deferred months due to the near-term demand. The trade still anticipates a large crop for the current marketing year which, if realized, will take some of the pressure off of the near-term commitments. Strong export demand for new crop is also keeping the pressure on the industry which will ultimately lead to more aggressive marketing strategies from producers as the year progresses. The USRPA notes that old crop paddy is scarcely traded throughout the entire US as every state is dealing with tight supplies due to consistent demand throughout the marketing year, which was further exacerbated by the COVID panic buying. There are a few pockets of old crop surfacing in the upper delta which are commanding strong prices, but the sales are small and sporadic.

In Louisiana, there were no notable changes in the market this week. Bids for new crop long grain are $20.00 per barrel ($12.00 per cwt). The last trading of new crop was done at $23.00 per barrel delivered ($13.90 per cwt) for July/August; that has not been repeated.

As reported on June 4th, July rice futures trade above $22.00 per cwt. The key feature is the fact trading began the week and month at $17.20. With old crop stocks essentially out of producer's hands, there's nothing to rule out a retest of the 2008 "crazy" highs near $25.00 per cwt. Prices at first appreciated into the $22 range but then fell back into $14 territory toward the end of the week. Growers are keenly interested in the almost $10 July/September futures spread and the feasibility of a short July/long September trade.

There are good arguments from both the bulls and bears in the September contract. From a bearish standpoint, rice acreage will increase in 2020. Production uncertainty lies in the lateness of this year's crop. Much of the decline in the futures market came as a result of the monthly WASDE report released on Thursday. The report itself was net bearish for rice. The lateness of the crop could have the September contract trading much like the old crop July contract—which is dominated by supply tightness. A more informed discussion can take place after the June Acreage report.

Futures action for the week has also been an interesting study. After a strong run up to levels not seen in a decade or more, the nearby July contract finally broke to the downside and began to move toward convergence with the September contract.



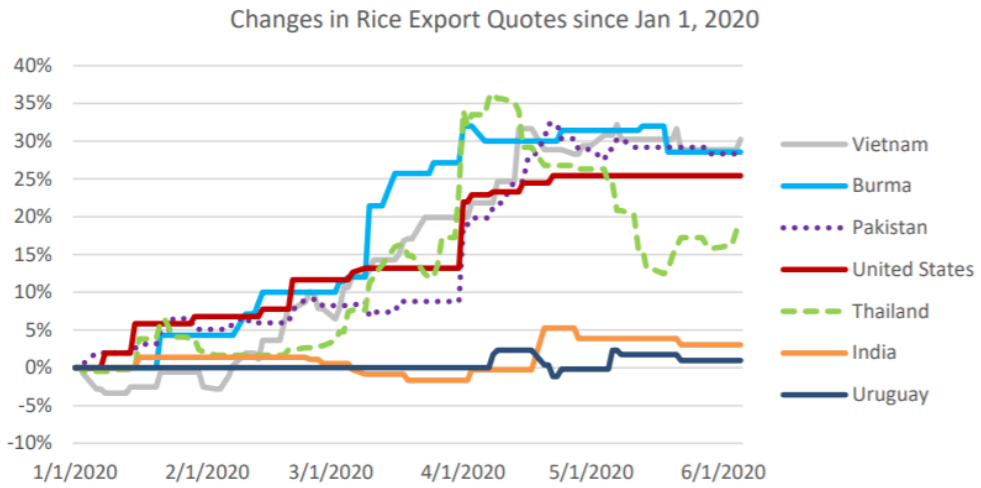
The Wall Street Journal reported that the futures market attracted significant interest as average daily volume rose by more than 200% this week. Ongoing buying pressure caused by a market long looking to take deliveries pushed the July contract up 23% this week. Rice futures spiked to their highest level in nearly nine years after the global pandemic boosted shoppers' demand for the grain.

One measure of prices has soared 47% in the last two weeks to touch its highest level since November 2011, making rice one of the fastest-climbing major commodities in the recent market rally. Front-month rough rice futures on the CME traded at high levels before giving up some of that gain in recent sessions. The surge has been fueled by a spike in retail sales, with consumers stocking up on essentials during pandemic lockdowns. Through 13 weeks ending May 30, retail rice sales were up nearly 40% versus the same time last year.

That increase in demand met a lower-than-expected supply. Rice production in the U.S. in 2019 fell 17% to 184.7 million cwt—or roughly 18.5 billion pounds, according to data from the USDA. A much more hospitable spring planting season this year means that the increase in prices may prove temporary as the USDA is forecasting U.S. rice production at 216.2 million cwt this year, essentially a full rebound.

Since the beginning of 2020, export quotes have risen sharply by 15 to 30% for most exporters, initially elevating when export restrictions were implemented. Despite the reversal of most of these policies, prices have remained high throughout May and June for most exporters due to market concerns about tight supplies and strong demand. Remarkably, Indian quotes have been largely unmoved over the past few months as burdensome supplies weigh on its market. However, India's continued lock-down amid the pandemic is constraining exports even at those prices and supporting the higher quotes of other exporters. On the demand side, global consumption is rising in 2019/20. Import demand has remained strong, especially with the Philippines, the largest importer, actively tendering for sizeable quantities.

Rice Prices Remain High on Constrained Supplies and Robust Demand

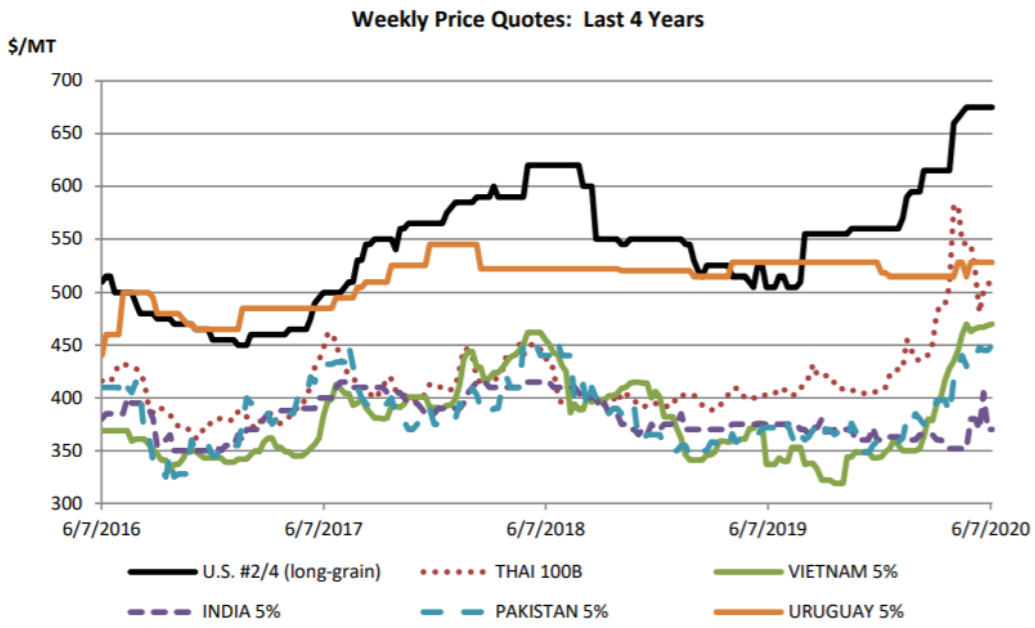


Source: IGC. All 5% broken except the United States 4% broken

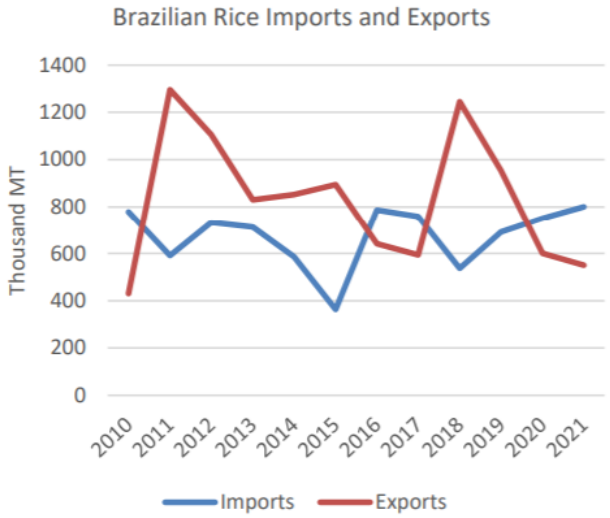
Asian benchmark pricing has appreciated over the week for similar reasons. The exchange rate matrix has been more favorable to US origins of recent date as the overseas competitors have narrowed the price gap and made domestic rice more competitive. As the global trade has tightened due to the coronavirus, the USDA has raised its world market price estimate for the week. Thailand's rice export prices increased 4% as Thai rice exporters are sourcing new-crop rice to fulfill large volume contracted shipments of white and parboiled rice to Asian and African buyers. Also, foreign buyers began to seek Thai rice as prices of Thai and Vietnamese white rice are currently about the same, compared to a typical price difference of around U.S. $15-20 per metric ton *after* the Vietnamese government removed its rice export restrictions earlier this month.

In the medium-term, more abundant global supplies are expected to alleviate some pressure. The South American 2019/20 harvest is nearly over, thus improving the Western Hemisphere supply situation. The 2020/21 global production is forecast at a record. U.S. production is forecast to recover with harvest beginning next month. Thai production is also expected to rebound in 2020/21, with harvest to begin in late 2020. The largest exporter, India, is also projected to have another bumper crop; however, its ability to move sizable quantities of rice into the global market will have a direct impact on the relative price levels.

U.S. long-grain export quotes remain well above other exporters at $675/ton, indicative of a very tight supply situation as the market awaits new-crop harvest. With Uruguayan quotes at $528/ton for the recently harvested crop, the divergence between the U.S. and Southern Hemisphere quotes remains remarkable. Thai prices fell over the past month and then rebounded at $516/ton on strong demand as exporters secured domestic rice to fulfill contracts to buyers in Asia and Africa. Vietnamese prices have risen slightly to $470/ton – the highest in several years – strengthened by recent contracts and participation in the Philippines tender. Pakistan quotes are at $450/tons, well above India, its main competitor, at $370/ton.



Brazil is the largest rice producer in the Western Hemisphere and plays a key role in South American rice trade as both a major importer and exporter. Brazil has recently harvested its 2019/20 crop and production is up from the prior year on improved conditions. Even with a larger harvest than the previous year, Brazil will likely be a net importer, though its import prospects are reduced this month compared to prior expectations.



Brazil is a key destination for the major rice exporting and producing countries in South America: Uruguay, Paraguay, and Argentina. These countries are also Brazil's top three suppliers as Mercosur neighbors can access the Brazilian market duty-free. In recent years, more than two-thirds of Paraguay's exports have been destined for Brazil. Paraguay has a lower cost of production and due to its geographic position can supply some nearby population centers more easily than Brazilian producers. In addition to shaping the region's trade as an importer, Brazil is also a rice exporter. Brazil exports primarily broken rice to Senegal, milled rice to Peru, and paddy rice to the Western Hemisphere, particularly to Venezuela. The recent large exports from Brazil may incentivize South American exporters to price their exports

more competitively and spur stronger competition in markets where the United States has had a strong presence historically. Uruguay has made inroads into traditional U.S. markets, such as Haiti and Panama, and has regained access to Mexico where it has also had strong exports in recent years. Likewise, Paraguay may continue to expand shipments to Iraq and Mexico, two key U.S. long-grain markets. This effect will be more pronounced if U.S. prices remain significantly higher than South American prices for 2020/21.

Cotton

The July/December inversion continues to hold, but only by a few points, seeming to suggest that the market acknowledges the immediate demand for cotton in the export market. Nevertheless, the export market remains weak due to the world textile slowdown, but business is advancing. Apparel sales are beginning to show positive consumption numbers. A slight improvement in yarn movement also turned up. As pointed by noted cotton economist Dr. O.A. Cleveland, this is a situation of being able to claim that carryover stocks have peaked. Also, consumer confidence has regained its strength and is above its 2016 level. Yet, prices have been swamped since the arrival of the Chinese coronavirus. World stocks outside of China are at record levels- meaning that the world export market will remain highly competitive, and more so than in the past five to seven years.

Shipments remained on track to reach the USDA's target of 15.0 million bales, and momentum is building to ensure that target is reached. Primary destinations for exports are Vietnam, China, Pakistan and Turkey. Yet, the market's major concern is whether shipments of prior sales will actually be made to China. China has purchased some 3.2 million bales during the current marketing year, accounting for almost 20% of all U.S. sales for the year. U.S. shipments for the current marketing year total about 11.1 million bales of the 15 million bale target. The shipment pace is some 11% above last year's pace.

Economic conditions were improving faster than expected and that cotton business was seeing some gains. That progress was confirmed by the U.S. jobs report Friday and sent commodities and equities significantly higher and with triple-digit gains in cotton. The cotton market ended sharply higher Friday as the unexpected bullish jobs report suggested the U.S. economy is indeed mending. The 2.5 million jobs created for the month of May was the single largest monthly improvement in history. The recent up-move has been sparked by weary net short speculators buying back their positions.

In the short run, the dynamics of the July delivery period remain a key in the old crop/new crop price bridge. We do not see the 55-60 cent trading range disappearing. But we now see that the market is attempting to build a new higher trading base between 58 and 64 cents. As noted over the past three months, export sales and shipments have slowed considerably due to the pandemic's impact on world trade and economic activity.

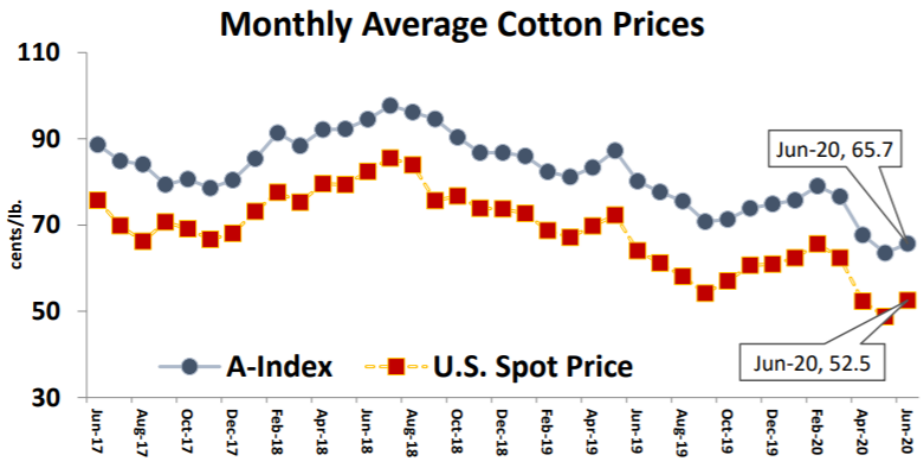
Some significant news can be obtained from the weekly U.S. export sales report for the week ending May 28th. Although that showed net sales of negative 10,100 bales of upland (some 24,000 bales were sold during the week, but 34,100 bales of existing sales were canceled) there was some positive news, primarily that China was not in the cancellation category. The market remains in full fear that China will begin cancelling purchases it has made but have not yet been delivered. Those sales are substantial, too. China actually needs the stocks of cotton purchased from the U.S. While India and Brazil have cotton available, China already has outstanding purchases from those two countries. Typically, China attempts to maintain diversification in its sourcing locations. More importantly, given China's experience with COVID-19, it is currently leery of Brazilian imports due to the widespread number of cases in Brazil now.

Cotton also sloughed off a strong export sales data on June 11th, disappointed by the fact that essentially only two countries bought the lion's share of fiber. The lack of other buyers suggests global demand is waning. Afterwards, the market embraced a bearish June supply-demand report. The USDA projected new crop carry (2020-21) higher than its May estimates. In short, U.S. ending stocks were placed at 8.0 million bales and world stocks were pegged at 104.50 million bales. One has to go back to April 2008 to see higher U.S. stocks that were 9.70 million. Interestingly, world carry stood at 59.64 million at that same time.

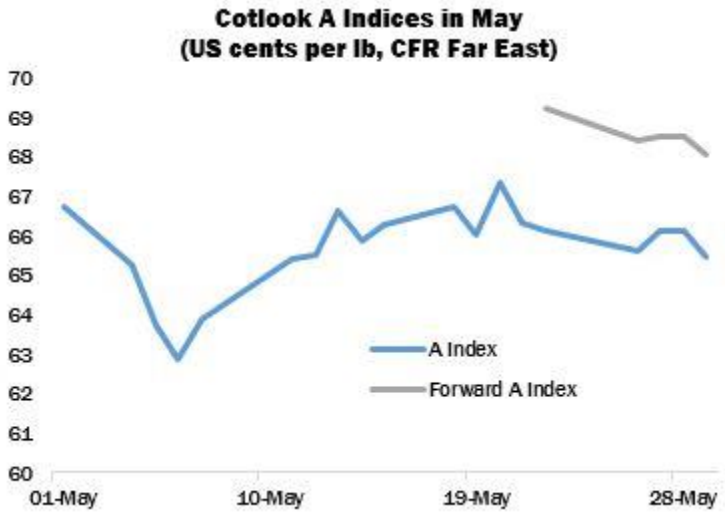
Currently, India and Brazil are gaining export strength. Economic conditions in those two countries have made those two growths the most competitive in the world, both below the quoted price for U.S. export styles. COVID-19 has become widespread in those countries, forcing the basis for those two growths lower in an attempt to gain foreign currency to help boost the respective economies. It is expected that the current price trading range, roughly between 55-60 cents, to hold into the June and July WASDE reports.

Speculators are coming back into the futures market on the long side, especially in July, as the charts become more friendly. A booming U.S. stock market is also bullish for cotton. Last Friday's surprisingly upbeat U.S. jobs report also landed squarely in the camp of the cotton market bulls. Rising crude oil prices that pushed over $40.00 a barrel at one point in overnight trading and a slumping U.S. dollar on the foreign exchange market are also friendly "outside market" forces working in favor of cotton at present.

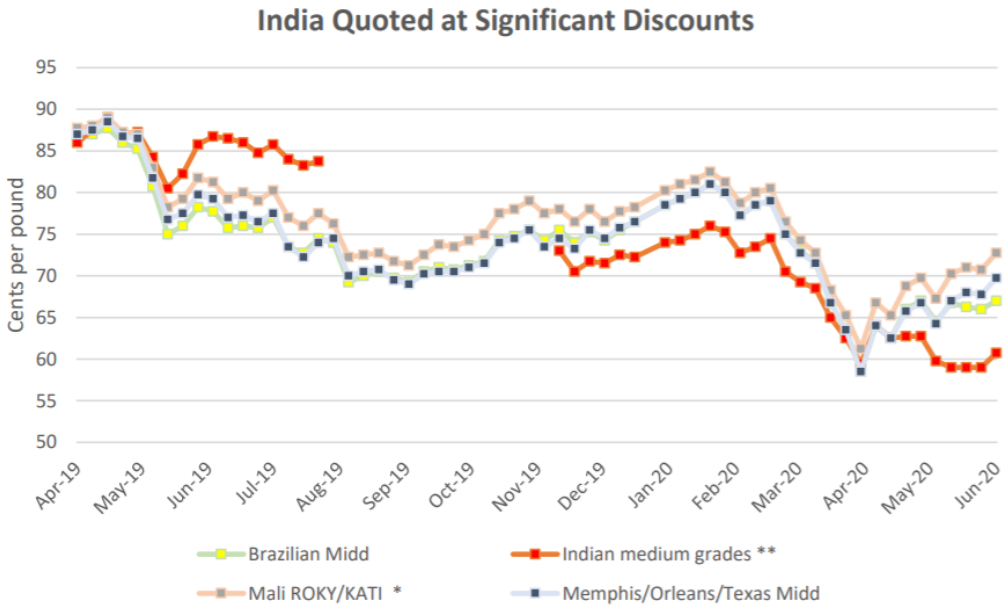
The A-index and U.S. spot price have risen since last WASDE report but remain below the season average. Strong China purchases of U.S. cotton and a climbing S&P Retail Index have strengthened the July ICE contract, with prices climbing for the second consecutive month. However, the December contract is below July and reveals a negative carry in the market.



International cotton prices, as measured by the Cotlook A Index, fluctuated within a range of around 450 cent points during May. The nearby A Index fell to a low of 62.90 US cents per pound early in the period, amid the deterioration of diplomatic relations between Washington and Beijing which prompted fears that the gains achieved under the Phase One trade deal may be in jeopardy. The Index subsequently advanced under the lead of New York, to register a high point for the month of 67.35 cents per pound, before easing modestly to end the period 130 cent points below its opening level.



The economic effects of measures to contain the spread of COVID-19 continued to reverberate through the cotton supply chain in the month and merchants remained focused predominantly on management of their existing purchase contracts, including requests from spinners to delay shipments. However, more mills began to restart their operations in the second half of the month and industry members in some quarters began to express tentative hopes that a gradual revival of demand might be witnessed. Of the modest business that was concluded during May, with the exception of Chinese purchases of US cotton (more of which below), cheaper lots were the focus. Asking prices for Indian cotton represented a very competitive option vis-à-vis competing growth. The basis for Brazilian came under pressure as the price at which 2019 crop balances were sold from origin reflected the collapse of the local currency, while offers of 2020 crop also came under pressure on supply and demand considerations.

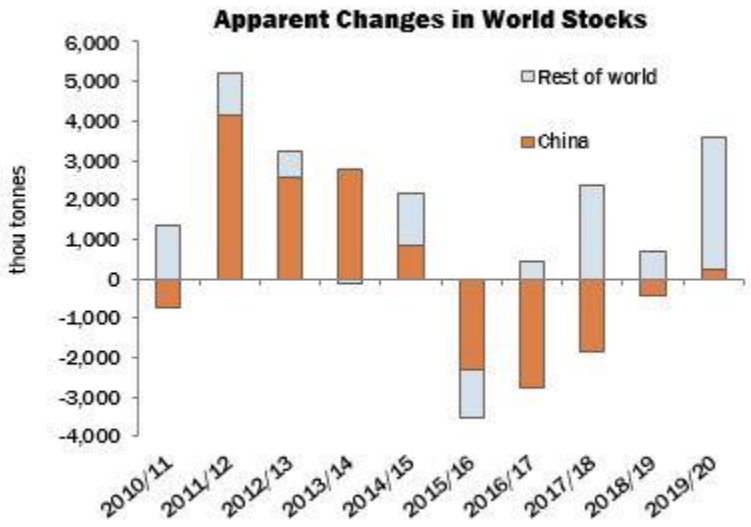


Source: Cotton Outlook

China remained the major source of import demand during May, predominantly for US lint, and was again the main destination named in USDA's export sales reports released in the month, for both this

season and next. By the week ended May 21, the cumulative volume of both upland and Pima committed for export to China in the current season was 3,268,600 running bales (46 percent of which had been shipped), representing 20 percent of all US export sales in the season so far. The pace of US export shipments (to all markets) during May remained more robust than some had predicted, given the market disruption of recent months, but still below that required to meet the USDA's projection of exports for the season, of 15 million bales of 480 lbs.

Although those Chinese purchases were credited largely to a state-owned trading entity, the scale of the purchases fueled conjecture among the international trade that the State Reserve might be the eventual destination for said cotton: as we mentioned in our last report, the depression of world prices over recent months would provide an opportunity to replenish and rebalance, quality-wise, the ageing stocks in State Reserve warehouses at relatively attractive prices. Late in the month, private mills also began to show interest in imported cotton. Cotlook's estimate of raw cotton consumption in the current season was reduced by a further 268,000 tons in May, to 22,220,000 tons, representing the lowest since the 2003/04 season. The change was largely attributable to adjustments for countries in the Indian subcontinent, where the sizeable spinning sectors have been badly affected by the loss of retail demand, and disruption of the entire cotton supply chain, resulting from public health measures to curtail the spread of the COVID-19 pandemic. Smaller but still considerable falls were also noted for the US and Brazil.



USDA CFAP Signup Underway

For eligible producers of non-specialty crops, livestock, dairy, and specialty crops, CFAP applications and a payment calculator can be viewed/completed at https://www.farmers.gov/cfap. A USDA call center is available for producers who would like additional one-on-one support with the application process. Please call 877-508-8364 to speak directly with a USDA employee ready to offer assistance. A list of frequently asked questions can be viewed at https://www.farmers.gov/cfap/faq. The deadline to apply for this program is August 28, 2020 via the USDA FSA.

USDA FSA ARC/PLC Enrollment for 2020 CY

As per the 2018 Farm Bill, program election and enrollment for program year 2019 will begin September 3, 2019, and will continue to March 15, 2020. Enrollment for program year 2020, following a valid election being performed on the farm for 2019, will begin October 7, 2019, and will continue to June 30, 2020.

Although program elections for the 2020 crop year remain the same as elections made for 2019, all producers need to contact their local USDA FSA office to sign a 2020 enrollment contract. Producers who do not complete enrollment by close of business local time on Tuesday, June 30th will not be enrolled in ARC or PLC for the 2020 crop year and will be ineligible to receive a payment should one trigger for an eligible crop.

PLC Farm Program Payment Projections - 2019 CY

The table below projects the national marketing year average prices for purposes of the Price Loss Coverage (PLC) program. A PLC program payment is triggered when the national Marketing Year Average (MYA) price for a commodity falls below that commodity's effective reference price. The payment rate is then multiplied by the farm's program yield and made on 85% of base acres.

Covered Commodity	*2019/20 MYA Price**	*Effective Reference Price*	*2019 CY PLC Payment Rate*
Corn	$3.60	$3.70	$0.10
Grain Sorghum	$3.25	$3.95	$0.70
Long Grain Rice	$12.10	$14.00	$1.90
Medium Grain Rice	$11.70	$14.00	$2.30
Seed Cotton	$0.3032	$0.3670	$0.0638
Soybeans	$8.50	$8.40	--
Wheat	$4.60	$5.50	$0.90

*national marketing year average (MYA) prices reflect the midpoint price level from the June 11, 2020 WASDE report.

PLC Farm Program Payment Projections - 2020 CY

The table below projects the national marketing year average prices for purposes of the Price Loss Coverage (PLC) program for the 2020 crop year. A PLC program payment is triggered when the national Marketing Year Average (MYA) price for a commodity falls below that commodity's effective reference price. The payment rate is then multiplied by the farm's program yield and made on 85% of base acres.

Covered Commodity	*2020/21 MYA Price**	*Effective Reference Price*	*2020 CY PLC Payment Rate*
Corn	$3.20	$3.70	$0.50
Grain Sorghum	$3.20	$3.95	$0.75
Long Grain Rice	$11.80	$14.00	$2.20
Medium Grain Rice	$11.80	$14.00	$2.20
Seed Cotton	$0.2829	$0.3670	$0.0841
Soybeans	$8.20	$8.40	$0.20
Wheat	$4.60	$5.50	$0.90

*national marketing year average (MYA) prices reflect the midpoint price level from the June 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	$3.25	$3.98
Long Grain Rice	$12.10	$14.00
Medium Grain Rice	$11.70	$14.00
Seed Cotton	$0.2963	$0.3670
Soybeans	$8.50	$9.63
Wheat	$4.60	$5.66

*national marketing year average (MYA) prices reflect the midpoint price level from the June 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, International Grains Council, Iowa State University, LSU AgCenter, National Cotton Council, Pro Farmer, Reuters, Rice Market Letter, Southeast Farm Press, Successful Farming, University of Illinois, U.S. Grains Council, USA Rice Federation, U.S. Soybean Export Council, and the Wall Street Journal.

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