Staff Report No. 2020-65 **November 19, 2020**

November Market Update
Corn, Soybeans, Rice, and Cotton

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WASDE Summary

This month's 2020/21 U.S. corn outlook calls for lower production, reduced feed and residual use, larger exports, and smaller ending stocks. Corn production is forecast down 215 million bushels at 14.507 billion bushels, with a reduction in yield to 175.8 bushels per acre. Corn exports are projected be near 2.650 billion bushels, 325 million bushels higher than previous estimates, and if these projections are realized this would amount to a record high. Projected feed and residual use have been lowered 75 million bushels based on a smaller crop and higher expected prices. With supply falling and use increasing, corn ending stocks for 2020/21 are down 465 million bushels to 1.7 billion, which, if projections hold, would be the lowest since 2013/14. **The season average corn price is raised $0.40 to $4.00 per bushel**.

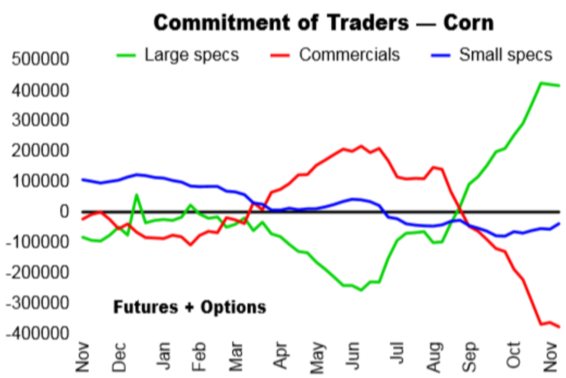
The U.S. soybean outlook for 2020/21 is for lower production and ending stocks. Soybean production is forecast at 4.17 billion bushels, down 98 million on lower yields. With reduced production, soybean ending stocks are projected at 190 million bushels, down 100 million from last month. If realized, soybean ending stocks would be at the lowest level in the past seven years. Soybean and product prices for 2020/21 are all higher this month. **The U.S. season-average soybean price for 2020/21 is forecast at $10.40 per bushel, up $0.60 cents.**

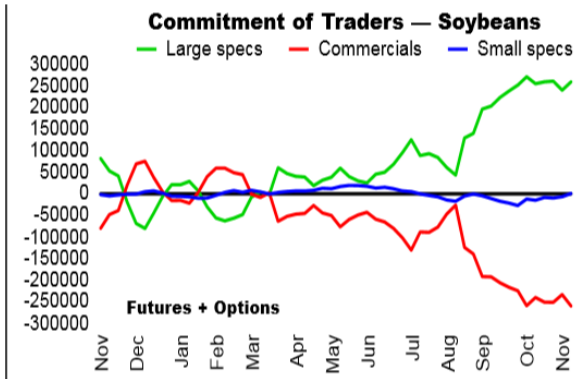
The outlook for 2020/21 U.S. rice this month is for decreased supplies, unchanged domestic use, lower exports, and higher ending stocks. Supplies are lowered as NASS decreased the all rice production forecast by 0.2 million cwt to 226.1 million, all on lower yields. The all rice yield is forecast at 7,560 pounds per acre, down slightly (seven pounds) from the previous forecast. Exports are reduced by 2.0 million cwt to 97.0 million on the mediocre sales and shipments in the early part of the marketing year with all the reduction for long-grain. Projected 2020/21 all rice ending stocks are raised 1.8 million cwt to 49.5 million, up 72% from last year. **The season average farm price for long grain rice is forecasted at**

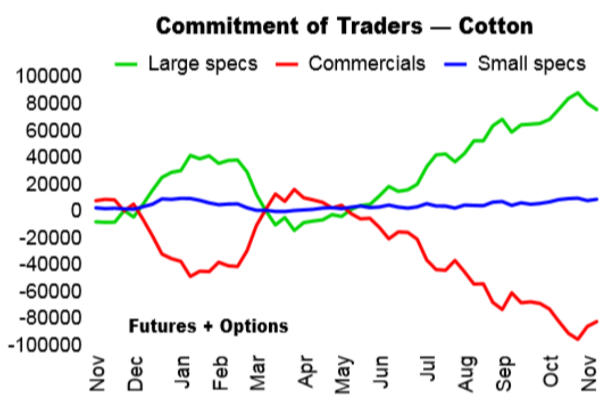
$11.70 per cwt, up $0.20 from last month. The southern medium grain rice price is also forecasted to increase $0.20 per cwt month-over-month to $11.80.

This month's 2020/21 U.S. cotton estimates remain virtually unchanged from October. U.S. production forecast is marginally higher, at 17.1 million bales, while domestic mill use and exports are unchanged. U.S. ending stocks remain at 7.2 million bales and, at 42% of use, would be the highest stocks-to-use ratio since 2007/08. **The marketing-year average price received by upland producers is forecast at 64.0 cents per pound**, 5% (or 3 cents) above the October forecast, and 7% higher than 2019/20's price of 59.6 cents.

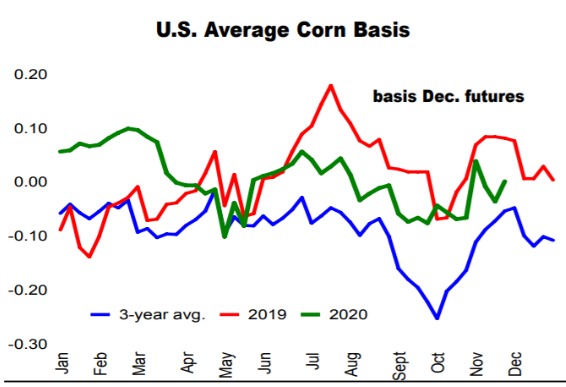
Commitment of Traders Report (COT) November 16, 2020

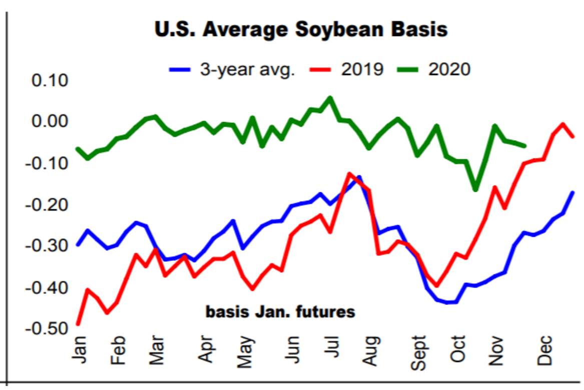


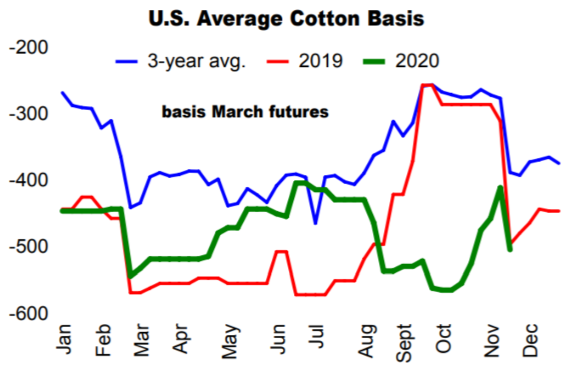




Cash Market Basis Charts November 17, 2020



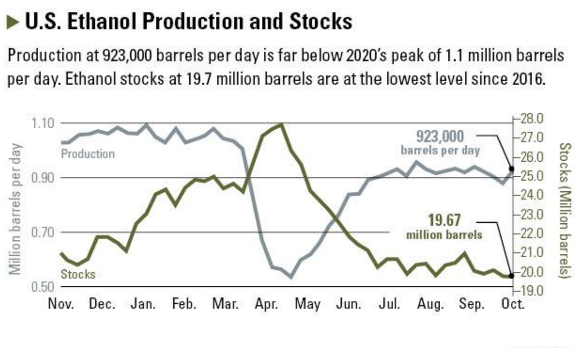


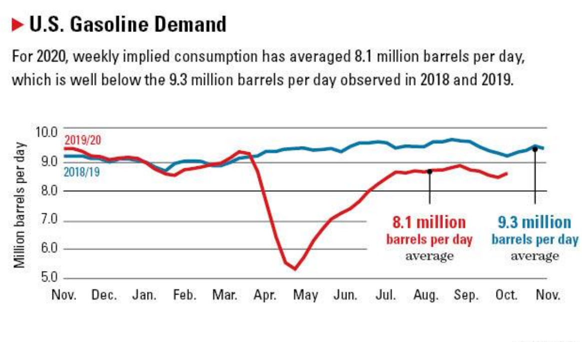


Corn

Corn futures saw 2020-crop contracts coming under pressure from COVID-19 concerns, pre-election jitters, and technically driven selling prior to November 3rd. Although the market appeared somewhat jittery about demand, export demand for U.S. corn remains quite strong, with Brazil seemingly being sold out of exportable old-crop supplies. The long-term outlook for corn will, in part, be tied to fuel demand. Gasoline demand dropped more than 50% this past spring due to the pandemic. Weekly gasoline consumption during the week of March 13 was 9.7 million barrels per day- a record high for that week of the year. However, within three weeks, implied gasoline consumption fell to 5 million barrels per day, the lowest level of activity for that week in 29 years.

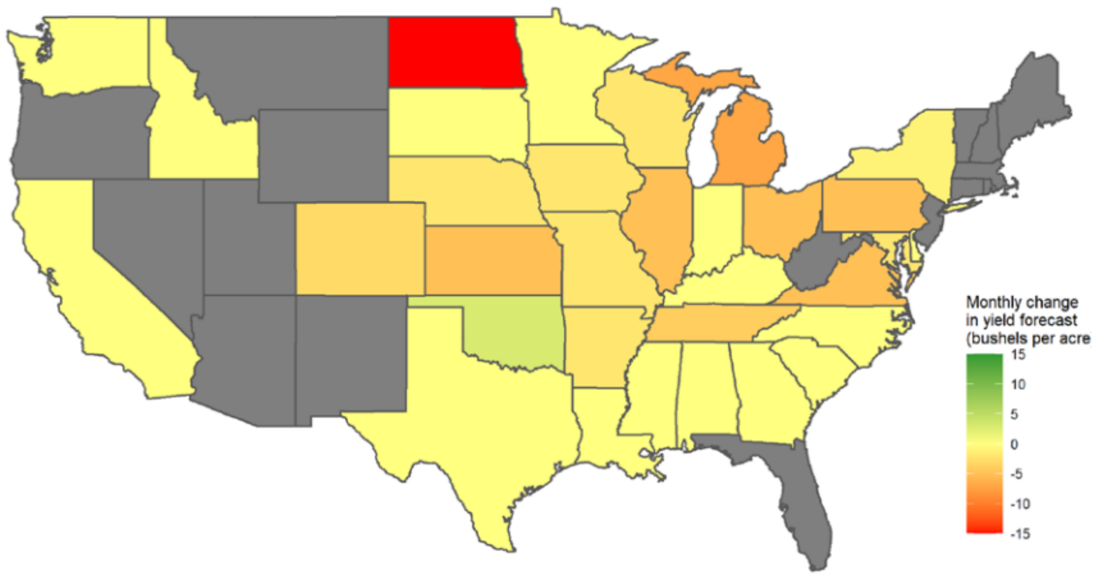
The same drastic drop-off happened in the ethanol sector. Production went from 1 million barrels to their lowest ever recorded- 537,000 barrels. Consequently, ethanol production, which accounts for almost 40% of U.S. corn production, dropped in step with the decrease in gasoline consumption. At the onslaught of the pandemic, ethanol stocks had been quite substantial. The ethanol industry did an impressive job of cutting back production quickly, much quicker than the oil industry. While gasoline consumption has recovered significantly from their March lows, the recovery has been stalled around 90% of the five-year average. For gasoline and ethanol consumption to return to normal, the unemployment rate needs to drop so people resume commuting and taking vacations.





In its November Crop Production report, the USDA NASS lowered its national forecast corn production to 14.507 billion bushels for 2020/21 based on lower national corn yields. This amounts to a 215 M bushel decrease from NASS's previous estimate. The forecast national yield for corn harvested for grain is reduced from 178.4 bushels per acre in October to 175.8 in the most recent forecast. Harvested area forecasts remain unchanged from the previous month at 82.5 million acres. The current forecast is larger than 2019/20 corn production of 13.620 billion bushels from a 167.5 bushels per acre crop. By State, most yield forecasts are reduced from their October levels.

U.S. corn forecast yield changes between October and November, 2020/21 crop marketing year



Source: National Agricultural Statistics Service, USDA.

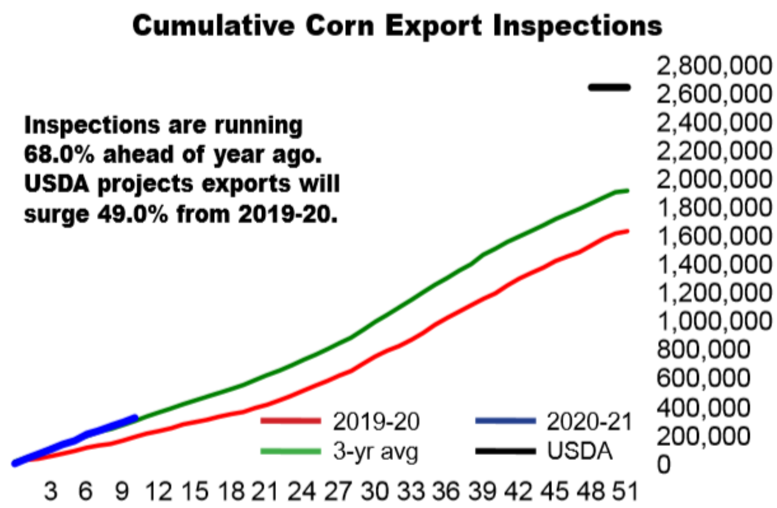
Lower supplies and higher exports portend a tighter U.S. corn balance sheet for 2020/21. This is raising the projected season-average farm price of corn to $4.00 per bushel, up from the previous month's projection of $3.60 and the 2019/20 estimate of $3.56. The season-average farm price for the month of September was $3.41, as reported by NASS. If realized, the current projection would be the highest farm price for corn since 2013/14. In that year, the season average farm price was $4.46 per bushel, coming on the heels of consecutive weather-impacted crops in both the 2012/13 and 2013/14 growing seasons.

Fundamentally, U.S. corn futures followed Chinese Dalian futures higher with the latter rising to a new high and closing above $9.96. The market has been supported by news of COVID-19 vaccine trials which have proved to be almost 95% effective, raising hopes for stronger recovery in the world economy in 2021. Gulf corn basis bids firmed, as farmer sales have dried up after last week's retreat in futures after the bullish USDA November supply and demand forecasts. Bull spreading continues in corn futures amid strong demand, tightening supplies in the cash market pipeline and positive COVID-19 vaccine news. South American weather concerns also remain supportive for prices.

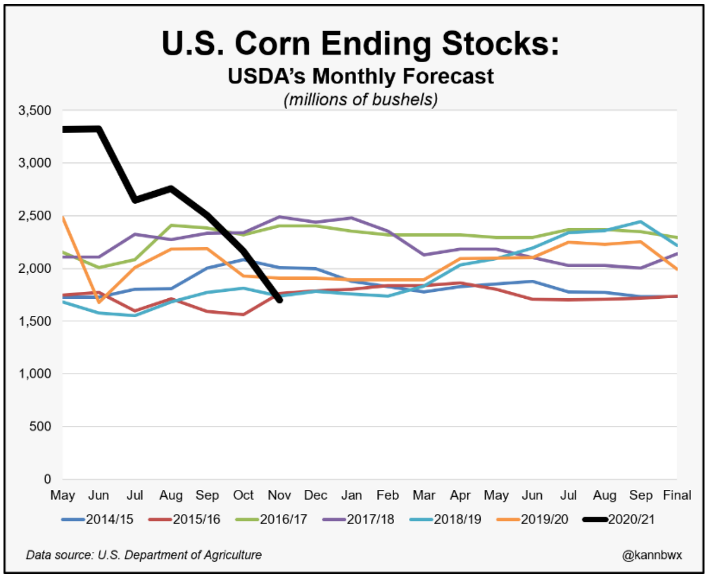
The U.S. is projected to export 2.650 billion bushels of corn in 2020/21- this is a 325 million bushel increase over October's report. Should this hold, this would be a record export total for the U.S. The increase in exports is due to two major global market developments. First, China has been increasing its pace of grain imports to meet increasing feed demand, as its livestock inventories and meat production have increased. Additionally, while China has a tariff rate quota (TRQ) in place for corn imports, it appears that it will exceed that amount for the 2020 calendar year. Second, corn production in Ukraine for 2020/21 has been reduced substantially due to hot, dry conditions in some regions of the country. This has reduced national yields, as Ukraine nears the completion of its fall harvest. In recent years, Ukraine has been the world's fourth largest corn exporter. With fewer global supplies, the U.S. is expected to capture a larger share of global exports in 2020/21.

Rumors surfaced that China was looking for U.S. corn for shipment in April and May, helping to ignite new futures buying. China has 10.7 million metric tons of corn bought, with 8.3 million metric tons that is unshipped. There are also 5.5 million metric tons of U.S. corn sold to unknown buyers, a piece of which likely includes China. The U.S. inspected 817,476 metric tons of corn for export the week ending November 12, which was in line with expectations. China was the destination for almost 180,000 metric tons last week, according to USDA data.

December corn moved above short-term resistance at $4.15 ½ with daily momentum still pointing lower. A higher close Tuesday would likely help to turn the momentum higher. December gained a penny on March futures, closing at an $0.08 discount. Key resistance remains the contract high from last week at $4.28 with the next upside targets near $4.39 and $4.54. A break below $4.03 3/4 would target a test of key support at $3.93.



Unprecedented shift in the supply outlook for U.S. corn with 2020/21 ending stocks were seen around 3.3 billion bushels in May/June. U.S. corn ending stocks in the November WASDE report came in 21% lower than in October. Current estimate is half as big at 1.702 billion bushels would be a seven-year low. The reasons include a much smaller crop than first projected and huge demand from China.

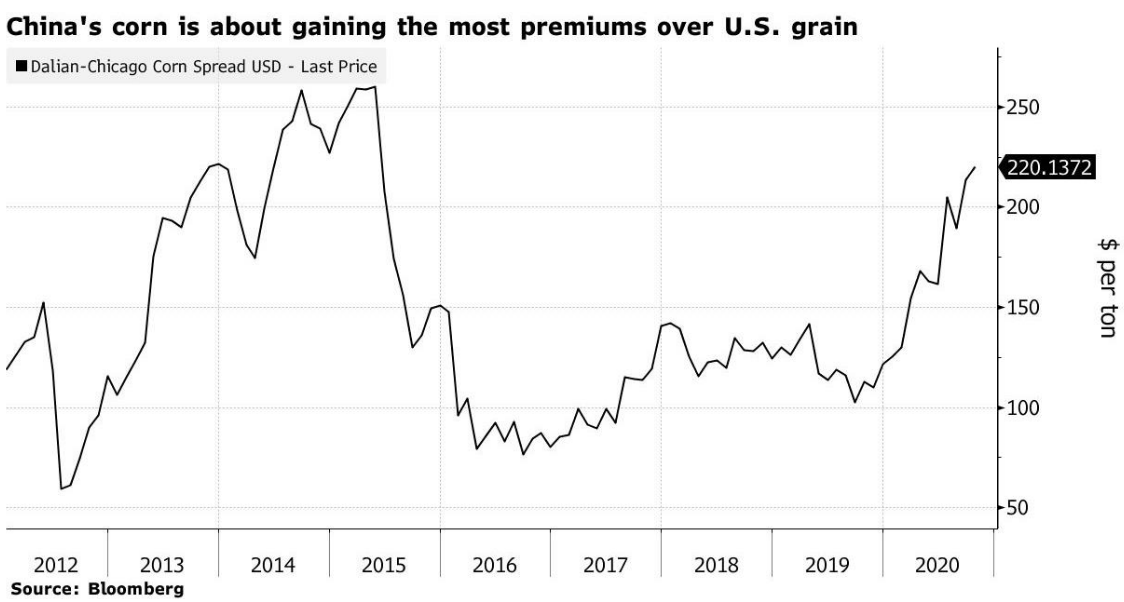


Meanwhile, industry watchers are paying keen attention to Brazil and to the potential size of that country's corn crop this year, as domestic prices continue to top new records. This week, the Brazilian agricultural analytics firm Center for Advanced Studies on Applied Economics (CEPEA) notes that average cash corn prices in the country have gained nearly 30% in the last month alone! At nearly $7 USD/bushel, this would be competitive with U.S. corn landing at Brazil ports. That said, corn prices in China are also sitting at record levels, an indication of how both supply and demand factors driving the current rally in corn prices.

Considering that Ukraine is the fourth-largest corn exporter in the world, with over 80% of their harvest usually shipped out of country, the continued downgrade of the crop is another positive factor for corn prices to remain elevated (at least compared to where the futures market was just a few months ago).

Chinese corn imports have been a topic of intense speculation since the mid-1990s. China is forecast to import a historical high of 512 million bushels during the 2020 crop year, prompting the question: "Will China become a consistent, growing importer of corn?" China's corn imports could more than double in 2020/2021 from a year earlier on prospects for a smaller domestic harvest and a recovery in demand for hog feed, according to the head of the logistics information department at the Chinese trading company, COFCO Trading. The increase in imports would also be to meet commitments under the U.S. trade deal. China has already booked more than 10 million tons of U.S. corn for 2020/2021, including 8.8 million tons which have not been shipped, according to the USDA.

Because of a near record price gap between domestic and Chicago corn prices, imports of sorghum and barley, which are used to replace corn and are not subject to quotas, are also likely to expand more than expected. Overseas purchases of sorghum totaled 3.7 million tons in 2019/2020, while barley imports were almost 6 million tons.

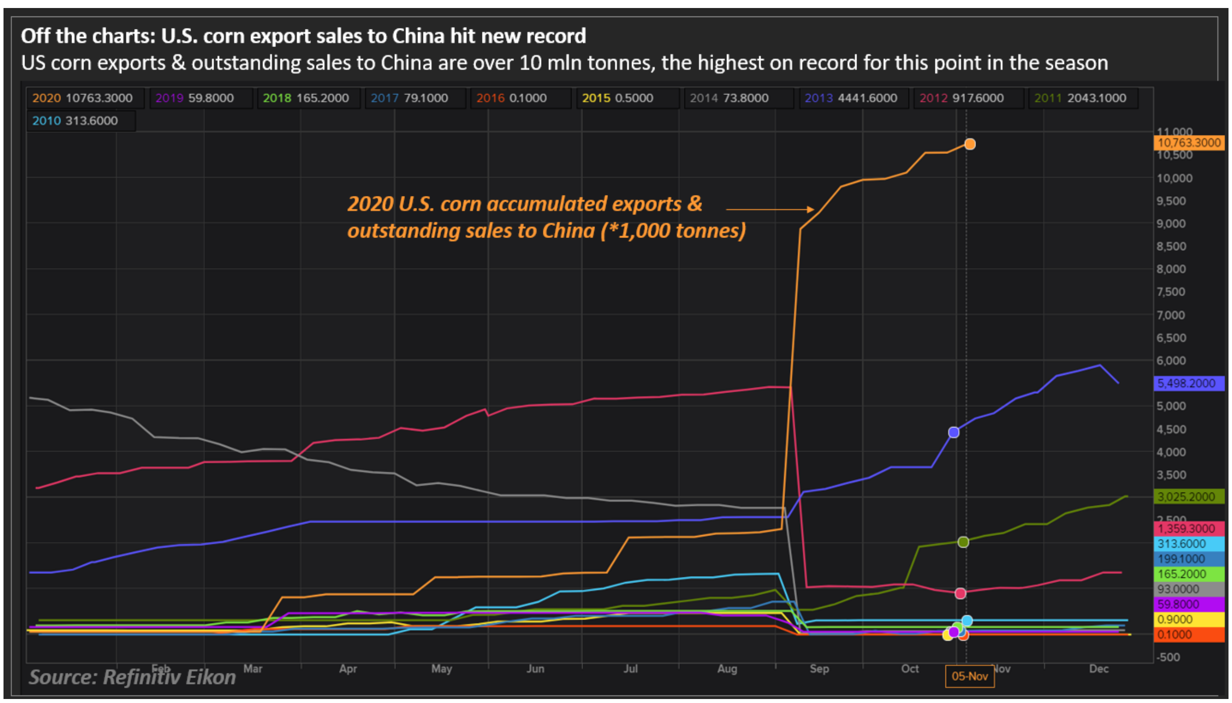


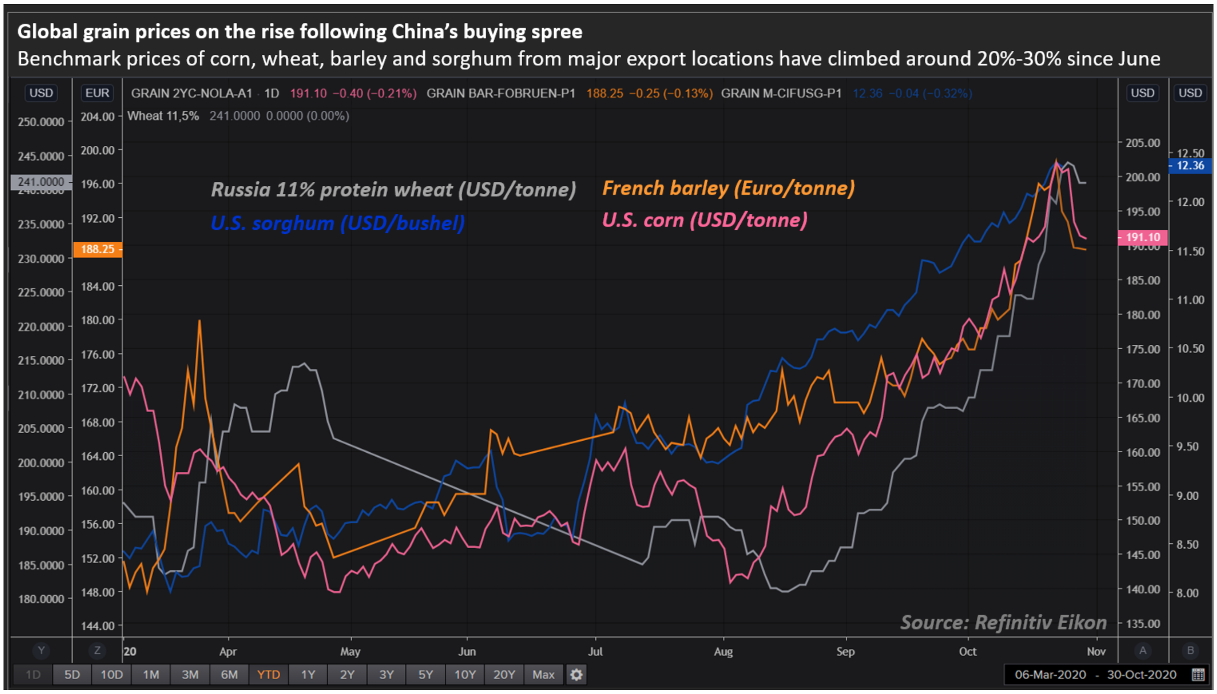
Large imports by animal feed mills in the south may encourage them to turn to imported prices as a benchmark rather than the local market. The price spike this month comes as companies build inventories, adding some now had stockpiles equal to one and a half month's consumption. Output may drop 7 million tons from last year, with quality also hit by the bad weather.

It is fair to speculate if part of the surge of demand for corn is related to countries wanting to secure supplies in case COVID-19 problems worsen again this winter. Talk of dry weather and the possibility of a lower corn crop in Ukraine this year doesn't hurt and there are the weather concerns for southern Brazil and Argentina that I mentioned above. The most bullish clue for the possibility of more corn sales ahead is the high domestic price in China, closing Thursday at the equivalent of $9.82/bushel. So far in 2020/21, China has signed up for 415 million bushels of U.S. corn and it seems fair to say USDA's estimate of China having 7.44 billion bushels of ending corn stocks is not correct.

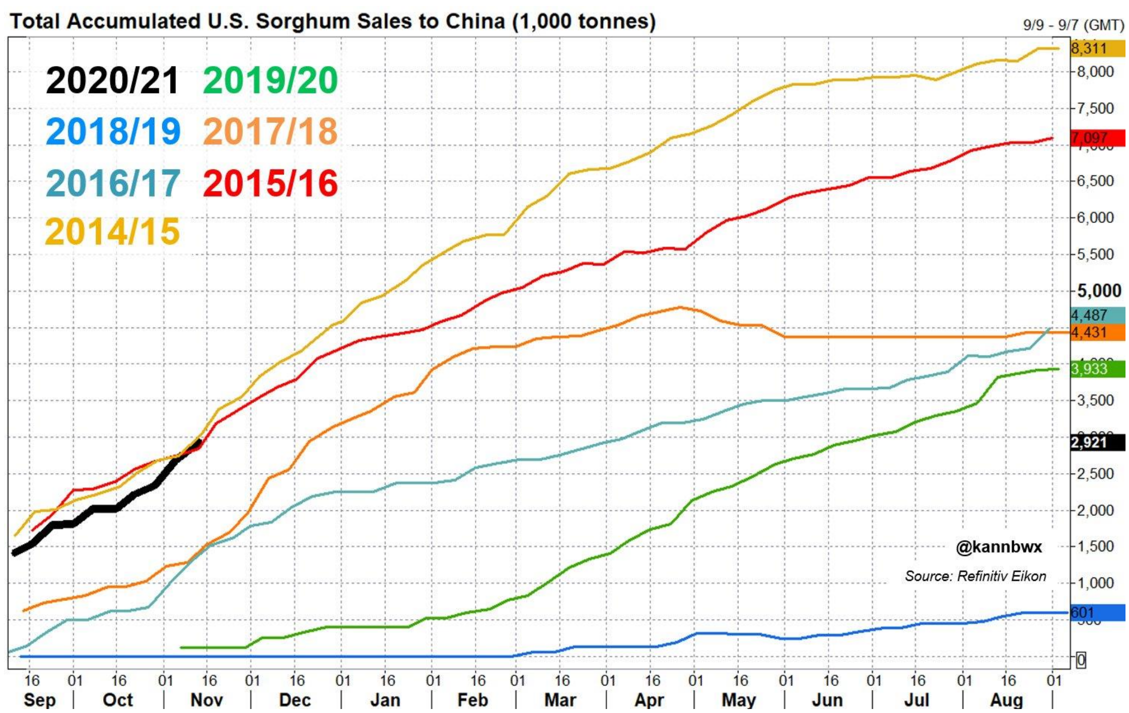
Chinese feed producers, pig farmers and traders are reshaping the global grain market as they scour the world for supplies amid a domestic shortfall that sent local corn prices to record highs and is expected to fuel global food inflation in 2021. The country’s buying has put it on a trajectory to emerge as the top grain buyer by far this season, shattering previous purchase records and marking a clear break from China’s history as a relatively self-sufficient player in grain markets. That purchasing, and problems in other key producing countries, has helped lift corn, wheat and barley prices worldwide- potentially sending shocks through the grain-reliant dairy and meat sectors in coming months.

China’s grain buying has accelerated since May as Beijing utilized their once-huge stockpiles and as extreme weather damaged this year’s corn crop. Reuters noted that about 15 million tons of barley and sorghum imports are expected in the new marketing year, according to two analysts. Wheat imports in 2020/21 are expected to reach 9 million tons, a record, according to a state-owned trader. China’s voracious appetite is rocking the global market. Additional U.S. corn purchases are also expected.





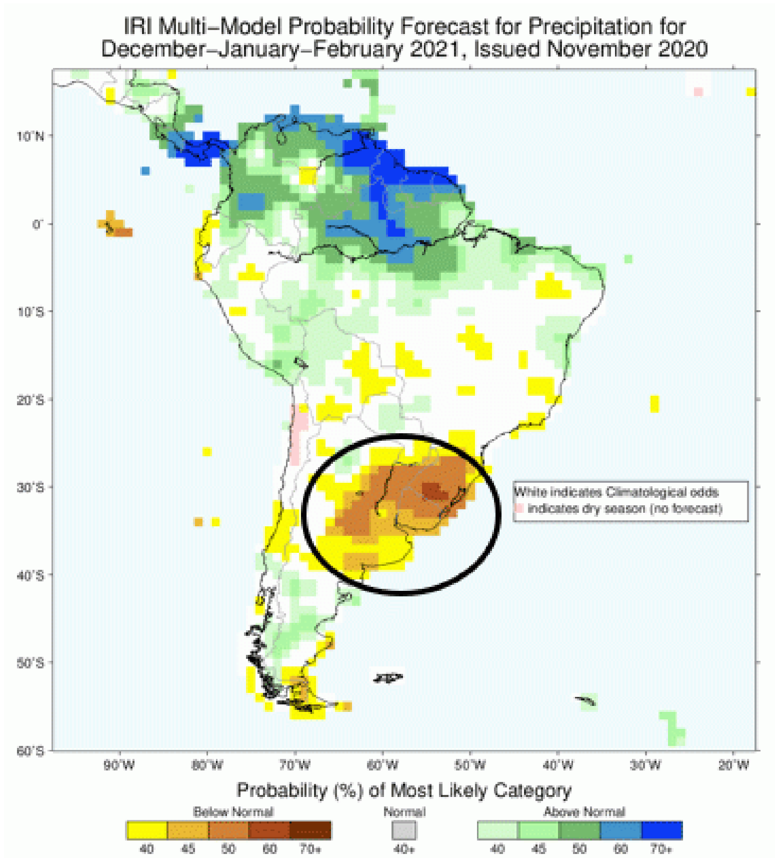
China has bought 2.92 million tons of U.S. sorghum so far for delivery in 2020/21. That is tied with 2014 and 2015 as the most ever for the date.



Soybeans

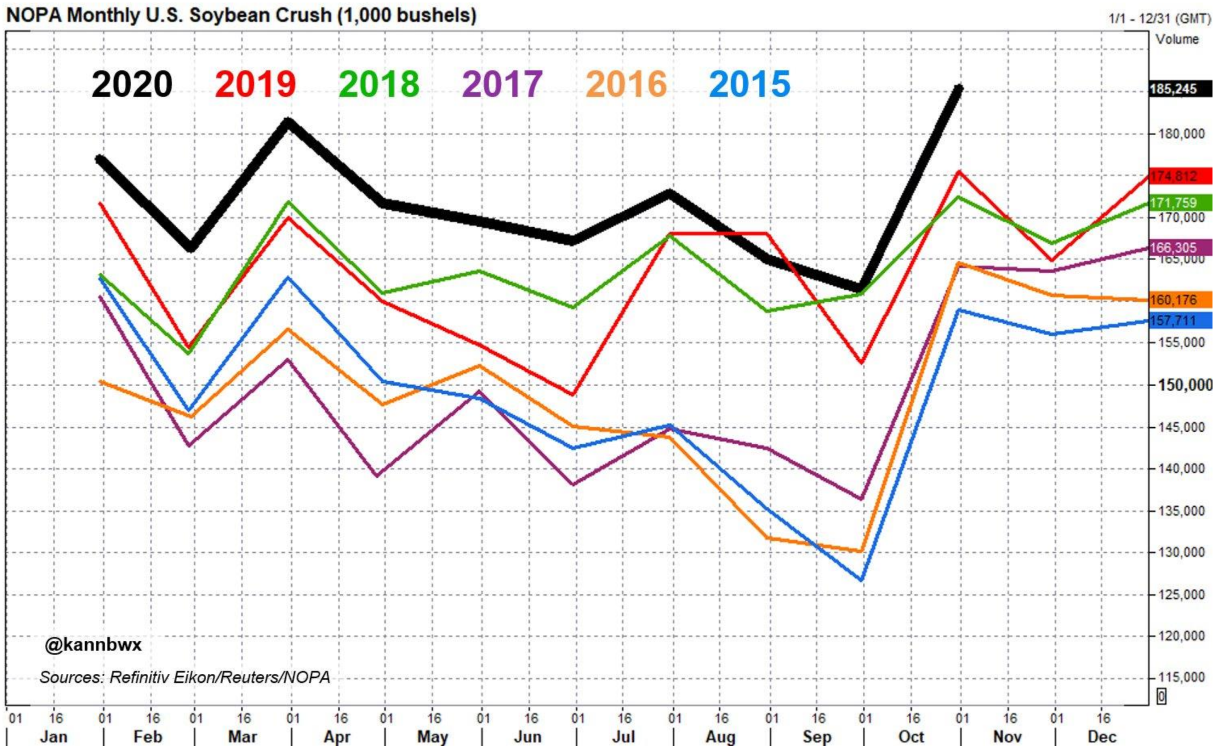
Fundamentally, soybean price direction for the near term will be determined by additional Chinese demand for U.S. supplies and South American weather. The size of the South American crops will hold the deciding vote on price valuations. Much of Brazil and Paraguay received beneficial, but often light, rain during the weekend. Beneficial rain was nearly widespread across Argentina during the weekend, but some areas received much more rain than others and improvements in soil moisture were limited in the many areas where rain was light. A general increase in rain will be needed soon.

A closely watched climate analysis and forecast agency, the International Climate and Research Institute (IRI), released its updated forecasts for the next three- and six-month periods on November 16. The forecast keeps the chances high for continued dryness and drought potential in the U.S. Southern Plains and in the South America crop regions of southern Brazil and Argentina.

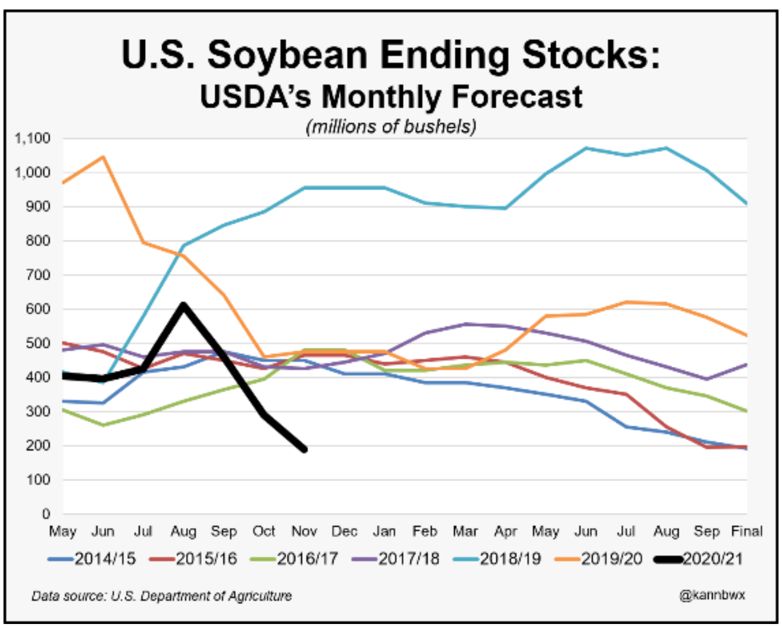


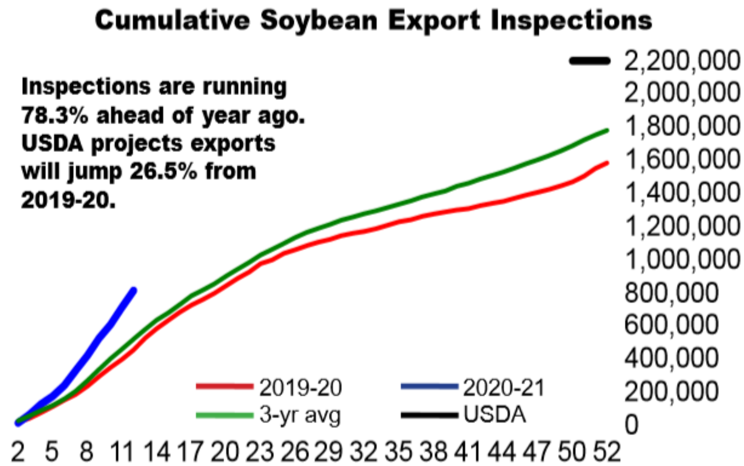
Precipitation forecasts for the coming season are consistent with La Niña. In December to February, strongly enhanced probabilities of below-normal precipitation are forecast for Mexico and the Southern U.S., southeast South America, with moderately enhanced probabilities of below-normal precipitation in Southwest Asia. Enhanced probabilities of below-normal precipitation persist in the Southwestern U.S. through March-to-May, but relax towards climatology elsewhere by January-March.

Members of the National Oilseed Processors Association (NOPA) processed an all-time record 185.245 million bushels of soybeans during October, handily topping the average trade guess for a crush around 177.1 million bushels for October and coming in well above the highest analyst guess of 183 million bushels. The previous record of 181.374 million bushels was hit in March 2020. The October crush was up 5.6% from year-ago and 14.7% from September. Strong crush margins paired with an influx of freshly harvested beans gave processors incentive to ramp up production in the face of rising soybean prices.



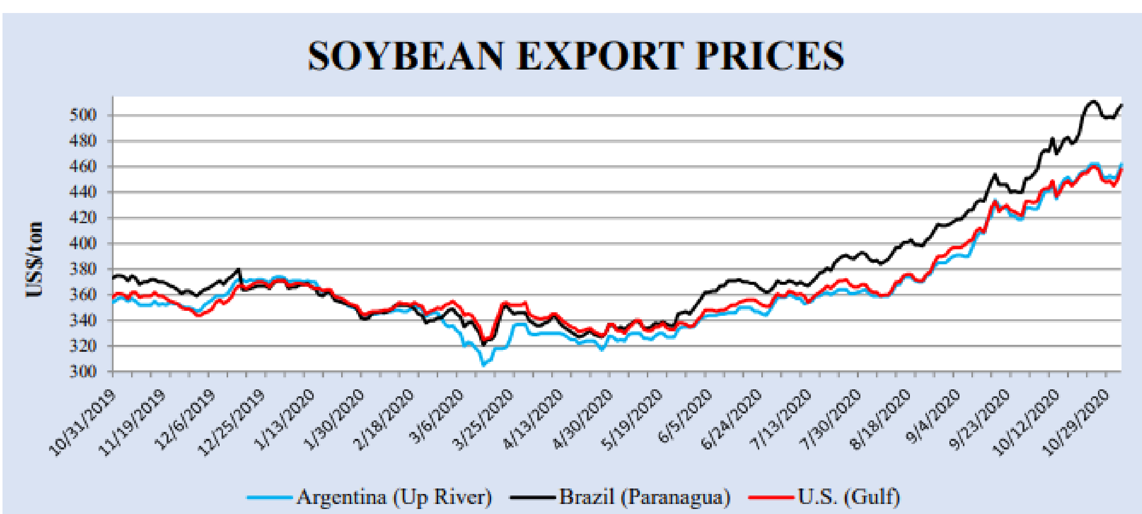
Ending stocks for U.S. soybeans for 2020/21 are projected at 190 million bushels. The USDA has never estimated a number that low in any month within the past 6 marketing years. Last time it was that low was 2013/14 final of 92 million bushels. Smaller crop and strong demand are the principal drivers.



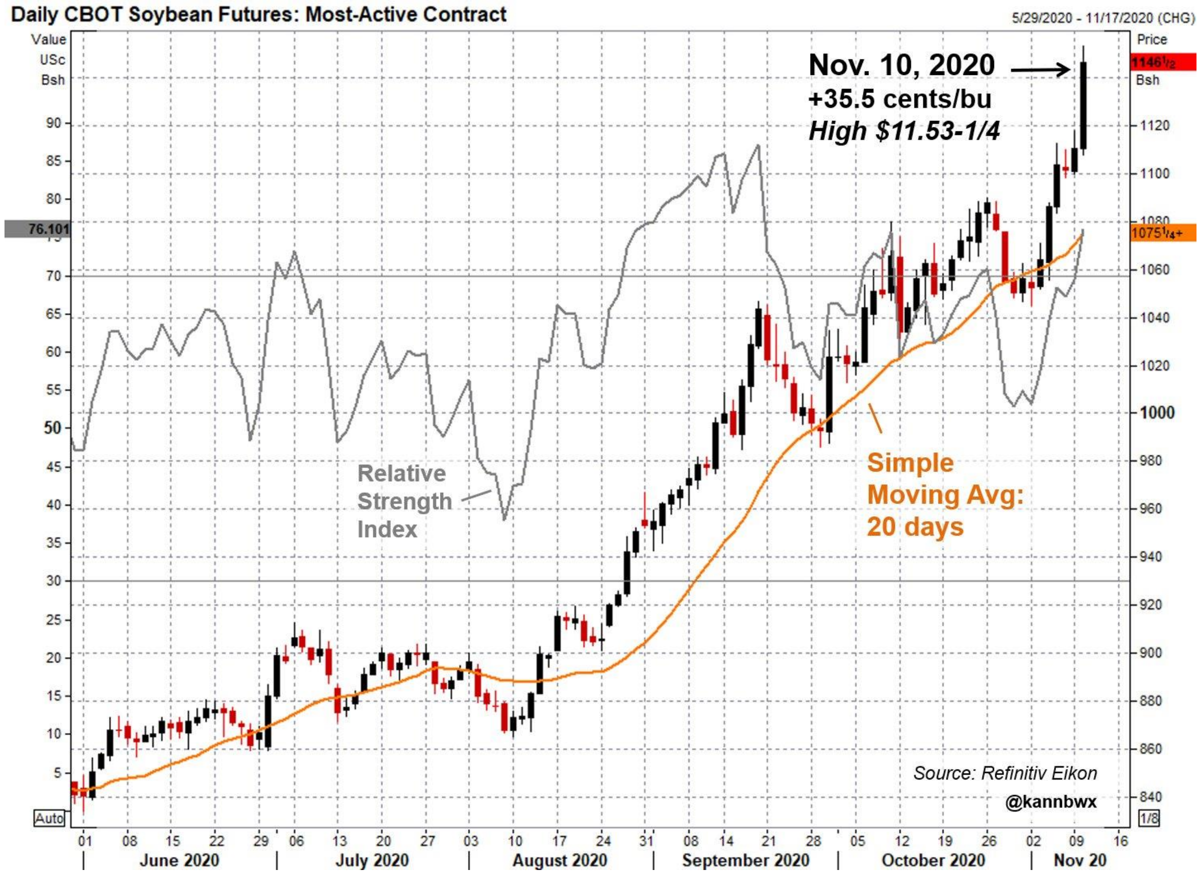


Soybean prices (FOB) in Brazil for November are near six-year highs and are $1.22 a bushel above the comparable price at the U.S. Gulf. Part of Brazil's high price may have something to do with the dry forecast for southern Brazil and Argentina, a forecast that coincides with the expected La Nina influence this winter. In China, recent soybean prices on the Dalian exchange was the equivalent of $15.12 a bushel, motivation for China to buy more from the U.S.- one reason U.S. export sales of corn and soybeans have been strong.

Soybean export prices for the world's three largest exporters all strengthened for the fifth straight month, reaching the highest prices since July of 2016 for the U.S. and Argentina, and since September of 2014 for Brazil. Prices continue to surge on strong export demand, depleted South America supply, and lower carry-in from 2019/20.

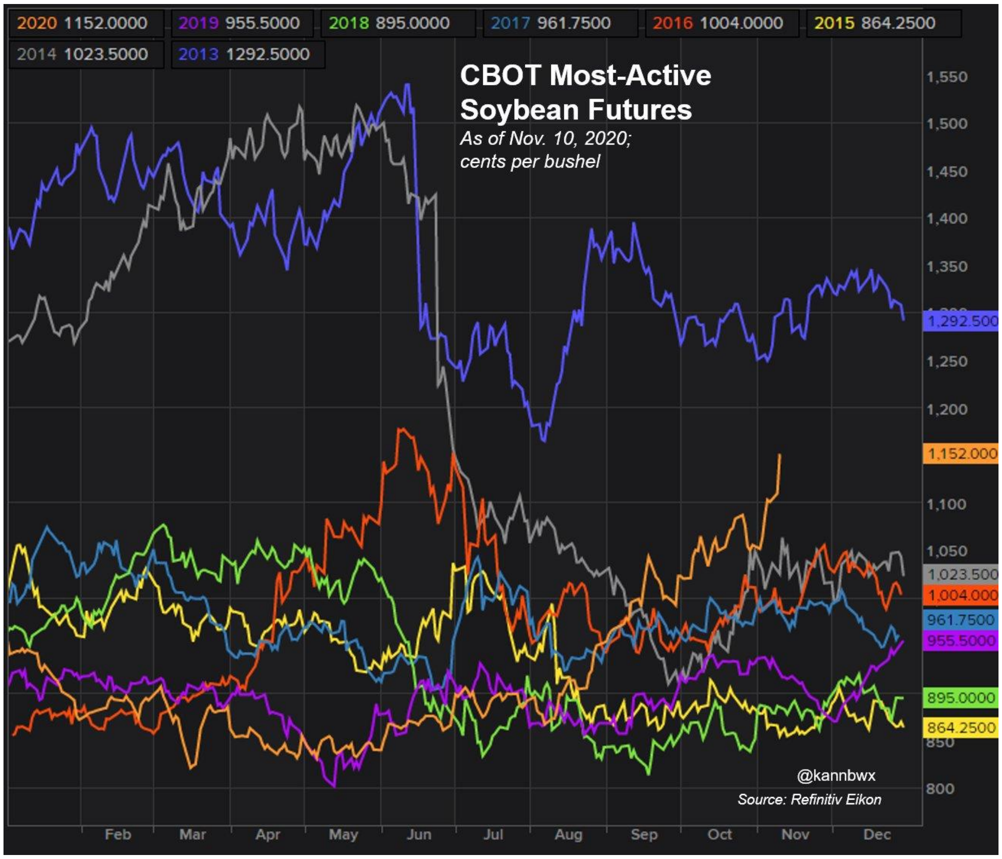


November 10 witnessed the most-active CBOT where soybeans touched $11.53-1/4 per bushel mark, the highest since July 1, 2016 on a bullish USDA supply outlook. The 2016 high was $12.08-1/2 that was set on June 10. If futures move above that level, the market will be looking at the highest prices for most-active contract since late June 2014.

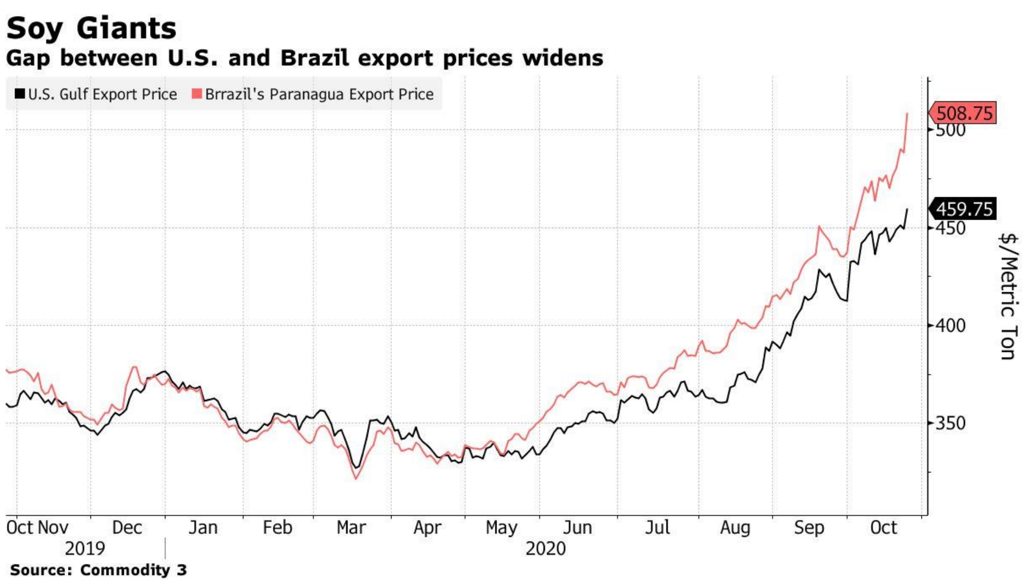


Mid-2014 is when CBOT soybeans semi-permanently corrected to the recent levels. In July 2014, the 2013/14 carryover was seen at 140 M bushels (4.1% stocks-to-use-ratio) and 2014/15 was pegged at 415 M bushels (11.7% stocks-to-use-ratio). 2014 was also when the USDA started to notably under-estimate U.S. soybean demand early on.

Bulls have the solid overall near-term technical advantage in beans, meal and oil. A three-month-old price uptrend is in place on the daily bar chart for soybeans and meal. The next near-term upside technical objective for the soybean bulls is closing January prices above solid resistance at $12.00. The next downside price objective for the bears is closing prices below support at $11.00. First resistance is seen at the contract high of $11.62 1/4 and then at $11.70. First support is seen at $11.38 and then at $11.30.



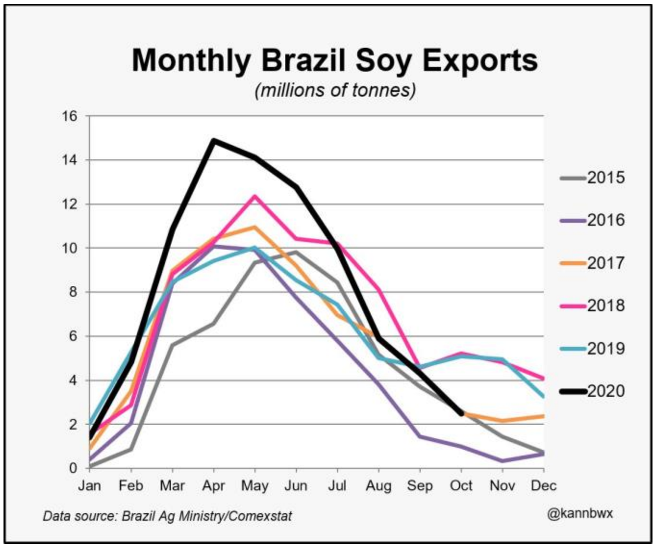
Brazil is facing a domestic shortage of soybeans after shipping a record amount of the oilseed to China, the world's biggest buyer. To help bridge the shortfall, the government announced earlier this month that it would suspend the import tariffs on corn and soybeans from outside the Mercosur bloc. Still, traders aren't expecting a wave of supplies to move from the U.S. to Brazil. That's partly because Brazilian ports are set up for exports and "reverse engineering the setup is time and resource-intensive", according to the USDA in a report released earlier this month. Also, many processing plants are in the interior of the country, far away from ports.



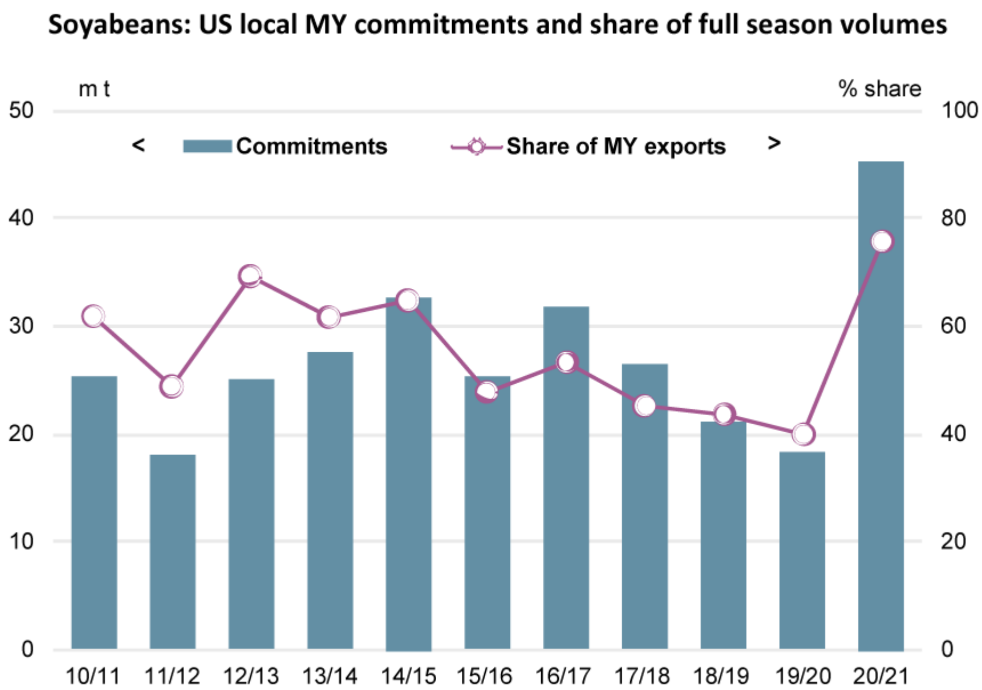
There's also the risk of the presence of a GMO-variety that's not approved in Brazil. Crop varieties get mixed up in U.S. silos and there are at least nine commercially available biotech varieties of both corn and soybeans approved for cultivation in the U.S. that aren't allowed in Brazil, the USDA said.

As grains are not sorted by varieties prior to export, any potential Brazilian importer would need to submit a special approval request to the National Technical Commission on Biosecurity (CTNBio), the USDA said. There are only two CTNBio meetings scheduled for the rest of 2020, and each request, if submitted, would have to be considered on case by case basis.

Brazilian soybean exports for the month of October were estimated at 2.5 million tons (91.6 million bushels) is likely four-year low for a month, with 82% to China. This brings the country's cumulative exports from January to October at 81.4 million metric tons (3 billion bushels)- a record.



Led by stronger sales to China, U.S. soybean export commitments for 2020/21 (September to August) reached a record by mid-October, rising steeply year-over-year. This has entrenched expectations for a marked rebound in shipments to a new peak of almost 60 MT. China's pig herd climbed 26.9% from year-ago levels during October, with the sow herd climbing 31.5%, the country's ag ministry reported. The country has worked to aggressively expand its hog herd after African swine fever wiped out around half of it. This has helped pork prices to moderate to some degree.



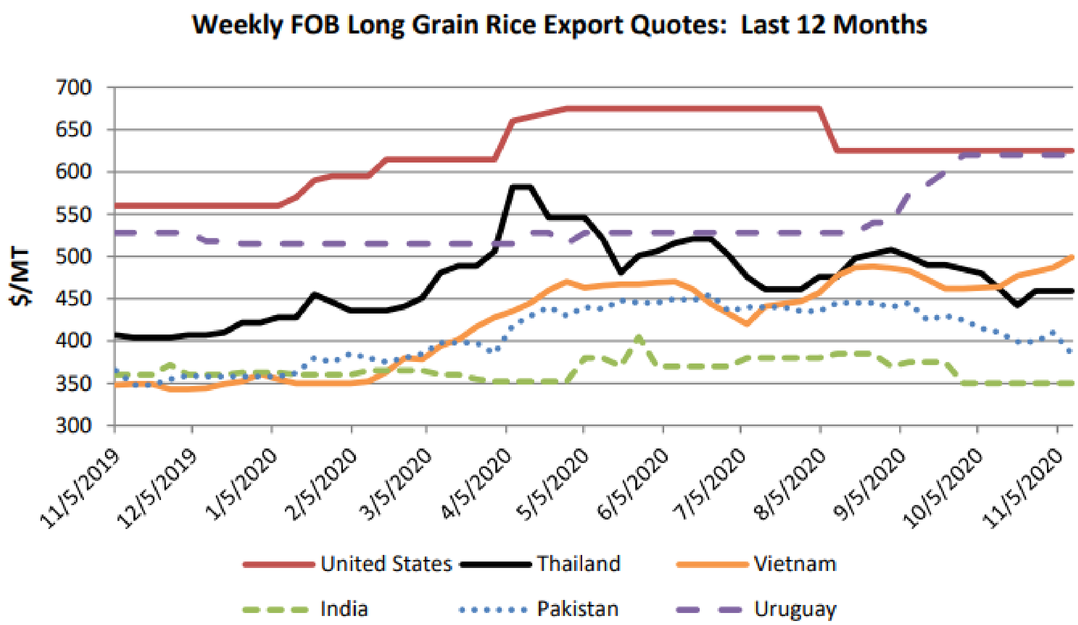
Rice

Brazil's need for rice came at a perfect time for the U.S., as the industry can finally service the demand with this large new crop that is approximately 20% larger than last year. Estimates peg Brazil's imports in excess of 250,000 metric tons when the milled imports from Pakistan and India are included. The timely Brazilian demand for US rice aides significantly in disappearance for this year's larger crop. However, this has created a problem for the mills because the Brazil business is paddy exports; and this coupled with the established paddy exports to Mexico leaves mills with excess capacity. To remedy this, the industry is looking to Iraq to finally come through the tender that has been rumored for several weeks now. Milled rice business to Haiti has been on schedule but will not be enough to compensate for the slower domestic demand on account of school, restaurant, and travel restrictions throughout the country because of COVID. The outlook remains positive, but that could change if business materialize to Iraq in the near term.

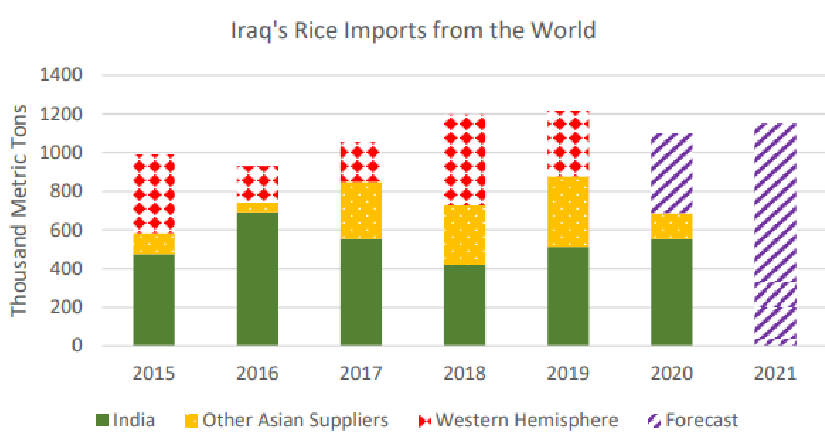
Creed Rice reports that there are several key factors to consider in the rice market: (1)The market remains fundamentally strong, even in the face of the harvest in Arkansas, (2) The Arkansas production numbers have not completely been discovered, but suffice it to say the crop is around 25% larger than a year ago, (3) Haiti continues to be our most reliable and voluminous milled rice market in spite of issues with their duty and currency exchange, (4) Iraq is a critical component in milled rice export program; and, we are rapidly approaching that point in time that the schedules of the mills rely upon that business to keep their operation at full capacity, (5) the longer the industry goes waiting on Iraqi business, the closer Mercosur gets to their new crop campaign, and (6) Paddy sales and exports totals trail last season by 110,000 MT; keep in mind the late start due to the lack of carryover stocks, and delayed harvest in some areas.

The cash market has remained relatively calm as harvest winds down. In the South, the cash market has traded mostly sideways for the past several weeks. There is just enough trading taking place that the market is remaining relatively steady. Ultimately, there will have to be a change in the export picture before the market establishes further direction. Rice futures for the January contract settled at $12.33, after trading a range of $12.24 to $12.37. March rice advanced to $12.52 ½. Trading volume was almost non-existent at just an estimated 141 contracts according to CME. Volume could remain low seasonally in the coming weeks.

Over the past month, U.S. long-grain export quotes have remained stable at $625 per ton, while Uruguayan quotes remain at $620 per ton due to continued tight supplies in South America. Thai quotes have dropped to $459 per ton as demand remains low. The past few weeks Thai prices have been atypically at a discount to Vietnamese quotes, which have risen to $499 per ton due to tight supplies and weather-related disruptions amid the recent harvest. Pakistani quotes are at $385 per ton, which have declined since last month amid new crop arrivals. Meanwhile Indian quotes at $350 per ton continue to be the lowest among the major exporters.

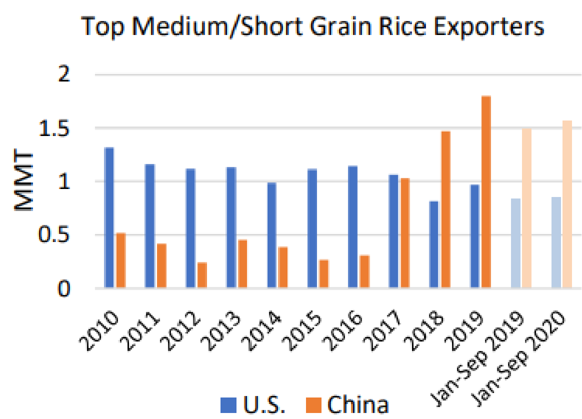


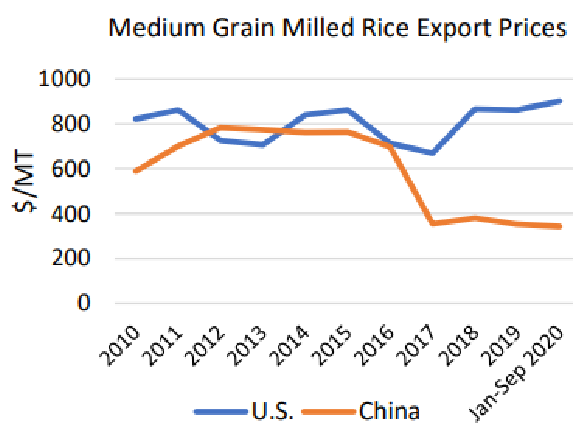
Iraq is a key Middle Eastern rice importer and is the only country in the region to source substantial quantities from both Asian and Western Hemisphere suppliers. However, this year, Iraq has purchased nearly all of its rice from India, which has more than an 80% market share as of August. While Iraq has been able to import almost 700,000 tons thus far, its 2020 imports have been stalled significantly due to a struggling economy amid low oil prices. With overall lower imports, tight competition in the marketplace has allowed India to prevail as the largest rice exporter to Iraq.



Iraq imported a small amount of white rice from Thailand as prices have been significantly less than the Western Hemisphere suppliers. While South American countries such as Uruguay and Argentina typically have a portion of Iraq's white rice market, tight supplies and higher prices have confined their trade largely to the Western Hemisphere. The U.S. has typically supplied about 100-150,000 tons annually but has yet to sell to Iraq this calendar year amid tight supplies. With a larger crop this autumn and potential new source of financing for Iraq, U.S. exporters are aiming to see Iraq purchase U.S. rice soon. However, with fewer government purchases and more private sector buying, Iraq is projected to continue relying heavily on India to supply the market.

Over the past three years, China has seized the medium and short grain global rice market with expanding low-priced exports. Historically, the U.S. has been the top medium and short grain exporter, with the European Union, Australia, and China supplying smaller shares of the market. Most rice traded internationally is long grain, but markets around the Mediterranean region and East Asia tend to import relatively more medium and short grain rice. However, since 2017, China exports have risen sharply with sales from its abundant inventory of low-quality stocks. China medium grain milled export prices fell by one-half between 2016 and 2017 and continue to trend downward in 2020. China exports remain high largely because of low prices in comparison with other suppliers.





For most of the past decade, China exported primarily to East Asian markets: North Korea, South Korea, and Japan. Since emerging as the world's largest medium and short grain exporter, though, China exports have reached vastly different markets, extending its geographic reach considerably. The largest China rice markets in 2020 are Egypt, South Korea, Sierra Leone, and Papua New Guinea. While South Korea represents one of the core markets, the others represent new regions where China is growing its market share. Chinese exports are reaching new markets within the Mediterranean such as Egypt. After the Egyptian government limited rice planting area in 2018, the crop fell by more than a one-third and it turned to the global market to offset the shortfall. China thus expanded into the Mediterranean region and Egypt became its largest market. To meet domestic demand, Egypt imported nearly 450,000 tons of medium and short grain rice from China in 2019 and more than 250,000 tons so far this year. Other markets where China has expanded within the Mediterranean include Turkey, Libya, and Lebanon

Surprisingly in 2017, China began exporting low-priced medium grain to several markets in Sub-Saharan Africa, which had not traditionally been a major market. Exports are sent to a variety of markets in Africa with Sierra Leone being the largest this year. The African markets account for nearly one-third of China medium grain exports.

A relative absence of Australia in the market has enabled China to supply markets in Oceania, including Papua New Guinea. In previous years, Papua New Guinea would import from the United States when Australia experienced production shortfalls, but recently it has turned to China instead based on low price and close proximity.

Looking into 2021, China is expected to continue liquidating its huge inventory. Despite a slowdown in exports to African countries, exports are expected to remain high based on competitively priced commercial shipments and food aid. However, strong domestic demand and the return of Australia to the market will likely limit further expansions to new markets.

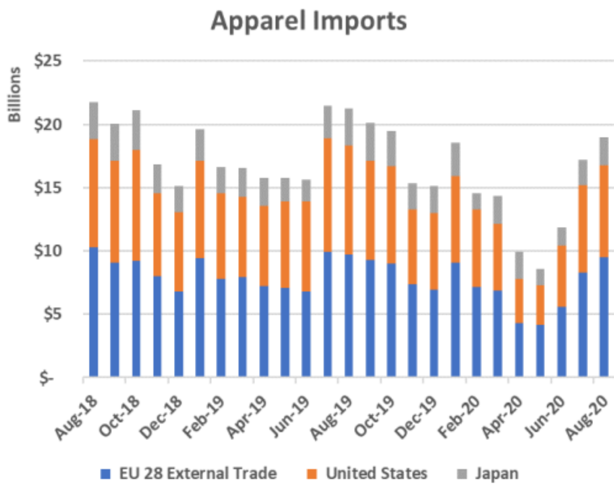
China imported its first-ever commercial container of rice from the United States, marking a positive move in agricultural trade negotiations between the two nations after more than a decade of political and regulatory efforts by the U.S. rice industry. The shipment of Calrose medium grain rice from California creates optimism with rice growers across the United States as it signals China's apparent willingness to buy different rice varieties from across the U.S. growing region that includes California, Arkansas, and Louisiana. The medium grain Calrose rice from California was sold by ADM Rice to a private importer under the 'Sungiven' brand for retail distribution in China. Most of California's rice production is medium grain. Growers there also produce a limited amount of short-grain and specialty rice.

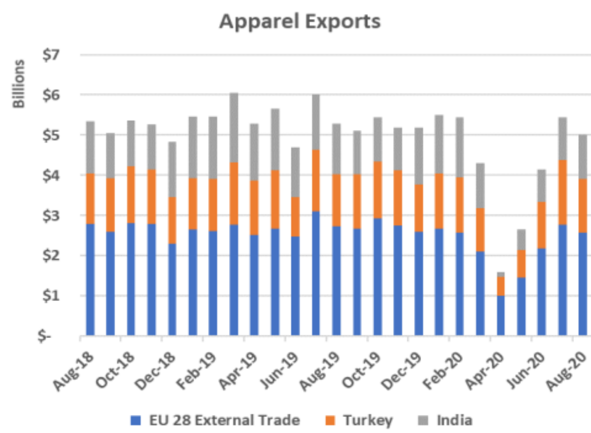
China remains the world's largest producer and consumer of rice, according to the USA Rice Federation. The USDA estimates that China consumes more than 146 million metric tons of rice, eclipsing the estimated 4.6 million metric tons consumed by American consumers. There appears to be demand for all types of U.S. rice by Chinese consumers, making the latest move a win for U.S. growers from all rice-growing regions. The phytosanitary agreement between the U.S. and China stipulates that rice exports must be milled and packaged according to specifications and originate from a pre-approved export facility. There are 32 such facilities in six states.

Cotton

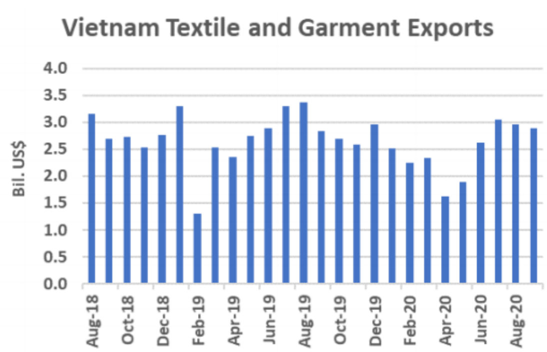
With global cases of COVID-19 increasing and the number of countries locking down their economies rising, traders and investors have concerns about impacts that could have on textile demand. Producers could become willing sellers on an upside price push. It is an open question how the demand destruction from shuttered businesses and sheltering consumer will affect the cotton supply chain. Retail indicators of reduced demand include a dramatic 79% decline in U.S. clothing store retail sales in April, and a correspondingly large decline in estimated consumer spending on apparel.

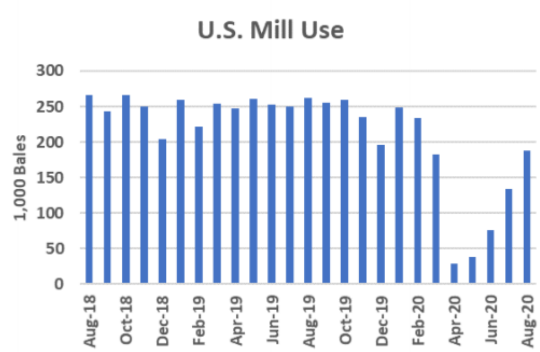
However, recent textile and apparel trade data reveal both the global impact of COVID-19 and signs of the sector's recovery. Consumer demand was impacted on multiple fronts- changing behavior, lockdown restrictions, and rapid unemployment which reduced discretionary income. Global apparel imports dropped dramatically in April and May, with U.S. imports for May down 55% from the previous year. EU and UK imports were down over 40%, while Japan fell 30% in the same period. The decline in textile and garment exports was felt in all major markets but not equally. Exports from Bangladesh and India fell by 85 and 90% respectively, while shipments from Pakistan, Turkey, and the European Union witnessed 60% declines. Vietnam textile and garment exports fell roughly 30%.





In previous economic slowdowns (e.g. 2008 Great Recession), a sudden decline in consumer demand was not initially matched by slowdowns in cotton-related processing sectors (i.e. spinning, knitting, weaving, and cut-and-sew). This led to massive buildups in inventory throughout the supply chain. As consumer demand recovered, excess inventory was slowly liquidated, delaying any significant recovery. However, the impacts of COVID-19 hit both demand and supply at the same time. Lockdown restrictions slowed consumer spending while also halting cotton-related processing. Spinning mills' operating rates in India, Pakistan, and the U.S. fell over 90%, while declines were slightly lower in China. Similar to the export data, Vietnam's operating rate declined by only 30%.





Recovery in the spinning sector has also been uneven- COVID-19 first impacted China and coincided with the Chinese New Year holiday. China's recovery is faster than in many other countries, with operating rates returning to near pre-COVID-19 levels in three to four months, with other countries' rates still below pre-COVID-19 levels after six months. While the rapid shutdown of spinning mills somewhat limited the buildup in yarn and fabric inventories, cotton stocks expanded rapidly.

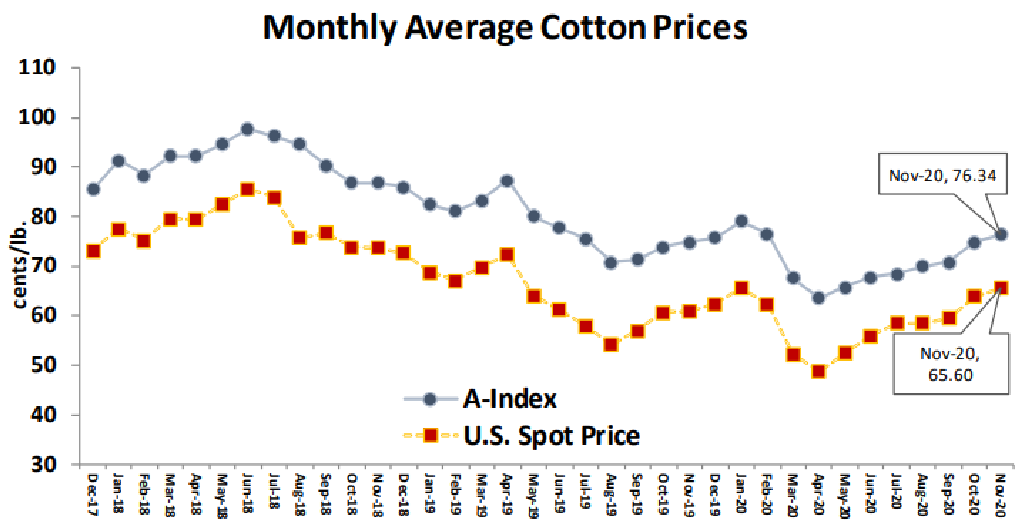
When COVID-19 emerged, most of 2019/20's crop had been harvested with the current year's planting having begun. Expectations for 2020/21 world production have declined only slightly since February; however, global consumption is a different story. Comparing November's global consumption to the USDA's February Outlook, use projections for 2019/20 are 17 million bales lower (14%) and the 2020/21 forecast is 7 million bales lower (6%). As a result, 2020/21 global cotton ending stocks are now forecast 22 million bales higher (22%) than at the Outlook Forum.

The speed of recovery in consumer demand is uncertain. Recent apparel imports include deferred demand as consumers made purchases that were initially delayed. Moreover, some demand that was lost, such as school uniforms, 2020 summer and vacation clothing, hotel use of cotton bed sheets and towels, and other seasonal clothing items, may never be recovered. The long-term impacts of remote work on workplace and school attire purchases remain unknown.

In 2008 with a similar decline in demand, it was not met with a decline in processing, thus there was a massive buildup in supplies. As demand increased, this huge inventory of apparel had to be liquidated, which slowed the recovery effort. Today, however, the supply chain is empty, so look for a quicker recovery once demand returns. All this hinges on consumer spending where there are signs that pent up demand could become a factor.

Since February 2020, savings deposits in the U.S. have grown by over two trillion dollars. Also, with a likely change in the presidential administration, the odds of another stimulus package increase. This additional disposable income could greatly aid the recovery process. That said, do not expect these recovery efforts to fully take hold until we escape the grip of this persistent virus. Sadly, another wave is sweeping across continents with daily reported cases reaching record levels.

Cotton futures are finding support from stronger soybean and crude oil prices. 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.

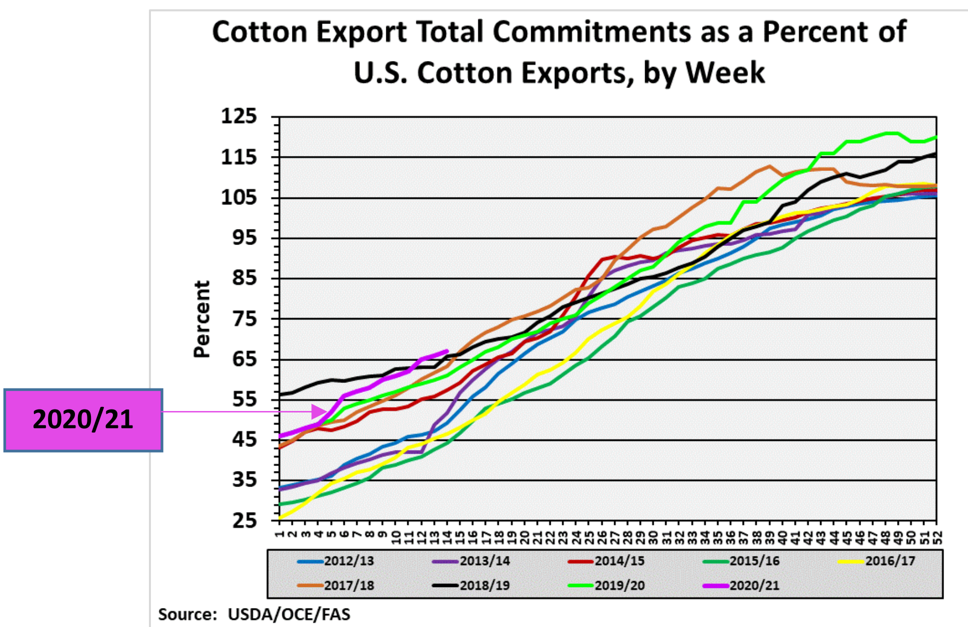


The coronavirus continues to wreak havoc around the globe. As such, while the market is holding within a well-established trading channel, it has fallen to the bottom of the uptrend and is in significant danger of slipping below long-time price support at 67.50-68.00 cents, basis New York December futures. The U.S. and northern hemisphere crops are past peak harvest. And while crop size is not fully determined, the market has turned most of its attention to demand. Another run to 70 cents is possible, but a market close at 67.50 cents would signal lower prices.

Dr. John Robinson, cotton economist at Texas A&M, notes that the November WASDE report contained relatively modest adjustments to the foreign and world cotton balance sheets for the 2020/21 marketing year. On the supply side, world carry-in was raised 380,000 bales, mostly in Brazil. World production was lowered a scant 160,000 bales, month over month, where a big cut in Pakistan mostly offset increases in Australia and China. World imports and exports were each raised a little under 600,000 bales. Domestic consumption was cut 160,000 bales from the October forecast, most of which was seen in Pakistan. The bottom line of all these adjustments was 310,000 bale increase in world ending stocks, month over month, which is fundamentally price neutral in terms of the monthly adjustment. However, the resulting level of 101.44 million bales is still historically high.

U.S. cotton balance sheet saw surprisingly little adjustment month over month. With pre-report expectations of a degrading, diminishing U.S. crop. In fact, the USDA raised the average U.S. all cotton yield by two pounds per acre, translating to a minor 40,000 bale increase in 2020 production. There were no changes to U.S. domestic milling or exports. So with the "unaccounted" fudge factor absorbing the minor change in production, the result of no change in the 7.2 million bales of forecasted ending stocks. The resulting stocks-to-use ratio thus remains above the burdensome 40% threshold level, which is fundamentally bearish according to history and economic theory. Besides remaining very bearish in the resulting levels, the unrealized expectations in this month's lack of production trimming is also likely a market surprise.

Another indicator of export demand is the percent of U.S. export total commitments to the USDA's forecast export target of 14.6 million bales. Total commitments of all cotton as of November 5 include 3,673,625 bales worth of accumulated exports of all cotton, i.e., pima and upland sold and actually shipped. It also includes another 5,876,051 running bales of pima and upland sold but not yet shipped ("outstanding sales"). The total of accumulated exports and outstanding sales is 9,549,676 running bales of total commitments which, after converting to statistical bales, is 67% of USDA's 14.6 million bale target for 2020/21 U.S. exports. That puts 2020/21 export commitments in the top third for this point in the marketing year (see magenta line below).



Fundamentally, cotton futures rallied with the U.S. stock market on news a COVID-19 vaccine was 94.5% effective in preventing the virus based on interim data from a late-stage clinical trial. U.S. stocks are jumped sharply higher, with the Dow Jones Industrial Average (DJIA) hitting a record high, even as new restrictions to combat the pandemic were imposed in Michigan and Washington. European and Asian stocks rose on strong economic data from China and Japan. All of the above worked to push cotton futures prices higher today.

Big gains in other softs futures markets also aided the cotton market. Crude oil prices were higher and the U.S. dollar index was weaker, further supporting buying interest in the fiber. Somewhat worrisome for cotton traders are reports President Trump will enact a series of hardline policies against China during his final 10 weeks, in order to "cement his legacy on China," senior administration officials with direct knowledge of the plans told Axios.

The cotton bulls have the firm overall near-term technical advantage and are keeping alive a 7.5-month-old price uptrend in place on the daily bar chart. The next upside price objective for the cotton bulls is to produce a close in December futures above solid technical resistance at the January high of 73.00 cents. The next downside price objective for the cotton bears is to close prices below solid technical support at 66.00 cents. First resistance is seen at today's high of 70.00 cents and then at 70.94 cents. First support is seen at 69.00 cents and then at today's low of 68.40 cents.

Dr. O.A. Cleveland notes that the price for the 2021 crop, basis December 2021 futures, is now 69 cents. Given the run-up oilseed and grain prices- with even more expected- it is historically expected that cotton prices must also run higher to bid for adequate 2021 planting acreage. Yet, the current situation is much different than in past years. The U.S. and world oilseed and grain supply demand situations are very tight, with demand outstripping supply. Not so with either the U.S. or the world cotton situation.

Was it not for the Phase One trade deal with China, cotton would be in even greater excess carryover? Essentially, China did not need U.S. cotton, but purchased some 5 M bales simply to meet the trade mandate imposed on it by the Trump Administration. The Trump Administration's policy advanced China to the U.S.'s leading trade partner in cotton.

The Trump trade policy is now very much in doubt. For example, China announced this week it will renegotiate the Trump agreement and expects better terms. However, China did/does need the U.S. grains and oilseeds (and needs more). However, now that China will not take as much U.S. cotton, the market can expect that U.S. carryover will become even a larger burden. Thus, this will have a definite bearish price impact on cotton. The cotton trade with China will be sorely missed, and the U.S. cotton grower will suffer both from the loss of export market share as well as declining prices.

U.S./China Trade Update

After years of trade turmoil, the export picture is picking up, with China importing more agricultural products from the U.S. American Farm Bureau Chief Economist John Newton says agricultural exports to China jumped 200% in September 2020 compared to September of 2019. China is ramping up its buys because it needs the commodities, not because the country is trying to live up to the Phase One Trade Agreement between the U.S. and China.

Chinese media recently reported China will work to renegotiate the Phase One Trade Agreement under a Biden Administration, citing the trade deal is viewed as "twisted" in the United States' favor. As agriculture awaits what a Biden Administration will mean for the future of trade, especially when it comes to doing business with China, one agricultural leader thinks agricultural trade market share could grow under President-elect Joe Biden.

The Wall Street Journal reported on November 3 that rising agricultural exports to China are helping revive the fortunes of some agribusiness companies and farmers, after the coronavirus pandemic upended the U.S. farm sector. China's effort to boost pork production, and buy more U.S. grain and meat following this year's U.S.-China trade agreement, are driving a surge of U.S. farm goods across the Pacific in recent months, according to government estimates. Growing demand around the world for food staples like vegetable oil and starch are keeping U.S. agriculture companies' processing plants humming, industry executives said. Farm commodity sales to China are increasing as demand grows generally for food ingredients and animal feed, agriculture industry executives said, while dry weather has slowed planting in Brazil and raised concerns about the eventual size of that country's harvest.

U.S. pork exports to China over the first eight months of 2020 totaled more than $1.5 billion, representing a record, according to U.S. Department of Agriculture data. China's purchased or contracted sales of corn are at an all-time high of 8.7 million tons, the USDA and the Office of the U.S. Trade Representative said in an October report, and U.S. soybean sales to China have surged since early August.

The agencies' report estimated that Chinese buyers had committed to $23.6 billion in U.S. agricultural purchases so far this year, following a so-called phase one trade deal between Washington and Beijing, agreed in January. Though only about $12.7 billion of that figure has been shipped to China through September, according to calculations by the Peterson Institute for International Economics, and the total remains far below the U.S. target of $33.4 billion for 2020, agribusiness executives have been upbeat.

Some agriculture-market observers have warned that China may not meet U.S. targets for imports, and could back out of agreed purchases. Another wave of coronavirus-driven shutdowns could again disrupt the U.S. food industry. As cases have jumped, agriculture futures over the past week have given back some of their recent gains.

PLC Farm Program Payment Projections - 2019 CY

Below are projections for the Price Loss Coverage (PLC) program national Marketing Year Average (MYA) prices for 2019/20 and 2020/21 for specific commodities. A PLC program payment is triggered when the MYA price for a commodity falls below that commodity's effective reference price. The payment rate is then multiplied by the farm's program yield and is made on 85% of base acres.

Covered Commodity	*2019/20 MYA Price**	*Effective Reference Price*	*2019 CY PLC Payment Rate*
Corn	$3.56	$3.70	**$0.14 (Final)**
Grain Sorghum	$3.34	$3.95	**$0.61 (Final)**
Long Grain Rice	$12.00	$14.00	**$2.00 (Final)**
Medium Grain Rice	$11.60	$14.00	**$2.40 (Final)**
Seed Cotton	$0.3058	$0.3670	**$0.0612 (Final)**
Soybeans	$8.57	$8.40	**--**
Wheat	$4.58	$5.50	**$0.92 (Final)**

*national marketing year average (MYA) prices reflect the midpoint price level from the November 10, 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	$4.00	$3.70	--
Grain Sorghum	$4.05	$3.95	--
Long Grain Rice	$11.70	$14.00	$2.30
Medium Grain Rice	$11.80	$14.00	$2.20
Seed Cotton	$0.3301	$0.3670	$0.0369
Soybeans	$10.40	$8.40	--
Wheat	$4.70	$5.50	$0.80

*national marketing year average (MYA) prices reflect the midpoint price level from the November 10, 2020 WASDE report.

ARC-CO Farm Program Price Parameters - 2019 CY

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

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

*national marketing year average (MYA) prices reflect the midpoint price level from the November 10, 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	$4.00	$3.70
Grain Sorghum	$4.05	$3.95
Long Grain Rice	$11.70	$14.00
Medium Grain Rice	$11.80	$14.00
Seed Cotton	$0.3301	$0.3670
Soybeans	$10.40	$9.25
Wheat	$4.70	$5.50

*national marketing year average (MYA) prices reflect the midpoint price level from the November 10, 2020 WASDE report.

Sources: USDA Agriculture Market Service (AMS), USDA Foreign Agriculture Service (FAS), USDA Farm Service Agency (FSA), USDA National Agriculture Statistics Service (NASS), USDA Economic Research Service (ERS), USDA FAS GAIN Report, USDA Office of Communications, USDA World Supply Demand Estimates (WASDE), AgDay, Ag Fax Media, Ag Market Network, Agri-Pulse, Ag Web, Agricultural Market Information System (AMIS), Allendale, American Farm Bureau Federation, Bloomberg News, CME Group, Cotton Grower, Cotton Incorporated, Cotton Outlook, Creed Rice Report, Delta Farm Press, DTN Progressive Farmer, Farm Futures, Fiber 2 Fashion, International Grains Council, Iowa State University, LSU AgCenter, National Cotton Council, Peterson Institute of International Economics, Pro Farmer, Reuters, Rice Market Letter, Southeast Farm Press, Successful Farming, University of Arkansas, University of Illinois, U.S. Grains Council, USA Rice Federation, U.S. Soybean Export Council, and the Wall Street Journal.

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